



Seplat Petroleum Development Company Plc

\$350,000,000

9¼% Senior Notes due 2023

Guaranteed on a senior basis by certain of its subsidiaries

Seplat Petroleum Development Company Plc, incorporated as a public limited liability company under the laws of Nigeria (the “Company”), is offering \$350,000,000 aggregate principal amount of its 9¼% Senior Notes due 2023 (the “Notes”). Interest will accrue at a rate of 9.25% per annum and we will pay interest on the Notes semi-annually on April 1 and October 1 of each year, commencing on October 1. The Notes will mature on April 1, 2023.

At any time on or after April 1, 2020, we may redeem all or part of the Notes by paying the redemption prices set forth in this offering memorandum (the “Offering Memorandum”). Prior to April 1, 2020, we will be entitled, at our option, to redeem all or a portion of the Notes by paying 100% of the principal amount of such Notes, plus accrued and unpaid interest, if any, plus a “make-whole” premium. In addition, prior to April 1, 2020, we may redeem, at our option, up to 40% of the Notes with the net proceeds from certain equity offerings. If we undergo certain events defined as constituting a change of control, each holder may require us to repurchase all or a portion of its Notes at 101% of their principal amount, plus accrued and unpaid interest, if any. In the event of certain developments affecting taxation, we may redeem all, but not less than all, of the Notes. See “Description of Notes.”

The Notes will be senior debt of and will rank *pari passu* in right of payment with all of our existing and future senior obligations, including, the Revolving Credit Facility (as defined herein). The Notes will be guaranteed on a senior basis (the “Note Guarantees”) by certain of our subsidiaries (the “Guarantors”). The Notes will be structurally subordinated to all existing and future obligations and other liabilities (including trade payables and letters of credit) of our restricted subsidiaries that are not Guarantors.

The Note Guarantees will be senior debt of each of the relevant Guarantors, ranking *pari passu* with all existing and future senior obligations of that Guarantor, including, where applicable, such Guarantor’s obligations under the Revolving Credit Facility. The ability to take enforcement action against the Guarantors under the Note Guarantees is subject to significant restrictions, including a standstill period, imposed by the Indenture (as defined herein). For a description of the restrictions imposed by the Indenture, see “Description of Notes – Certain Covenants – Events of Default and Remedies – Standstill Provisions.” The Note Guarantees will be subject to significant contractual and legal limitations that may limit their enforceability, and the Note Guarantees may be released under certain circumstances. See “Risk Factors – Risks Relating to the Notes – The terms of the Indenture and Note Guarantees will impose significant limitations on the ability of the Trustee and holders of the Notes to take enforcement action pursuant to the Note Guarantees.” See also “Certain Insolvency Law Considerations.”

This Offering Memorandum includes information on the terms of the Notes and Note Guarantees, including redemption and repurchase prices, covenants and transfer restrictions.

This Offering Memorandum constitutes a prospectus for purposes of Part IV of the Luxembourg law on prospectus securities dated July 10, 2005, as amended.

There is currently no public market for the Notes. We have applied to have the Notes admitted to listing on the Luxembourg Stock Exchange and to trading on the Euro MTF Market. The Euro MTF Market is not a regulated market within the meaning of Directive 2004/39/EC.

Investing in the Notes involves a high degree of risk. See the “Risk factors” section beginning on page 25 of this Offering Memorandum.

Price: 99.013% plus accrued interest, if any, from March 21, 2018.

The Notes will be represented on or about March 21, 2018 (the “Issue Date”), by one or more global notes, which will be delivered through the Depository Trust Company (“DTC”), Euroclear Bank SA/NV (“Euroclear”) and Clearstream Banking, S.A. (“Clearstream”) on or about the Issue Date. See “Book-Entry, Delivery and Form.” The Notes will be in registered form in minimum denominations of \$200,000 and integral multiples of \$1,000 in excess thereof.

The Notes have not been and will not be registered under the U.S. Securities Act of 1933, as amended (the “U.S. Securities Act”), or the securities laws of any other jurisdiction, and may not be offered or sold within the United States except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the U.S. Securities Act. In the United States, this offering is being made only to “qualified institutional buyers” (“QIBs”) (as defined in Rule 144A under the U.S. Securities Act) in compliance with Rule 144A under the U.S. Securities Act (“Rule 144A”). You are hereby notified that the Initial Purchasers (as defined herein) of the Notes may be relying on the exemption from the provisions of Section 5 of the U.S. Securities Act provided by Rule 144A. Outside of the United States, this offering is being made in reliance on Regulation S under the U.S. Securities Act (“Regulation S”). For further details about eligible offerees and resale restrictions, see “Plan of distribution” and “Notice to investors.”

Global Coordinators

Citi

Standard Bank

Standard Chartered Bank

Joint Bookrunning Managers

Natixis

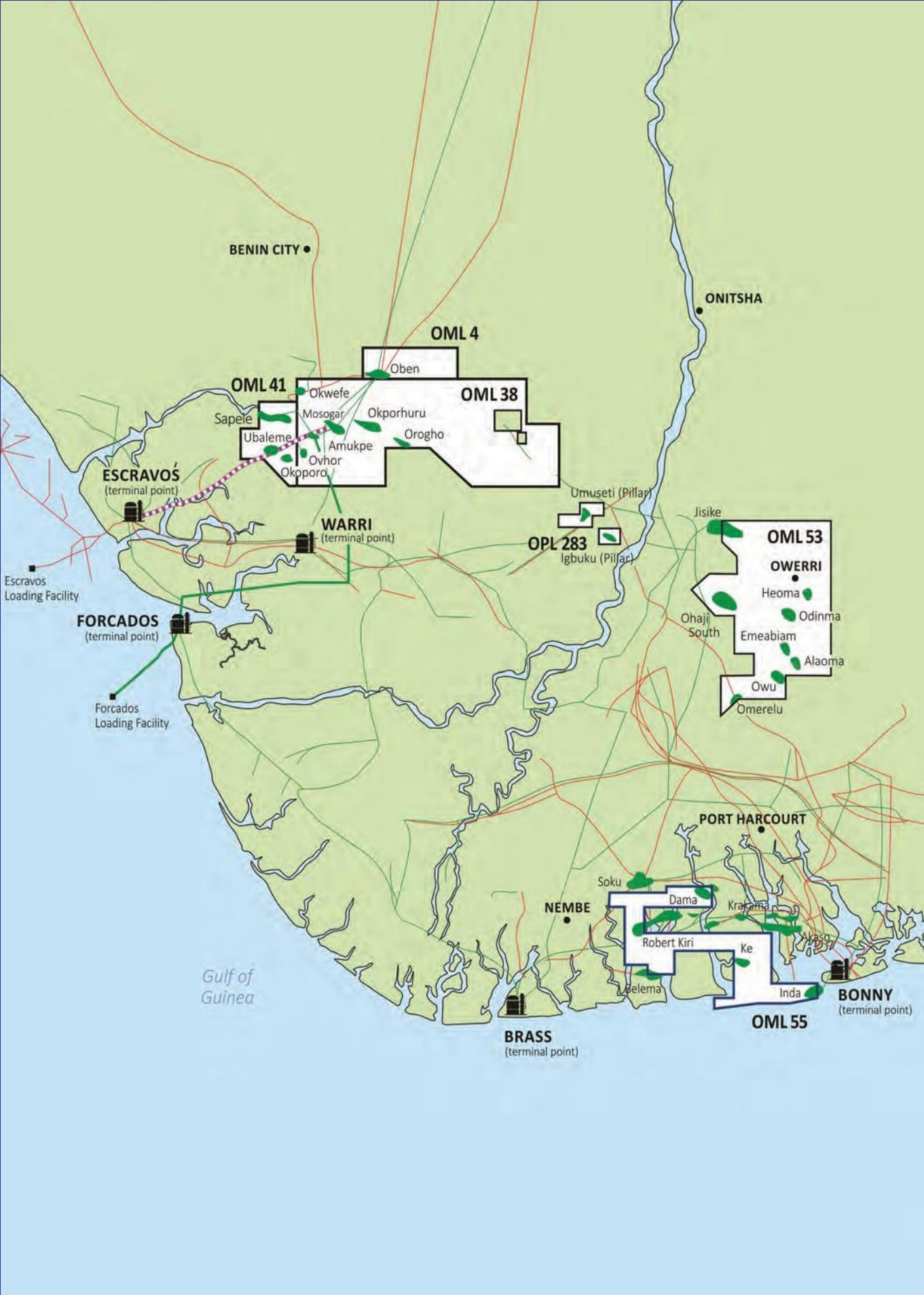
Nomura

Co-managers

Nedbank CIB

Rand Merchant Bank

The date of this Offering Memorandum is March 21, 2018.



In making your investment decision, you should rely only on the information contained in this Offering Memorandum. We and Citigroup Global Markets Limited, The Standard Bank of South Africa Limited, Standard Chartered Bank, Natixis, Nomura International plc, Nedbank Limited, London Branch, and Rand Merchant Bank a division of FirstRand Bank Limited (London Branch) (collectively, the “Initial Purchasers”) have not authorized anyone to provide you with any other information. If you receive any other information, you should not rely on it. We and the Initial Purchasers are offering to sell the Notes only in places where offers and sales are permitted. You should not assume that the information contained in this Offering Memorandum is accurate as of any date other than the date on the front cover of this Offering Memorandum. Our business or financial condition and other information in this Offering Memorandum may change after that date.

FORWARD-LOOKING STATEMENTS	vi
PRESENTATION OF FINANCIAL AND OTHER INFORMATION	viii
DEFINITIONS	xiv
CURRENCY PRESENTATION AND EXCHANGE RATE INFORMATION	xvi
PRESENTATION OF INDUSTRY AND MARKET DATA	xviii
SUMMARY	1
CORPORATE STRUCTURE AND CERTAIN FINANCING ARRANGEMENTS	12
THE OFFERING	14
SUMMARY HISTORICAL FINANCIAL DATA	18
SUMMARY RESERVES, RESOURCES, PRODUCTION AND OPERATING DATA	23
RISK FACTORS	25
USE OF PROCEEDS	54
CAPITALIZATION	55
SELECTED HISTORICAL FINANCIAL DATA	56
MANAGEMENT’S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS	58
INDUSTRY AND MARKET DATA	84
OUR BUSINESS	99
REGULATION	142
MANAGEMENT	150
PRINCIPAL SHAREHOLDERS	156
CERTAIN RELATIONSHIPS AND RELATED PARTY TRANSACTIONS	157
DESCRIPTION OF CERTAIN FINANCING ARRANGEMENTS	160
DESCRIPTION OF NOTES	165
BOOK-ENTRY, DELIVERY AND FORM	225
TAXATION	229
PLAN OF DISTRIBUTION	234
NOTICE TO INVESTORS	237
LEGAL MATTERS	240
INDEPENDENT ACCOUNTANTS	241
INDEPENDENT PETROLEUM ENGINEERS	242
AVAILABLE INFORMATION	243
LIMITATIONS ON ENFORCEABILITY AND CERTAIN INSOLVENCY LAW CONSIDERATIONS	244
LISTING AND GENERAL INFORMATION	250
GLOSSARY	251
INDEX TO FINANCIAL STATEMENTS	F-1

IMPORTANT INFORMATION ABOUT THIS OFFERING MEMORANDUM

This Offering Memorandum has been prepared by the Issuer solely for use in connection with the proposed offering. You should read this Offering Memorandum before making a decision whether to purchase any Notes. You must not:

- use this Offering Memorandum for any other purpose;
- make copies of any part of this Offering Memorandum or give a copy of it to any other person; or
- disclose any information in this Offering Memorandum to any other person, other than a person retained to advise you in connection with the purchase of the Notes.

We have prepared this Offering Memorandum based on information we have or have obtained from sources we believe to be reliable. Summaries of documents contained in this Offering Memorandum may not be complete. We will make copies of actual documents available to you upon request. References to any website contained herein do not form part of this Offering Memorandum. Neither we nor the Initial Purchasers are providing you with any legal, investment, business, tax or other advice in this Offering Memorandum. You should consult with your own counsel, accountants and other advisors as needed to assist you in making your investment decision and to advise you whether you are legally permitted to purchase the Notes.

This Offering Memorandum does not constitute an offer or solicitation by anyone in any jurisdiction in which such offer or solicitation is not authorized or to any person to whom it is unlawful to make such offer or solicitation. No action has been, or will be, taken to permit a public offering in any jurisdiction where action would be required for that purpose. Accordingly, the Notes may not be offered or sold, directly or indirectly, and this Offering Memorandum may not be distributed, in any jurisdiction except in accordance with the legal requirements applicable in such jurisdiction. You must comply with all laws applicable in any jurisdiction in which you buy, offer or sell the Notes or possess or distribute this Offering Memorandum, and you must obtain all applicable consents and approvals; neither we nor the Initial Purchasers shall have any responsibility for any of the foregoing legal requirements.

We are offering the Notes, and the Guarantors are issuing the Note Guarantees, in reliance on (i) an exemption from registration under the U.S. Securities Act for an offer and sale of securities that does not involve a public offering and (ii) a transaction pursuant to Regulation S that is not subject to the registration requirements of the U.S. Securities Act. If you purchase the Notes, you will be deemed to have made certain acknowledgments, representations and warranties as detailed under “*Notice to investors.*” The Notes are subject to restrictions on transferability and resale and may not be transferred or resold except as permitted under the U.S. Securities Act and applicable securities laws of any other jurisdiction pursuant to registration or exemption therefrom. You may be required to bear the financial risk of an investment in the Notes for an indefinite period. Neither we nor the Initial Purchasers are making an offer to sell the Notes in any jurisdiction where the offer and sale of the Notes is prohibited. Neither we nor the Initial Purchasers are making any representation to you that the Notes are a legal investment for you.

Each prospective purchaser of the Notes must comply with all applicable laws and rules and regulations in force in any jurisdiction in which it purchases, offers or sells the Notes and must obtain any consent, approval or permission required by it for the purchase, offer or sale by it of the Notes under the laws and regulations in force in any jurisdiction to which it is subject or in which it makes such purchases, offers or sales, and neither we nor the Initial Purchasers shall have any responsibility therefor.

Neither the U.S. Securities and Exchange Commission (the “SEC”), any U.S. state securities commission nor any non-U.S. securities authority nor other authority has approved or disapproved of the Notes or determined if this Offering Memorandum is truthful or complete. Any representation to the contrary is a criminal offense.

We accept responsibility for the information contained in this Offering Memorandum. We have made all reasonable inquiries and confirm to the best of our knowledge, information and belief that the information contained in this Offering Memorandum with regard to us and our subsidiaries and affiliates and the Notes is true and accurate in all material respects, that the opinions and intentions expressed in this Offering Memorandum are honestly held and that we are not aware of any other facts, the omission of which would make this Offering Memorandum or any statement contained herein misleading in any material respect.

The Initial Purchasers, the Trustee, the Paying Agent, the Transfer Agent and the Registrar make no representation or warranty, express or implied, as to, and assume no responsibility for, the accuracy or

completeness of the information contained in this Offering Memorandum. Nothing contained in this Offering Memorandum is, or shall be relied upon as, a promise or representation by the Initial Purchasers, the Trustee, the Paying Agent, the Transfer Agent and the Registrar as to the past, the present or the future.

We reserve the right to withdraw this offering at any time. We and the Initial Purchasers may reject any offer to purchase the Notes in whole or in part for any reason or no reason, sell less than the entire principal amount of the Notes offered hereby or allocate to any purchaser less than all of the Notes for which it has subscribed. The Initial Purchasers and certain of their respective related entities may acquire, for their own accounts, a portion of the Notes.

The information set out in relation to sections of this Offering Memorandum describing clearing and settlement arrangements, including in the “*Description of Notes*” and “*Book-entry, delivery and form*,” is subject to a change in or reinterpretation of the rules, regulations and procedures of DTC, Euroclear or Clearstream currently in effect. We and the Guarantors confirm that this information has been accurately reproduced and that as far as we and the Guarantors are aware and are able to ascertain from information published by DTC, Euroclear and Clearstream, no facts have been omitted which would render the reproduced information inaccurate or misleading.

The Notes will be available in book-entry form only. We expect that the Notes sold pursuant to this offering memorandum will be issued in the form of one or more global notes. The Rule 144A Global Notes will be deposited with a custodian for DTC, and registered in the name of Cede & Co. as nominee of DTC. The Regulation S Global Notes will be deposited with, and registered in the name of, a nominee of a common depository for Euroclear and Clearstream. The Notes will be issued in minimum denominations of \$200,000 and integral multiples of \$1,000 in excess thereof. Beneficial interests in the global notes will be shown on, and transfers of interests in the global notes will be effected only through, records maintained by DTC, Euroclear and Clearstream and their direct and indirect participants. After the initial issuance of the global notes, Notes in certificated form will be issued in exchange for the global notes only as set forth in the indenture governing the Notes. “See “*Book-entry, Delivery and Form*.”

We have applied to list the Notes on the Luxembourg Stock Exchange and have the Notes admitted for trading on the Euro MTF Market, and have submitted this Offering Memorandum to the competent authority in connection with the listing application. In the course of any review by the competent authority, we may be requested to make changes to the financial and other information included in this Offering Memorandum. We may also be required to update the information in this Offering Memorandum to reflect changes in our business, prospects, financial condition or results of operations. We cannot guarantee that the application to the Luxembourg Stock Exchange for the Notes to be listed and admitted to trading the Euro MTF Market thereof will be approved as of the Issue Date for the Notes or at any time thereafter, and settlement of the Notes is not conditioned on obtaining this admission to trading.

IN CONNECTION WITH THE ISSUE OF THE NOTES, STANDARD CHARTERED BANK (THE “STABILIZING MANAGER”) (OR ANY PERSON ACTING ON BEHALF OF THE STABILIZING MANAGER) MAY OVER-ALLOT NOTES OR EFFECT TRANSACTIONS WITH A VIEW TO SUPPORTING THE PRICE OF THE NOTES AT A LEVEL HIGHER THAN THAT WHICH MIGHT OTHERWISE PREVAIL. HOWEVER, STABILIZATION MAY NOT NECESSARILY OCCUR. STABILIZATION ACTION MAY BEGIN ON OR AFTER THE DATE ON WHICH ADEQUATE PUBLIC DISCLOSURE OF THE TERMS OF THE NOTES IS MADE AND, IF BEGUN, MAY CEASE AT ANY TIME, BUT IT MUST END NO LATER THAN THE EARLIER OF 30 CALENDAR DAYS AFTER THE ISSUE DATE AND 60 CALENDAR DAYS AFTER THE DATE OF THE ALLOTMENT OF THE NOTES. ANY STABILIZATION ACTION OR OVER-ALLOTMENT MUST BE CONDUCTED BY THE STABILIZING MANAGER (OR ANY PERSON ACTING ON BEHALF OF THE STABILIZING MANAGER) IN ACCORDANCE WITH ALL APPLICABLE LAWS AND RULES. FOR A DESCRIPTION OF THESE ACTIVITIES, SEE “*PLAN OF DISTRIBUTION*.”

NOTICE TO U.S. INVESTORS

This offering is being made in the United States in reliance upon an exemption from registration under the U.S. Securities Act for an offer and sale of the Notes which does not involve a public offering. In making your purchase, you will be deemed to have made certain acknowledgments, representations and agreements. See “*Notice to investors*.”

This Offering Memorandum is being provided (1) to a limited number of U.S. investors that we reasonably believe to be QIBs under Rule 144A under the U.S. Securities Act for informational use solely in

connection with their consideration of the purchase of the Notes and (2) to investors outside the United States pursuant to offshore transactions complying with Rule 903 or Rule 904 of Regulation S under the U.S. Securities Act. The Notes described in this Offering Memorandum have not been registered with, recommended by or approved by the U.S. SEC, any state securities commission in the United States or any other securities commission or regulatory authority, nor has the U.S. SEC, any state securities commission in the United States or any such securities commission or authority passed upon the accuracy or adequacy of this Offering Memorandum. Any representation to the contrary is a criminal offense.

CERTAIN CONSIDERATIONS REGARDING SALES INTO CANADA

The Notes may be sold only to purchasers purchasing, or deemed to be purchasing, as principal that are accredited investors, as defined in National Instrument 45-106 *Prospectus Exemptions* or subsection 73.3(1) of the Securities Act (Ontario), and are permitted clients, as defined in National Instrument 31-103 *Registration Requirements, Exemptions and Ongoing Registrant Obligations*. Any resale of the Notes must be made in accordance with an exemption from, or in a transaction not subject to, the prospectus requirements of applicable securities laws.

Securities legislation in certain provinces or territories of Canada may provide a purchaser with remedies for rescission or damages if this Offering Memorandum (including any amendment thereto) contains a misrepresentation, *provided* that the remedies for rescission or damages are exercised by the purchaser within the time limit prescribed by the securities legislation of the purchaser's province or territory. The purchaser should refer to any applicable provisions of the securities legislation of the purchaser's province or territory for particulars of these rights, or consult with a legal advisor.

Pursuant to Section 3A.3 of National Instrument 33-105 *Underwriting Conflicts* (NI 33-105), the Initial Purchasers are not required to comply with the disclosure requirements of NI 33-105 regarding underwriter conflicts of interest in connection with this Offering.

NOTICE TO NIGERIAN INVESTORS

This Offering Memorandum and the Notes have not been and will not be registered with the Nigerian Securities and Exchange Commission (the “**Nigerian SEC**”), or pursuant to the Nigerian Investment and Securities Act No. 29 of 2007 (the “**ISA**”) and the Rules and Regulations of the Nigerian SEC, 2013, as amended (“**Nigerian SEC Rules**”). This Offering Memorandum is not an offering circular or an invitation to the public within the meaning of the ISA. Further, neither this Offering Memorandum nor any other offering material related to the Notes may be utilized in connection with any offering to the public within Nigeria, and the Notes may not be offered or sold within Nigeria to, or for the account or benefit of, persons resident in Nigeria, except to the extent that the Offering Memorandum and the Notes have been registered with the Nigerian SEC and its written approval obtained in accordance with the provisions of the ISA, other Nigerian securities law and the Nigerian SEC Rules.

NOTICE TO SOUTH AFRICAN INVESTORS

No “offer to the public” (as such term is defined in the South African Companies Act, 71 of 2008, as amended (the “**South African Companies Act**”)) in South Africa is being made in connection with the issue of the Notes and accordingly this Offering Memorandum does not, nor does it intend to, constitute a “registered prospectus”, as contemplated in chapter 4 of the South African Companies Act. Any issue or offering of the Notes in South Africa constitutes an offer for the subscription and sale of the Notes in South Africa only to selected investors who fall within the exemptions set out in section 96(1)(a) or (b) of the South African Companies Act and, accordingly, such offer would not be considered to be an “offer to the public” for the purposes of the South African Companies Act.

No South African residents or offshore subsidiary of a South African resident may subscribe for or purchase any of the Notes or beneficially own or hold any of the Notes unless specific approval has been obtained by such persons from the Financial Surveillance Department of the South African Reserve Bank (“**SARB**”) or such subscription, purchase or beneficial holding or ownership is otherwise permitted under the South African exchange control regulations or the rulings promulgated thereunder (including, without limitation, the rulings issued by the SARB providing for foreign investment allowances applicable to persons who are residents of South Africa under the applicable exchange control laws of South Africa).

Information made available in this Offering Memorandum should not be considered as “advice” as defined in the South African Financial Advisory and Intermediary Services Act, 2002.

NOTICE TO CERTAIN INVESTORS IN SWITZERLAND

This Offering Memorandum, as well as any other material relating to the Notes which are the subject of the Offering contemplated by this Offering Memorandum, do not constitute an issue prospectus pursuant to article 652a and/or article 1156 of the Swiss Code of Obligations and may not comply with the Directive for Notes of Foreign Borrowers of the Swiss Bankers Association. The Notes will not be listed on the SIX Swiss Exchange (“SIX” or “SIX Swiss Exchange”), and, therefore, the documents relating to the Notes, including, but not limited to, this Offering Memorandum, do not claim to comply with the disclosure standards of the Swiss Code of Obligations and the listing rules of SIX Swiss Exchange and corresponding prospectus schemes annexed to the listing rules of the SIX Swiss Exchange. The Notes are being offered in Switzerland by way of a private placement (i.e. to a limited number of selected investors only), without any public advertisement and only to investors who do not purchase the Notes with the intention to distribute them to the public. The investors will be individually approached directly from time to time. This Offering Memorandum, as well as any other material relating to the Notes, is personal and confidential and does not constitute an offer to any other person. This Offering Memorandum, as well as any other material relating to the Notes, may only be used by those investors to whom it has been handed out in connection with the Offering described herein and may neither directly nor indirectly be distributed or made available to other persons without the Issuer’s express consent. This Offering Memorandum, as well as any other material relating to the Notes, may not be used in connection with any other offer and shall in particular not be copied and/or distributed to the public in (or from) Switzerland.

NOTICE TO CERTAIN EUROPEAN INVESTORS

United Kingdom. This Offering Memorandum is directed only at persons (“**Relevant Persons**”) who (i) fall within Article 19(5) (investment professionals) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005, as amended, (ii) fall within Article 49(2)(a) to (d) (high net worth companies, unincorporated associations etc.) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005, as amended or (iii) are persons to whom an invitation or inducement to engage in investment activity (within the meaning of Section 21 of the Financial Services and Markets Act 2000) in connection with the issue or sale of any Notes may otherwise lawfully be communicated or caused to be communicated.

This Offering Memorandum must not be acted on or relied on by persons who are not Relevant Persons. Any investment or investment activity to which this Offering Memorandum relates is available only to Relevant Persons and will be engaged in only with Relevant Persons. Recipients of this Offering Memorandum are not permitted to transmit it to any other person. The Notes are not being offered to the public in the United Kingdom.

Professional investors and ECPs only target market: Solely for the purposes of each manufacturer’s product approval process, the target market assessment in respect of the Notes has led to the conclusion that: (i) the target market for the Notes is eligible counterparties and professional clients only, each as defined in Directive 2014/65/EU (as amended, “**MiFID II**”); and (ii) all channels for distribution of the Notes to eligible counterparties and professional clients are appropriate. Any person subsequently offering, selling or recommending the Notes (a “**distributor**”) should take into consideration the manufacturers’ target market assessment; however, a distributor subject to MiFID II is responsible for undertaking its own target market assessment in respect of the Notes (by either adopting or refining the manufacturers’ target market assessment) and determining appropriate distribution channels.

Prohibition of sales to EEA retail investors: The Notes are not intended to be offered, sold or otherwise made available to and should not be offered, sold to any retail investor in the European Economic Area (“**EEA**”). For these purposes, a retail investor means a person who is one (or more) of: (i) a retail client as defined in point (11) of MiFID II; or (ii) a customer within the meaning of Directive 2002/92/EC (as amended, the “**Insurance Mediation Directive**”), where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II; or (iii) not a qualified investor as defined in Directive 2003/71/EC (as amended, the “**Prospectus Directive**”). No key information document required by Regulation (EU) No 1286/2014 (as amended, the “**PRIIPs Regulation**”) for offering or selling the Notes or otherwise making them available to retail investors in the EEA has been prepared. Offering or selling the Notes or otherwise making them available to any retail investor in the EEA may be unlawful under the PRIIPs Regulation.

THIS OFFERING MEMORANDUM CONTAINS IMPORTANT INFORMATION WHICH YOU SHOULD READ BEFORE YOU MAKE ANY DECISION WITH RESPECT TO AN INVESTMENT IN THE NOTES.

FORWARD-LOOKING STATEMENTS

This Offering Memorandum includes statements that are, or may be deemed to be, “forward-looking statements,” within the meaning of the securities laws of certain jurisdictions, including statements under the headings “*Presentation of industry and market data*,” “*Summary*,” “*Risk factors*,” “*Management’s discussion and analysis of financial condition and results of operations*,” “*Our business*” and other sections. These forward-looking statements can be identified by the use of forward-looking terminology, including the terms “anticipate,” “expect,” “suggests,” “plan,” “believe,” “intend,” “estimates,” “targets,” “projects,” “should,” “could,” “would,” “may,” “will,” “forecast” and other similar expressions or, in each case, their negative or other variations or comparable terminology. These forward-looking statements include all matters that are not historical facts. They appear in a number of places throughout this Offering Memorandum and include statements regarding our intentions, beliefs or expectations concerning, among other things, our results of operations, financial condition, liquidity, prospects, growth, strategies and the industry in which we operate. While these forward-looking statements are based on our internal expectations, estimates, projections, assumptions and beliefs as at the date of such statements or information, including, among other things, assumptions with respect to production, future capital expenditures and cash flows, we caution you that the assumptions used in the preparation of such information may prove to be incorrect and no assurance can be given that our expectations, or the assumptions underlying these expectations, will prove to be correct.

We caution you that forward-looking statements are not guarantees of future performance and that our actual results of operations, financial condition and liquidity, and the development of the industry in which we operate may differ materially from those made in or suggested by the forward-looking statements contained in this Offering Memorandum. In addition, even if our results of operations, financial condition and liquidity, and the development of the industry in which we operate are consistent with the forward-looking statements contained in this Offering Memorandum, those results or developments may not be indicative of results or developments in subsequent periods.

Any forward-looking statements that we make in this Offering Memorandum speak only as at the date of such statement, and we undertake no obligation to update such statements. Comparisons of results for current and any prior periods are not intended to express any future trends or indications of future performance, unless expressed as such, and should only be viewed as historical data.

By their nature, forward-looking statements involve risks and uncertainties because they relate to events and depend on circumstances that may or may not occur in the future. We believe that these risks and uncertainties include, but are not limited to, those described in the “*Risk factors*” section of this Offering Memorandum:

- operational impediments or damage to, or the shut-down of, current production, processing and transportation infrastructure;
- uncertainties in connection with exploration, appraisal and development of oil and gas assets;
- the concentration of our primary reserves and resources in one geographic region;
- the decline in our reserves due to the inability to explore, develop or acquire additional reserves;
- militant and unlawful activity;
- fluctuations in oil and gas prices or local demand;
- the inability to attract and retain skilled personnel;
- the reliance upon our commercial partners to comply with the obligations under the relevant license or agreements pursuant to which the assets are operation and agreed work program are completed in accordance with their terms;
- delay, disruptions and disputes with third party operations, partners and other project participants;
- operational impediments or damage to our processing and evacuation infrastructure;
- competitiveness within the oil and gas exploration and production industry;
- our inability to expand and recognize anticipated benefits of acquisitions;
- ability to address community issues;

- non-compliance with applicable laws and regulations due to uncertainty in the interpretation and of such laws and regulations;
- the loss or termination of our oil licenses and leases;
- the inability to obtain good and marketable title to, or contractual interests in, licensed assets;
- the exposure to increased market risk and uncertainty as a result of operating in an emerging market;
- the implementation of oil production quotas, including limitations on oil production volumes imposed by OPEC;
- CBN intervention in the currency markets and volatility related to the Naira;
- the inability to adequately address actual or perceived corruption and inability to attract future investment;
- logistical and operational difficulties associated with operating in Nigeria;
- changes in governmental regulation, including without limitation regulatory changes affecting the availability of permits, and governmental policies and actions that may affect operations or our planned expansion;
- amendments to, or the adoption of, new customs or taxation laws, rules and regulations;
- the failure to comply with health, safety and environmental laws and regulations;
- discrepancies between our estimated reserves, resources, quality and production volumes;
- litigation or allegations that negatively portray our business, operations, assets, shareholders or management;
- damage to our image or reputation due to the actual or perceived failure to address community issues;
- damage to our commercial partners' reputations due to negative publicity;
- our inability to maintain adequate insurance coverage; and
- other risks associated with our financial profile and the Notes discussed under “*Risk factors.*”

The list above is not exhaustive and there are other factors that may cause our actual results to differ materially from the forward-looking statements contained in this Offering Memorandum. Moreover, new risk factors emerge from time to time and it is not possible for us to predict all such risk factors. We cannot assess the impact of all risk factors on our business or the extent to which any factor, or combination of factors, may cause actual results to differ materially from those contained in any forward-looking statements. Given these risks and uncertainties, you should not place undue reliance on forward-looking statements as a prediction of actual results.

We urge you to read the sections of this Offering Memorandum entitled “*Risk factors,*” “*Management’s discussion and analysis of financial condition and results of operations,*” “*Presentation of industry and market data*” and “*Our business*” for a more complete discussion of the factors that could affect our future performance and the markets in which we operate.

PRESENTATION OF FINANCIAL AND OTHER INFORMATION

Financial information

Our audited consolidated financial statements as at and for the years ended December 31, 2015, 2016 and 2017 included in this Offering Memorandum have been prepared in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board.

In 2015, we concluded negotiations to purchase 56.25% of BelemaOil Producing Limited (“**BelemaOil**”), a Nigerian special purpose vehicle that had purchased a 40% operating interest in OML 55. In July 2016, we agreed to a new commercial arrangement with BelemaOil (the “**OML 55 Deed of Settlement and Release**”), in which, in return for a discharge sum of \$330 million to be paid to us over a six year period through the allocation of crude oil reserves from OML 55, we relinquished all control over BelemaOil. In 2016, as we no longer exercised control over the entity, we deconsolidated BelemaOil. In our financial statements for the year ended December 31, 2016, we recorded our right to receive the discharge sum as a right to receive an equivalent U.S. Dollar amount of crude oil. After the discharge sum is paid, we will no longer have any interest in OML 55. See “*Our business – Upstream Assets – Description of assets – OML 55*” and “*Our business – Material agreements relating to our assets – OML 55 Deed of Settlement and Release.*”

The financial information included in this Offering Memorandum is not intended to comply with U.S. SEC reporting requirements. Compliance with such requirements would require the modification, reformulation or exclusion of certain financial measures. In addition, changes would be required in the presentation of certain other information.

Non-IFRS financial measures

This Offering Memorandum contains non-IFRS measures and ratios, including EBITDAX and Adjusted EBITDAX, capital expenditure, working capital, total debt, net debt, production opex and coverage ratios that are not required by, or presented in accordance with, IFRS. Our management uses these measures to evaluate operating performance and liquidity, in presentations to our Board and as a basis for strategic planning and forecasting, as well as monitoring certain aspects of our operating cash flow and liquidity. We present non-IFRS measures and ratios because we believe that they and similar measures are widely used by certain investors, securities analysts and other interested parties as supplemental measures of performance and liquidity. The non-IFRS measures and ratios may not be comparable to other similarly titled measures of other companies and have limitations as analytical tools and should not be considered in isolation or as a substitute for analysis of our operating results as reported under IFRS. Non-IFRS measures and ratios are not measurements of our performance or liquidity under IFRS and should not be considered as alternatives to operating profit or profit for the year and capital expenditure or any other performance measures derived in accordance with IFRS or as alternatives to cash flow from operating, investing or financing activities.

We present a reconciliation of each of the non-IFRS measures to the most directly comparable measure calculated and presented in accordance with IFRS and discuss its limitations. For a reconciliation of these non-IFRS measures, refer to “*Summary historical financial data.*”

EBITDAX and Adjusted EBITDAX may also be defined differently from the corresponding terms under the Indenture. Some of the limitations of EBITDAX and Adjusted EBITDAX are:

- they do not reflect our cash expenditures or future requirements for capital expenditure;
- they do not reflect changes in, or cash requirements for, our working capital needs;
- they do not reflect the significant interest expense, or the cash requirements necessary, to service interest or principal payments on our debt;
- although depreciation and amortization are non-cash charges, the assets being depreciated and amortized will often need to be replaced in the future and EBITDAX and Adjusted EBITDAX do not reflect any cash requirements that would be required to make such replacements;
- they do not reflect the impact of certain cash charges resulting from matters we consider not to be indicative of our ongoing operations; and
- other companies in our industry may calculate these measures differently from the way we do, limiting their usefulness as comparative measures.

Because of these limitations, EBITDAX and Adjusted EBITDAX should not be considered as measures of discretionary cash available to us to invest in the growth of our business or as measures of cash that will be available to us to meet our obligations. You should compensate for these limitations by relying primarily on our other IFRS results and using these non-IFRS measures only to supplement your evaluation of our performance.

EBITDAX

EBITDAX is a non-IFRS measure that we define as our earnings before the deduction of interest, tax, depreciation, depletion, amortization and exploration expenses. EBITDAX eliminates potential differences in performance caused by variations in capital structures (affecting net finance costs), tax positions (such as the availability of net operating losses against which to relieve taxable profits), the cost and age of tangible assets (affecting relative depreciation expense), the extent to which intangible assets are identifiable (affecting relative amortization expense), and exploration costs written off.

We believe that EBITDAX is a useful indicator of our ability to incur and service our indebtedness and can assist securities analysts, investors and other parties to evaluate us. EBITDAX and similar measures are used by different companies for differing purposes and are often calculated in ways that reflect the circumstances of those companies. Accordingly, caution is required in comparing EBITDAX as reported by us to EBITDAX of other companies.

Adjusted EBITDAX

Adjusted EBITDAX is a non-IFRS measure that we define as EBITDAX presented as adjusted for other additional specific items that are considered to hinder comparison of the trading performance of our business either year-on-year or with other businesses. For the periods under review, other specific items represent loss on disposal and impairment of assets, restructuring costs, share-based payment charge and provision for onerous service contracts, net.

We believe that Adjusted EBITDAX is a useful indicator of our ability to incur and service our indebtedness and can assist securities analysts, investors and other parties to evaluate us. Adjusted EBITDAX and similar measures are used by different companies for differing purposes and are often calculated in ways that reflect the circumstances of those companies. Accordingly, caution is required in comparing Adjusted EBITDAX as reported by us to Adjusted EBITDAX of other companies.

Capital expenditure

Capital expenditure is a non-IFRS measure that we define as investments in our business relating to drilling, facilities and fixed asset maintenance. We believe that capital expenditure is a useful indicator of our organic expenditure on exploration and appraisal assets and oil and gas assets incurred during a period because it eliminates acquisition costs. We believe that capital expenditure can assist securities analysts, investors and other parties to evaluate us. Capital expenditure and similar measures are used by different companies for differing purposes and are often calculated in ways that reflect the circumstances of those companies. Accordingly, caution is required in comparing capital expenditure as reported by us to the capital expenditure of other companies.

Working capital

Working capital is a non-IFRS measure that we define as our net cash from operating activities, and which comprises cash and cash equivalents, trade and other receivables, prepayments, trade and other payables and inventories, and excludes the effects of exchange difference and deconsolidation. See “*Management’s discussion and analysis of financial condition and results of operations – Liquidity – Net cash from operating activities*” and “*Management’s discussion and analysis of financial condition and results of operations – Factors affecting comparability – BelemaOil*.” We use working capital to monitor cash flow and capital levels. We believe that working capital is a useful indicator of our financial flexibility and capital structure and can assist securities analysts, investors and other parties to evaluate us. Working capital and similar measures are used by different companies for differing purposes and are often calculated in ways that reflect the circumstances of those companies. Accordingly, caution is required in comparing working capital as reported by us to working capital of other companies.

Total debt

Total debt is a non-IFRS measure that we define as both our non-current and our current borrowings. The non-current and current borrowings included in total debt are presented in “*Capitalization*.”

	As of December 31,		
	2015	2016	2017
	(in millions of \$)		
Debt			
Existing Term Loan	588.0	501.0	458.0
Existing Revolving Credit Facility	275.0	175.0	120.0
Other loan ⁽¹⁾	52.5	—	—
Capitalized loan transaction costs	(15.9)	(11.9)	(7.9)
Total debt	899.6	644.1	570.1

(1) In connection with the February 2015 acquisition of OML 55, the Company agreed with the shareholders of BelemaOil to assume its existing loan of \$52.5 million with Sterling Bank. This has been consolidated in the Company's accounts.

Net debt

Net debt is a non-IFRS measure that we define as total debt less cash and cash equivalents. We believe that net debt is a useful indicator of our indebtedness, financial flexibility and capital structure because it indicates the level of borrowings after taking account cash and cash equivalents in our business that could be utilized to repay the outstanding borrowings. We believe that net debt can assist securities analysts, investors and other parties to evaluate us. Net debt and similar measures are used by different companies for differing purposes and are often calculated in ways that reflect the circumstances of those companies. Accordingly, caution is required in comparing net debt as reported by us to net debt of other companies.

Production opex

Production opex is a non-IFRS measure that we define as our net operating costs (excluding non-cash flow expenses and financing costs) divided by our working interest barrels of oil equivalent produced in the period. We believe that production opex is a useful indicator of how cost efficiently we are able to develop our oil and gas reserves. By controlling our operating costs we believe we are able to be more resilient to periods of depressed oil prices.

	As of December 31,		
	2015	2016	2017
	(in millions of \$)		
Crude Handling Charges	64.50	7.80	32.15
Barging Cost	0.00	17.89	9.11
Rig Related Expenses	8.64	9.07	3.22
Operations and Maintenance Cost	142.97	48.40	80.36
Production Opex (MMbbl)	3	6	13.48
Production Opex/Boe (\$/boe)	15.8	9.4	5.96
	3	7	
	9.0	8.7	
	3	8	

Pro forma financial data

We present in this Offering Memorandum certain *pro forma* financial data, including *pro forma* net debt and *pro forma* finance costs which is based on our consolidated financial information presented *pro forma* to give effect to the Transactions, as of December 31, 2017. See “*Summary historical financial data – Other financial data and key ratios*.” The *pro forma* financial data has not been prepared in accordance with the requirements of Regulation S-X of the Securities Act, the Prospectus Directive or IFRS. Neither the assumptions underlying the related adjustments nor the resulting *pro forma* financial data have been audited or reviewed in accordance with International Standards on Auditing or International Standards on Review Engagements.

Certain operational data

Working interest production

Working interest production is defined as the oil and gas produced during the year net to our working interest in each producing block. Volumes expressed are measured at our facilities, prior to any reconciliation losses. We believe that working interest production is a useful indicator of our production strength at the blocks in which we hold interests and the impact of development activities.

Realized oil price

Realized oil price is the weighted oil sales price, tied to oil liftings with an upward adjustment for hedging income, if any. We calculate realized oil price on a monthly basis. See “*Management’s discussion and analysis of financial condition and results of operations – Significant factors affecting results of operations – Price of oil and gas.*”

LTIF

Loss time injury frequency (“**LTIF**”) is defined as the number of lost time incidents recorded per million man hours worked. We believe that LTIF is a useful indicator of health and safety performance that is widely established within the oil and gas industry. See “*Risk factors – Risks relating to the industry and our business – Our operations and those of our partners are subject to health, safety and environmental laws and regulations that may expose it to significant costs and liabilities.*”

Rounding

Certain numerical figures set out in this Offering Memorandum, including financial data presented in millions or thousands and percentages describing market shares, have been subject to rounding adjustments and, as a result, the totals of the data in this Offering Memorandum may vary slightly from the actual arithmetic totals of such information. Percentages and amounts reflecting changes over time periods relating to financial and other data set forth in “*Management’s discussion and analysis of financial condition and results of operations*” are calculated using the numerical data in our consolidated financial statements or the tabular presentation of other data (subject to rounding) contained in this Offering Memorandum, as applicable, and not using the numerical data in the narrative description thereof.

Certain reserves and production information

Unless otherwise indicated, the estimates of the oil and gas proved, probable and possible reserves and contingent resources data presented in this Offering Memorandum has been estimated (i) as of January 1, 2018 at our request by Ryder Scott Company, L.P. (“**Ryder Scott**”) and (ii) as of December 31, 2015 and 2016, by the Company based on reserve reports issued on December 31, 2015 and 2016. Ryder Scott is an independent reservoir evaluation company and have prepared their estimates according to the definitions and disclosure guidelines contained in the Society of Petroleum Engineers, World Petroleum Council, American Association of Petroleum Geologists and Society of Petroleum Evaluation Engineers Petroleum Resources Management System (“**PRMS**”) approved in March 2007.

In this Offering Memorandum, unless otherwise noted or the context so requires, references to reserves are to 2P reserves, which is the sum of our proved reserves plus probable reserves. Pursuant to the classifications and definitions provided by the PRMS, “proved reserves” is defined as those quantities of petroleum, which, by analysis of geoscience and engineering data, can be estimated with reasonable certainty to be commercially recoverable, from a given date forward, from known reservoirs and under defined economic conditions, operating methods, and government regulations, and “probable reserves” is defined as those additional reserves which analysis of geoscience and engineering data indicate are less likely to be recovered than proved reserves but more certain to be recovered than possible reserves. “Possible reserves” are those additional reserves which, after analysis of geoscience and engineering data, are less likely to be recoverable than probable reserves. As at January 1, 2018, Ryder Scott estimated all of our 2P reserves.

In this Offering Memorandum, unless otherwise noted or the context so requires, references to “contingent resources” are to 2C resources. Pursuant to the classifications and definitions provided by the PRMS, 2C resources are those quantities of estimated contingent resources (being those quantities estimated, as at a given date, to be potentially recoverable from known accumulations by application of development projects

but which are not then considered to be commercially recoverable due to one or more contingencies) that in the “best estimate” scenario have a probability of at least 50% of equaling or exceeding the amounts actually recovered.

Estimates of petroleum reserves, future net revenue, contingent resources, and prospective resources should be regarded only as estimates that may change as additional information becomes available. Not only are such reserves, contingent resources, revenue and potential revenue estimates based on that information which is currently available, but such estimates are also subject to the uncertainties inherent in the application of judgmental factors in interpreting such information.

Unless otherwise indicated, all production figures are presented on a net to our working interest basis or our financial interest, as applicable. Where gross amounts are indicated, they are presented on a total basis—i.e., the actual interest of the relevant license holder in the fields and license areas without deduction for the economic interest of our other participants, taxes or royalty interests or otherwise. See “*Our business – Material agreements relating to our assets*” for a more detailed discussion of the terms of the agreements governing our interests.

Hydrocarbon data

The reports referenced in this Offering Memorandum use the following estimates:

- oil in standard millions of barrels (“**MMbbls**”) (a barrel being the equivalent of 42 U.S. gallons and barrels of oil per day (“**bopd**”);
- natural gas and natural gas liquids in billion standard cubic feet (“**Bscf**”) and million standard cubic feet of gas per day (“**MMscfd**”); and
- liquid in standard millions of barrels of oil equivalent (“**MMboe**”) and barrels of oil equivalent per day (“**boepd**”).

This Offering Memorandum presents certain production and reserves-related information on an “equivalency” basis. Our conversion of data for tons into barrels and from cubic feet into boe may differ from that data used by other companies. We have assumed a conversion rate of 6 Bscf to 1 MMboe in the presentation of our production data. This conversion is based on an energy equivalency conversion method primarily applicable at the burner tip and does not represent value equivalencies at the wellhead. Although this conversion factor is an industry accepted convention, it is not reflective of price or market value differentials between product types.

Marketable gas has been converted to barrels of oil equivalent on a field-by-field basis. Marketable gas is a measure of gas quantities, calculated at a pressure base of 14.7 pounds per square inch absolute and a temperature base of 60 degrees Fahrenheit (°F).

There are a number of uncertainties inherent in estimating quantities of commercial reserves and contingent resources, including many factors beyond our control. The commercial reserves and contingent resources information as at January 1, 2018, as provided in the 2018 Ryder Scott Report, represents only estimates and such estimates are forward-looking statements that are based on judgments regarding future events that may be inaccurate. See “*Forward-looking statements.*” Estimation of reserves and resources is a subjective process of estimating underground accumulations of oil and natural gas that cannot be measured in an exact manner. The accuracy of any reserves or contingent resources estimate is a function of a number of factors, many of which are beyond our control, including the quality of available data, and involves engineering and geological interpretation and judgment. As a result, estimates of different engineers may vary. In addition, results of drilling, testing and production subsequent to the date of an estimate may justify revising the original estimate. Accordingly, due to the inherent uncertainties and the limited nature of reservoir data and the inherently imprecise nature of reserves and contingent resources estimates, the initial reserves and contingent resources estimates are often different from the quantities of oil and natural gas that are ultimately recovered. The meaningfulness of such estimates depends primarily on the accuracy of the assumptions upon which they were based. Thus, you should not place undue reliance on the ability of the reserves and contingent resources reports prepared by Ryder Scott to predict actual reserves and contingent resources or on comparisons of similar reports concerning other companies and this Offering Memorandum should be accepted with the understanding that our financial performance subsequent to the date of the estimates may necessitate revision of the reserves and contingent resources information set forth herein. In addition, except to the extent that we acquire additional properties containing reserves or

conduct successful exploration and development activities, or both, our reserves will decline as they are produced.

Potential investors should note that the 2018 Ryder Scott Report has not estimated proved and probable reserves under the standards of reserves measurement applied by the U.S. SEC (the “U.S. SEC Basis”) for any of the relevant periods reviewed in the Offering Memorandum, or otherwise. The U.S. SEC Basis differs from PRMS.

As a company listed on the main market of the LSE, we disclose probable reserves and contingent resources in line with customary disclosure for other U.K. public oil and gas exploration and production companies.

Presentation in the 2018 Ryder Scott Report

Ryder Scott has prepared estimates of our asset base as January 1, 2018 (the “2018 Ryder Scott Report”). The 2018 Ryder Scott report estimating the reserves and contingent resources at OPL 283 as at January 1, 2018, refers to the assets as located within OML 56 as OPL 283. The technical personnel responsible for preparing the reserve estimates at Ryder Scott meet the requirements regarding qualifications, independence, objectivity and confidentiality set forth in the Standards Pertaining to the Estimating and Auditing of Oil and Gas Reserves Information promulgated by the SPE. Ryder Scott is an independent firm of petroleum engineers, geologists, geophysicists and petrophysicists. Ryder Scott does not own an interest in our assets and is not employed on a contingent fee basis.

DEFINITIONS

Unless otherwise specified or the context requires otherwise in this Offering Memorandum, references to “Seplat,” “Company,” “we,” “us,” and “our” refer to Seplat Petroleum Development Company Plc, together with its subsidiaries. The following definitions apply throughout this Offering Memorandum, unless the context otherwise requires:

- **“Corporate Facility Agent”** means Standard Chartered Bank, as corporate facility agent under the Revolving Credit Agreement;
- **“DPR”** means Department of Petroleum Resources (Nigeria);
- **“EURIBOR”** means Euro Interbank Offered Rate;
- **“Existing Revolving Credit Facility”** means the \$300,000,000 aggregate corporate senior secured revolving credit facility, dated December 30, 2014, entered into among, *inter alios*, the Company as borrower, the Corporate Facility Agent and the lenders party thereto (as amended pursuant to an amendment letter dated June 29, 2017);
- **“Existing Term Facility Agreement”** means the \$700,000,000 reserve-based term loan facility agreement, dated December 31, 2014, entered into among, *inter alios*, the Company as borrower, United Bank for Africa plc, as term facility agent, and the lenders party thereto, that matures on September 30, 2021;
- **“Existing Term Loan”** means the \$700,000,000 term loan made available under the Existing Term Facility Agreement;
- **“FRCN”** means the Financial Reporting Council of Nigeria;
- **“FIRS”** means Federal Inland Revenue Service;
- **“Guarantors”** mean, collectively, Seplat West Ltd, Newton Energy Ltd and Seplat East Swamp Ltd;
- **“ISA”** means the Investments and Securities Act No. 29, 2007;
- **“LACT”** means lease automatic custody transfer unit;
- **“LIBOR”** means the London Interbank Offered Rate;
- **“LSE”** means London Stock Exchange plc;
- **“Mercuria”** means Mercuria Energy Trading S.A.;
- **“Mercuria Prepayment Facility”** means the prepayment agreements entered into with Mercuria on July 19, 2016 and January 24, 2017 and amended on June 29, 2017 pursuant to which Mercuria agreed to make purchases of crude oil production from OMLs 4, 38 & 41 commencing in January 2019;
- **“MPR”** means the Ministry of Petroleum Resources (Nigeria);
- **“NAPIMS”** means National Petroleum Investment Management Services (Nigeria);
- **“Nigeria”** means the Federal Republic of Nigeria;
- **“Nigerian SEC”** means Nigerian Securities and Exchange Commission;
- **“NGPTC”** means the Nigerian Gas Processing and Transportation Company Limited
- **“NNPC”** means the Nigerian National Petroleum Corporation;
- **“NPDC”** means the Nigerian Petroleum Development Company;
- **“OPEC”** means Organization of the Petroleum Exporting Countries;
- **“Petroleum Minister”** means the Minister of Petroleum Resources;
- **“Revolving Credit Facility”** means the \$300,000,000 corporate senior secured revolving credit facility originally dated December 30, 2014 between, *inter alios*, the Company, as borrower, the Corporate Facility Agent and the lenders party thereto (as amended pursuant to an amendment letter dated June 29, 2017), as amended by an amendment and restatement agreement expected to be entered into on March 12, 2018. As so amended, the facility will mature on June 30, 2022;

- **“Transactions”** means the issuance of the Notes offered hereby and the use of the proceeds therefrom in combination with borrowings under the Revolving Credit Facility and the release of cash from certain reserve accounts for the repayment of all amounts outstanding under the Existing Term Loan and Existing Revolving Credit Facility and the repayment of all amounts outstanding under the Mercuria Prepayment Facility as described in *“Use of Proceeds;”*
- **“U.S. SEC”** means the U.S. Securities and Exchange Commission;
- **“United States”** or **“U.S.”** means the United States of America;
- **“U.S. Exchange Act”** means the U.S. Securities Exchange Act of 1934, as amended, and the rules and regulations promulgated thereunder; and
- **“U.S. Securities Act”** means the U.S. Securities Act of 1933, as amended, and the rules and regulations promulgated thereunder.

CURRENCY PRESENTATION AND EXCHANGE RATE INFORMATION

In this Offering Memorandum, all references to “U.S. Dollars” and “\$” are to the lawful currency of the United States of America and all references to “Naira” and “₦” are to the lawful currency of the Federal Republic of Nigeria.

CBN exchange rate

The following table sets out for the periods indicated below the high, low, average and period-end exchange rates as published by the Central Bank of Nigeria (“CBN”), expressed in ₦ per \$1.00 U.S. Dollar. The CBN rates may differ from the actual rates used in the preparation of the consolidated financial statements and other financial information appearing in this Offering Memorandum. We have provided this exchange rate information solely for the convenience of the reader. We make no representation that the Naira and U.S. Dollar amounts referred to in this Offering Memorandum have been, could have been or could in the future be converted to U.S. Dollars at any particular rate, if at all. On March 9, 2018, the exchange rate published by the CBN for transfers between Naira and U.S. Dollars was ₦305.40 to \$1.00.

Year	Naira per \$1.00			
	Period end	Average	High	Low
2015.....	196.50	192.64	198.50	167.50
2016.....	304.5	252.69	324.50	196.50
2017.....	305.50	305.29	307.50	304.50
2018 (through March 9, 2018)	305.30	305.32	305.35	305.30
Month	Naira per \$1.00			
	Period end	Average	High	Low
September 2017.....	305.25	305.39	305.50	305.25
October 2017.....	305.30	305.12	305.30	304.50
November 2017.....	305.50	305.40	305.50	305.25
December 2107.....	305.50	305.81	306.50	305.50
January 2018.....	305.20	305.28	305.50	305.10
February 2018.....	305.40	305.39	305.50	305.25
2018 (through March 9, 2018).....	305.30	305.33	305.50	305.10

Exchange controls

The Nigerian foreign exchange regime is regulated by the Foreign Exchange (Monitoring and Miscellaneous) Provisions Act, Chapter F34 Laws of the Federation Nigeria 2004 (the “**Foreign Exchange Act**”), and regulations, circulars and guidelines made pursuant to it by the CBN, including in particular the Nigerian Foreign Exchange Manual (“**Foreign Exchange Manual**”), and the Revised Guidelines for the Operation of the Nigerian Interbank Foreign Exchange Market (“**Revised Guidelines**”) issued on June 15, 2016. The Foreign Exchange Act allows any person to invest foreign currency or capital imported into Nigeria through an authorized dealer (i.e. a Nigerian bank licensed by the CBN to deal in foreign exchange) in any enterprise or securities in Nigeria (except enterprises expressly prohibited by relevant provisions of Nigerian law).

Upon importation of any foreign currency investment that is intended to be converted into Naira and the actual conversion of such foreign currency into Naira, the authorized dealer is required to, within a period of 24 hours of receipt of the funds, issue a certificate of capital importation (“**CCI**”) in respect of the converted funds. The Foreign Exchange Act guarantees holders of CCIs unconditional repatriation and/or transferability of yields and/or capital on investments from Naira to the relevant currency, for debt service and repayment for repatriation and/or transfer out of Nigeria. The CCI is the evidence required to be presented to an authorized dealer to give the holders of the CCI access to the Nigerian foreign exchange market for the purpose of converting the proceeds of capital invested in Nigeria into freely convertible currency for repatriation out of Nigeria.

We are not obliged under Nigerian law to import the proceeds from the issue of the Notes into Nigeria and, to the extent that we do import proceeds and convert into Naira, we will be required to obtain a CCI in order to facilitate our access to the official foreign exchange market to source for U.S. Dollars at the prevailing official exchange rate for payment of interest and principal on the Notes. We will only require CCIs for any portion of the proceeds of the Notes we intend to convert to Naira. In the event that we decide

not to convert the proceeds of the issue of the Notes that are imported into Nigeria to Naira, we would hold the proceeds of the Notes in our foreign currency domiciliary account. In such circumstances, we would be unable to access the official foreign exchange market to repay any portion of the proceeds of the issue of the Notes that are imported into Nigeria but not converted into Naira. In such circumstances, we would rely on a combination of our U.S. Dollar reserves and operating cash flow for payment of the interest and principal due on the Notes or source for U.S. Dollars from the parallel market.

See “*Risk factors – Risks relating to the industry and our business – Exposure to currency exchange rate fluctuations and inflation will result in fluctuations in our cash flows and operating results.*”

PRESENTATION OF INDUSTRY AND MARKET DATA

In this Offering Memorandum, we rely on and refer to information regarding our business and the markets in which we operate and compete. The market data and certain economic and industry data and forecasts used in this Offering Memorandum were obtained from governmental and other publicly available information, independent industry publications and reports prepared by industry consultants, including:

- BP (Energy Outlook 2018);
- BP (Statistical Review of World Energy, June 2017);
- Central Bank of Nigeria (Reserve Management Statistics);
- CIA World Factbook;
- Energy Information Administration (Short-Term Energy Outlook, January 2018);
- National Bureau of Statistics (Nigerian Gross Domestic Product Report Q3 2017);
- Nigerian National Petroleum Corporation (Monthly Performance Data);
- PwC (2017 Oil & Gas Trends—Adjusting business models to a period of recovery); and
- the World Bank.

Industry publications, surveys and forecasts generally state that the information contained therein has been obtained from sources believed to be reliable, but that there can be no assurance as to the accuracy and completeness of such information. We believe that these industry publications, surveys and forecasts are reliable, but we have not independently verified any of the data from third party sources. Forecasts and other forward-looking information obtained from these sources are subject to the same qualifications and uncertainties as the other forward-looking statements in this Offering Memorandum.

We cannot assure you that any of the assumptions underlying any statements regarding the oil and gas industry are accurate or correctly reflect our position in the industry. Market data and statistics are inherently predictive and speculative and are not necessarily reflective of actual market conditions. Such statistics are based on market research, which itself is based on sampling and subjective judgments by both the researchers and the respondents, including judgments about what types of products and transactions should be included in the relevant market. In addition, the value of comparisons of statistics for different markets is limited by many factors, including that (i) the markets are defined differently, (ii) the underlying information was gathered by different methods and (iii) different assumptions were applied in compiling the data. Accordingly, the market statistics included in this Offering Memorandum should be viewed with caution and no representation or warranty is given by any person, including us or the Initial Purchasers, as to their accuracy.

Elsewhere in this Offering Memorandum, statements regarding the oil and gas industry are not based on published statistical data or information obtained from independent third parties, but are based solely on our experience, our internal studies and estimates, and our own investigation of market conditions. We cannot assure you that any of these studies or estimates are accurate, and none of our internal surveys or information have been verified by any independent sources. While we are not aware of any misstatements regarding our estimates presented herein, our estimates involve risks, assumptions and uncertainties and are subject to change based on various factors, including those discussed under the heading “*Risk factors*” in this Offering Memorandum.

SUMMARY

This summary highlights certain information about our business and the Offering described elsewhere in this Offering Memorandum. This summary is not complete and does not contain all the information you should consider before investing in the Notes. This summary is qualified in its entirety by, and should be read in conjunction with, the more detailed information included in this Offering Memorandum, including our audited consolidated financial statements and the related notes thereto. The reserves and contingent resources data presented in this section have been estimated in accordance with PRMS guidelines and definitions. Estimated reserves and contingent resources presented herein may differ from estimates made in accordance with guidelines and definitions used by other companies in the industry or by the U.S. SEC. See “Presentation of financial and other information.” **Unless otherwise indicated, all production figures are presented on a net to our working interest basis or our financial interest, as applicable. Where gross amounts are indicated, they are presented on a total basis—i.e., the actual interest of the relevant license holder in the fields and license areas without deduction for the economic interest of other participants, taxes or royalty interests or otherwise.** See “Our business – Material agreements relating to our assets” You should read carefully the entire Offering Memorandum to understand our business, the nature and terms of the Notes and the tax and other considerations which are important to your decision to invest in the Notes, including the risks discussed under the caption “Risk factors” and “Management’s discussion and analysis of financial condition and results of operations.”

Overview

We are a leading independent indigenous upstream oil and gas company operating in Nigeria. As an upstream oil and gas development and production company, our focus is on growing cash flows by maximizing hydrocarbon production and recovery from our existing production and development assets. In the year ended December 31, 2017, our revenue was \$452.2 million, our Adjusted EBITDAX was \$216.5 million and our production averaged 36,923 boepd (48.4% liquids). As at January 1, 2018, our 2P reserves were 477.2 MMboe and 2C contingent resources were 60.6 MMboe. We are listed on both the Nigerian Stock Exchange (“NSE”) and the Main Market of the London Stock Exchange (“LSE”) with a market capitalization of £706 million as at February 27, 2018. We have working interests in five of our six assets.

The following table sets forth a summary of field type, working interest average daily production for the years ended December 31, 2015, 2016 and 2017.

Assets	Field type	Working interest	Operator	Working interest production		
				Year ended December 31,		
				2015	2016	2017
OMLs 4, 38 and 41	Oil and gas	45%	Seplat			
Oil (bopd)				25,461	7,452	15,777
Gas (MMscfd) ⁽¹⁾				86	95	114
Oil equivalent (boepd)				39,830	23,238	34,847
OML 53	Oil and gas	40%	Seplat			
Oil (bopd)				686 ⁽²⁾	1,182	1,075
Gas (MMscfd)				—	—	—
Oil equivalent (boepd)				686	1,182	1,075
OPL 283	Oil and gas	40%	Pillar Oil			
Oil (bopd)				1,113	612	1,001
Gas (MMscfd)				—	—	—
Oil equivalent (boepd)				1,113	612	1,001
OML 55⁽³⁾	Oil	n/a	Asset Management Team			
Oil (bopd)				1,743 ⁽⁴⁾	845 ⁽⁵⁾	—
Gas (MMscfd)				—	—	—
Oil equivalent (boepd)				1,743	845	—
Total (boepd)				43,372	25,877	36,923

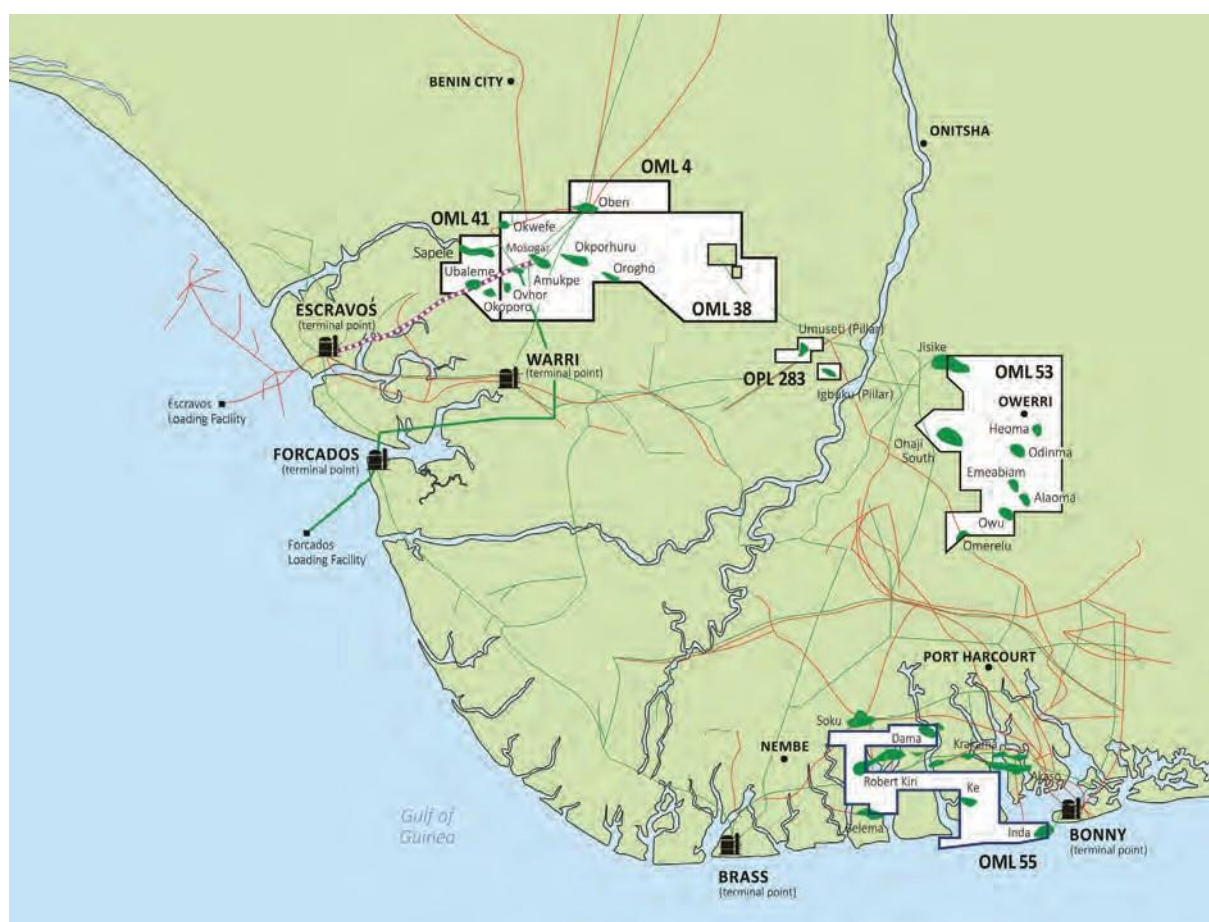
(1) Our working interest gas production at OMLs 4, 38 and 41 does not reflect our further entitlement to gas revenues attributable to the Nigerian Petroleum Development Company’s (the “NPDC”) 55% interest under our agreement with NPDC to offset a portion of its outstanding receivables. See “Management’s discussion and analysis of financial condition and results of operations – Significant factors affecting results of operations – NPDC receivables”

(2) We completed the acquisition of our interest in OML 53 in February 2015. Our 2015 working interest oil production at OML 53 is derived from actual oil production from February 2015 through December 2015, which has been annualized across the entire year.

- (3) Under the OML 55 Deed of Settlement and Release we are no longer a shareholder in BelemaOil, but instead have a financial interest in the asset until a discharge sum of \$330 million has been paid to us through the monetization of oil reserves at OML 55. Until the discharge sum is paid, we continue to recognize an interest in the OML 55 reserves. After the discharge sum is paid, we will no longer have any interest in OML 55. See “Management’s discussion and analysis of financial condition and results of operations – Factors affecting comparability – BelemaOil.”
- (4) We completed the acquisition of our interest in OML 55 in February 2015. Our 2015 working interest oil production at OML 55 is derived from actual oil production from February 2015 through December 2015, which has been annualized across the entire year.
- (5) Working interest production at OML 55 for the year ended December 31, 2016 has been calculated by annualizing average working interest production values from January 2016 to May 2016.

Oil business

Our portfolio comprises interests in six oil and gas assets, comprising five working interests and one financial interest. The graphic below presents the location of our oil and gas assets and related infrastructure.



We are the designated operator at four of the blocks in which we have working interests. All six assets are located onshore in the Niger Delta area. Since we acquired our first blocks and commenced production in 2010, we have increased oil and gas production and grown reserves through both organic activities and strategic acquisitions. Under our operation, gross operated liquids production at OMLs 4, 38 and 41, which are our most productive assets, has grown from an average daily gross oil production of approximately 14,000 bopd when we first acquired our interest in the blocks in August 2010 to approximately 67,000 bopd average daily gross production in December 2017, representing a five fold average daily production increase. We have also significantly increased gross operated gas sales from 105 MMscfd in August 2010 to 324 MMscfd in December 2017, reflecting a threefold average daily gas sales increase. Our drilling and development activities at our core producing assets have also delivered organic reserves growth, driven largely by conversion of 2C resources to 2P reserves, which has been augmented via strategic acquisitions of interests in OMLs 53 and OPL 283 (which is located within OML 56). Our working interest 2P reserves have grown from 141 MMboe as at December 31, 2010 to 477.2 MMboe as at January 1, 2018, of which 213 MMboe working interest 2P reserves were converted from 2C resources while we acquired the remaining

197 MMboe working interest 2P reserves. Our oil is exported through third party infrastructure and sold internationally at a premium or discount to spot rates depending on prevailing market conditions and quality. We aim to maintain access to multiple export routes for each of our assets in order to minimize the impact of downtime at any specific route.

Gas business

We are also a leading producer and supplier of natural gas to the Nigerian domestic market. The graphic below presents the location of our gas and related infrastructure.



We consider natural gas to be a valuable primary commodity rather than a by-product and we believe natural gas will continue to form a significant component of our revenue and future success in Nigeria. Unlike other entities in the Nigerian oil industry that historically approached natural gas primarily as a by-product of oil production, we invested early in the primary development and monetization of the large-scale gas reserves that exist on our blocks. We have increased our gross natural gas output from 99 MMscfd in 2010 to an average of 254 MMscfd in 2017 with, a post-force majeure daily average of 283 MMscfd. Based on the NNPC monthly financial and operations report documenting the total gas supplied to the domestic market, we believe we supplied sufficient gas to underpin up to one-third of the Nigerian on-grid domestic power gas generation in the year ended December 31, 2017. In order to commercialize our gas resources, we have invested in the installation of dedicated gas processing facilities as well as in the drilling of gas production wells, both to meet government mandated domestic supply obligations and to provide feedstock to the Nigerian power and industrial sectors. In 2016 and 2017 we increased the gas processing capacity at our Oben gas processing plant, located on OML 4 and currently our most productive gas asset, to 465 MMscfd. Together with 60 MMscfd of processing capacity at the Sapele gas processing plant, this increased overall operated gross processing capacity to 525 MMscfd. Our investment has provided us with the capacity to increase production at our operated assets while also providing capacity to process third party gas volumes, if we determine to do so in the future, to further boost supply of processed gas to the domestic market and address some of the current gas supply deficits in thermal power generation. The Oben facility is also strategically positioned to provide a hub for access to the Lagos and Abuja markets, Nigeria's main gas demand centers, as well as providing the ability to export gas to neighboring markets via the West African Gas Pipeline. All of the gas we produce is currently sold in-country, priced in U.S. Dollars and paid in Naira using the CBN exchange rate. See "Currency Presentation and Exchange Rate Information – CBN Exchange Rate." We believe that the current capacity deficit in thermal power generation provides capacity for the placement of additional gas volumes. Our acquisition of OML 53 in 2015 provided us with an opportunity to play a key role in the ANOH development project, which is expected to be one of the largest onshore greenfield gas condensate development projects in Nigeria's history.

According to the Gas Master Plan, developed by Nigeria National Petroleum Company (the “NNPC”), domestic gas demand is expected to increase significantly as the government seeks to increase power generation in line with its 2020 targets. See “*Risk factors – Risks relating to operating in Nigeria – The regulatory environment in the oil and gas sector in Nigeria is subject to significant ongoing change.*” We have experienced an increase of approximately 19% in our average realized gas price and a strong growth in demand from creditworthy buyers since 2014, and believe we are well positioned to continue to benefit from demand trends and improved infrastructure. Investing in natural gas production and processing facilities also allows us to diversify our business, both in terms of product and geography, which can help mitigate the impact of oil price volatility, oil production interruption or other industry events.

Strengths

Attractive portfolio of producing assets with a substantial oil and gas reserves base

We acquired our first asset in July 2010 from the Shell Petroleum Development Company Limited (“**Shell Petroleum**”), the Nigerian AGIP Oil Company Limited, total E&P Nigerian Limited (formerly ELF (Nigeria) Limited), collectively, the “**Shell Consortium**” obtaining a 45% participating interest in, and becoming operator of, OMLs 4, 38 and 41, and since that time we have continued to build an attractive portfolio of onshore oil and gas assets in Nigeria with low extraction costs. Our portfolio of assets combines a focus on production, with a significant reserve base and a decline rate of around 10-12% per annum from producing wells at OMLs 4, 38 and 41. Our total production rates have grown significantly since inception to an average gross daily production of 67,000 bopd and 382.4 MMscfd, for oil and gas respectively, in the year ended December 31, 2017, attributable to our value-oriented work programs which have helped achieve organic growth and also arrest our oil production decline rate. Our portfolio has strong underlying performance, with an average production of 43,372 boepd, 25,879 boepd and 36,923 boepd during the years ended December 31, 2015, 2016 and 2017, respectively, as well as diversification across wells, reservoirs and fields. Our average production in the year ended December 31, 2017 reflects over 180 days of production interruptions at our core asset, OMLs 4, 38 and 41, as a result of the Trans-Forcados pipeline *force majeure*. Additionally, our low capex and opex spending on a per barrel basis demonstrates the quality of our assets and our ability to maintain cost effective production, even in low oil price environments. As of January 1, 2018, our aggregate 2P oil reserves were 226.3 MMbbls and our gas reserves were 1,456 MMscf. In addition, we also have significant undeveloped resources, including 2C resources of 60.6 MMboe.

Portfolio diversification through a thriving gas business

We have grown our gas business from an average daily gas production of 105 MMscfd in August 2010 to 324 MMscfd in December 2017, representing a CAGR of 17%. We also increased our 2P gas reserves from 70 MMboe as at December 31, 2010 to 251.0 MMboe as at January 1, 2018, representing a CAGR of 20%. Our increase in reserves and production has gone hand-in-hand with strategic investment and development in our gas processing facilities. As a sole risk project, we successfully implemented a two-phase upgrade to our Oben gas plant, which is itself strategically located with access to Lagos and Abuja, Nigeria’s two primary gas demand centers. Phase I, of the Oben hub expansion, implemented in 2015, included the installation of a new 150 MMscfd processing plant, doubling our gross processing capacity to 300 MMscfd. Phase II, implemented in 2016, included the installation of three processing modules to bring our gross processing capacity at Oben to a minimum of 465 MMscfd as well as the installation of 100,000 total bbls condensate storage tanks to support continual gas production. In 2017, we also installed two additional 10 MMscfd compressors at the Oben flow station, which help reduce associated gas flares and redirect associated gas for sale via the Oben gas plant. Additionally, we have entered into multiple long-term gas contracts, which improve our revenue stabilization and long-term development and strategic planning capabilities. See “*Our business – Material agreements relating to our assets.*” Our overall investment in our gas production and processing capacity is the foundation of what we believe to be our ability to supply enough processed gas to underpin up to one-third of Nigeria’s current on-grid power generation. With a further 60 MMscfd of gas processing capacity at the Sapele facility, we currently operate an overall gross gas processing capacity of 525 MMscfd.

Our gas business allows us to diversify our overall portfolio and mitigate risks associated with the oil business. prices are “delinked” from oil prices, providing us with a natural hedge against fluctuations in global oil prices. Historically there has been a low correlation between oil prices and realized gas prices, for example, while average realized oil price dropped by 21% between 2015 and 2016, average realized gas price increased by 19% in the same period. Furthermore, our installation of the 100,000 total bbls capacity storage tanks, combined with our Warri refinery barging operations, means that our gas condensate

evacuation are largely unaffected by downtime at the Forcados terminal. Additionally, through the Associated Gas Fiscal Arrangement, the Nigerian government incentivizes gas investments by allowing gas producing companies to net gas capital expenditures and operating expenses off oil revenues.

Significant operating experience with an established technical track record of reserve replacement and production growth

We act as the operator at four of our assets, providing us with significant operational control over our asset production and investments. For example, 94% of our 2017 annual production was under our operational control. We believe we run a highly efficient operation using up-to-date technology which enables us to optimize value from our assets. We have consistently, and significantly, increased reserves in our portfolio through organic and strategic acquisition-related growth, with 2P reserves increasing significantly in the last seven years from 141 MMboe as at December 31, 2010 to 477.2 MMboe as at January 1, 2018, representing a CAGR of 19%. Part of the increase in our reserves stems from our ability to convert 2C resources to 2P reserves, and since our inception, as of January 1, 2018, we have converted 213 MMboe as well as increased our average daily gross production from approximately 14,000 bopd in August 2010 to 67,000 bopd in December 2017. We have also increased our gas production from 99 MMscfd in August 2010 to 254 MMscfd for the year ended December 31, 2017, representing a CAGR of 14%. We have historically increased oil and gas production by drilling additional wells on our existing acreages and by employing advanced and proven technologies to increase production in mature fields. In parallel with our increased gas production, we have also invested in gas processing infrastructure, such as the additional processing plant and modules at the Oben hub, to ensure we are able to fully commercialize our gas resources.

Prior to the 2016 *force majeure* at the Forcados terminal, our oil production had increased from an annual average oil and gas production rate of 22,679 boepd to 43,372 boepd from 2010 to 2015. Following the lifting of the *force majeure* in June 2017, production was restored to prior levels almost immediately. During the *force majeure* we maintained close to 20% of oil and condensate exports from OMLs 4, 38 and 41, which were originally expected to go through the Forcados terminal, via barging out of Warri refinery jetties. In addition, we have been steadily decreasing our downtime and transmission losses and our reconciliation factor has reduced from up to 12% in 2015 to 3.5% in 2017 jointly due to our installation of a Lease Automated Custody Transfer (“LACT”) unit in late 2014 and increased DPR supervision in oil production reconciliation. We anticipate our crude evacuation flexibility will be further bolstered once the Amukpe to Escravos route is completed, allowing us to shift production to the additional export route, with sufficient redundancy then being available to us across all three export routes to minimize the impact of downtime, reconciliation and capacity limitations.

Our success in achieving oil and gas production and reserves growth is underscored by a strong health, safety, security and environment (“HSSE”) track record. We have had no fatalities for the past five years and an LTIF of 0.00, 0.30 and 0.31 in 2015, 2016 and 2017 respectively.

Uniquely positioned to capture growth in the domestic gas market

We believe we are strategically positioned to benefit from growing gas demand in Nigeria. Our gas reserves and resources are strategically located in the center of an existing network of gas infrastructure (including gas pipelines and power plants) and this position along with the use of alternative export routes during Trans-Forcados Pipeline downtime supports regular gas production and supply to the domestic market. The map below shows the existing and planned gas infrastructure in Nigeria. As shown in the map, the Oben hub is strategically located to access both the Lagos and Abuja markets, as well as having the ability to export gas condensate via the Warri refinery.



Gas is important to Nigeria's economy and we have increasingly cemented our position as a strategic gas player in Nigeria by becoming one of the main suppliers to the domestic market. Nigeria currently faces a per capita electricity deficit despite growing gas demand and we believe that this supply deficit creates a market for our growing gas production. In 2017, we believe that the processed gas we supplied to the domestic market was sufficient to underpin up to one-third of Nigeria's domestic on-grid power generation. Our investment in the gas industry has helped us build strategic relationships with the Government which was illustrated when we were granted an expedited export license from Warri during the Forcados terminal shutdown in order to ensure continuous production of our associated gas (i.e. without an export route for our oil, in particular condensate, gas production would have been forced to stop once our storage tanks were filled up).

The domestic gas market in Nigeria has been growing since the Nigerian government more than doubled the domestic supply obligation price. The domestic supply obligation is a government mandated domestic supply obligation that requires all operators in the oil and gas sector in Nigeria set aside part of their production and gas reserves to supply gas to the local market. The domestic supply obligation price of gas was set at \$2.50 Mscf in 2014, where it remains today. In addition, Nigeria's per capita gas demand is growing which has resulted in new power plants requiring gas for their operations and plans to further develop the gas infrastructure and network connectivity, in particular, through the development of the OB3 pipeline to connect the East and West gas hubs. Nigeria currently faces a per capita electricity deficit and we believe that this supply deficit creates a market for our gas processing capacity. Furthermore, the Nigerian government has indicated it would like to shift consumption away from more expensive red diesel, further incentivizing gas infrastructure development and positioning us to utilize our expanded gas processing capacity to fill gaps in supply. We believe our emphasis on our gas business will allow us to capitalize on the growing demand for gas in Nigeria and benefit from the lower royalties and taxes associated with onshore gas sales which are 7% and 30%, respectively, for onshore gas producers compared to 20% and 85% for onshore oil gas producers.

Prudent management through the commodity cycle minimizing operational and financial risk

Operational

Our operations consist of an established infrastructure which has been further enhanced through prudent management and optimization. We have access to significant evacuation and storage infrastructure allowing for efficient and cost effective export methods. We have also sought to diversify our export routes to mitigate the risks of downtime via any specific route. While the Trans-Forcados system has historically been our primary export route, we have established a direct pipeline link to the Warri refinery to utilize the Warri refinery jetties as an alternative export route via barging with our offtaker Mercuria. In addition to export

via the Forcados terminal and Warri refinery, we anticipate that the new Amukpe to Escravos pipeline will become operational in the third quarter of 2018, providing a third export route for oil and gas produced on OMLs 4, 38 and 41. We expect that this additional pipeline, in combination with our access to the Forcados system and the Warri barging arrangements, will provide adequate redundant capacity to enable us to mitigate the majority of any potential impact of future downtime on any of our evacuation routes and significantly de-risk the distribution of oil production to the market. The Escravos pipeline will be between five and fifteen meters underground, making bunkering more difficult compared to above ground pipelines. The Escravos pipeline is designed to provide 160,000 bopd gross capacity. In line with our export diversification plan, once the Escravos Pipeline is operational we intend to export OMLs 4, 38 and 41 production via all three export routes.

Our gas strategy has focused on the commercialization of our gas business with expanded processing capacity of 525 MMscfd in 2017, up from 150 MMscfd before the commencement of our Oben hub expansion program, including the modular build-up of our processing capacity at the Oben facility. We have also installed 100,000 bbls of storage capacity to support continual associated gas production. The additional storage combined with the diversified export routes provides flexibility to continue gas production in the event of interruptions to our traditional export routes. The 375 MMscfd gas expansion at Oben was funded by Seplat as a sole risk project.

We have secured a number of medium to long term gas sales agreements covering firm and variable commitments. Our total contracted gas volumes are up to 436 MMscfd. We believe these contracts provide long term value for our business, as well as, in some cases, visible cash flows with take or pay provisions and third party payment guarantees.

Financial

Our operational control of most of our assets provides us with the ability to manage our operations and related operational and capital expenditures with most of our capex being discretionary. We have minimal maintenance capex requirements, as evidenced by our successful and prudent financial policies used under the lower oil price environment and export and infrastructure challenges in 2015 through 2017. We can quickly scale back drilling programs and capital projects during downturns or in the face of unforeseen events, and we have the flexibility to optimize our operations through additional investment during normal operating periods. For example we reduced our total capital expenditure from \$152 million in 2015 to \$34 million in 2017. Furthermore, our focus on onshore operations gives us shorter lead times compared to offshore/deep water projects, creating further flexibility and foresight on our capital expenditures. We also maintain and continually improve our robust cost controls, with the low production opex per boe of \$5.96 in 2017, reflecting a 27% reduction in production opex from 2015 to 2016 and a further 32% reduction from 2016 to 2017.

In addition we have reduced our total debt, by achieving a \$422 million debt reduction from January 2015 to December 31, 2017. This debt reduction was funded through internal cash flow generation and cash on balance sheet. We continually monitor our debt profile and seek to maintain a prudent level in order to provide sufficient headroom to allow for unforeseen volatility. We also carefully track our liquidity buffer utilizing cash generated from operations and cash on hand, the latter of which stood at \$437 million as at December 31, 2017. We strategically utilize short- and long-term debt and equity financings alongside our cash flow from operations in order to finance our cash needs and the growth of our business. In addition, we have also been successful in reducing the outstanding receivables owed to us by the NPDC from \$239 million as at December 31, 2016 to \$113 million as at December 31, 2017. Finally, we seek to reduce our exposure to risks associated with movement in commodity prices by applying an annual hedging program that is determined by our Board. Our senior management has the authority to execute our hedging strategy within budgetary limits set by the Board. For the 2018 fiscal year, we have hedged a total 6.6 MMbbls at a weighted average strike price of \$44.5/bbl via deferred premium puts at a total cost of \$4.5 million.

Advantaged position as a leading indigenous operator

We are one of the leading indigenous oil and gas operators in Nigeria and one of the first to acquire assets from major international oil companies as part of their Niger Delta onshore divestment programs in 2010. We are also one of the first indigenous companies to be granted operatorship from the NPDC when we began operating OMLs 4, 38 and 41 (and subsequently OML 53). Following our initial acquisition (OMLs 4, 38 and 41) we have made three further acquisitions, a 40% interest in both OPL 283 and OML 53, and

a financial interest in OML 55 where we expect to receive about \$300 million in revenues in the next five years from asset operations. The Nigerian government is promoting indigenous ownership and further onshore and shallow water divestments are being offered to consortiums with majority ownership from indigenous Nigerian companies. Given our indigenous nature and demonstration of operational excellence, we believe we are strategically positioned within the Nigerian oil and gas market.

In addition to our strong working relationship with the regulators, we have built a strong working relationship, and generated deep proactive community engagement in the communities in which we operate, which we call the “Seplat Model.” We have agreed a comprehensive Global Memorandum of Understanding (the “GMOU”) with local communities in OMLs 4, 38, and 41 and OML 53 in order to engage positively with the communities, provide investment in healthcare, education, infrastructure development and environmental stewardship, as well as promote the security of our facilities and employees. The GMOU provides a framework within which we and the host communities work together to encourage sustainable community development by improving essential infrastructure, such as health centers, schools and water projects. The GMOU was most recently renewed for a further five years in January 2016. We work with the communities that inhabit areas in close proximity to the fields and pipelines to manage the security and operation of those assets (by, for example, employing local contractors) and promote community engagement through our use of local contractor preferences. In 2017, 2,252 of our 2,404 registered contractors and vendors were indigenous. We have had year on year increases in recruitment from local communities, with 98% of our employees being of Nigerian nationality as of December 31, 2017. Community engagement has been essential in reducing the rate of disruptions, with zero incidents of disruptions on self-owned pipeline infrastructure since 2013.

We also strive to maintain strong principles of environmental stewardship and have implemented regular monitoring of effluents and emissions, implemented a rigorous waste management plan and conducted environmental impact assessments and environmental evaluation studies on upstream projects. As a result, over the last five years, we have reduced flares-to-gas production from 32% in 2013 to 8% in 2017 and volume of oil spilled due to our operations from 70 bbls oil spill volumes in 2013 to 16 bbls oil spill volumes. Through our HSSE initiatives, we consistently achieved a low LTIF in recent years, demonstrating a commitment to improving our health, safety and environment standards. As a matter of business priority, we continually strive to adhere to the highest HSSE standards and procedures when conducting our business.

We have also maintained a strong safety track record, targeting and achieving zero fatalities in the past five years. We have implemented safety procedure systems, and increased our incident reporting and investigations, as well as implemented periodic health screening for staff and contract employees.

Experienced management and strong corporate governance

Our management team has a deep understanding of both the complex oil and gas industry, as well as the communities and social dynamics in which we operate, which we believe are fundamental to the success of our business. Our senior executive and operational management team have considerable technical and operating experience in the oil and gas industry, previously working for major reputable international oil companies as well as independent indigenous oil and gas companies. Dr. A.B.C. Orjiako and Mr. Austin Avuru, our Non-Executive Chairman and CEO, respectively, have a comprehensive understanding of Nigeria’s operating environment, as well as over 50 years of combined experience in the oil and gas industry. Our board of directors also includes highly qualified members with extensive experience in the oil and gas industry. The Board has been strengthened by the addition of a number of experienced independent non-executive directors and is currently comprised of six independent non-executive directors. We believe that the local ties of members of our senior management and board are beneficial to our relationships with the local communities where we operate. In addition, we are the only Nigerian corporation to be dual listed on both the NSE and the main market of the LSE and we are subject to and measure ourselves against both the Nigerian and the UK corporate governance codes. We are committed to high standards of corporate governance and have adopted a detailed board charter and codes of conduct that reflect these standards and are implemented across our business.

Strategies

Maximize production and cash flows from our existing assets

We aim to continue to generate strong returns from our assets through proactive asset management, targeting year-on-year production growth and improvements in operational efficiency. We aim to increase

oil and gas production at our existing assets by investing in drilling new wells, completing workovers of existing wells, and executing strategic capital projects through a disciplined capital allocation approach. To achieve our sustainable growth aspirations, maintaining strict cost control, implementing the most appropriate technical solutions and organizing ourselves and our service providers so that we deliver projects on time and within budget is a top priority. We believe that our status as operator of our key assets enhances our ability to execute our production growth plans, in particular as our strict cost discipline enables us to generate strong margins and cash flows from our production. Being operator also allows us to run a flexible work program by responding to the realities of the business and economic environment and positioning ourselves to access growth opportunities. In addition to cost controls, we plan to continue improving operational efficiency by maximizing uptime and reducing reconciliation losses through the use of enhanced monitoring and processing technologies. We plan to further improve operational efficiency by diversifying our export routes for each of our assets and reducing our reliance on third party export infrastructure. See *“Our business – Upstream assets – Description of assets – OMLs 4, 38 and 41 – Transportation.”* We plan to maintain multiple export routes for each of our assets so that, should any one route experience downtime, we will be able to continue production by utilizing our alternative routes.

Increase our reserve base and develop and commercialize 2C resources into 2P reserves

We intend to grow our reserves base through the commercialization of undeveloped resources and the acquisition of assets with strong reserve replacement potential. Our drilling program includes the drilling of development wells along with an appraisal component enabling us to test upside potential of our assets. See *“Our business – Drilling.”* We will continue to use our drilling program to gather and interpret new information that we believe will allow us to maximize hydrocarbon recovery from our reservoirs and capitalize on low-risk reserve addition opportunities. We also recognize the importance of exploration as a means of growing reserves. We intend to include the drilling of exploration wells in our drilling plans as and when we identify opportunities that we believe are economically viable, focusing on prospects that, if successful, could offer rapid monetization and, where possible, will utilize our existing infrastructure. In line with our exploration objectives, we intend to drill exploration wells as and when oil prices and free cash flows permit. Our annual reserves target is to achieve a 1:1 reserves replacement ratio. We are proactive in realizing this target, as we recognize that maintaining and growing strong oil and gas reserves is critical to our sustainable growth and development.

Commercialize gas reserves and production to grow market share in Nigeria’s growing gas market

Nigeria has vast natural gas resources that remain underdeveloped. We intend to continue capitalizing on the increasing commercialization and monetization of Nigeria’s natural gas resources and we view gas monetization as an attractive and strategic long-term opportunity to complement our core crude oil production. We have strategically positioned ourselves by developing the Oben facility, located in OML 4, as a core gas processing hub through which the Lagos and Abuja markets, Nigeria’s greatest domestic and industrial demand centers, can be accessed and supplied. Over the past three years we have increased processing capacity at the Oben facility to 465 MMscfd and have entered into strategic long-term gas sales contracts. Together with the 60 MMscfd Sapele gas processing facility our total gas processing stands at 525 MMscfd. In 2017, we believe that we supplied sufficient gas to the domestic market to underpin up to one-third of Nigeria’s on-grid power generation and we plan to continue to improve our processing capabilities and operational efficiency at Oben. See *“Our business – Upstream assets – Description of assets – OMLs 4, 38 and 41 – Gas development – Oben hub.”* We believe that an increasing focus on domestic gas consumption for power generation and the construction of significant additional generation capacity present attractive opportunities for stable long-term cash generation from our gas business. Furthermore, in addition to providing us with additional oil reserves, our acquisition of an interest in OML 53 positions us as a key participant in the ANOH development project, which is expected to be one of the largest onshore greenfield gas condensate development projects in Nigeria’s history. Gas prices are de-linked from oil prices and have steadily increased to commercial levels, which allows us to confidently plan, finance and invest in gas opportunities independent of oil price dynamics. During periods of oil price weakness, our gas business takes on added importance, and we plan to continue growing our gas business as a means of diversifying our revenues and providing a natural hedge to oil price fluctuations. Additionally, while oil is both priced and paid in U.S. Dollars, gas is priced in U.S. Dollars but paid in Naira, providing us with a natural foreign exchange hedge, as we incur a significant portion of our costs in Naira.

Pursue a focused acquisition strategy to selectively acquire interests in assets with potential for strong return on investment

We plan to selectively pursue acquisitions that we believe have a strong potential for attractive returns on investment, realization of synergies and long term sustainable growth enabling us to have a balanced portfolio of producing and development assets. We see a rich opportunity set and a wide range of acquisitive growth opportunities in Nigeria, including further asset divestments by major international oil companies, asset farm-ins and acquisition opportunities in the independent exploration and production sector. We intend to prioritize value accretive onshore and shallow water offshore acquisitions that offer near-term production growth, cash flow and reserve replacement potential while exercising price discipline in the acquisition process. Where appropriate, we intend to continue to seek operational control of any acquired assets in order to ensure high operational efficiency and strict cost-control in the management of the asset.

Continue to be a leading Nigerian corporate citizen

We intend to continue operating as a strong community partner and highly responsible and accountable Nigerian corporate citizen. We recognize that minimizing the effects of our activities on the environment, understanding local issues, positively contributing to our local communities, being a first-rate employer and providing our staff with a safe working environment and career development opportunities are essential to achieving our operational goals. See *“Our business – Corporate social responsibility, employee safety and environmental safe-guarding.”* Underpinning all of this is a strict adherence to strong corporate governance and business integrity throughout our organization. We plan to continue engaging with all of the communities in which we operate to ensure that our presence is beneficial to local communities and to Nigeria as a whole.

Recent Developments

On January 16, 2018, our wholly owned subsidiary and a Guarantor of the Notes, Seplat West Ltd. was incorporated. We intend to transfer our interest in OMLs 4, 38 and 41, which is currently held by Seplat Petroleum Development Company Plc to Seplat West Ltd. The transfer of our interest is subject to the consent of the Ministry of Petroleum Resources (“MPR”). See *“Our business – Material agreements relating to our assets – Seplat/NPDC OMLs 4, 38 and 41 Joint Operating Agreement”* and *“Risk Factors – Risks relating to the industry and our business – Our operations are subject to ongoing licensing, contractual and regulatory requirements, each of which may be subject to amendment, renewal or reform, which could make compliance more challenging.”* While we do not expect ministerial consent to be withheld, we cannot provide assurances that consent for the asset transfer will be granted promptly or at all. Seplat West Ltd. is a Guarantor of the Notes.

We are also considering entering into third-party financing arrangements to fund a portion of our investment in the ANOH development project infrastructure. This investment will likely be financed through a combination of third-party borrowings within the restricted group and debt raised at the project level, however the structure, size and timing of any such financings are all under discussion both internally and with potential lenders and no decision has been made whether to proceed with this facility at all or if so, on what terms.

Reserves and resources

The following tables set forth a summary of our working interest 2P reserves and 2C contingent resources as of January 1, 2018.

As of January 1, 2018			
Working Interest Reserves (2P)	Oil (MMbbls)	Gas (Bscf)	Total (MMboe)
OMLs 4, 38 and 41	174.7	657.1	288.0
OML 53	41.5	736.4	168.4
OPL 283	5.1	62.2	15.8
OML 55 ⁽¹⁾	5	—	5
Total	226.3	1,455.7	477.2

As of January 1, 2018			
Working Interest Contingent Resources (2C)	Oil (MMbbl)	Gas (Bscf)	Total (MMboe)
OMLs 4, 38 and 41	40.6	44.5	48.3
OML 53	1.1	2.7	1.6
OPL 283	6.0	27.3	10.7
OML 55 ⁽¹⁾	—	—	—
Total	47.7	74.5	60.6

Source: 2018 Ryder Scott Report.

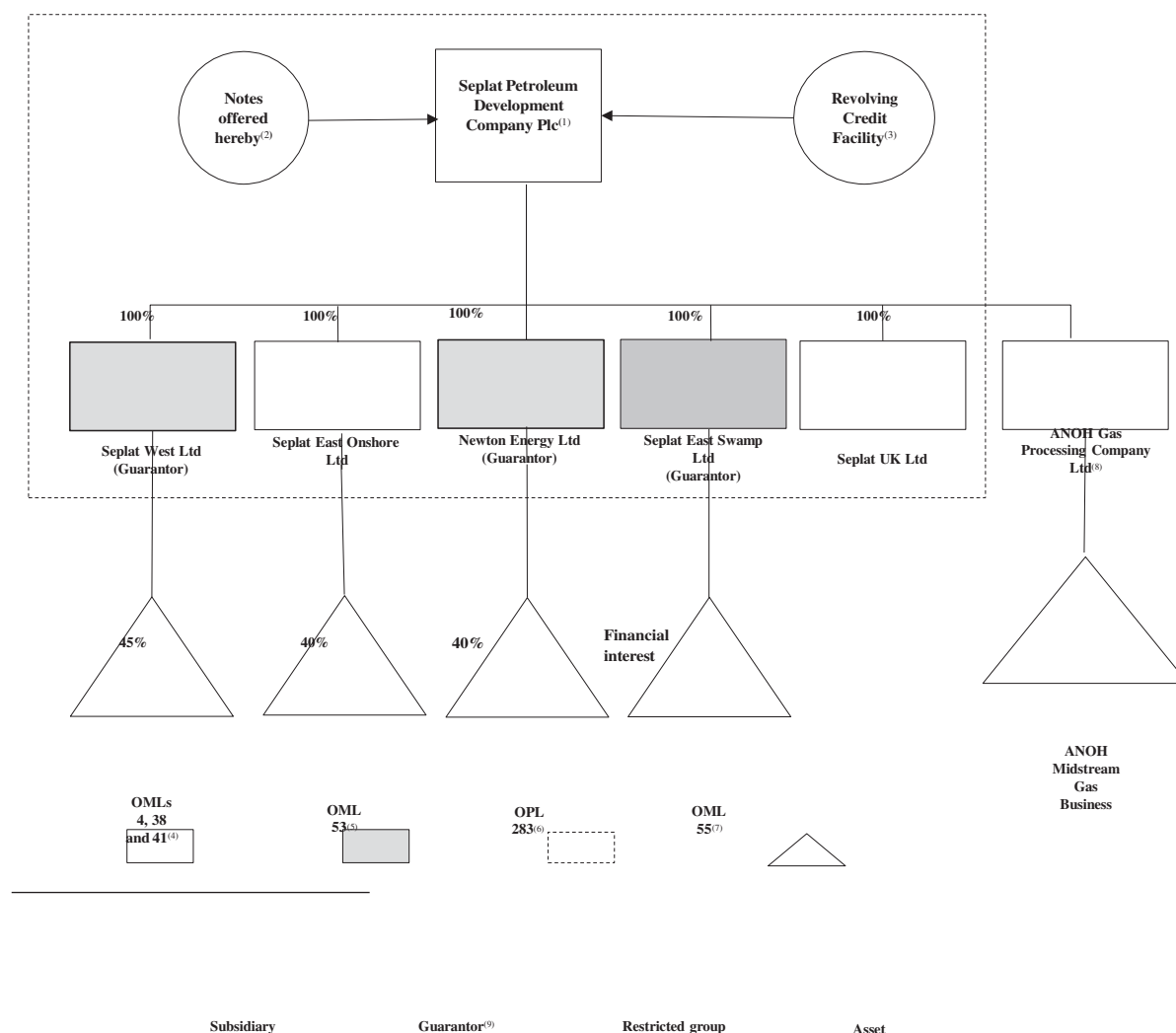
- (1) Our interest in OML 55 is governed by the OML 55 Deed of Settlement and Release, which provides for a discharge sum of \$330 million to be paid to us over a total six year period, which started in 2017, through the allocation of crude oil produced on OML 55. As at December 31, 2017, we have received \$35.8 million of the discharge sum from the monetization of oil volumes produced. Upon receipt of the full discharge sum, we will no longer have any interest in OML 55. Under the OML 55 Deed of Settlement and Release, we no longer recognize an interest in OML 55 resources. See “Management’s discussion and analysis of financial condition and results of operations—Factors affecting comparability—BelemaOil.”

The Transactions

We intend to use the proceeds from the issue of the Notes, together with drawings under the Revolving Credit Facility and the release of cash from certain reserve accounts, to (i) repay the principal amounts outstanding, plus accrued interest, under the reserve-based facility agreement entered into with, *inter alios*, United Bank for Africa plc, as term facility agent, and the lenders party thereto and maturing on September 30, 2021 (the “**Existing Term Loan**”); (ii) repay the principal amounts outstanding, plus accrued interest, under the corporate senior secured revolving credit facility, entered into with, *inter alios*, Standard Chartered Bank, as facility agent, and the lenders party thereto, and maturing on December 31, 2018 (the “**Existing Revolving Credit Facility**”); and (iii) to repay all amounts outstanding under the prepayment agreements, entered into with Mercuria and pursuant to which Mercuria agreed to advance purchases of crude oil production from OMLs 4, 38 and 41 commencing in January 2019 (the “**Mercuria Prepayment Facility**”);” and (iv) pay related fees and expenses. See “*Use of Proceeds*” and “*Capitalization*.”

CORPORATE STRUCTURE AND CERTAIN FINANCING ARRANGEMENTS

The following diagram shows a simplified summary of our corporate and financing structure after giving effect to the Transactions, as described under “*Use of proceeds.*” The diagram does not include all of debt obligations. Our interests in our assets vary based on our contractual arrangement with our commercial partners and the relevant licenses and related agreements. For a description of our interests in certain assets, see “*Our business – Material agreements relating to our assets.*” For a summary of the debt obligations identified in this diagram, see “*Description of Notes,*” “*Description of certain financing arrangements*” and “*Capitalization.*”



- (1) Seplat Petroleum Development Company Plc, an indigenous Nigerian company, is dual listed on the NSE and LSE with a market capitalization of £706 million as at February 27, 2018.
- (2) The Notes offered hereby will be senior debt of the Company ranking *pari passu* in right of payment with all existing and future obligations of the Company that are not expressly contractually subordinated in right of payment to the Notes, including the Revolving Credit Facility. The Notes will be structurally subordinated to all existing and future obligations and other liabilities (including trade payables and letters of credit) of our subsidiaries that are not Guarantors. The Notes will benefit from senior Note Guarantees by certain of our subsidiaries.
- (3) The Revolving Credit Facility is a \$300,000,000 corporate senior secured revolving credit facility provided under an agreement originally dated December 30, 2014 between, *inter alios*, the Company, as borrower, Standard Chartered Bank, as corporate facility agent and the lenders party thereto, as amended by an amendment and restatement agreement expected to be entered into on or about the Issue Date, to mature on June 30, 2022. The Revolving Credit Facility is guaranteed on a senior basis by certain of the Guarantors guaranteeing the Notes. After giving effect to the Transactions, we expect to have an aggregate amount outstanding under the Revolving Credit Facility of \$200 million. The total amount the Company expects to borrow under the Notes and the Revolving Credit Facility is not expected to exceed \$550 million. See “*Description of certain financing arrangements – Revolving Credit Facility.*”
- (4) The Company holds a 45% working interest in OMLs 4, 38 and 41, which are onshore blocks located in the Edo and Delta States of Nigeria. We are the operator of these three blocks, which together form one contract area. The remaining 55.0% working interest is held by the National Petroleum Development Company (“NPDC”). We intend to transfer our interest in OMLs 4, 38 and 41 to Seplat West Ltd., our wholly owned subsidiary and a Guarantor of the Notes. The transfer of OML 4, 38 and 41 to

Seplat West Ltd. remains subject to consent by the MPR. See “*Regulation – Enforcement of guarantees under Nigerian law – Ministerial consent.*” While we do not expect such ministerial consent to be withheld, we cannot guarantee that we will receive it promptly or at all. See “*Our business – Upstream Assets – Description of assets – OMLs 4, 38 and 41.*”

- (5) We own a 40% working interest in OML 53, which is located in the north eastern Niger Delta. We are the operator of the block. The remaining interest is held by NNPC. See “*Our business – Upstream Assets – Description of assets – OML 53.*”

- (6) We own a 40% non-operator working interest in the Umuseti/Igbuku Marginal Field Area, located in OPL 283. The block is located in the northern onshore depo-belt of the Niger Delta and is operated by Pillar Oil Limited (“**Pillar Oil**”). The remaining 60% interest is owned by Pillar Oil. See “*Our business – Upstream Assets – Description of assets – OPL 283.*”
- (7) Through our wholly owned subsidiary, Seplat East Swamp Limited, we have a financial interest in OML 55. Under the OML 55 Deed of Settlement and Release we are no longer a shareholder in Belema Oil but instead have a financial interest in the asset until a discharge sum of \$330 million has been paid to us through the monetization of oil reserves at OML 55. Until the discharge sum is paid, we continue to recognize an interest in the OML 55 reserves. After the discharge sum is paid, we will no longer have any interest in OML 55. See “*Our business – Upstream Assets – Description of assets – OML 55.*”
- (8) ANOH Gas Processing Company Ltd (“**ANOH**”) is a gas infrastructure company established by Seplat and operating in partnership with the Nigerian Gas Processing and Transportation Company Limited (“**NGPTC**”). ANOH will not be considered a subsidiary under the Indenture and as a result ANOH will not guarantee the Notes and will not be subject to the restrictive covenants contained in the Indenture. See “*Our business – Upstream Assets – Description of assets – OML 53 – Gas Development ANOH Hub.*”
- (9) Each of the Guarantors will guarantee the Notes on a senior basis. The Notes will benefit from senior Note Guarantees by certain of our subsidiaries. The Note Guarantees will be senior obligations of each of the Guarantors, ranking *pari passu* with all existing and future senior obligations of each Guarantor including, where applicable, such Guarantor’s obligations under the Revolving Credit Facility. The ability to take enforcement action against the Guarantors under the Note Guarantees is subject to significant restrictions, including a standstill period, imposed by the Indenture. For a description of the restrictions imposed by the Indenture, see “*Description of Notes – Certain Covenants – Standstill Provisions.*” For the year ended December 31, 2017, the Issuer and the Guarantors represented 96% of the Company’s revenue and 97% of the Company’s production. As of December 31, 2017, the Issuer and the Guarantors represented 87.6% of the Company’s assets and as of January 1, 2018, OMLs 4, 38 and 41, OPL 283 and OML 55 (the assets of the Issuer and the Guarantors) represented 64.7% of the Company’s 2P reserves.

THE OFFERING

The following is a brief summary of certain terms of this offering. It is not intended to be complete and it is subject to important limitations and exceptions. Accordingly, it may not contain all the information that is important to you. For additional information regarding the Notes and the Note Guarantees, see “Description of Notes.”

Issuer	Seplat Petroleum Development Company Plc, registered as a public limited liability company under the laws of Nigeria (the “Company”).
Notes offered	\$350 million aggregate principal amount of 9¼% Senior Notes due 2023 (the “Notes”).
Issue Date	On or about March 21, 2018.
Issue price	99.013% (plus accrued interest, if any, from March 21, 2018).
Maturity date	April 1, 2023.
Interest rate	9.25% per annum.
Interest payment dates	We will pay interest on the Notes semi-annually in arrears on April 1 and October 1, beginning October 1 2018. Interest will accrue from March 21, 2018.
Form and denomination	The Company will issue the Notes on the Issue Date in global registered form in minimum denominations of \$200,000 and integral multiples of \$1,000 in excess thereof maintained in book-entry form. Notes in denominations of less than \$200,000 will not be available.
Ranking of the Notes	The Notes will be: • senior obligations of the Company; • <i>pari passu</i> in right of payment with all existing and future obligations of the Company that are not expressly contractually subordinated in right of payment to the Notes; • senior in right of payment to all future obligations of the Company that are subordinated in right of payment to the Notes; • effectively subordinated to all existing and future secured obligations of the Company, including obligations under the Revolving Credit Facility; • structurally subordinated to all existing and future obligations of the Company’s subsidiaries that do not guarantee the notes, including any trade payables and letters of credit issued on behalf of such subsidiaries; and • guaranteed on a senior subordinated basis by the Guarantors, subject to limitations under applicable law as set forth below under the caption “– Guarantors.”
Guarantors	On the Issue Date, the Notes will be guaranteed on a senior basis (the “Note Guarantees”) by Seplat West Ltd, Newton Energy Ltd and Seplat East Swamp Ltd (collectively, the “Guarantors”). As at December 31, 2017, after giving pro forma effect to the Transactions: • the Company and its consolidated subsidiaries had \$550 million of total debt, of which \$350 million is represented by the Notes;

- the Company and the Guarantors had \$100 million of secured indebtedness (in the form of the Revolving Credit Facility); and
- the non-Guarantor subsidiaries of the Company had no financial indebtedness (excluding intercompany indebtedness).

For the year ended December 31, 2017, the Issuer and the Guarantors represented 96% of the Company's revenue, 100% of the Company's EBITDAX and 97% of the Company's production. As of December 31, 2017, the Issuer and the Guarantors represented 87.6% of the Company's assets and as of January 1, 2018, OMLs 4, 38, 41, OPL 283 and OML 55 (the assets of the Issuer and the Guarantors) represented 64.7% of the Company's 2P reserves.

Although the Indenture governing the Notes will contain limitations on the amount of additional indebtedness the Company and its restricted subsidiaries will be allowed to incur, the amount of such additional indebtedness could be substantial.

The ability to take enforcement action against the Guarantors under the Note Guarantees is subject to significant restrictions, including a standstill period, imposed by the Indenture. For a description of the restrictions imposed by the Indenture, see "*Description of Notes – Certain Covenants – Standstill Provisions.*"

The obligations of each Guarantor under its Note Guarantee will be limited to an amount that can be guaranteed under applicable laws, and will not apply to the extent a Note Guarantee would be illegal or unenforceable under applicable local and bankruptcy laws. See "*Risk factors – Risks relating to the Notes*" and "*Certain insolvency law considerations.*"

Ranking of the Note

Guarantees

Each Note Guarantee will be:

- a general obligation of the Guarantor;
- *pari passu* in right of payment to all existing and future obligations of that Guarantor that are not subordinated in right of payment to such Note Guarantee, including, where applicable, such Guarantor's obligations under the Revolving Credit Facility;
- senior in right of payment to any and all of that Guarantor's existing and future Indebtedness that is subordinated in right of payment to its Note Guarantee;
- effectively subordinated to all existing and future secured obligations of that Guarantor (including under the Revolving Credit Facility), to the extent of the value of the property and assets securing such obligations, unless such assets also secure the Note Guarantees on an equal and ratable or senior basis; and
- subject to a standstill on enforcement as described under "*Description of Notes – Certain Covenants – Standstill Provisions*" in respect of any existing and future Senior Indebtedness of the relevant Guarantor.

The Note Guarantees will be subject to release under certain circumstances. See "*Description of Notes – Note Guarantees release.*"

Use of proceeds	We will use the net proceeds from the Notes offered hereby to repay existing indebtedness and to repay all amounts outstanding under the Mercuria Prepayment Facility. See “ <i>Use of Proceeds</i> .”
OID	The Notes may be issued with original issue discount (“ OID ”) for U.S. federal income tax purposes. In such event, U.S. holders (as defined under “ <i>Taxation – Certain U.S. federal income tax considerations</i> ”) generally will be required to include such OID in gross income (as ordinary income) on an annual basis under a constant yield accrual method regardless of their regular method of accounting for U.S. federal income tax purposes. As a result, U.S. holders will generally include any OID in income in advance of the receipt of cash attributable to such income. See “ <i>Taxation – Certain U.S. federal income tax considerations – Original issue discount</i> .”
Additional amounts	All payments made by us under or with respect to the Notes or by any of the Guarantors with respect to any Note Guarantee will be made without withholding or deduction for taxes unless required by law. If the Company or any Guarantor is required by law to withhold or deduct for taxes imposed by any relevant taxing jurisdiction with respect to a payment to the holders of Notes, the Company or such Guarantor, as applicable, will pay the additional amounts necessary so that the net amount received by the holders of Notes after the withholding or deduction is equal to the amount that they would have received in the absence of the withholding or deduction, subject to certain exceptions. See “ <i>Description of Notes – Additional amounts</i> .”
Optional redemption for tax reasons	In the event of certain developments affecting taxation the Company may redeem the Notes in whole, but not in part, at any time upon giving prior notice, at a redemption price of 100% of the principal amount, plus accrued and unpaid interest, if any, and additional amounts, if any, to the date of redemption. See “ <i>Description of Notes – Redemption for changes in taxes</i> .”
Optional redemption	Prior to April 1, 2020, the Company may redeem all or part of the Notes at a redemption price equal to 100% of the principal amount of such Notes redeemed, plus accrued and unpaid interest, if any, to the redemption date, plus a “make-whole” premium, as described under “<i>Description of Notes – Optional redemption</i>.” In addition, on or prior to April 1, 2020, the Company may redeem up to 40% of the original principal amount of the Notes with the net cash proceeds from specified equity offerings at a redemption price equal to 109.25% of the principal amount thereof plus accrued and unpaid interest, if any, to the redemption date, provided that at least 60% of the original principal amount of the Notes remain outstanding after the redemption. See “<i>Description of Notes – Optional redemption</i>.” We may redeem the Notes on or after April 1, 2020, in whole or in part, at our option at the redemption prices as described under “<i>Description of Notes – Optional redemption</i>.”
Change of control	Upon the occurrence of certain change of control events, the Company will be required to offer to repurchase the Notes at a purchase price equal to 101% of their aggregate principal amount, plus accrued and unpaid interest, if any, to the date of the purchase. See “ <i>Description of Notes – Repurchase at the option of holders – Change of control</i> .”

Certain covenants	The Indenture will limit, among other things, the ability of the Company and its restricted subsidiaries to: • incur additional debt and issue guarantees and preferred stock; • make certain payments, including dividends and other distributions, with respect to outstanding share capital; • repay or redeem subordinated debt or share capital; • create or incur certain liens; • impose restrictions on the ability of subsidiaries to pay dividends or other payments to the Company; • make certain investments or loans; • sell, lease or transfer certain assets, including shares of any restricted subsidiary of the Company; • guarantee certain types of other indebtedness of the Company or its restricted subsidiaries without also guaranteeing the Notes; • expand into unrelated businesses; • merge or consolidate with other entities; and • enter into certain transactions with affiliates. Each of the covenants is subject to a number of important exceptions and qualifications. See “<i>Description of Notes – Certain covenants.</i>”
Transfer restrictions	The Notes and the Note Guarantees have not been, and will not be, registered under U.S. federal or state or any other securities laws. The Notes are subject to restrictions on transfer and may not be offered or sold except pursuant to an exception from, or in a transaction not subject to, the registration requirements of the U.S. Securities Act. See “– <i>Ranking of the Note Guarantees</i>” and “<i>Notice to investors.</i>”
No prior market	The Notes will be new securities for which there is no market. Although the Initial Purchasers have informed the Company that they intend to make a market in the Notes, they are not obligated to do so and they may discontinue market-making at any time without notice. Accordingly, the Company cannot assure you that an active trading market for the Notes will develop or be maintained.
Listing	Application has been made to admit the Notes to listing on the Luxembourg Stock Exchange and to trading on the Euro MTF Market in accordance with the rules thereof.
Governing law	The Notes, the Note Guarantees and the Indenture will be governed by New York law.
Trustee	Citibank, N.A., London Branch
Registrar, Transfer Agent and Principal Paying Agent	Citibank, N.A., London Branch
Listing Agent	Banque Internationale à Luxembourg SA
Risk factors	Investing in the Notes involves substantial risks. You should consider carefully all the information in this Offering Memorandum and, in particular, you should evaluate the specific risk factors set forth under “<i>Risk factors</i>” before making a decision whether to invest in the Notes.

SUMMARY HISTORICAL FINANCIAL DATA

The following tables present our summary consolidated financial data. The financial statement data presented as at and for the years ended December 31, 2015, 2016 and 2017 has been derived from our audited annual financial statements included elsewhere in this Offering Memorandum.

In 2015, we concluded negotiations to purchase 56.25% of BelemaOil, a Nigerian special purpose vehicle that had purchased a 40% operating interest in OML 55. In July 2016, under the OML 55 Deed of Settlement and Release, we are no longer a shareholder in BelemaOil, but instead have a financial interest until a discharge sum of \$330 million has been paid to us through the monetization of oil reserves at OML 55. In 2016, as we no longer exercised control over the entity, we deconsolidated BelemaOil. In our financial statements for the year ended December 31, 2016, we recorded our right to receive the discharge sum as a right to receive an equivalent U.S. Dollar amount of crude oil. Until the discharge sum has been paid, we continue to recognize an interest in the OML 55 reserves. After the discharge sum is paid, we will no longer have any interest in OML 55. See “*Our business – Upstream Assets – Description of assets – OML 55*” and “*Our business – Material agreements relating to our assets – OML 55 Deed of Settlement and Release.*”

This Offering Memorandum presents certain “*pro forma*” financial data that is based on our consolidated financial information, presented *pro forma* to give effect to the Transactions as of December 31, 2017. See “*Summary historical financial data – Other financial data and key ratios.*” The *pro forma* financial data has not been prepared in accordance with the requirements of Regulation S-X of the Securities Act, the Prospectus Directive or IFRS. Neither the assumptions underlying the related adjustments nor the resulting *pro forma* financial data have been audited or reviewed in accordance with International Standards on Auditing or International Standards on Review Engagements.

The financial statement data set forth in the following tables should be read in conjunction with “*Presentation of financial information – Non-IFRS financial measures,*” “*Capitalization,*” “*Use of proceeds,*” “*Management’s discussion and analysis of financial condition and results of operations,*” “*Selected financial data,*” our annual financial statements and related notes. Historical results may not necessarily be indicative of results that may be expected for any future period.

Summary of Seplat Petroleum Development Company Plc Consolidated Financial Data

Consolidated statement of profit or loss and other comprehensive income

	Year ended December 31,		
	2015	2016	2017
	\$ million		
Revenue	570.5	254.2	452.2
Cost of sales	(321.7)	(182.4)	(240.1)
Gross profit	248.8	71.8	212.1
Other operating income	2.3	—	—
General and administrative expenses	(121.5)	(113.8)	(81.9)
(Losses)/gains on currency exchange (net)	7.7	(101.5)	0.7
Gain on deconsolidation of subsidiary	—	0.7	—
Fair value (loss)/gain	20.5	(15.1)	(18.5)
Operating profit/(loss)	157.9	(157.9)	112.4
Finance income	12.8	59.0	4.3
Finance costs	(83.6)	(73.9)	(72.8)
Profit/(loss) before taxation	87.1	(172.8)	44.0
Taxation	(21.5)	6.7	221.2
Profit/(loss) for the year	65.6	(166.1)	265.2

Consolidated statement of financial position

	As at December 31,		
	\$ million		
Non-current assets	1,487.3	1,516.0	1,764.8
Current assets	1,254.6	663.2	849.8
Total assets	2,741.9	2,179.2	2,614.6
Total shareholders' equity	1,413.0	1,234.0	1,503.1
Non-current liabilities	662.8	463.8	431.4
Current liabilities	666.0	481.4	680.1
Total liabilities	1,328.8	945.3	1,111.5
Total shareholders' equity and liabilities	2,741.9	2,179.3	2,614.6

Consolidated statement of cash flows

	Year ended December 31,		
	2015	2016	2017
	\$ million		
Net cash inflows from operating activities	38.0	171.6	447.0
Net cash (outflows)/(inflows) from investing activities	(79.3)	(52.1)	6.8
Net cash (outflows)/(inflows) from financing activities	82.0	(283.0)	(173.2)
Net (decrease)/increase in cash and cash equivalent	40.7	(163.5)	280.7
Cash and cash equivalent at the beginning of the year	285.2	326.0	159.6
Effects of exchange rate changes on cash and cash equivalent	—	(2.9)	(3.1)
Cash and cash equivalent at end of year	326.0	159.6	437.2

Other financial data and ratios

	As at and for the year ended December 31,		
	2015	2016	2017
	(millions of \$, except ratios)		
EBITDAX ⁽¹⁾	231.5	(98.0)	198.7
Adjusted EBITDAX ⁽²⁾	201.3	17.9	216.5
Capital expenditure ⁽³⁾	152.4	54.2	33.5
Working capital ⁽⁴⁾	565.3	181.8	169.6
Cash and cash equivalents ⁽⁵⁾	326.0	159.6	437.2
Total debt ⁽⁶⁾	899.6	644.1	570.1
Net debt ⁽⁷⁾	573.6	504.5	132.9
Net debt/Adjusted EBITDAX ⁽⁸⁾	2.8x	28.2x	0.6x
Finance costs	(83.6)	(73.9)	(72.8)
Adjusted EBITDAX/Finance costs ⁽⁹⁾	2.4x	0.2x	3.0x
<i>Pro forma</i> total debt ⁽¹⁰⁾			546.5
<i>Pro forma</i> net debt ⁽¹¹⁾			248.8
<i>Pro forma</i> total debt/Adjusted EBITDAX ⁽¹⁰⁾⁽²⁾			2.5x
<i>Pro forma</i> net debt/Adjusted EBITDAX ⁽¹¹⁾⁽²⁾			1.1x
<i>Pro forma</i> finance costs ⁽¹²⁾			54.4
Adjusted EBITDAX/ <i>Pro forma</i> finance costs ⁽¹²⁾⁽²⁾			4.0x

- (1) EBITDAX consists of profit from continuing activities before finance income and finance costs, income tax (credit) expense, depreciation, amortization and exploration costs written off. In the three years ended December 31, 2015, 2016 and 2017 we have not written off any exploration costs. EBITDAX is not a measurement of performance under IFRS or U.S. GAAP and you should not consider EBITDAX as an alternative to (a) operating profit or profit from continuing activities (as determined in accordance with IFRS) as a measure of our operating performance, (b) cash flows from operating investing and financing activities as a measure of our ability to meet our cash needs or (c) any other measures of performance under IFRS or other generally accepted accounting principles.

We believe that EBITDAX is a useful indicator of our ability to incur and service our indebtedness and can assist securities analysts, investors and other parties to evaluate us. EBITDAX and similar measures are used by different companies for differing purposes and are often calculated in ways that reflect the circumstances of those companies. You should exercise caution in comparing EBITDAX as reported by us to EBITDAX of other companies. EBITDAX as presented here differs from the definition of "Consolidated Cash Flow" contained in the Indenture. See the below table for a reconciliation of profit for the period from continuing operations to EBITDAX.

	Year ended December 31,		
	2015	2016	2017
	(in millions of \$)		
Operating profit/(loss)	157.9	(157.9)	112.4
Depreciation, depletion and amortization	73.6	59.9	86.3
Exploration costs written off	0	0	0
EBITDAX	231.5	(98.0)	198.7

- (2) We present Adjusted EBITDAX as a further supplemental measure of our performance. Adjusted EBITDAX represents EBITDAX as adjusted for costs that are considered by management to be not reflective of our core operations. Adjusted EBITDAX is presented because we believe it is a relevant measure for assessing performance because it is adjusted for non-cash items and thus aids in an understanding our core operations in a given period. Accordingly, this information has been disclosed in this Offering Memorandum to portray a more complete and comprehensive analysis of our underlying operating performance. Other companies may calculate Adjusted EBITDAX differently than we do. Adjusted EBITDAX is not a measurement of financial performance under IFRS and should not be considered as a measure of liquidity or an alternative to operating profit or profit for the year or any other performance measure derived in accordance with IFRS. See the below table for a reconciliation of EBITDAX to Adjusted EBITDAX.

	Year ended December 31,		
	2015	2016	2017
	(in millions of \$)		
EBITDAX	231.5	(98.0)	198.7
Gain/(loss) on foreign exchange ^(a)	7.7	(101.5)	0.7
Gain on deconsolidation ^(b)	0	0.7	0
Fair value gain/(losses)	20.5	(15.1)	(18.5)
Goodwill ^(b)	2.0	0	0
Adjusted EBITDAX	261.7	(112.9)	179.4

- (a) Gains/(losses) on foreign exchange is principally a result of the translation of Naira denominated assets and liabilities. In each of the years ended December 31, 2015 and 2017 the Naira was relatively stable as compared to the year ended

December 31, 2016, in which foreign exchange losses resulted from the Naira devaluation of approximately 53% as announced by the CBN. See “Currency presentation and exchange rate information,” “Risk factors – Exposure to currency exchange rate fluctuations and inflation will result in fluctuations in our cash flows and operating results” and “Management’s discussion and analysis of financial condition and results of operations – Qualitative and quantitative disclosure about market risk – Currency Risk.”

- (b) We entered into a share purchase agreement with First Act Ltd, Belema Refinery and Petrochemical Ltd, Mr. Jack Tein and BelemaOil (the four shareholders of BelemaOil) to acquire 56.25% of BelemaOil. This share purchase agreement was executed on November 13, 2014 upon acquisition of Chevron Nigeria Limited’s 40% interest in OML 55. This resulted in our having an indirect interest of 22.5% in OML 55. The fair value of the purchase consideration and the assets acquired were \$139 million and \$137 million respectively, giving rise to a goodwill on acquisition of \$2 million. Goodwill recognized on the consolidation of BelemaOil was derecognized in the financial statements for the year ended December 31, 2016 due to the loss of control over the subsidiary. We continued to recognize the contingent consideration of \$18.5 million for OML 53 at the fair value of \$12 million (contingent on the oil price rising above \$90/bbl over the course of 2017, 2018 and 2019).
- (c) Realized fair value losses on crude oil hedges represent the payment for crude oil price options. See “Management’s discussion and analysis of financial condition and results of operations – Significant factors affecting results of operations – Derivative financial instruments.

- (3) The following table sets forth a breakdown of our capital expenditure among drilling, facilities and other fixed assets:

	Year ended December 31,		
	2015	2016	2017
	(in millions of \$)		
Drilling	64.4	6.0	7.1
Facilities and engineering	28.6	3.1	2.8
Gas projects	59.4	45.1	23.6
Capital expenditure	152.4	54.2	33.5

- (4) The following table sets forth our working capital (excluding the effects of exchange differences and the deconsolidation of BelemaOil from our financial statements in the year ended December 31, 2016 following relinquishment of control):

	Year ended December 31,		
	2015	2016	2017
	(in millions of \$)		
Cash and cash equivalents	326.0	159.6	437.2
Trade and other receivables	811.3	390.7	310.3
Prepayments	11.6	6.7	1.9
Inventories	82.5	106.2	100.3
Trade and other payables	(375.0)	(261.5)	(410.6)
Interest bearing loans and borrowings	(290.8)	(218.0)	(265.4)
Current taxation	(0.2)	(1.9)	(4.1)
Working capital	565.3	181.8	169.6

- (5) The following table shows out cash and cash equivalents, which comprise cash at banks and on hand and short-term deposits with a maturity of three months or less:

	Year ended December 31,		
	2015	2016	2017
	(in millions of \$)		
Cash on hand	—	—	—
Restricted cash ^(a)	69.0	65.2	62.7
Cash at bank	257.0	94.4	374.5
Cash and cash equivalents	326.0	159.6	437.2

- (a) At December 31, 2017, cash and cash equivalents included the debt service reserve of \$62 million deposited pursuant to covenants in relation to the bank syndicated loan. The debt service reserve account balance is the amount equal to at least the aggregate of the amounts of principal and interest projected to fall due on the next successive principal repayment dates and dates for the payment of interest which is on a quarterly basis.

- (6) Total debt for the year ended December 31, 2017 represents the outstanding balance under the Existing Term Loan (\$458 million) and Existing Revolving Credit Facility (\$120 million) less \$7.9 million of capitalized loan transaction costs.
- (7) Net debt consists of the aggregate amount of current and non-current interest-bearing loans and borrowings less cash and cash equivalent as at the relevant date. The following table shows the reconciliation of net debt.

- (8) The net debt to Adjusted EBITDAX ratio is calculated by dividing net debt by Adjusted EBITDAX.

- (9) The Adjusted EBITDAX to finance costs ratio is calculated by dividing Adjusted EBITDAX by finance costs per the income statement.

- (10) *Pro forma* total debt represents current and non-current borrowings after giving *pro forma* effect to the Transactions, as if the Transactions had occurred on December 31, 2017.
- (11) *Pro forma* net debt represents total debt less cash and cash equivalent for the period after giving *pro forma* effect to the Transactions, as if the Transactions had occurred on December 31, 2017. See “*Capitalization*.”
- (12) Represents finance costs as at December 31, 2017 after giving *pro forma* effect to the Transactions as if the Transactions had occurred on January 1, 2017. See “*Capitalization*” and “*Management’s discussion and analysis of financial condition and results of operations – Significant factors affecting results of operations – Finance (cost)/income*.”

SUMMARY RESERVES, RESOURCES, PRODUCTION AND OPERATING DATA

The following table presents a summary of our oil and gas reserves and contingent resources. The reserves and contingent resources estimates presented in the table (i) as of December 31, 2015 and 2016, are provided by the Company based on reserve reports issued on December 31, 2015 and 2016, (the “**Company Reserve Information**”), and (ii) as of January 1, 2018, are from the 2018 Ryder Scott Report. For each reporting date noted in the following table, the Company, Reserve Information, or the 2018 Ryder Scott Report, as applicable, covers all of our contingent resources.

In this Offering Memorandum, unless otherwise noted or the context so requires, references to reserves are to 2P reserves, which is the sum of the proved reserves plus probable reserves. Pursuant to the classifications and definitions provided by the PRMS, “proved reserves” is defined as those quantities of oil and gas, which, by analysis of geoscience and engineering data, can be estimated with reasonable certainty to be commercially recoverable, from a given date forward, from known reservoirs and under defined economic conditions, operating methods, and government regulations and “probable reserves” is defined as those additional reserves which analysis of geoscience and engineering data indicate are less likely to be recovered than proved reserves but more certain to be recovered than possible reserves. “Possible reserves” are those additional reserves which, after analysis of geosciences and engineering data, are less likely to be recoverable than probable reserves. In this Offering Memorandum, unless otherwise noted or the context so requires, references to “contingent resources” are to 2C resources. Pursuant to the classifications and definitions provided by the PRMS, 2C resources is that quantity of estimated contingent resources that in the “best estimate” scenario has a probability of at least 50% of equaling or exceeding the amounts actually recovered. See “*Presentation of Financial and Other Information – Certain reserves and production information.*”

Working interest reserves & resources

	As at December 31,		As at January 1,
	2015	2016	2018
Working interest reserves (2P)⁽¹⁾			
Oil (MMbbls)	208.9	195.4	226.2
Gas (MMscf)	1573.0	1544.1	1455.9
Total Reserves (MMboe)	480.1	461.7	477.2
Working interest contingent resources (2C)			
Oil (MMbbls)	56.5	46.2	47.7
Gas (MMscf)	237.7	255.9	74.5
Total working interest resources (MMboe)	97.5	90.3	60.6
Total working interest reserves and contingent resources (MMboe)	557.6	552.0	537.8

Source: Company Reserve Information and the 2018 Ryder Scott Report.

- (1) Working interest reserves and resources in the years ended December 31, 2015 and 2016 include reserves and resources associated with OML 55 in which we currently have a financial interest that is governed by the OML 55 Deed of Settlement and Release. OML 55 was deconsolidated from our financial statements in the year ended December 31, 2016. Our working interest resources as at January 1, 2018 do not include resources associated with OML 55. See “*Management’s discussion and analysis of financial condition and results of operations – Factors affecting comparability – Belema Oil.*”
- (2) The reduction in reserves primarily relates to our commercial arrangement with Belema Oil governed by the OML 55 Deed of Settlement and Release and the OML 55 Asset Management Agreement under which we no longer book reserves associated with OML 55.

The following table details our production, realized prices and operating cost data as at and for the years ended December 31, 2015, 2016 and 2017. For additional information on price calculations, see “Management’s discussion and analysis of financial condition and results of operations.”

Production & operating data

	Year ended December 31,		
	2015	2016	2017
Working interest production ⁽¹⁾ (boepd)	43,372	25,879	36,923
Average realized oil price ⁽²⁾ (\$/bbl)	51.2	40.4	50.4
Production opex ⁽³⁾ (\$/boe)	9.31	8.79	5.96
Adjusted EBITDAX ⁽⁴⁾ (\$ million)	201.3	17.9	216.5
Net cash flow from operating activities (\$)	38.0	171.6	447.0
LTIF ⁽⁵⁾	0.00	0.30	0.31

- (1) Working interest production is our share of oil and gas produced during the year proportionate to our working interest in each producing bloc. Volumes expressed are as measured at our facilities, prior to any reconciliation losses.
Following the lifting of the force majeure on June 6, 2017, we returned to pre-force majeure production levels and had an average daily production of 34,847 boepd for the year ended December 31, 2017.
- (2) Realized oil price is the weighted oil sales price, tied to oil liftings with an upward adjustment for hedging income, if any. Realized oil price is calculated on a monthly basis.
- (3) Production opex is our net operating costs (excluding non-cash flow expenses and financing costs) divided by our working interest barrels of oil equivalent produced in the period.
- (4) Adjusted EBITDAX represents EBITDAX as adjusted for costs that are considered by management to be not reflective of our core operations.
- (5) Our lost time injury frequency rate represents the number of lost time injuries occurring in our workplaces per 1 million man-hours worked.

RISK FACTORS

In addition to the other information contained in this Offering Memorandum, you should carefully consider the following risk factors before purchasing the Notes. The risks and uncertainties we describe below are not the only ones we face and should be used as guidance only. Additional risks and uncertainties of which we are not aware or that we currently believe are immaterial could become material and could adversely affect our business, prospects, financial condition and results of operations. If any of the possible events described below were to occur, our business, prospects, financial condition and results of operations could be materially and adversely affected. If that happens, we may not be able to pay interest or principal on the Notes when due and you could lose all or part of your investment. This Offering Memorandum also contains forward-looking statements that involve risks and uncertainties. Our actual results may differ materially from those anticipated in these forward-looking statements as a result of various factors, including the risks described below and elsewhere in this Offering Memorandum.

Risks relating to the industry and our business

Operational impediments or damage to, or the shut-down of, current production, processing and transportation infrastructure may hinder our access to oil and gas markets or may result in the temporary delay or long-term cessation of our production.

Various operational, processing, transportation and marketing conditions may result in delays to oil and gas production as well as affect our ability to provide a marketable product to oil and gas markets, thereby adversely impacting our business. Specifically, the inadequacy or unavailability of pipeline capacity and infrastructure could require us to shut down well production or cease gas shipments via these routes, which may result in higher export costs or the use of export routes that are unable to support desired production volumes, preventing us from realizing revenue until suitable alternative transportation arrangements are made.

Our ability to market our production depends on the availability and capacity of production and processing facilities and pipelines, some of which are owned and operated by third parties. For example, we rely on the Trans-Forcados pipeline system and terminal and Warri refinery jetties to export oil from OMLs 4, 38 and 41. On February 21, 2016 the Forcados terminal operator, Shell Petroleum Development Company (“**Shell Petroleum**”), declared force majeure following disruption to the terminal’s subsea crude export pipeline. The terminal remained under force majeure conditions until June 6, 2017, during which time our ability to transport oil via the Forcados terminal was severely impacted. As the Forcados terminal is our main export route by volume, this disruption severely restricted our ability to export produced oil and necessitated our use of alternative crude transport methods such as barging, albeit at constrained rates. See “Our business – Upstream assets – Description of assets – OMLs 4, 38 and 41 – Transportation” and “Management’s discussion and analysis of financial condition and results of operations – Significant factors affecting results of operations – Access to oil and gas export routes.” We are also reliant on third-party infrastructure to transport oil and gas from OMLs 53 and 55 and OPL 283, to the Brass and Bonny Terminals, respectively. The infrastructure upon which we rely, including production facilities, processing plants and pipelines or other export routes, may become unavailable for a variety of reasons, including operational faults, routine maintenance, industrial action, adverse environmental conditions, vandalism, militant activity (notably in the Niger Delta region) or theft. See “—Militant and unlawful activity could destabilize oil production in Nigeria and adversely affect our operations.” We strive to maintain the relationships and funding necessary to repair and/or replace damaged or otherwise unavailable infrastructure, and to develop alternative export routes for each of our producing OMLs and our OPL, so that if one route becomes unavailable, as was the case with the Forcados terminal force majeure, we have alternative options for export. For example, in partnership with the Nigerian National Petroleum Investment Management Services (“**NAPIMS**”), a wholly owned subsidiary of NNPC, we are in the process of completing the 160,000 bopd capacity Amukpe to Escravos pipeline project, which will offer a third export route for OMLs 4, 38 and 41, in addition to the Forcados terminal and Warri barges. See “Our business – Upstream assets – Description of assets – OMLs 4, 38 and 41 – Transportation – Escravos pipeline.” However, due to the nature of the business environment in which we operate, we cannot assure you that we will be successful in arranging such alternatives, that we will not experience unreasonable delays in doing so, or that they will be cost effective.

Any sudden loss of, or significant delay in, production or processing could result in us being unable to maximize production, processing or pipeline capacity. A significant interruption to processing at our Oben gas facility, or any other future gas facilities, could occur if any essential piece of equipment breaks down

for a substantial period of time or if multiple breakdowns were to occur at the same time. The cost of repairs to or replacements of production or processing infrastructure could be significant, regardless of whether we bear such costs in full or in conjunction with our partners, due to the advanced technology required, the scale of our production facilities and processing plants, or the transport costs of replacement parts due to the location of our plants. Furthermore, there can be no assurance that equipment will be replaced or necessary repairs will be completed a timely or cost-effective basis.

Any significant delay, interruption or stoppage to our oil and gas operations could also damage our relationships with one or more of our key customers or harm our reputation. The occurrence of any of these events could have a material adverse impact on our business, results of operations, cash flows, financial condition and prospects.

Without the addition of reserves and resources through exploration, acquisition or development activities, our reserves and resources and production will decline.

Our oil and gas reserves and production, and therefore our future cash flow and results of operations, are highly dependent on our success in efficiently developing our current reserves and resources and finding or acquiring, in a cost efficient manner, additional recoverable reserves and resources. Producing oil and gas reservoirs are generally characterized by declining production rates that vary depending upon reservoir characteristics and other factors. Unless we conduct successful exploration and appraisal activities or acquire assets containing additional reserves and resources and prospects, our reserves, resources and production will decline over time as existing reserves are depleted by production.

The value of the Notes and our ability to raise capital could be adversely impacted if we are unable to replace reserves and resources that are depleted by production. No assurance can be given that we will be able to find and develop or acquire on appropriate terms sufficient additional reserves and resources to replace our future production and any such failure could lead to a decline in our reserves and production which could have a material adverse impact on our business, results of operations, cash flows, financial condition and prospects.

Militant and unlawful activity could disrupt our operations and the transport of our products and adversely affect our business.

Militant and unlawful activity, violence and civil disturbances have been significant problems in the Niger Delta, mainly from military and militant groups who oppose, among other things, the activities of the oil companies in the area. Militant activity has included attacks on crude oil pipelines and other related infrastructure, the kidnapping of oil and gas workers (including family and friends) and general disruption of oil and gas production in the Niger Delta. These acts, including attacks on, or threats to, their operations, security installations and staff, have caused operators in the region to decrease production or declare force majeure under their operating contracts. The Forcados Terminal force majeure in 2016 and 2017, for example, was the result of militant activity. Additionally, militant activity increased following the 2015 presidential election and may increase again in connection with the 2019 election. The occurrence of these attacks largely cannot be predicted or prevented and there is no assurance that militant acts will not occur in the future and that such attacks will not materially disrupt our operations.

Additionally, oil companies operating in Nigeria have in the past suffered significant cumulative losses as a result of oil theft (commonly known as “bunkering” in Nigeria). The theft of oil in Nigeria has caused pipeline damage that has often been severe, resulting in loss of production and pollution, and has forced companies to stop production resulting in additional costs for the companies affected. The occurrence of any of the above could have a material adverse impact on our business, results of operations, cash flows, financial condition and prospects.

Fluctuations in gas prices or local demand could result in decreased profits under our existing gas sales agreements

Nigeria lags behind many of its frontier market peers in electricity production per capita despite considerable domestic demand and its power generation deficit is widely recognized as a critical constraint on economic growth. The Nigerian government has been implementing an ambitious strategy to triple natural gas production to 12 billion cubic feet per day to address the shortage of electricity generation needed to meet industrial development demand. Our revenues and cash flow depend substantially on both domestic supply obligation prices and willing seller/willing buyer gas prices in Nigeria. While gas prices have increased in recent years, we can provide no assurances that gas prices will continue to increase, will remain

steady or will not decline. Our current gas production is contracted under both variable and take-or-pay gas sales agreements that included fixed prices that may be subject to adjustment for inflation. Consequently, if the market price for gas increases beyond the levels set in such agreements, we will not be able to take advantage of the full extent of such increases. Furthermore, the inflation rate applied pursuant to the long-term gas sales agreements may not reflect and adequately compensate for any increase in costs to which we are subject, which could have a material adverse impact on our business, results of operations, cash flows, financial condition and prospects. We also face risks associated with payment issues on behalf of our partners. Additionally, while we have entered into long-term gas sales agreements that are a mix of variable and take-or-pay agreements, we can provide no guarantees that our counterparts will promptly and fully settle their obligations under the gas sale contracts. Nor can we provide any assurances that we will be able to enter into future gas sales agreements at equivalent or favorable terms, if at all, following the expiration of our current agreements. See “*Our business – Material agreements relating to our assets.*”

Additionally, while we expect demand for our gas production to remain stable or grow, we can provide no assurances that demand for natural gas will in fact increase. The failure of demand for local gas to increase over the coming years could have a material adverse impact on our results of operations and profitability.

Our business depends significantly on the level of oil prices, which are volatile and have experienced significant declines in the past few years. A decline in oil prices could have a material adverse impact on our results of operations, cash flows, financial condition and access to capital.

Our revenues, cash flow, reserve estimates and profitability depend substantially on prevailing international oil prices. Because oil is globally traded, we are unable to control the prices we receive for the oil we produce. While prices have rebounded slightly following the 2014 drop in crude oil prices, oil prices continued to experience volatility in 2017.

Oil prices are unstable and are subject to significant fluctuations for many reasons, including, but not limited to:

- changes in global and regional supply and demand, and expectations regarding future supply and demand, for oil and gas products, even relatively minor changes;
- geopolitical uncertainty;
- the ability and willingness of the members of the Organization of the Petroleum Exporting Countries (“OPEC”) and other oil-producing nations to set and maintain specified levels of production and prices;
- access to pipelines, storage platforms, shipping vessels and other means of transporting and storing oil;
- proximity to, and the capacity and cost of, transportation;
- petroleum refining capacity;
- quality of underlying crude;
- prices, availability and government subsidies of alternative fuels;
- prices and availability of new technologies;
- political, economic and military developments in producing regions, particularly Europe, the Middle East, Russia, Africa, the United States, and Central and South America, and domestic and foreign governmental regulations and actions, including import and export restrictions, taxes, repatriations and nationalizations;
- global and regional economic conditions;
- trading activities by market participants and others either seeking to secure access to oil and gas or to hedge against commercial risks, or as part of investment portfolio activity;
- weather conditions and natural disasters;
- governmental regulations and actions, including the imposition of export restrictions and taxes;
- terrorism or the threat of terrorism, war or threat of war, which may affect supply, transportation or demand for hydrocarbons and refined petroleum products; and

- market uncertainty and speculative activities by those who buy and sell oil and gas on the world markets.

It is impossible to accurately predict future oil and gas price movements. Historically, crude oil prices have been highly volatile and subject to large fluctuations in response to relatively minor changes in the demand for oil. Price volatility was even more prominent in 2014. The second half of 2014 saw crude oil prices drop sharply primarily due to a supply surplus resulting from, among others factors, increased shale oil production in North America and the decision by OPEC not to reduce production in the face of weaker demand growth. During 2014, the maximum and minimum Brent spot prices were \$115.19/bbl and \$55.27/bbl, with an average price of \$98.97/bbl. In 2015, crude oil prices continued to decline, with maximum and minimum Brent spot prices of \$66.33/bbl and \$35.26/bbl and an average price of \$52.32/bbl. In 2016, crude oil prices experienced a slight rebound in the latter half of the year, with a maximum and period end Brent spot price of \$54.97/bbl, a minimum Brent spot price of \$20.01/bbl and an average price of \$43.64/bbl. In 2017, Brent spot prices continued to experience volatility with maximum, minimum and average prices of \$66.80/bbl, \$43.98/bbl and \$54.12/bbl, respectively. Our profitability is determined in large part by the difference between the income received from the oil that we produce and our operational costs, taxation, as well as costs incurred in transporting and selling the oil. Therefore, lower prices for oil may reduce the amount of oil that we are able to produce economically or may reduce the economic viability of the production levels of specific wells or of projects planned or in development to the extent that production costs exceed anticipated revenue from such production. Further, license partners may not be willing to provide funding or required development capex to enable continued production. See “ – *We are subject to risks involving partners and other project participants and any disagreements with, or the exercise of termination rights by, any partners or other project participants may result in delays or additional costs.*” We have an oil price hedging policy and program in place, but we can provide no assurances that the hedging program will protect our operations against fluctuations in oil prices.

The economics of producing from some wells and assets may also result in a reduction in the volumes of our reserves which can be produced commercially, resulting in decreases to our reported reserves. Further, a reduction in oil prices may lead our producing fields to be shut down and to be entered into the decommissioning phase earlier than estimated.

Our operations and development activity requires significant capital expenditures and may require additional funding.

Our business requires significant capital expenditures for exploration, appraisal, development, maintenance, production and processing infrastructure, and in the future, we may seek additional financing to fund future exploration, development, acquisition and/or construction plans beyond our current committed and planned expenditures. As part of our oil and gas development strategy we plan on growing our production base as well as our reserves and resources through both organic activities such as drilling wells and improving efficiency and strategic acquisitions. We expect to develop oil and gas production, processing and transportation infrastructure, for example the development of the Escravos export route and at our current blocks as well as, potentially, at any blocks we may acquire. Although we expect that the acquisition and conversion of reserves and resources will contribute to increased revenues, the development, acquisition and/or implementation of these projects will require substantial investment and their success is uncertain. These projects will require extensive management attention and may distract us from our on-going oil and gas production efforts. If our development projects face delays or are not successful in increasing our revenues, it could have a material adverse impact on our business, results of operations, cash flows, financial condition and prospects.

In the short- to medium-term, we intend to fund any planned capital expenditures from cash flows generated by our operations, cash on hand and from drawings under the Revolving Credit Facility, and beyond this, we may enter into arrangements to raise capital from asset sales, debt or equity financing for our operations or exploration, appraisal, development or production plans. We are also considering entering into third-party financing arrangements to fund a portion of our investment in the ANOH development project infrastructure. This investment will likely be financed through a combination of third-party borrowings within the restricted group and debt raised at the project level, however the structure, size and timing of any such financings are all under discussion both internally and with potential lenders and no decision has been made whether to proceed with this facility at all or if so, on what terms. There can be no assurance that we will be able to generate or raise sufficient funds to pursue our future plans. Furthermore, if additional sources of financing are available, they may not be available at all or may not be available on acceptable terms given the limited amount of cash reserves we may have at that time.

Our ability to arrange future financing, and the cost of financing generally, will depend on many factors, including:

- political, economic and capital markets conditions generally and, in particular, the non-investment grade debt market;
- commodity prices;
- investor confidence in the oil and gas industry, particularly in Nigeria;
- our business performance;
- regulatory developments including provisions of tax and securities laws that are conducive to raising capital;
- the successful extension of licenses;
- ability to secure multiple export routes for our production; and
- credit available from banks and other lenders.

Furthermore, any additional debt financing may involve refinancing costs or penalties or restrictive covenants and ratios that could limit or affect our operational flexibility.

If our revenue or reserves decline, we may be unable to raise additional funds (and any external debt or equity financing may not be available on acceptable terms) or have the capital necessary (either from internal sources or through external debt or equity financing) to undertake or complete future drilling and development programs or acquisitions. Our inability to access sufficient capital for our operations may have a material adverse impact on our business, financial condition, results of operations and prospects, and we may be required to amend our exploration, appraisal, development and other capital expenditure plans. If the reductions in financing levels are severe enough, they could adversely affect our ability to maintain production at current levels and may limit the free cash available to service our indebtedness.

The occurrence of any of these events could have a material adverse impact on our business, results of operations, cash flows, financial condition and prospects.

Drilling for and producing oil and gas are high-risk activities with many uncertainties which may result in increased costs, decreased cash flows and failure to achieve planned production targets.

Our future success partially depends on our ability to develop existing assets in a timely and cost-effective manner. As part of our strategy, we intend to pursue further growth in our reserves and production levels chiefly by drilling and developing our existing fields, including through short-term in-field opportunities on our developed reserves as well as longer-term opportunities with undeveloped reserves and resources and prospective resources. See “Our business – Upstream assets” and “Our business – Drilling.”

Our exploration, drilling, production and processing operations are subject to all the risks and hazards common to the oil and gas industry including, but not limited to, encountering unusual or unexpected rock formations or geological pressures, geological uncertainties, seismic shifts, blowouts, oil spills, explosions, fires, equipment damage or failure, natural disasters, leakage of hydrocarbons, uncontrollable flows of oil, gas or well fluids, adverse weather conditions, pollution and other environmental risks.

Our decisions to purchase, explore or otherwise develop prospects or fields will depend, in part, on the evaluation of data obtained through geophysical and geological analyses, production data and engineering studies, the results of which are often inconclusive or subject to varying interpretations. While development costs may be lower in Nigeria than in certain other regions, the costs of drilling, completing, equipping and operating wells have a range of uncertainties until a well has been completed. Overruns in budgeted expenditure can result in our not achieving our desired return or any return on a particular project. For example, protracted land acquisition, preparation and rig start-up have historically contributed to project delays.

Furthermore, we may be required to curtail, delay, suspend or cancel drilling and production operations due to a variety of operational and economic factors outside our control, which could, among other things, impact our ability to meet gas supply obligations under our long-term gas sales agreements. Such operational and economic factors could include the following:

- delays imposed by, or resulting from, compliance with regulatory and/or contractual requirements;

- natural catastrophes, fires and explosions;
- pressure or irregularities in geological formations;
- unstable hole conditions;
- premature declines in reservoirs;
- blowouts, uncontrolled flows of oil, gas or well fluids;
- shortages of, or delays in obtaining, equipment and qualified personnel;
- pollution and other environmental risks;
- shortages or delays in the availability of drilling rigs and/or transport and the delivery of equipment;
- equipment failures or accidents;
- adverse weather conditions;
- civil unrest, riots or other security concerns or incidents;
- reductions in oil and gas prices (other than instances in which we are operating pursuant to the terms of a long-term gas sales agreement containing a fixed minimum price);
- surface access restrictions;
- access to and/or land ownership restrictions;
- lease problems;
- the successful extension of licenses; and
- limitations in the market for oil and gas.

Any of these circumstances may have a material adverse impact on our business, results of operations, financial condition and prospects.

We are dependent on key members of senior management and our technical, financial, operational and marketing teams and our long-term success depends on our ability to attract and retain skilled personnel.

Our competitive position, the implementation of our strategy and our future performance and success depend significantly upon the continued contribution of key senior management and technical, financial, operational and marketing personnel. In addition, the reputation, personal connections and relationships that our founders and key senior management have with other market players and national, regional and local governmental bodies and agencies play an important role in conducting our business. Our success is dependent on our key senior management's skill and experience to operate the growing business and discover and develop reserves and resources, identify and consummate acquisitions and develop successful infrastructure solutions for our operations. While we have a succession plan in place for key management, we do not maintain insurance for key personnel loss. Seplat also maintains a mandatory retirement age of 60 for all management roles, though exceptions may be granted by the Board. Recently, an exception was granted by the Board to extend the retirement age for the CEO to 62 to achieve a smooth and successful succession.

Furthermore, attracting and retaining additional skilled personnel will be required to ensure the expansion of our business, and we face significant competition for skilled personnel in the oil and gas sector willing to work in Nigeria. Skilled personnel are required in the areas of exploration and development, operations, engineering, business development, oil and gas marketing, finance and accounting for our projects. In addition, the Nigerian Oil and Gas Industry Content Development Act, 2010 (the "**Local Content Act**") was enacted in April 2010 and provides a framework for increasing Nigerian participation in all sectors of the Nigerian oil and gas industry, including the upstream and support services of the Nigerian energy industry. The Local Content Act provides that preference should be given to the employment and training of Nigerians, which could also lead to greater competition for Nigerian workers. There are also restrictions on the level of expatriate staff employed by oil companies operating in Nigeria. See "*Regulation.*" No assurance can be given that we will successfully attract new skilled personnel or retain existing skilled personnel required to continue to expand our business and successfully execute and implement our strategy.

We are subject to risks involving partners and other project participants, including credit risks, and any disagreements with, or non-fulfilment of obligations by, any partners or other project participants may result in delays or additional costs.

We have entered into operating agreements, joint ventures and other material agreements with various project participants in relation to our assets. See “*Our business – Material agreements relating to our assets.*” We may suffer unexpected costs or other losses if any of our partners do not meet their obligations. Operators, partners and other project participants that share interests in our assets may have economic or business interests or objectives that are inconsistent or conflict with our interests and may elect not to participate in certain activities relating to those assets or withhold their consent in circumstances when their consent is required, which could limit our ability to explore, appraise or develop such assets as planned. Even in relation to assets in which we are the operator, we may be contractually obligated to obtain approvals from our partners before we undertake certain activities, including drilling and other production-related activities which we believe may be in the best interests of the Company. See “*Our business – Material agreements relating to our assets.*” We are also exposed to risks as a result of our use of third-party infrastructure such as reconciliation costs and metering issues. While we seek to resolve any disagreements with our partners as they arise, no assurance can be given that further instances of misalignment of interests or objectives will not result in project delays, additional costs or disagreements. The occurrence of any of these risks related to third party operators, partners and other project participants could have a material adverse impact on our business, results of operations, cash flows, financial condition and prospects.

In addition to risks relating to disagreements with partners, we are also exposed to credit risks in relation to other participants in the fields in which we have interests failing to meet capital or other funding obligations on a timely basis, or at all. We partner with the NPDC with respect to certain of our assets and the NPDC has in the past delayed funding under our joint operating agreements for reasons outside of our control. These delays have led to our accruing a build-up of legacy cash call receivables over time. Our total undiscounted NPDC receivables at December 31, 2015, 2016 and 2017, were \$492 million, \$239 million and \$113 million respectively. See “*Management’s discussion and analysis of financial condition and results of operations – significant factors affecting results of operations – NPDC receivables.*” We also have outstanding receivables from the Nigerian Gas Marketing Company (the “**NGMC**”), a subsidiary of NNPC. The Nigerian Gas Company (“**NGC**”) was split into the Nigerian Gas Processing and Transmission Company (“**NGPTC**”) and the NGMC in 2016. NGMC receivables that have accrued due to reasons outside of our control. Our total NGMC receivables at December 31, 2015, 2016 and 2017, respectively, were \$62 million, \$67 million and \$72 million. There can be no assurance that these outstanding receivables will continue to be collected, that we will not accrue additional receivables in the future or that future operations will be funded on a timely basis. We are also subject to credit risks in relation to the OML 55 Deed of Settlement and Release. Under the OML 55 Deed of Settlement and Release we are entitled to 85% of the net proceeds from liftings at OML 55 until the net proceeds have settled the discharge sum of \$330 million. See “*Our business – Upstream assets – OML 55*” and “*Our business – Material agreements relating to our assets – OML 55 Deed of Settlement and Release.*” We received \$35.8 million of the discharge sum in the year ended December 31, 2017, but we can make no assurances that Belema Oil will continue to lift oil and that the discharge sum will be paid down within the six year period (which started in 2017) or at all.

Our exploration and production activities rely on equipment and services provided by third parties, including procurement of drilling rigs, and the availability, quality and cost of such equipment and services cannot be assured.

Our oil and gas exploration, development and production activities, as well as those of our partners and third party operators, are heavily dependent, directly or indirectly, on equipment and services provided by third parties. These include drilling and other field equipment, supplies, infrastructure, seismic acquisition, storage, experts and technical consultants and other equipment and services. While drilling rigs are currently available on the market and we have contracts in place for the use of rigs, we can provide no assurances that rigs or other equipment and services will in fact be readily available at the times and places we require or at costs that are commercially reasonable, which might impact the execution of our exploration, development and production programs or those of our partners.

We rely on internal expertise and external contractors to carry out maintenance of our assets and infrastructure and we are dependent on these external contractors satisfactorily fulfilling their obligations in a timely manner. Any failure by an external contractor may lead to delays or curtailment of the exploration, production, transportation and delivery of our oil and gas.

In addition, the costs of third party equipment and services may rise in the future. Higher prices for oil and/or gas may result in a substantial increase in regional exploration and development activities, which could further exacerbate the scarcity of equipment and services and result in further increases in competition for and the prices thereof. In certain cases, further price escalation could pose risks to the profitability and viability of some of our projects or those of our partners. Conversely, any decrease in the price of oil and/or gas may make it uneconomical to continue to develop our assets.

While we have entered into agreements with third parties which can provide key services and equipment, some of the services and equipment we and our partners require are currently or may become available on commercially reasonable terms from a limited number of providers. Our operations and developments may be interrupted or otherwise adversely affected by our failure to source, or delays in the supply of, equipment or services that meet our quality requirements or those of our partners. If we or any of our partners are forced to change a provider of such equipment or services, no assurance can be given that adequate replacement equipment or services will be found on a timely basis or at all, or that obtaining the replacement equipment or services would not result in additional costs and interruptions to exploration, development or production and supply continuity to our customers. In the event of a shortage in equipment and/or services, larger competitors may be better able to secure access to such equipment, services, supplies or personnel.

Any failure in performance by third party service providers, external contractors or consultants, increase in costs, scarcity of equipment, services and/or personnel or inability to find adequate replacement services on a timely basis, if at all, could result in delays or curtailment of the exploration, production, transportation and delivery of our oil and gas, decrease our revenues and/or increase our costs, each of which in turn could have a material adverse impact on our business, results of operations, cash flows, financial condition and prospects.

We operate in a highly competitive industry.

The oil and gas industry is highly competitive in all its phases. Competition is particularly intense for the acquisition of oil and gas assets and exploration and production licenses. Our competitive position depends on our geological, geophysical and engineering expertise, management expertise, financial resources, ability to develop our assets on time and on budget, ability to select, acquire and develop economically viable reserves and ability to foster and maintain relationships with governments of the countries or regions in which we operate. The key competitive challenges companies in the oil and gas industry face are:

- acquisition of exploration and production licenses, including by acquisition of other companies that may already own licenses or existing hydrocarbon producing assets and/or by participating in future licensing rounds;
- securing additional gas sales agreements;
- engagement of third party service providers, including construction and drilling contractors, whose capacity to provide key services may be limited;
- access to transportation for our hydrocarbons;
- purchase or hire of capital equipment that may be scarce; and
- attracting and retaining employment of the best qualified and most experienced and skilled management and industry professionals.

We compete with international and other indigenous Nigerian oil and gas companies and other industries supplying energy and fuel to distributors and end-users, including industrial, commercial and individual consumers. Some of these companies may possess greater technical, physical and financial resources than we do and many not only explore for and produce oil and gas, but also own and operate refining and processing operations and market petroleum and other products on an international basis. Additionally, companies not previously investing in oil and gas or operating in the sector may choose to acquire reserves to establish a firm supply or simply as an investment, thereby increasing competitive pressures.

Competition for exploration permits as well as other investment or acquisition opportunities may continue to increase in the future and there can be no assurance that we will succeed in obtaining any additional oil and gas assets or prospects, or that we will be able to acquire such assets or prospects on economically viable terms. In addition, our ability to remain competitive will require, among other things, management's

continued focus on reducing unit costs, improving efficiency and maintaining growth in our reserves and production through continued technological innovation.

The effects of this competitive landscape may include higher than anticipated prices for the acquisition of licenses or assets, increased costs in carrying out our activities, reduced available growth opportunities, increased competition for key management or operational personnel and/or restrictions on the availability of equipment or services, as well as potentially unfair business practices.

Any failure to compete effectively could have a material adverse impact on our business, results of operations, financial condition and prospects.

In the future, we may be unable to make attractive acquisitions or integrate acquired companies and any acquisitions may prove to be worth less than we paid.

Our strategy includes increasing our oil and gas reserves and resources through acquisitions of interests in further production or near to production oil and gas assets in Nigeria onshore and in shallow water that have significant resource potential and are near high demand areas. Such acquisitions may be achieved through license awards following bidding rounds, transfers of participating or other economic interests by an existing license holder, or direct or corporate acquisitions. However, no assurance can be given that we will be able to identify attractive acquisition opportunities or, even if we do identify attractive opportunities, that we will be able to complete those acquisitions or do so on commercially acceptable terms.

Successful acquisitions require an assessment of a number of factors, including accurate estimates of recoverable reserves and resources, exploration potential, future oil and gas prices, operating costs, applicable taxes and royalties and potential environmental and other liabilities. Such assessments are inexact and we cannot necessarily make these assessments with a high degree of accuracy. We do not inspect every well prior to an acquisition. Even when we inspect a well, we may not always discover structural, subsurface, environmental or other problems that may exist or arise. Acquisitions proving to be worth less than we anticipated or issues with acquired assets could have a material adverse impact on our business, results of operations, cash flows, financial condition and prospects.

Furthermore, following any such acquisitions of businesses and assets, we could encounter difficulties in integrating that business's or asset's operations, systems, management and other personnel and technology with our own. Such difficulties could disrupt our ongoing business, distract our management and employees and/or increase our expenses.

Our actual or perceived failure to address community issues may adversely affect our business.

Oil and gas companies face increasing demands, from the global community generally and from lenders and non-governmental organizations ("NGOs") in particular, to conduct their operations in a manner consistent with wider environmental and social goals. Investors, customers and governments are more actively following the oil and gas industry's performance on environmental responsibility and human rights, including performance in respect of the development of alternative and renewable fuel resources. In particular, strong relationships with local communities and interested NGOs are important when seeking to acquire land or rights of way in connection with the construction of new pipelines, as well as for the ongoing operation and maintenance of pipelines. While we believe that we have built strong relationships with our local communities, evidenced by the Global Memorandum of Understanding we entered into in with the communities that host our operations on OMLs 4, 38 and 41 and OML 53, if we become subject to adverse publicity or perception as a result of any actual or perceived failure to address social and environmental issues or corporate responsibility matters, then in addition to any potential legal liabilities we may face an increased likelihood of disruptions in the areas in which we operate and it may be difficult for us to acquire land for the purposes of laying new pipelines or building new facilities and to construct such new pipelines or facilities where to do so requires the support of local communities. The occurrence of any of these events could have a material adverse impact on our reputation, as well as our business, results of operations, financial condition and prospects.

The regulatory environment in the oil and gas sector in Nigeria is subject to significant ongoing change.

Nigeria is pursuing a number of new policy initiatives with the aim of restructuring its oil and gas industry, but the final form and adoption of new regulations and the implementation of suggested reforms is highly uncertain and may be subject to political and economic influences. In particular, the proposed Petroleum Industry Bill (the "PIB"), first submitted to the National Assembly in 2008, has since undergone a number

of iterations and challenges and now comprises four separate bills, namely the Petroleum Industry Governance Bill, the Petroleum Industry Reform Bill, the Petroleum Industry Fiscal Bill and the Petroleum Host Community Bill (collectively, the “**Petroleum Bills**”), which were introduced in 2016. See “*Regulation.*”

The Nigerian Senate and House of Representatives have each passed versions of the Petroleum Industry Governance Bill. Following reconciliation of any differences between the versions of the bill passed by the two houses, the final bill will become law only after receiving presidential assent. The Petroleum Industry Administration Bill, the Petroleum Industry Fiscal Bill and the Petroleum Host Community Bill are still at the early stages of the legislative process.

The risks associated with the proposed Petroleum Bills and related efforts to reform the Nigerian oil and gas industry include that:

- no assurance can be given as to when the proposed Petroleum Bills will be enacted or whether they will be enacted at all, or that the final form of any Petroleum Bills ultimately enacted will not differ significantly from the current proposals, all of which prevent a proper assessment of the potential impact of the current drafts of the Petroleum Bills on our business and operations and on the wider oil and gas industry in Nigeria;
- the uncertainty created by the Petroleum Bills and the necessary implementation of regulations may lead oil companies and investors to defer further major investment in Nigeria until the new regulations have been enacted and the new legal framework for the industry has been more clearly defined, or may cause such oil companies and investors to decide to reduce their investments in Nigeria and/or decline to pursue certain investments as a result of the new framework;
- the proposed changes in the tax structure for, and allowances available to, oil and gas companies operating in Nigeria may, if less favorable to us than under the existing regime, have a material adverse impact on our results of operations and financial condition, and, if unfavorable to other companies operating in Nigeria, may lead to such other companies curtailing their operations or future investment, the occurrence of which could have a material adverse impact on our midstream gas operations;
- the initiatives designed to promote gas production may prove ineffective;
- the proposed Petroleum Bills may fail to adequately address the concerns of communities in the Niger Delta region or create new grounds for further conflict; and
- the proposals made in one of the Petroleum Bills for the special allocation of revenue and resources to the communities in the Niger Delta and other oil producing areas may aggravate inter-regional competition.

While the aforementioned Petroleum Bills have yet to be passed in to law, other legislative and regulatory changes affecting the Nigerian oil and gas sector have been implemented by the Nigerian government. In February 2008, the Nigerian government announced the Gas Master Plan with the aim of providing solutions to the issues of gas pricing, domestic gas supply and development of gas infrastructure within Nigeria. The Nigerian Minister of State for Energy (Gas) subsequently issued the National Domestic Gas Supply and Pricing Policy (the “**NDGSPP**”) and the National Gas Supply and Pricing Regulations (the “**NGSPR**”). The NDGSPP recognizes a “domestic reserves obligation” and the NGSPR imposes a “domestic gas supply obligation.” Together, these obligations impose a requirement on all licensed petroleum producers to dedicate a specific volume of gas for strategic sectors within the domestic economy and to deliver such gas to a purchaser in accordance with a specified nominations procedure. On June 28, 2017, the Nigerian government approved the new National Gas Policy which articulates the government’s goals, strategies, and implementation plan to reposition Nigeria as a gas-based industrialized nation through the prioritization of local gas demand requirements.

Furthermore, the Local Content Act was also enacted in 2010 and seeks to increase indigenous participation in the oil and gas industry by prescribing minimum thresholds for the use of local services and materials in the industry. The Local Content Act applies to all operators, contractors and other entities involved in any project in the oil and gas industry and requires that Nigerian independent operators shall be given first consideration in the award of oil blocks, oil field licenses, oil lifting licenses and all projects for which contract is to be awarded in the Nigerian oil and gas industry. Any changes to the NDGSPP, the NGSPR, the National Gas Policy or the Local Content Act and the implementation of new policies and initiatives pursuant to the proposed Petroleum Bills, may have a material adverse impact on our business, results of operation, financial condition, cash flows and prospects.

Our rights under OMLs 4, 38 and 41, which collectively comprise our primary revenue-generating asset, expire in June 2019. Renewal of OMLs is subject to the approval of the Nigerian government, which may impose additional, or more onerous, conditions to, or withhold, its approval.

For the year ended December 31, 2017, 94% of our oil and gas barrel of oil equivalent production was produced at OMLs 4, 38 and 41, which also host the majority of our reserves. We expect that our future results of operations and our ability to generate profits and cash flows will continue to be dependent on production from these blocks. For these reasons, the risks associated with OMLs 4, 38 and 41 are particularly significant to our business. Our rights under OMLs 4, 38 and 41 will need to be renewed by June 30, 2019.

Paragraph 13(1) of the First Schedule to the Petroleum Act provides that the renewal of OMLs is to be granted by the Petroleum Minister upon application by the license holder, provided that such holder has paid all rents and royalties due and has adhered to all terms and conditions of the license. The Petroleum Act does not limit the number of renewals that may be granted under an OML. In the event that we are, for any reason, unable to renew OMLs 4, 38 and 41, we would be deprived of our most significant asset, which would have a material adverse impact on our business, results of operations, cash flows, financial condition and prospects.

In addition, there is a risk that, even if we are able to renew OMLs 4, 38 and 41, additional and perhaps more stringent terms and conditions may be imposed upon us under the terms of the renewed leases. Although the Petroleum Act does not expressly confer power on the Petroleum Minister to impose additional terms and conditions upon the renewal of an OML, it has been interpreted by the Nigerian government as not preventing the Petroleum Minister from imposing such terms and conditions. Terms and conditions upon renewal may differ substantially from the terms and conditions of the expiring lease. Section 185(2) of the current draft of the PIB proposes that the terms and conditions that will apply to a renewed petroleum mining lease (i.e. an oil mining lease) should be the prevailing conditions for new petroleum mining leases at the time of the renewal, which may be more stringent than those of the expiring lease. In addition, the PIB proposes the payment by the lessee of a renewal bonus that would be specified in the renewed lease. Should the PIB in its current form become law, the Petroleum Minister would have the statutory power to impose additional or more onerous terms and conditions on our renewed leases that could have a material adverse impact on our business, results of operations, cash flows, financial condition and prospects.

While we began the renewal process and believe we meet all conditions necessary for the renewal of these licenses, we cannot guarantee that the licenses will be renewed on a timely basis, that the cost of renewal will align with our expectations or that the license renewal will be granted on identical terms if at all. While historically operators who have faced delays in the renewal process have been able to continue operating the OML after their license expired and the renewal process was ongoing there are no assurances that operators will continue to be permitted to operate when their license has expired while they have submitted an application for renewal. A partial or total loss of our interest in OMLs 4, 38 and 41, or the imposition of onerous restrictions or conditions to our continued operation of these assets, would have a material adverse impact on our business, results of operations, cash flows, financial condition and prospects. Further, our failure to renew or maintain our rights under OMLs 4, 38 and 41 will not result in a direct or an indirect default of event of default under the Indenture governing the Notes, and, to the extent such failure to renew or maintain our rights results in an event of default under another or any future material agreement governing our debt, the rights of holders of the Notes to declare an event of default (and accelerate their claims) under the Indenture will only arise with respect to that event of default (absent other circumstances) if the lenders under the relevant debt agreement accelerate their claims.

We may encounter difficulty in obtaining and defending good title to license interests.

Our right to explore and develop our license interests is subject to our holding good title to such license interests. While we seek to ensure that we have good title to the interests that we believe we own or have rights to, we cannot completely eliminate the risk of title disputes or challenges. Proving title to assets can be difficult in Nigeria and may, in certain instances, be impossible to determine in absolute terms due to the nature and reliability of underlying information, historic failures to comply strictly with contractual and/or statutory procedures and time periods prescribed and poor record keeping. Any successful challenge to our title to assets may result in our being required to halt development or production or, ultimately, in the loss of such assets which, in each case, could have a material adverse impact on our business, results of operations, cash flows, financial condition and prospects. For example, in 2015, we concluded negotiations

to buy 56.25% of the shareholding in BelemaOil, but shortly thereafter the minority shareholders of BelemaOil began to dispute our title. We subsequently agreed to a new arrangement which provides for a discharge sum of \$330 million to be paid to us over a total six year period, which started in 2017, through allocation of crude oil reserves, in return for our relinquishing all claims to our shareholding of BelemaOil as an entity. See “*Management’s discussion and analysis of financial condition and results of operation – Factors affecting comparability – BelemaOil.*” We may face similar obstacles in obtaining interests in assets in the future, which could result in disputes, prevent us from replacing reserves and constrain future production.

The Nigerian economy is dependent on oil production and the global prices of oil.

The Nigerian economy is highly dependent on oil production in Nigeria and global prices of oil. Reductions in oil revenues could have a material adverse impact on the Nigerian economy, and in turn on our business and operational results. Oil production in Nigeria has fluctuated significantly in recent years, as a result of the decline in oil prices, which has affected the economic viability of certain producing assets, and the activities of vandals in the Niger Delta region, which has led to significant disruptions in the production of oil. According to the Nigerian Bureau of Statistics, the oil and gas sector contributed approximately 9.1% to real Gross Domestic Product (“GDP”) in the nine months ending September 31, 2017, 8.4% in the year ended December 31, 2016 and 9.6% in the year ended December 31, 2015. Supply disruptions, including theft and sabotage, continue to hamper output in the oil sector and are one of the reasons for the decline in the oil and gas sector’s contribution to GDP.

The level of oil production and revenues by Nigeria may also be adversely affected by other factors, including changes in oil production quotas by OPEC, the response of international oil companies to changes in the regulatory framework for oil production in Nigeria and theft of crude oil from pipelines and tank farms. Any long-term shift away from fossil fuels, including from developed economies seeking to develop alternative sources of energy, could adversely affect oil prices and demand and the resulting oil revenue of Nigeria and the Nigerian economy in general. The Nigerian government relies heavily on oil revenue to fund its budget and the decline in prices has resulted in a high rate of unemployment, reduction in foreign exchange and government revenue, as well as significant budgetary constraints, leading to less investment in key projects such as infrastructure. Further reductions in oil prices or production could have a material adverse impact on our business, results of operations, cash flows, financial condition and prospects.

Global, regional or national political or social instability pose risks that impact Nigerian oil and gas production.

Political change and social and civil unrest have had a significant effect on oil and gas production globally, in West Africa, and in Nigeria. Political change and social and civil unrest could have an adverse impact on our oil and gas production levels. Nigeria’s next presidential election is scheduled to take place in 2019. Elections, or other key political developments, can lead to increased incidences of social disorder as well as opportunities for legal and regulatory changes. Any post-election administration may pursue different policies and priorities, alter or reverse certain reforms or take actions (including expropriation or nationalization, breach or abrogation of project agreements) that make domestic and international investment in Nigeria less attractive or may pursue political or social programs which lead to protests or other unrest. In addition, such acts may pose a threat to our activities, which could include unanticipated delays in project timetables, increased costs in protecting our assets from anticipated damage or disruption, actual damage or disruption to our assets or oil and gas assets generally and being forced to abandon a development to losing rights of future access to our assets and interests in licenses. Any significant changes in the political climate in Nigeria, including changes affecting the stability of the Nigerian government or involving a rejection, reversal or significant modification of policies, favoring the privatization of state-owned enterprises, reforms in the power, banking or oil and gas sectors, may have negative effects on the economy or upon the communities in which we operate and as a result could have a material adverse impact on our business, results of operations, financial condition and prospects.

Production of oil in Nigeria may be impacted by OPEC and other production quotas.

Nigeria is a member of OPEC, which, from time to time constrains its members’ ability to produce oil through the imposition of production quotas. At its November 2016 Ministerial Conference, OPEC agreed crude oil production cuts among its member countries and certain other non-OPEC producing countries with a view to stabilizing oil prices. Nigeria was exempted from the agreed cuts due to the significant

production disruptions it had experienced prior to the accord. At its November 2017 ministerial meeting, OPEC agreed that Nigeria would be permitted to retain its exemption from continued production cuts, however it was agreed that Nigerian production would be capped at the 2017 levels.

The NNPC allocates production quotas among oil producers based on the aggregate technical production limits of all producing wells, which are negotiated between the producer and the Nigerian government. In the event that technical production exceeds Nigeria's OPEC quota, the quota is allocated to the producers on a *pro rata* basis based on their respective technical production levels. If production allocations are exceeded, it is possible to apply for additional quotas from the Nigerian government, but there can be no assurance that the additional quotas will be granted. Nigeria also has the power to implement export quotas. As a result, we may be constrained in exporting oil through such quotas in the future, which could have a material adverse impact on our business, results of operations, cash flows, financial condition and prospects. More importantly, the loss of Nigeria's current exemption from OPEC-agreed production cuts or any future changes to Nigeria's OPEC quota could have a material adverse impact on our business, results of operations, cash flows, financial condition and prospects.

Financial, political and other turmoil in any emerging market could dampen international investment in Nigeria, constrict U.S. Dollar availability to Nigerian banks and disrupt our business.

Investing in securities of issuers whose operations and assets are located in emerging markets, such as Nigeria, generally involves a higher degree of risk than investments in securities of corporate or sovereign issuers from more developed countries and carries risks that are not typically associated with investing in more mature markets.

These risks include, but are not limited to:

- greater political risk, and changes in, and instability of, the political and economic environment;
- civil strike, acts of war, terrorism and insurrection;
- government interventions;
- potential adverse or unforeseen changes in laws and regulatory practices, including import and export license requirements and restrictions, tariffs, legal structures and tax laws;
- trade barriers;
- difficulties in staffing and managing operations;
- lack of well-developed legal systems, which could make it difficult for us to enforce contractual rights and intellectual property;
- security and safety of employees;
- risk of uncollectible accounts and long collection cycles;
- adverse currency fluctuations, restrictive currency exchange regulations and illiquidity in the currency exchange markets;
- consequences of corruption on the economy;
- infrastructure challenges;
- logistical and communication challenges; and
- changes in labor conditions.

Financial turmoil in any emerging market country tends to adversely affect prices in financial markets of all emerging market countries, as investors move their money to more stable, developed markets. As has happened in the past, financial problems or an increase in the perceived risks associated with investing in emerging economies could dampen international investment in Nigeria, lead to U.S. Dollar liquidity crises in Nigerian banks and otherwise adversely affect the Nigerian economy and as a result our business. In addition, during such times, companies that operate in emerging markets can face severe liquidity constraints as international funding sources are withdrawn.

Thus, even if the Nigerian economy remains relatively stable, financial turmoil in any emerging market country or the capital markets generally could adversely affect our business, as well as result in a decrease in the price of the Notes. Investors should also note that emerging markets such as Nigeria are subject to

rapid change and that the information set forth in this Offering Memorandum may become outdated relatively quickly. These risks may cause higher volatility and more limited liquidity in respect of the Notes. Investors should exercise particular care in evaluating the risks involved and must decide for themselves whether, in light of those risks, their investment is appropriate. Generally, investment in securities of issuers in emerging markets, such as Nigeria, is only suitable for sophisticated investors who fully appreciate the significance of the risks involved and investors are urged to consult their own legal and financial advisers before making an investment in the Notes.

CBN may intervene in the currency markets by drawing on external reserves and the Naira is subject to volatility.

The CBN has historically favored maintaining the Naira within a narrow band with periodic adjustments. From 2014 to 2016, Nigeria's external currency reserves dropped significantly from a high of \$39.5 billion recorded as of September 2014, to a low of \$26.4 billion as of June 2016. In 2015, the CBN instituted certain currency control policies and pegged the Naira at ₦197 to the U.S. Dollar. Subsequently, in June 2016, the CBN ended its U.S. Dollar link on the Naira, allowing the Naira to float freely on the interbank market and market forces to determine the exchange rate, but also reintroduced market-driven currency trading under a flexible exchange rate system whereby the CBN will only intervene for a select number of items deemed critical by the Nigerian government. On the day of the CBN's announcement, the Naira fell by approximately 30% to ₦280 per U.S. Dollar. The flotation and consequent volatility of the Naira has resulted in a significant depreciation against the U.S. Dollar at the interbank currency exchange market, with the official Naira/U.S. Dollar exchange rate moving from ₦196.5 per U.S. Dollar as of June 15, 2016 to ₦305.30 per U.S. Dollar as of March 9, 2018.

Increased volatility in crude oil prices also contributed to a depletion in Nigeria's foreign reserves, from approximately \$32 billion in February 2015 to approximately \$24 billion in October 2016. However, the continuing recovery in oil prices since 2016 has resulted in an increase in the foreign reserves to approximately \$41 billion as at January 18, 2018. Any further currency fluctuations and/or fluctuations in Nigeria's external reserves may negatively affect the Nigerian economy in general and, as a result, have a material adverse effect on our business, results of operations and/or financial condition. This depreciation in the value of Naira has negatively affected the Nigerian economy in general. Further deterioration could result in social unrest or industrial action which could have a material adverse impact on our business, results of operations, financial condition and prospects. Given the fluctuations in Nigeria's external currency reserves, its high dependence on oil exports and the fact that Nigeria pays for its key imports, such as refined oil, in U.S. Dollars, the Naira will remain vulnerable to external shocks.

Exposure to currency exchange rate fluctuations and inflation will result in fluctuations in our cash flows and operating results.

We are exposed to exchange rate risk to the extent that balances and transactions are denominated in a currency other than the U.S. Dollar. Our produced oil price is denominated and paid for in U.S. Dollars and our produced gas price is denominated in U.S. Dollars and paid for in Naira; as a result, we hold cash and cash equivalents in both U.S. Dollar and Naira. We do not currently engage in foreign exchange hedging due to the limited market and the commercial terms associated with hedging programs protecting against the volatility of the Naira, but we incur costs in both U.S. Dollars and Naira. Naira costs include ongoing general and administrative activities such as the payment of salaries and certain subcontractors. Other monetary assets and liabilities which give rise to currency exchange risk include trade and other receivables and trade and other payables.

Furthermore, most of our working capital requirements are denominated in U.S. Dollars and some of our payment obligations occur in jurisdictions where the U.S. Dollar is not an accepted currency, such as the costs we incur for central administration (including salaries, rent, travel and utilities) and professional costs and expenses in the U.K. and Nigeria. In such circumstances, we convert funds to the relevant foreign currencies as our payment obligations become due. We hold U.S. Dollar cash balances in Nigeria and, in such circumstances, we convert funds to the relevant foreign currencies as our payment obligations become due. Additionally, while we earn oil revenues in U.S. Dollars, we can provide no assurances that we will have sufficient U.S. Dollar revenues to service the Notes; in such circumstances we may seek to convert Naira to U.S. Dollars and we can provide no assurances that we will be able to do so on commercially attractive terms. Accordingly, we are subject to fluctuations in the rates of currency exchange between the U.S. Dollar and the Naira or pound sterling, and such fluctuations may materially affect our business, prospects, financial condition and results of operations.

Our operations are subject to ongoing licensing, contractual and regulatory requirements, each of which may be subject to amendment, renewal or reform, which could make compliance more challenging.

Our current operations are, and future operations will be, subject to licensing requirements or agreements, regulations and approvals of governmental authorities of Nigeria for the exploration, development, production, marketing, pricing, transportation and storage of oil and gas and the construction and operation of related facilities and infrastructure. The relevant legislation pertaining to the licensing of mineral rights provides that fines may be imposed and a license may be suspended or terminated if a license holder, or party to a related agreement, fails to comply with its ongoing obligations under such license or agreement, or fails to make timely payments of levies and taxes for the licensed activity, provide the required geological information or meet other reporting requirements. We cannot guarantee that all licenses will be renewed before they expire, that licenses applied for will be granted or, if granted, will not be subject to possibly onerous conditions, or that any delays in their availability may adversely affect our assets, plans, targets and projections. Further, there can be no assurance that the actions of present or future governments in Nigeria will not challenge our title to any interest we may have in Nigeria with retrospective effect. See “*Regulation.*”

In addition, we have obligations to develop our assets in accordance with specific requirements under certain licenses and related agreements, field development plans, laws and regulations. In particular, we are subject to extensive government laws and regulations governing prices, taxes, royalties, allowable production, waste disposal, pollution control and similar environmental laws, the export of oil and many other aspects of the oil and gas industry. If we fail, or have previously failed, to satisfy such obligations with respect to a specific field, the license or related agreements for that field may be suspended, revoked or terminated. The Nigerian government can, and we expect will from time to time, carry out inspections to verify compliance with relevant laws and the licenses or the agreements pursuant to which it operates. There can be no assurance that their views regarding the development of the fields that we operate or compliance with the terms of the licenses or related agreements pursuant to which we conduct such operations will coincide with our views, which might lead to disagreements that cannot be resolved.

Our inability to maintain necessary licenses or comply with contractual and regulatory requirements could have a material adverse impact on our business, results of operations, cash flows, financial condition and prospects.

We are exposed to the risk of violations of anti-corruption laws, related sanctions or other similar regulations.

We operate in Nigeria, which like many countries in emerging markets, at times experiences high levels of fraud, bribery and corruption. We could face, directly or indirectly, corrupt demands by officials, militant groups or private entities. Consequently, we face the risk of unauthorized payments or offers of payments by one of our employees, agents, intermediaries or consultants, given that such persons may not always be subject to our control. In recent years, there have been a number of high profile convictions in Nigeria for corruption, including that of a former Inspector General of Police. In addition, the government has dismissed a number of ministers and judges and has brought corruption charges against a number of ex-state governors and other government officials.

In addition to liability under Nigerian law, it is also possible that we could be held liable for successor liability for U.S. Foreign Corrupt Practices Act of 1977 (“**FCPA**”) violations committed by companies in which it has invested or acquired or may invest or acquire. We have policies and procedures designed to assist compliance with applicable laws and regulations including the FCPA and the United Kingdom Bribery Act 2010 (“**United Kingdom Bribery Act**”). The FCPA prohibits providing, offering, promising, or authorizing, directly or indirectly, anything of value to government officials, political parties, or political candidates for the purposes of obtaining or retaining business or securing any improper business advantage. As part of our business, we are required to deal with regulators to obtain permits and conduct our operations, including a number of government ministries, departments and agencies. The employees of these entities or organizations may be considered government officials for purposes of the FCPA. The provisions of the United Kingdom Bribery Act extend beyond bribery of government officials and are more onerous than the FCPA in a number of other respects, including jurisdiction, non-exemption of facilitation payments and penalties. In particular, the United Kingdom Bribery Act (unlike the FCPA) does not require a corrupt or improper intent to be established in relation to the bribery of a public official and also applies to the active payment of bribes as well as the passive receiving of bribes. Furthermore, unlike the vicarious liability regime under the FCPA, whereby corporate entities can be liable for the acts of its employees, the United Kingdom Bribery Act introduced a new corporate offence directly applicable to corporate entities that fail to prevent bribery and did not establish and adopt adequate procedures to prevent bribery from occurring and, in certain circumstances, can render parties liable for the acts of their joint venture or commercial partners.

To comply with these laws, we have in place an anti-bribery and corruption policy, approved by the Board of Directors. The policy is intended to ensure compliance with relevant legislation designed to prevent, detect and respond to issues of corruption and bribery and comply with applicable anti-bribery and corruption laws including the Nigerian Economic and Financial Crimes Commission (EFCC) Act, rules and regulations of the Nigerian SEC and Nigerian Customs Agency, Nigerian Immigration Act, the CBN Guidelines, United Kingdom Bribery Act and the FCPA. However, we can make no assurance that the policies and procedures, even if enhanced, will be followed at all times or effectively detect and prevent all violations of the applicable laws and every instance of fraud, bribery or corruption. We are not aware of any current or threatened investigations or any legitimate grounds that could give rise to any investigations or any existing adverse findings against us, our directors, officers, employees or joint venture partners, however, if any such investigations are made and substantiated in the future or any such persons are found to be involved in corruption or other illegal activity, this could result in criminal or civil penalties, including substantial monetary fines, against us, our directors, officers or employees.

In the ordinary course of our operations, we make certain payments pursuant to community engagement memoranda, as part of our efforts to work with the communities in which our assets are located. See *"Our business – Community."* We also contribute to community engagement regimes with respect to certain of the infrastructure on which we rely for exporting our crude oil production to market, such as the Trans-Forcados pipeline system. Although we believe such payments comply with our internal codes of conduct, are customary in the oil and gas industry in Nigeria and comply with applicable law, we may be subject to investigations, inquiries, disputes or media scrutiny in respect of such payments, which could have a material adverse impact on our business, results of operations, cash flows, financial condition and prospects.

We can make no assurances that violations of applicable anti-bribery laws will not occur, including in relation to our contractors. As a result, we could be subject to potential civil or criminal penalties under the relevant applicable law which could have a material adverse impact on our business, results of operations, cash flows, financial condition and prospects if we fail to prevent any such violations or are the subject of investigations into potential violations. In addition, such violations could also negatively impact our reputation and consequently, our ability to win future business or maintain existing contracts. The consequences that we may suffer due to any of the foregoing could have a material adverse impact on our business, results of operations, cash flows, financial condition and prospects.

Risks associated with corporate governance standards in Nigeria

The Financial Reporting Council of Nigeria (the "FRCN") released the National Code of Corporate Governance (the "FRCN Code") in October 2016 pursuant to sections 50 and 51 of the Financial Reporting Council of Nigeria Act 2011. The FRCN Code is aimed at providing a minimum national standard with respect to corporate governance matters for the not-for-profit, private and public sectors. The FRCN Code came into effect on October 17, 2016 but its operation was subsequently suspended by the Nigerian government. Although the FRCN has recently stated that the FRCN Code would be revised or re-issued, it is uncertain whether or when this process will be undertaken or completed.

Although we believe we have adopted appropriate corporate governance standards, it is possible that violations of disclosure and reporting requirements or breaches of fiduciary duties by the Directors could significantly affect the Company's receipt of information material to the Company's operations or result in inappropriate management decisions, potentially having a material adverse effect on the Company's business, results of operations and/or financial condition.

The taxation and customs systems in Nigeria may be subject to change and the rules of those systems may be subject to different interpretation.

Nigeria is an emerging market economy, and its policies and regulations on, and laws relating to, taxation, customs and excise duties may change from time to time as considered necessary for its further development. Our existing effective tax rate and revenues may be affected by changes in such policies, laws or regulation. In particular, the draft Petroleum Bills will, if enacted, change the taxation regime applicable to oil and gas companies and may affect the existing effective tax rates and our partners' amount of tax payable.

Further, the Nigerian FIRS's interpretation of, and/or decisions with respect to, certain sections of applicable tax laws or regulations may differ from our interpretation of such laws or regulations. Such interpretation or decision by the Nigerian FIRS could result in additional tax becoming due or payable in the future by us.

In 2010 we were granted the “new entrant” tax status under the Petroleum Profits Tax Act for a period of five years, with an effective tax rate of 65.75%. We benefited from the new entrant status for three years, from January 1, 2010 to December 31, 2012, before we were granted “pioneer” tax status by the Nigerian Investment Promotion Commission. We were granted pioneer status for a three-year period effective January 1, 2013. For the period the incentive applied our effective tax rate was 0% as we were exempt from petroleum profits tax on crude oil profits (which would otherwise have been taxed at 65.75%), corporate income tax on natural gas profits (currently taxed at 30%) and education tax of 2%. Our three year pioneer tax status expired on December 31, 2015 and on January 1, 2016 we reverted to our new entrant status and were taxed at 65.75% for the remaining two years of new entrant status that we had originally been allotted. Our effective tax rate from January 1, 2018, following the expiry of our new entrant status, has been 85%. Should we acquire additional assets in Nigeria and structure the acquisition in an appropriate manner, the reduced tax rate of 65.75% may apply to the taxable profit generated by such additional assets for the period of new entrant status. Changes in applicable policies on taxation, customs and excise duties, as well as differences in interpretation of and decisions relating to tax laws, including the Companies Income Tax (Exemption of Bonds and Short Term Government Securities) Order 2011, the personal income tax exemption under the Personal Income Tax Act Chapter P8 Laws of the Federation of Nigeria 2004 as amended by the Personal Income Tax (Amendment) Act No. 20 of 2011 and the Value Added Tax (Exemption of Proceeds of the Disposal of Government and Corporate Securities) Order 2011 (the exemption from which we expect the Notes to benefit during the applicable validity period of the respective exemption tax order/provision) could have a material adverse impact on our business, results of operations, cash flows, financial condition and prospects.

Any downgrading of Nigeria’s sovereign debt rating by an international rating agency could have a negative impact on our business and the trading price of the Notes.

As of February 2018, Nigeria’s sovereign rating is B2 with a stable outlook (Moody’s), B+ with a negative outlook (Fitch) and B with a stable outlook (S&P). These ratings reflect an assessment of the government of Nigeria’s overall financial capacity to pay its obligations and its ability or willingness to meet its financial commitments as they become due. Any adverse revisions to Nigeria’s credit ratings for domestic and international debt by international rating agencies may adversely affect the liquidity of the Nigerian financial markets, the ability of the Nigerian government and Nigerian companies, including us, to raise additional financing, and the terms on which we are able to finance future capital expenditure or refinance any existing indebtedness. This could have a material adverse impact on our business, results of operations financial condition, prospects, and the market price of the Notes.

The Nigerian judicial system may create an uncertain environment for investment and business activity.

The Nigerian legal system continues to develop and faces a number of challenges including delays in the judicial process as most cases take a considerable period of time to be concluded. As a result, effective legal redress may be difficult to obtain and there is a high degree of uncertainty due to the discretion of governmental authorities, lack of judicial or administrative guidance on interpreting applicable rules and regulations, inconsistencies or conflicts between and within various laws, regulations, decrees, orders and resolutions and relative inexperience of the judiciary and courts in commercial matters.

The slow judicial process may sometimes affect the enforceability of judgments obtained. In addition, the enforcement of laws may depend on, and be subject to the interpretation of, the relevant government agencies and such interpretation may differ from the advice given to us by our legal advisers.

These and other factors that have an impact on Nigeria’s legal system make an investment in the Notes subject to greater risks and uncertainties than an investment in a country with a different system.

Any gas flaring in violation of the Associated Gas Re-injection Act could lead to financial penalties and/or forfeiture of licenses or legal interests.

Most of Nigeria’s oil fields produce significant amounts of associated gas, much of which is flared. Gas flaring is the burning of the associated gas that cannot be processed or sold. Although the existing “zero flaring” legislation in Nigeria, the “Associated Gas Re-Injection Act of 1979”, generally prohibits gas flaring, it empowers the Petroleum Minister to permit flaring subject to certain conditions, including the payment of a fee prescribed by the Minister from time to time for each standard cubic meter of gas flared. Any gas flared without obtaining the appropriate ministerial permissions or otherwise in violation of relevant “zero flaring” legislation could subject us to financial penalties and other sanctions, including the

potential forfeiture of licenses or production interests, any of which could have a material adverse effect on our business, financial condition and results of operations.

Our operations in marginal fields are subject to indigenous ownership restrictions with which we may not be able to comply in the future.

The Umuseti and Igbuku marginal fields, located on OPL 283, in which we hold a non-operated working interest, are subject to the rules and requirements of the Marginal Field Guidelines, which govern Nigeria's marginal field program. The Marginal Field Guidelines provide a legal regime for the acquisition and operation of marginal fields in Nigeria and provide, among other things, that marginal fields may only be awarded to, and operated by, indigenous companies that are "substantially Nigerian." Although the phrase "substantially Nigerian" is not defined in the Marginal Field Guidelines or any other Nigerian law, the Nigerian Department of Petroleum Resources ("DPR") takes the view that a company registered in Nigeria with at least 51% Nigerian equity shareholding is "substantially Nigerian" and is eligible for the award of a marginal field, provided that at least 51% Nigerian equity shareholding is maintained throughout the operation of a marginal field. At the time of our initial public offering, we qualified as indigenous and following the initial public offering we received acknowledgment from the relevant Nigerian authorities that it is not possible or practical to control the equity ownership of a listed entity, for which reason the Company considers that it continues to meet the test of indigenous status. However, our indigenous status may be subject to interpretation by Nigerian courts or disagreement by regulators or competitors in the future.

Any determination now or in the future that we are not "substantially Nigerian" for the purposes of the Marginal Field Guidelines, or any uncertainty surrounding our status for the purposes of the Marginal Field Guidelines, could require that we, absent a reorganization of the shareholder register so as to remedy any such adverse determination, relinquish our non-operated working interest in any marginal fields, including the Umuseti and Igbuku fields. Also, no assurance can be given that the relevant authorities would provide sufficient time for us to undertake necessary action to remedy any adverse determination or that any remedial measures that we undertake would be sufficient, valid or effective in ensuring our status as a substantially Nigerian indigenous company.

Furthermore, it is expected that the Petroleum Bills will formalize the applicable criteria for a company to be considered indigenous. However, the proposed Petroleum Bills are still in draft form and no assurance can be given that the qualification criteria for indigenous status contained in the final and enacted version will be the same as those in the current draft or that the qualification criteria will not, in any event, be amended in the future. Any determination now or in the future that we are not indigenous or, if any material uncertainty around such classification, including any challenge to our qualification by a competitor, or any reorganization to ensure our indigenous status is deemed to be insufficient, invalid or ineffective, could result in our being required to relinquish our interest in any marginal field and may prevent us from bidding for the award of any new marginal fields and receiving any of the other benefits (actual or perceived) associated with being classified as indigenous. See " – Risk factors relating to operating in Nigeria – The regulatory environment in the oil and gas sector in Nigeria is subject to significant ongoing change" and "Regulation – Petroleum Industry Bill."

We have no control over any change in ownership of Pillar Oil, the operator of the Umuseti and Igbuku marginal fields, as a result of a third party acquisition, sale or otherwise, which may result in the loss of their indigenous status. If Pillar Oil were to lose its indigenous status, it may be required to relinquish its legal interests in, and operatorship of, its marginal fields. In such an event, any new holder of Pillar Oil's interest in the Umuseti and Igbuku marginal fields would need to enter into new agreements with us. We cannot assure you of the terms of such new agreements and the process of transfer to a new party could impact the development and production of the applicable marginal field. See " – We are subject to risks involving partners and other project participants and any disagreements with, or the exercise of termination rights by, any of our commercial partners may result in delays or additional costs."

Our operations and those of our partners are subject to health, safety and environmental laws and regulations that may expose it to significant costs and liabilities.

Our operations, as well as those of our partners, are often potentially hazardous, and are subject to laws, regulations and provisions in licenses relating to the protection of human health and safety and the environment, including those inherent to the oil and gas exploration and production industries. These laws and regulations set various standards for health and environmental quality, provide for penalties and other liabilities for the violation of such standards, and establish, in certain circumstances, obligations to

compensate for environmental damage and to restore environmental conditions. Any failure to comply with such requirements may give rise to significant liabilities. In the years ended December 31, 2015, 2016 and 2017, our lost time injury frequency rate, representing the number of lost time injuries occurring in our workplaces per 1 million man-hours worked, was 0.00, 0.30 and 0.31 respectively.

Although we endeavor to comply with all environmental, health and safety laws and regulations at all times, we may, in the future, become involved in claims, lawsuits and administrative proceedings relating to environmental, health or safety matters. Breaches of such laws could also be deemed to be a breach of the conditions upon which our licenses were granted.

An adverse outcome in any such proceedings or other breach of environmental, health or safety laws could have a significant negative impact on our reputation as well as our business, prospects, financial condition and results of operations and may include the imposition of civil, administrative or criminal liability.

Furthermore, we incur, and expect to continue to incur, substantial costs in order to comply with the laws, regulations and contractual obligations to which we are subject.

New laws and regulations, the imposition of more onerous requirements in licenses, increasingly strict enforcement of, or new interpretations of, existing laws, regulations and licenses, or the discovery of previously unknown contamination may require significant material expenditures to:

- modify operations;
- install pollution control equipment;
- perform site clean-ups;
- curtail or cease certain operations; or
- pay fees or fines or make other payments for pollution, discharges or other breaches of health, safety and environmental requirements.

Compliance with new requirements may be costly and time consuming and may result in delays in the commencement or continuation of our operations.

Moreover, any failure to comply with such requirements may result in the imposition of sanctions, including civil and administrative penalties, upon us and criminal and administrative penalties applicable to our officers. There can be no assurance that we will be able to comply with existing or new requirements and, as a result, we may be required to cease certain of our business activities and/or to remedy past infringements. Any such decisions, requirements or sanctions may restrict our ability to conduct our operations or to do so profitably.

In the future, the costs of the measures taken to comply with applicable health, safety and environmental laws, regulations and license provisions as well as any liabilities related to their non-compliance could increase and could be significant and could have a material adverse impact on our business, results of operations, cash flows, financial condition and prospects.

When we acquired our 45% interest in OMLs 4, 38 and 41, we agreed to indemnify Shell Petroleum and its consortium partners, from whom we acquired the interest, for any environmental or decommissioning liabilities arising in respect of OMLs 4, 38 and 41 which relate to the period prior to July 31, 2010, the date on which we acquired our interest. In addition, when we acquired our interest in OMLs 53 and 55 from Chevron Nigeria Limited ("CNL"), we agreed to indemnify CNL for environmental and decommissioning liabilities arising in respect of OMLs 53 and 55 prior to July 1, 2013, the date on which we acquired our interest in OMLs 53 and 55. Under the OML 55 Deed of Settlement and Release, following the payment of the discharge sum and the termination of the agreement, we will no longer be required to indemnify CNL.

We face logistical and operational difficulties as a result of carrying out operations in Nigeria.

We face logistical and operational difficulties as a result of carrying out operations in Nigeria. Persistent problems with power generation, transmission and distribution, a deteriorating and congested road network, congested ports and obsolete rail infrastructure have severely constrained socio-economic development in Nigeria. Moreover, infrastructure in the Niger Delta can be unreliable. Rail and road networks are poor and restrict the movement of people and goods to, from and within regions thereby increasing the time it takes to mobilize workforces and deliver supplies or equipment. The lack of reliable infrastructure also limits our ability (and the ability of our partners and contractors) to respond quickly to

unforeseen situations, which can lead to delays and production stoppages. The Niger Delta also periodically experiences adverse weather conditions and natural disasters, mainly in the form of floods, which further limits the use of available infrastructure, particularly during the rainy season (March to November), and increases the likelihood of delays during that part of year.

Labor unrest could affect our ability to explore for, produce and market our oil and gas production.

There can be no assurance that we will not be subject to labor strikes in the future. Any strike activity or labor unrest (whether as a result of a broader social and/or labor unrest within Nigeria or otherwise) at any of our oil and gas operations or at, or affecting, the operations of any third party which we utilize for our business, could adversely affect our ongoing operations and our ability to explore for, produce and market oil and gas which could have a material adverse impact on our business, results of operations, financial condition and prospects.

Reserves and contingent resources data in this Offering Memorandum are estimates only and are inherently uncertain as they depend on many assumptions that may turn out to be inaccurate.

Unless stated otherwise, the hydrocarbon reserves and contingent resources data set forth in this Offering Memorandum have been extracted without material adjustment from the Company Reserve Information or the 2018 Ryder Scott Report. See “Presentation of Financial and Other Information – Certain reserves and production information.”

The process of estimating oil and gas reserves and resources is complex and requires the interpretation of available technical data and many estimates, including estimates based upon assumptions relating to economic factors. Estimating underground accumulations of oil and gas is a subjective process which is inherently uncertain as they cannot be measured in an exact manner and different engineers may make different estimates of reserves and resources based upon the same data. In order to prepare estimates, production rates and timing of development expenditures must be projected and available geological, geophysical, production and engineering data and, where applicable, drilling results analyzed. The extent, quality and reliability of this data can vary.

Estimates of the quantity of economically recoverable oil and gas reserves and resources, and consequently the rates of production realized from those reserves and resources, necessarily depend upon a number of variables and assumptions, including:

- historical production from the area compared with production from other comparable producing areas;
- interpretation of geological and geophysical data;
- assumed effects of regulations adopted by governmental agencies;
- assumptions concerning future oil and gas prices;
- availability and application of new technologies;
- assumptions regarding fiscal regime, tax and/or royalties on the extraction of commercial minerals;
- the expiry of oil and gas licenses;
- new discoveries and extensions of existing fields as well as the application of improved recovery techniques;
- levels of capital expenditure; and
- assumptions concerning future operating costs, development costs and workover and remedial costs.

As estimates of reserves and resources are subjective, each of the following items may differ materially from those assumed in estimating our reserves and resources:

- quantities and qualities of oil and gas that are ultimately recovered;
- production profile of the oil and gas that are ultimately recovered;
- production and operating costs incurred;
- amount and timing of additional exploration and development expenditures; and
- future oil and gas sales prices.

The reserves and contingent resources data contained in this Offering Memorandum are estimates only and should not be construed as representing exact quantities. Reserves and resources estimates contained in this Offering Memorandum are based on production data, prices, costs, ownership, geophysical, geological and engineering data and other information which we have assembled (with assistance from other operators). The estimates may prove to be incorrect and potential investors should not place undue reliance on the statements contained herein (including data included in or extracted from the Company Reserve Information or the 2018 Ryder Scott Report and whether or not expressed to have been certified by Ryder Scott) concerning our reserves and resources or production levels.

Exploration drilling, interpretation and testing and production after the date of the estimates may require substantial upward or downward revisions in our reserves or resources data and estimates. Furthermore, different reservoir engineers may make different estimates of reserves and resources based on the same available data. Actual production, oil and gas prices, revenues, royalties, taxes, development expenditures, operating expenses and quantities of recoverable oil and gas reserves and resources will most likely vary from estimates, and such variances may be material. The estimates also assume that the future development of our fields and the future marketability of our oil and gas will be similar to past development and marketability, that our assumptions as to our capital expenditure and operating costs are accurate and that our capital expenditure strategy is successfully implemented. There can be no assurance that the actual capital expenditure will not vary significantly from current estimates or that we will be able to implement our capital expenditure strategy to the timetable currently envisaged. In addition, the estimation of reserves and resources may also change because of acquisitions and disposals, new discoveries and estimations of existing fields as well as the application of improved recovery techniques. If the assumptions upon which the estimates of our hydrocarbon reserves or resources have been based prove to be incorrect, we or the operators of assets in which we hold an interest may be unable to recover and produce the estimated levels or quality of hydrocarbons set out in this Offering Memorandum and could have a material adverse impact on our business, results of operations, cash flows, financial condition and prospects.

Contingent resources may not be commercially productive in the short or medium term.

Unless stated otherwise, the contingent resources data set forth in this Offering Memorandum has been extracted without material adjustment from the Company Reserve Information or the 2018 Ryder Scott Report, as applicable, and described in “*Presentation of Financial and Other Information – Certain reserves and production information.*” Additional uncertainties exist with respect to the estimation of contingent resources in addition to those that apply to reserves. Contingent resources are those quantities of resources estimated, as of a given date, to be potentially recoverable from known accumulations but are not yet considered mature enough for commercial development due to one or more contingencies. Contingent resources may include, for example, projects for which there are currently no viable markets, or where commercial recovery is dependent on technology under development, or where evaluation of the accumulation is insufficient to assess commerciality. Development of contingent resources, if undertaken, may involve considerable expense, and may not result in the discovery of hydrocarbons in commercially viable quantities. The probability that contingent resources will be economically recoverable is considerably lower than that for proved, probable and possible reserves. Volumes and values associated with contingent resources should be considered highly speculative and there can be no assurance that we will be able to develop these resources commercially.

We may be adversely affected by litigation or adverse publicity

In the ordinary course of business, Seplat, our officers, directors and shareholders may be named as a defendant or an interested party in legal actions, claims and disputes in connection with our business activities. Any such litigation, dispute or proceedings may be costly, and may divert significant management attention and other resources away from the business which could have a material adverse impact on our business, results of operations and financial condition. See “*Our business – Litigation.*”

Similarly, any other material litigation could have adverse financial consequences for our business, and we may not have established adequate provisions for any potential losses associated with litigation not otherwise covered by insurance, which could have a material adverse impact on our financial condition. Additionally, any negative outcome with respect to any legal actions in which we are involved could have a material adverse impact on our financial condition.

We currently have no material outstanding litigation. There can be no guarantee that our past, current or future actions will not result in litigation, and there have been a number of cases where the rights and

privileges of oil and gas companies have been the subject of litigation. Defense and settlement costs can be substantial, even with respect to claims that have no merit. Due to the inherent uncertainty of the litigation process, there can be no assurance that the resolution of any particular legal proceeding or any adverse publicity surrounding such claim will not have a material adverse impact on our business, reputation, prospects, financial condition or results of operations.

The interests of the Company's shareholders may conflict with those of the Company and consequently the holders of the Notes.

The interests of our principal shareholders (including our Chairman and our CEO) may conflict with our interests and with your interests as a holder of the Notes. Our relationship with our principal shareholders is governed by a Shareholders' Agreement and a Relationship Agreement, entered into at the time of our initial public offering. See "Principal Shareholders," "Our business – Material agreements relating to our assets – Shareholders Agreement" and "Our business – Material agreements relating to our assets – Relationship Agreement." Our principal shareholders may have an interest in pursuing acquisitions, divestitures, financings or other transactions which, in their judgment, could enhance their investment, even though such transactions might compete directly or indirectly with us, might result in adverse publicity for our shareholders and, through them, to us and might involve risks to you, as a holder of the Notes. For example, the Relationship Agreement contains a provision that requires principal shareholders to inform the Company if they have been offered any opportunity to acquire, invest in or farm-in to, any on-shore or shallow off-shore, oil mining lease or prospecting license in Nigeria, and further to not seek to participate in such an opportunity if the Company was offered the opportunity first, until such time that the Company has decided not to pursue the opportunity. While we continue to approach new businesses in this manner, these obligations did expire in March 2016. We can provide no assurance that any such conflicts will be resolved in the favor of the interests of the Company or the holders of the Notes. In addition, our principal shareholders are and may in the future be involved in various lawsuits or claims that, while they may not involve the Company, could have adverse impacts on the Company.

Climate change abatement legislation or protests against fossil fuel extraction may have a material adverse impact on our industry

Continued political attention to issues concerning climate change, the role of human activity in it and potential mitigation through regulation could have a material impact on our business. International agreements, national and regional legislation, and regulatory measures to limit greenhouse emissions are currently in various stages of discussion or implementation. Given our operations are associated with emissions of "greenhouse gases", these and other greenhouse gas emissions-related laws, policies and regulations may result in substantial capital, compliance, operating and maintenance costs. The level of expenditure required to comply with these laws and regulations is uncertain and is expected to vary depending on the laws enacted by particular countries. As such, climate change legislation and regulatory initiatives restricting emissions of greenhouse gases may adversely affect our operations, our cost structure or the demand for oil and gas. Such legislation or regulatory initiatives could have a material adverse impact by diminishing the demand for oil and gas, increasing our cost structure or causing disruption to our operations. In addition, we may be subject to activism from groups campaigning against fossil fuel extraction, which could affect our reputation, disrupt our campaigns or programs or otherwise negatively impact our business.

We do not insure against certain risks and our insurance coverage may not be adequate for covering all losses arising from potential operational hazards and unforeseen interruptions.

While we maintain what we believe to be adequate insurance for our business, we are not insured against all risks. Consequently, there can be no assurance that our insurance will be adequate to cover any and all losses arising as a result of the occurrence of an adverse event affecting our business or operations.

We may also not be able to obtain or maintain insurance of the type we desire at reasonable rates or may elect not to obtain insurance if we believe that the cost of available insurance is excessive relative to the risks presented. In some instances, certain insurance could become unavailable or available only for reduced amounts of coverage. The occurrence of an event or a third party claim that is not covered, or not fully covered, by insurance could have a material adverse impact on our business, results of operations, cash flows, financial condition and prospects.

A cyber-attack could adversely affect our business, financial condition and results of operations

Information security risks have generally increased in recent years as a result of the proliferation of new technologies and the increased sophistication and activities of cyber-attacks. We depend on digital technology, including information systems to process financial and operating data, analyze seismic and drilling information and estimate oil and gas reserves.

Because of the critical nature of our IT infrastructure and the increased accessibility enabled through connection to the internet, we may face a heightened risk of cyber-attack. In the event of such an attack, we could have our business operations disrupted, property damaged, proprietary and customer or other confidential information stolen, experience substantial loss of revenues, response costs and other financial loss and be subject to increased regulation, litigation and damage to our reputation.

A cyber-attack could have a material adverse impact on our business, results of operations, financial condition and prospects.

Risks relating to the Notes

The Company is required by its regulators to seek post-closing shareholder ratification of the Notes offered hereby, which, if not received, could result in adverse consequences to the Company

The Company's Memorandum and Articles of Association (the "**MemArts**") state that at any time, moneys borrowed or secured by the Company cannot exceed the nominal amount of the Company's share capital without the approval of the Company's shareholders at a general meeting. The MemArts also state that no debt incurred or security given in excess of such limit shall be invalid or ineffectual. The incurrence of debt under the Notes offered hereby and the Revolving Credit Facility will exceed the nominal amount of the Company's share capital, and as of the date of this Offering Memorandum, neither obligation has been approved by the shareholders. The Company believes (after receiving the advice of Nigerian legal counsel), that approval by the shareholders is not required in order to lawfully issue the Notes and to draw down and secure the debt under the Revolving Credit Facility. However, the Nigerian Securities and Exchange Commission (the "**Nigerian SEC**"), who regulates the Company as a publicly listed company in Nigeria, has issued a no objection letter in respect of the issuance subject to a condition that the Company seek ratification of the issue of the Notes from its shareholders. The Company intends to seek a resolution from its shareholders to ratify both the Notes and the Revolving Credit Facility at its next general meeting scheduled for June 2018. The Company believes that both the Notes and the Revolving Credit Facility are in the best interests of the Company and will be approved by the shareholders. In the event that the shareholders fail to ratify the issue of Notes, the Company believes (after receiving the advice of Nigerian legal counsel), that it will not have any impact on the validity or enforceability of the Notes. However, such failure by the shareholders to ratify the issue of the Notes will result in non-compliance by the Company with a condition subsequent contained in the approval of the Nigerian SEC. Consequences of any such non-compliance in the event the shareholders do not ratify the issue of the Notes is not entirely clear, but could result in a fine being imposed on the Company and/or delay of approvals of future actions brought by the Company to the Nigerian SEC for approval. While the Company believes the shareholder ratification will be approved at the June general meeting, there can be no assurances of such approval.

Our leverage and debt service obligations could adversely affect our business and prevent us from fulfilling our obligations under our debt, including the Notes and the Note Guarantees

As of December 31, 2017, on a *pro forma* basis after giving effect to the Transactions, we would have had an aggregate principal amount of \$550 million of total debt outstanding. We will be permitted to borrow substantial additional indebtedness, including secured debt, in the future under the terms of the Indenture.

The degree to which we are leveraged could have important consequences to our business and holders of the Notes offered hereby, including, but not limited to:

- making it difficult for us to satisfy our obligations with respect to the Notes or other indebtedness;
- increasing our vulnerability to, and reducing our flexibility to respond to, general adverse economic and industry conditions;
- requiring the dedication of a substantial portion of our cash flow from operations to the repayment of the principal of our indebtedness and interest on such indebtedness, thereby reducing the availability of such cash flow;
- limiting our ability to obtain additional financing to fund working capital, capital investments, acquisitions, debt service requirements, business ventures, or other general corporate purposes;

- limiting our flexibility in planning for, or reacting to, changes in our business and the competitive environment and the industry in which we do business; and
- placing us at a competitive disadvantage as compared to our competitors, to the extent that they are not as highly leveraged.

These consequences could have a material adverse effect on our business, prospects, financial condition and results of operations and our ability to satisfy our obligations under the Notes. Despite our current level of debt, we may still be able to incur substantially more debt in the future, including at the level of our subsidiaries, which may make it difficult for us to service our debt, including the Notes.

We and our subsidiaries may be able to incur substantial additional indebtedness in the future. Although the Indenture will contain restrictions governing the incurrence of additional indebtedness, these restrictions are subject to a number of significant qualifications and exceptions and the amount of indebtedness that could be incurred in compliance with these restrictions could be substantial. If we or our subsidiaries incur new debt or other obligations, the related risks that we face, as described in “– Our leverage and debt service obligations could adversely affect our business and prevent us from fulfilling our obligations under our debt, including the Notes and the Note Guarantees” and elsewhere in these “Risk factors,” could increase. In addition, the Indenture will not prevent us from incurring obligations that do not constitute indebtedness as defined under those agreements.

Our non-Guarantor subsidiaries may also be able to incur substantial additional indebtedness in the future, further increasing the risks associated with leverage. If any of our non-Guarantor subsidiaries incur additional indebtedness, the holders of that debt will be entitled to share ahead of you in any proceeds distributed in connection with any insolvency, liquidation, reorganization, dissolution or other winding-up of such subsidiaries. See “– The Notes and Note Guarantees will be structurally subordinated to the liabilities and preference shares (if any) of our non-Guarantor subsidiaries.”

For further information regarding our leverage and for more information about our outstanding indebtedness, see “Management’s discussion and analysis of financial condition and results of operations” and “Description of certain financing arrangements.”

Claims of secured creditors of the Issuer or the Guarantors will have priority with respect to their security over the claims of creditors who do not have the benefit of such security, such as the holders of the Notes.

The Notes will not benefit from any security. Claims of the creditors of the Issuer or the Guarantors that are secured by property or other assets will effectively have priority with respect to such property and other assets securing their indebtedness over the claims of the holders of the Notes to the extent of the value of such property and other assets (other than to the extent such property and other assets also secure the Notes and/or the Guarantees on an equal and rateable basis or priority basis). The Notes will be structurally subordinated to all existing and future obligations and other liabilities (including trade payables) of our subsidiaries that are not Guarantors.

In the event of bankruptcy, liquidation, reorganisation or other winding up of the Issuer or the Guarantors or upon a default in payment with respect to, or the acceleration of, any secured indebtedness, the property or other assets of the Issuer and the Guarantors that secure such indebtedness will be available to pay obligations on the Notes and the Guarantees only after all such indebtedness has been repaid in full from such property and other assets. In addition, in the event of bankruptcy, liquidation, reorganisation or other winding up of an Unrestricted Subsidiary or subsidiary that does not guarantee the Notes, the assets of such Unrestricted Subsidiary or subsidiary will be available to pay obligations on the Notes only after all obligations of such Unrestricted Subsidiary or subsidiary have been repaid in full from such assets. There may not be sufficient assets remaining to pay amounts due on any or all of the Notes and the Guarantees then outstanding.

As a result, holders of Notes may receive less, rateably, than holders of secured indebtedness.

The terms of our indebtedness will restrict our operating flexibility.

Among other things, the Indenture will restrict our ability to:

- incur or guarantee additional indebtedness;
- pay dividends, make distributions or redeem or repurchase their securities;
- make investments;

- grant security interests or create liens on their assets;
- enter into transactions with their affiliates other than on an arm's-length basis;
- transfer or sell assets or shares in subsidiaries;
- guarantee future debt; or
- engage in mergers or consolidations.

In addition, we will be, or expect to be, subject to affirmative and negative covenants under the Revolving Credit Facility, including the requirements to maintain a specified ratio of net debt to consolidated EBITDA and to deliver a group liquidity plan demonstrating that sources of funds exceed uses in a specified period. See *"Description of certain financing arrangements."* These covenants could limit our ability to finance future operations and capital needs and our ability to pursue acquisitions and other business activities that may be in our interest. If we, or our subsidiaries, fail to comply with any of these covenants, we will be in default under the Indenture, and the Trustee or holders of the Notes could, after any applicable cure period, declare the principal and accrued interest on the Notes due and payable. These restrictions could materially adversely affect our ability to finance future operations or capital needs or engage in other business activities that may be in our best interest. Further, if we enter into any further financings, these will be subject to additional covenants, and if we do enter into any further arrangements, and fail to comply with the covenants or obligations thereunder, we would be in default and creditors thereunder could, after any applicable cure period, declare such facility due and payable. These restrictions could materially adversely affect our ability to finance future operations or capital needs or engage in other business activities that may be in our best interest. See *"Description of Notes – Certain covenants"* and *"Description of certain financing arrangements."*

We require a significant amount of cash to service our debt and sustain our operations, and our ability to generate sufficient cash depends on many factors beyond our control

Our ability to make payments on, or repay or refinance, our debt, and to fund working capital and capital investments, will depend on our future operating performance and ability to generate sufficient cash. This depends on the success of our business strategy and on general economic, financial, competitive, market, legislative, regulatory, technical and other factors and other factors discussed in these *"Risk factors,"* many of which are beyond our control.

In addition, our ability to borrow funds in the future to make payments on our debt will depend on the satisfaction of the covenants in our debt agreements, including the Indenture, and other agreements we may enter into in the future. We cannot assure you that our business will generate sufficient cash flow from operations or that future debt and equity financings will be available to us in an amount sufficient to enable us to pay our debt, including the Notes, or to fund our other liquidity needs.

Prior to repayment of the Notes, we will be required to refinance or repay certain other debt, including the Revolving Credit Facility. See *"Management's discussion and analysis of financial condition and results of operations."* We cannot assure you that we will be able to refinance or repay any of our debt, including the Notes, on commercially reasonable terms or at all. Any refinancing of our debt could be at higher interest rates than our current debt and may require us to comply with more onerous covenants, which could further restrict our business operations. If we are unable to make payments or refinance our debt or obtain new financing under these circumstances, we would have to consider other options, such as:

- selling assets;
- obtaining additional debt or equity capital;
- restructuring or refinancing all or a portion of our debt on or before maturity;
- foregoing opportunities such as acquisitions of other businesses; or
- reducing or delaying our business activities and capital investments.

We cannot assure you that we would be able to accomplish any of these alternatives on a timely basis or on commercially reasonable terms, if at all. Any failure to make payments on our debt, including the Notes, on a timely basis would likely result in a reduction of our credit rating, which could also harm our ability to incur additional indebtedness. In addition, the terms of our debt, including any future debt, may limit our ability to pursue any of these alternatives. There can be no assurance that any assets that we may elect to sell can be sold or that, if sold, the timing of such sale and the amount of proceeds realized from such sale

will be acceptable. If we are unsuccessful in any of these efforts, we may not have sufficient cash to meet our obligations, which could cause an event of default under our debt and result in:

- our debt holders declaring all outstanding principal and interest to be due and payable;
- the lenders under the Revolving Credit Facility being able to terminate their commitments to lend us money and foreclose against the assets securing our borrowings; and
- our being forced into bankruptcy or liquidation, which could result in you losing your investment in the Notes.

We will be a holding company, have no revenue generating operations of our own and will depend on cash from our operating companies to be able to make payments on the Notes.

Upon completion of the transfer of our interest in OMLs 4, 38 and 41 to Seplat West Ltd, we will be a holding company with no business operations or significant assets other than our equity interests in our subsidiaries. The transfer of our interest is subject to the consent of the MPR. We cannot provide assurances that consent for the asset transfer will be granted promptly or at all. See *“Our business – Material agreements relating to our assets – Seplat/NPDC OMLs 4, 38 and 41 Joint Operating Agreement,” “Risk Factors – Risks relating to the industry and our business – Our operations are subject to ongoing licensing, contractual and regulatory requirements, each of which may be subject to amendment, renewal or reform, which could make compliance more challenging” and “Risk Factors – Risks relating to the industry and our business – The regulatory environment in the oil and gas sector in Nigeria is subject to significant ongoing change.”* Following the Transactions, our material liabilities will be the Notes and drawings (if any) under the Revolving Credit Facility. We will be dependent upon cash flows from our operating subsidiaries in the form of dividends or other distributions or payments to meet our obligations, including our obligations under the Notes. If our subsidiaries do not distribute cash to us to make scheduled payments on the Notes, we may not have any other source of funds that would allow us to make payments to holders of the Notes.

The amounts of dividends and distributions available to us will depend on the profitability and cash flow of our subsidiaries, which, in turn, will be affected by all of the factors discussed in these *“Risk factors”* and elsewhere in this Offering Memorandum. Even if our subsidiaries have sufficient cash available, they may be restricted or prevented from distributing or advancing upstream loans to us to make payments in respect of our indebtedness, including the Notes. Various agreements governing our debt may restrict, and in some cases, may prevent the ability of our subsidiaries to move cash within their restricted group. Applicable laws may also limit the amounts that a portion of our subsidiaries will be permitted to pay as dividends or distributions on their equity interests, or even prevent such payments. Such laws include financial assistance rules, corporate benefit laws, requirements that dividends must be paid out of reserves available for distribution and other legal restrictions which, if violated, might require the recipient to refund unlawful payments. Applicable tax laws may also subject such payments to further taxation.

Although the Indenture will limit the ability of our restricted subsidiaries to enter into future consensual restrictions on their ability to pay dividends and make other payments, there are significant qualifications and exceptions to these limitations. We cannot assure you that arrangements with our subsidiaries and the funding permitted by the agreements governing existing and future indebtedness of our subsidiaries will provide us with sufficient dividends, distributions or loans to fund payments on the Notes when due. See *“Description of certain financing arrangements”* and *“Description of Notes.”*

The inability to transfer cash among entities would mean that even if the entities, in aggregate, have sufficient resources to meet their obligations, they may not be permitted to make the necessary transfers from the entity or entities with funds to the entity owing the obligations. In addition, our subsidiaries that do not guarantee the Notes have no obligation to pay amounts due under the Notes or to make funds available for that purpose.

We may not be able to obtain the funds required to repurchase the Notes upon a change of control

The Indenture will contain provisions relating to certain events constituting a “change of control.” Upon the occurrence of certain events constituting a change of control, we will be required to offer to repurchase all outstanding Notes at a price equal to 101% of the principal amount thereof, plus accrued and unpaid interest and additional amounts, if any, to the date of repurchase.

If a change of control were to occur, we cannot assure you that we would have sufficient funds available at such time to pay the purchase price of the outstanding Notes or that the restrictions under the Revolving Credit Facility or our other than existing contractual obligations would allow us to make such required repurchases. A change of control may result in an event of default, or acceleration of the debt under our

debt agreements. The repurchase of the Notes pursuant to such an offer could cause a default under such indebtedness, even if the change of control itself does not. The source of funds for any repurchase required will be available cash or cash generated from operating activities or other sources, including borrowings, sales of assets or sales of equity or funds provided by subsidiaries. Our ability to receive cash from subsidiaries to allow us to pay cash to the holders of the Notes following the occurrence of a change of control may be limited by our then existing debt instruments. If we would require third-party financing to make an offer to repurchase the Notes upon a change of control, we cannot assure you that we will be able to obtain such financing. Any failure to offer to purchase the Notes upon a change of control would constitute a default under the Indenture, which would, in turn, constitute a default under the Revolving Credit Facility. See *“Description of Notes – Repurchase at the option of holders – Change of control.”*

The change of control provision contained in the Indenture may not necessarily afford you protection in the event of certain important corporate events, including a reorganization, restructuring, merger, recapitalization or other similar transaction involving us that may adversely affect you, because such corporate events may not involve a shift in voting power or beneficial ownership or, even if they do, may not constitute a “change of control” as defined in the Indenture. Except as described under *“Description of Notes – Repurchase at the option of holders – Change of control,”* the Indenture will not contain provisions that would require us to offer to repurchase or redeem the Notes in the event of a reorganization, restructuring, merger, recapitalization or similar transaction.

The definition of “change of control” in the Indenture will include (with certain exceptions) a disposition of all or substantially all of our and our restricted subsidiaries assets, taken as a whole, to any person. Although there is a limited body of case law interpreting the phrase “all or substantially all,” there is no precise established definition of the phrase under applicable law. Accordingly, in certain circumstances, there may be a degree of uncertainty as to whether a particular transaction would involve a disposition of “all or substantially all” of our assets and its restricted subsidiaries taken as a whole. As a result, it may be unclear as to whether a change of control has occurred and whether we are required to make an offer to repurchase the Notes.

You may face currency exchange risks or adverse tax consequences by investing in the Notes denominated in currencies other than your reference currency

The Notes will be denominated and payable in U.S. Dollars. If you are a Naira, pounds sterling, euro or other non-U.S. Dollar investor, an investment in the Notes will entail currency exchange related risks due to, among other factors, possible significant changes in the value of the U.S. Dollar to pounds sterling, euro or other relevant currencies because of economic, political or other factors over which we have no control. Depreciation of the U.S. Dollar against pounds sterling, euro or other relevant currencies could cause a decrease in the effective yield of the Notes below their stated coupon rates and could result in a loss to you when the return on the Notes is translated into the currency by reference to which you measure the return on your investments.

Recent experience has shown that credit ratings do not reflect all risks.

One or more independent credit rating agencies may assign credit ratings to the Notes. The ratings may not reflect the potential impact of all risks related to structure, market, additional factors discussed in this Offering Memorandum, and other factors that may affect the value of the Notes. A credit rating is not a recommendation to buy, sell or hold securities and may be revised or withdrawn by the rating agency at any time. No assurance can be given that a credit rating will remain constant for any given period of time or that a credit rating will not be lowered or withdrawn entirely by the credit rating agency if, in its judgment, circumstances in the future so warrant. A suspension, reduction or withdrawal at any time of the credit rating assigned to the Notes by one or more of the credit rating agencies may adversely affect the cost and terms and conditions of our financings and could adversely affect the value and trading of the Notes.

The transferability of the Notes may be limited under applicable securities laws, which may adversely affect their liquidity and value.

The Notes and the Note Guarantees have not been, and will not be, registered under the U.S. Securities Act or the securities laws of any state or any other jurisdiction. Therefore, you may not transfer or sell the Notes in the United States except pursuant to an exemption from, or a transaction not subject to, the registration requirements of the U.S. Securities Act and applicable state securities laws or laws of any other jurisdiction, or pursuant to an effective registration statement, and you may be required to bear the risk of your investment in the Notes for an indefinite period of time. The Notes are not being offered for sale in

the United States except to “qualified institutional buyers” in accordance with Rule 144A, and we have not agreed to or otherwise undertaken to register the Notes with the U.S. Securities and Exchange Commission (including by way of an exchange offer). In addition, by acceptance of delivery of any Notes, the holder thereof agrees on its own behalf and on behalf of any investor accounts for which it has purchased the Notes that it shall not transfer the Notes in an aggregate principal amount of less than \$200,000. It is the obligation of holders of the Notes to ensure that their offers and sales of the Notes within the United States and other countries comply with applicable securities laws. See “*Notice to investors.*”

You may be unable to enforce judgments obtained against us in U.S. courts

The Company and the Guarantors are organized outside of the United States. Most of our directors and executive officers and the directors and executive officers of the Guarantors are non-residents of the United States and all of their respective assets will be located outside the United States. As a result, it may not be possible for investors to effect service of process within the United States upon the Company, the Guarantors or their respective directors and executive officers, or to enforce any judgments obtained in U.S. courts predicated upon civil liability provisions of the U.S. securities laws. Additionally, there is doubt as to the enforceability in many foreign jurisdictions of civil liabilities based on the civil liability provisions of the federal or state securities laws of the United States against entities and persons who are not residents of the United States. See “*Limitations on enforceability and certain insolvency law considerations.*”

The Notes will initially only be held in book-entry form, and therefore you must rely on the procedures of the relevant clearing systems to exercise any rights and remedies

Interests in the global notes will trade in book-entry form only. Unless and until the Notes in definitive registered form, or definitive registered notes, are issued in exchange for Book-Entry Interests (ownership interests in the Global Notes), owners of Book-Entry Interests will not be considered owners or holders of the Notes. The common depository (or its nominee) for the accounts of Euroclear and Clearstream will be the registered holder of the Regulation S Global Note, and DTC, or its nominee, will be the registered holder of the Rule 144A Global Notes. After payment to the common depository, we will have no responsibility or liability for the payment of interest, principal or other amounts to the owners of Book-Entry Interests. Accordingly, if you own a Book-Entry Interest, you must rely on the procedures of DTC, Euroclear or Clearstream, as applicable, and if you are not a participant in DTC, Euroclear or Clearstream, on the procedures of the participant through which you own your interest, to exercise any rights and obligations of a holder under the Indenture. See “*Book-Entry, Delivery and Form.*”

Unlike the holders of the Notes themselves, owners of Book-Entry Interests will not have the direct right to act upon our solicitations for consents, requests for waivers or other actions from holders of the Notes. Instead, if you own a Book-Entry Interest, you will be permitted to act only to the extent you have received appropriate proxies to do so from DTC, Euroclear or Clearstream or, if applicable, from a participant. There can be no assurance that procedures implemented for the granting of such proxies will be sufficient to enable you to vote on any request actions on a timely basis. Similarly, upon the occurrence of an event of default under the Indenture, unless and until definitive registered notes are issued in respect of all Book-Entry Interests, if you own a Book-Entry Interest, you will be restricted to acting through DTC, Euroclear or Clearstream. We cannot assure you that the procedures to be implemented through DTC, Euroclear or Clearstream will be adequate to ensure the timely exercise of rights under the Senior Notes. See “*Book-entry, delivery and form.*”

There may not be an active trading market for the Notes, in which case your ability to sell the Notes may be limited

- The Notes are new securities for which there is currently no market. We cannot assure you as to:
- the liquidity of any market in the Notes;
- your ability to sell your Notes; or
- the prices at which you may be able to sell your Notes.

Future trading prices for the Notes will depend on many factors, including the liquidity of the market for the Notes, prevailing interest rates, the market for similar securities and other factors, including general economic conditions and our own financial condition, performance and prospects, as well as third-party recommendations.

Historically, the market for non-investment grade securities has from time to time been subject to disruptions that have caused substantial volatility in the prices of securities similar to the Notes. The

liquidity of a trading market for the Notes will depend on the number of holders of the Notes and may be adversely affected by a general decline in the market for similar securities. In addition, the trading market for the Notes may attract different investors and this may affect the extent to which the Notes may trade. The Initial Purchasers have informed us that they intend to make a market in the Notes. However, they are not obligated to do so and may discontinue such market-making at any time without notice. As a result, we cannot assure you that an active trading market for the Notes will develop or, if one does develop, that it will be maintained, and any disruption in the trading market for the Notes may have a negative effect on your investment regardless of our prospects and financial performance. If no active trading market develops, you may not be able to resell your Notes at fair value, if at all.

Although an application has been made for the Notes to be listed on the Official List of the Luxembourg Stock Exchange and to be admitted to trading on the Euro MTF Market, we cannot assure you that the Notes will be or remain listed. Although no assurance is made as to the liquidity of the Notes as a result of the admission to trading on the Euro MTF Market, failure to be approved for listing or the delisting of the Notes (whether or not for an alternative admission to listing on another stock exchange), as applicable, from the Official List of the Luxembourg Stock Exchange may have a material effect on a holder's ability to resell the Notes in the secondary market.

The Notes may not become, or remain, listed on the Official List of the Luxembourg Stock Exchange

Although an application has been made for the Notes to be listed on the Official List of the Luxembourg Stock Exchange and admitted to trading on the Euro MTF Market within a reasonable period after the Issue Date, we cannot assure you that the Notes will become or remain listed. If the Notes are listed on the Official List of the Luxembourg Stock Exchange and admitted to trading on the Euro MTF Market and we determine that we cannot maintain such listing, we may cease to maintain such listing on the Official List of the Luxembourg Stock Exchange; *provided, however*, that we will use our commercially reasonable efforts to obtain and maintain the listing of the Notes on another recognized exchange, although there can be no assurance that we will be able to do so.

Obligations of the Company under the Indenture and the Purchase Agreement may be subject to the payment of Nigerian stamp duty

The Indenture and the Purchase Agreement (as defined below) are liable to stamp duty in Nigeria under the Stamp Duties Act, Cap S8 Laws of the Federation of Nigeria, 2004 (the “**Stamp Duties Act**”). Stamp duty is payable in Nigeria either on a flat rate or *ad valorem* basis. Based on the provisions of the Stamp Duties Act, the Indenture and the Purchase Agreement will be assessed on an *ad valorem* basis. It is the current practice in Nigeria that where several instruments relating to the same transaction are assessed on an *ad valorem* basis, only one of such instruments will be stamped *ad valorem*, while the others will be stamped at a nominal rate. However, the ultimate determination of stamp duties payable on the agreements is subject to the assessment of the Commissioner of Stamp Duties at the time of such assessment.

However, provided that documents that would otherwise be dutiable are executed outside of Nigeria, the parties have 30 days from when the documents are brought into Nigeria to arrange for payment of stamp duty. Accordingly, it is intended that the documents will each be executed and held outside of Nigeria. However, if it is or later becomes necessary to bring any such documentation into Nigeria for the purposes of enforcement, admission in evidence before a Nigerian court and enforcement by such courts, the documents will be required to be stamped and will be subject to the payment of the relevant rate of stamp duty, assessed by the Nigerian Commissioner for Stamp Duties, as prescribed by the Stamp Duties Act. Arrangements will need to be made for the payment of stamp duty within 30 days from when the documents are brought into Nigeria.

The terms of the Indenture and Note Guarantees will impose significant limitations on the ability of the Trustee and holders of the Notes to take enforcement action pursuant to the Note Guarantees.

The ability to take enforcement action against the Guarantors under the Note Guarantees is subject to significant restrictions imposed by the Indenture and the terms of the Note Guarantees. There will be a 179-day standstill period on enforcement actions that the Trustee could otherwise take against the Guarantors in respect of the Note Guarantees for an event of default under the Notes. Certain actions could end the standstill period early than 179 days. See “*Description of Notes*.”

As a result of these and other provisions in the Note Guarantees, you may not be able to recover any amounts from the Guarantors under the Note Guarantees in the event of a default on the Notes.

USE OF PROCEEDS

We estimate that gross proceeds from the sale of the Notes in this offering will be \$350 million. We intend to use the net proceeds from the sale of the Notes, in combination with borrowings under our Revolving Credit Facility and cash and cash equivalents, to repay existing indebtedness, to pay in full all amounts outstanding under the Mercuria Prepayment Facility and to pay transaction fees and expenses. Actual amounts may vary from estimated amounts depending on several factors, including the ultimate Issue Date. For descriptions of our current and anticipated indebtedness following the Transactions, see “*Description of certain financing arrangements.*” See also “*Capitalization.*”

<u>Sources of funds</u>	<u>(\$ millions)</u>	<u>Uses of funds</u>	<u>(\$ millions)</u>
Proceeds from the Notes offered		Repayment of Existing Term	
hereby ⁽¹⁾	347	Loan ⁽⁴⁾	458
Revolving Credit Facility ⁽²⁾	200	Repayment of Existing Revolving	
		Credit Facility ⁽⁵⁾	120
Cash and cash equivalents ⁽³⁾	139	Payment to Mercuria ⁽⁶⁾	75
	---	Transaction fees and expenses ⁽⁷⁾	33
Total:	686	Total:	686
	---		---

- (1) Reflects the anticipated gross proceeds of the issuance of the Notes.
- (2) We plan to use additional borrowings under our Revolving Credit Facility or cash and bank balances to pay any amounts in excess of the proceeds from the Notes offered hereby. We expect to enter into and draw approximately \$200 million under the Revolving Credit Facility on or about the Issue Date. The total aggregate amount that the Company expects to borrow under the Notes and the Revolving Credit Facility is not expected to exceed \$550 million.
- (3) A portion of the \$62.7 million in restricted cash held in debt service and stamping reserve accounts will be released as a result of the repayment of the Existing Term Loan.
- (4) Represents the repayment of the outstanding principal amount of \$458.0 million under the Existing Term Loan. Any accrued interest through the date of repayment on or about the Issue Date will be paid with cash and bank balances.
- (5) Represents the repayment of the outstanding amounts drawn under the Existing Revolving Credit Facility as of the Issue Date. Any accrued interest to the date of repayment will be paid with cash and bank balances.
- (6) Pursuant to the Mercuria Prepayment Facility, Mercuria made prepayments to the Company in consideration for deliveries of future oil production. Under the Mercuria Prepayment Facility, the Company has the right to repay any prepayments in cash rather than in future oil production. The Company intends to use \$74.7 million to repay in full amounts outstanding under the Mercuria Prepayment Facility.
- (7) Represents the aggregate fees and expenses expected to be incurred by the Company in connection with the Transactions, including estimated accrued and unpaid interest on the Existing Term Loan, Existing Revolving Credit Facility and Mercuria Prepayment Facility through the Issue Date.

CAPITALIZATION

The following table sets forth our cash and cash equivalents and capitalization as at December 31, 2017 on a historical basis and *pro forma* to reflect the Transactions as described in “*Use of proceeds*” as if these events had occurred on December 31, 2017. The historical consolidated financial information has been derived from our audited consolidated financial statements as at December 31, 2017 prepared in accordance with IFRS and which are included elsewhere in this Offering Memorandum.

This table should be read in conjunction with “*Use of proceeds*,” “*Management’s discussion and analysis of financial condition and results of operations*,” “*Description of certain financing arrangements*” and the consolidated financial statements and the accompanying notes appearing elsewhere in this Offering Memorandum. Except as set forth below, there have been no other material changes to our capitalization since December 31, 2017.

(in millions of \$)	As at December 31, 2017		
	Historical	Transaction adjustments	<i>Pro forma</i> for the Transactions
Cash and cash equivalents⁽¹⁾	437	(106)	331
Debt			
Notes offered hereby ⁽²⁾	—	347	347
Existing Revolving Credit Facility ⁽³⁾	120	(120)	—
Revolving Credit Facility ⁽⁴⁾	—	200	200
Existing Term Loan	458	(458)	—
Capitalized loan transaction costs ⁽⁵⁾	(8)	8	—
Total debt⁽⁶⁾	570	23	547
Total equity⁽⁵⁾	1,503	(8)	1,495
Total capitalization⁽⁷⁾	2,073	(31)	2,042

- (1) As at December 31, 2017 cash and cash equivalents included \$62.7 million of restricted cash held in debt service and stamping reserve accounts. A portion of the restrictions will be released as part of the Transactions as a result of the repayment of the Existing Term Loan. Cash and cash equivalents in the as adjusted column have been adjusted for \$74.7 million used to repay in full all amounts outstanding under the Mercuria Prepayment Facility. The amounts shown exclude the impact of an estimated \$33 million in aggregate fees and expenses incurred by the Company in connection with the Transactions, including estimated accrued interest on the Existing Term Loan, Existing Revolving Credit Facility and the Mercuria Prepayment Facility through the Issue Date.
- (2) Assumes gross proceeds of the Notes offered hereby of \$350 million. Amounts shown exclude the issuance costs associated with the Notes.
- (3) Assumes drawdown under the Revolving Credit Facility of \$200 million. The outstanding principal amount of indebtedness under the Existing Revolving Credit Facility as at December 31, 2017 was \$120 million, which is gross of unamortized debt issuance costs. All amounts outstanding under the Existing Revolving Credit Facility will be repaid as part of the Transactions. See “*Summary – The Transactions*.”
- (4) In connection with the Transactions, we have entered into a new Revolving Credit Facility. The *pro forma* for the Transactions represents the amount expected to be drawn under the Revolving Credit Facility on or about the Issue Date as part of the Transactions. The Revolving Credit Facility straight-line amortizes on a semi-annual basis for the tenor of the facility beginning on December 31, 2018. See “*Description of Certain Financing Arrangements – Revolving Credit Facility*.”
- (5) The adjustment to capitalized loan transaction costs represents the write-off to the income statement and equity of the unamortized costs in relation to the Existing Revolving Credit Facility and the Existing Term Loan.
- (6) As at December 31, 2017 we had \$570.1 million of total debt. Total debt excludes any accrued but unpaid interest on the Existing Revolving Credit Facility and the Existing Term Loan as of the Issue Date.
- (7) Total capitalization is calculated as the sum of total debt and total equity.

SELECTED HISTORICAL FINANCIAL DATA

The following tables present our selected consolidated financial data. The financial statement data presented as at and for the years ended December 31, 2015, 2016 and 2017 has been derived from our audited annual financial statements included elsewhere in this Offering Memorandum.

The financial statement data set forth in the following tables should be read in conjunction with “Presentation of financial and other information – Non-IFRS financial measures,” “Capitalization,” “Use of proceeds,” “Management’s discussion and analysis of financial condition and results of operations” and our annual financial statements and related notes. Historical results may not necessarily be indicative of results that may be expected for any future period.

Selected Seplat Petroleum Development Company Plc Consolidated Financial Data

Consolidated statement of profit or loss and other comprehensive income

	Year ended December 31,		
	2015	2016	2017
	\$ million		
Revenue	570.5	254.2	452.2
Cost of sales	(321.7)	(182.4)	(240.1)
Gross profit	248.8	71.8	212.1
Other operating income	2.3	—	—
General and administrative expenses	(121.5)	(113.8)	(81.9)
(Losses)/gains on currency exchange (net)	7.7	(101.5)	0.7
Gain on deconsolidation of subsidiary	—	0.7	—
Fair value (loss)/gain	20.5	(15.1)	(18.5)
Operating profit/(loss)	157.9	(157.9)	112.4
Finance income	12.8	59.0	4.3
Finance costs	(83.6)	(73.9)	(72.8)
Profit/(loss) before taxation	87.1	(172.8)	44.0
Taxation	(21.5)	6.7	221.2
Profit/(loss) for the year	65.6	(166.1)	265.2

Consolidated statement of financial position

	As at December 31,		
	2015	2016	2017
	\$ million		
Non-current assets	1,487.3	1,516.0	1,764.8
Current assets	1,254.6	663.2	849.8
Total assets	2,741.9	2,179.2	2,614.6
Total shareholders’ equity	1,413.0	1,234.0	1,503.1
Non-current liabilities	662.8	463.8	431.4
Current liabilities	666.0	481.4	680.1
Total liabilities	1,328.8	945.3	1,111.5
Total shareholders’ equity and liabilities	2,741.9	2,179.3	2,614.6

Consolidated statement of cash flows

	Year ended December 31,		
	2015	2016	2017
	\$ million		
Net cash inflows from operating activities	38.0	171.6	447.0
Net cash (outflows)/(inflows) from investing activities	(79.3)	(52.1)	6.8
Net cash (outflows)/(inflows) from financing activities	82.0	(283.0)	(173.2)
Net (decrease)/increase in cash and cash equivalent	40.7	(163.5)	280.7
Cash and cash equivalent at the beginning of the year	285.2	326.0	159.6
Effects of exchange rate changes on cash and cash equivalent	—	(2.9)	(3.1)
Cash and cash equivalent at end of year	326.0	159.6	437.2

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

We encourage you to read the following discussion in conjunction with the section entitled "Selected financial data" as well as with our consolidated financial statements and the related notes thereto included elsewhere in this Offering Memorandum. The following discussion includes forward-looking statements which, although based on assumptions that we consider reasonable, are subject to risks and uncertainties which could cause actual events or conditions to differ materially from those expressed or implied by the forward-looking statements. For a discussion of some of those risks and uncertainties please refer to the sections entitled "Forward-looking statements" and "Risk factors."

Overview

We are a leading independent indigenous upstream oil and gas company operating in Nigeria. As an upstream oil and gas development and production company, our focus is on growing cash flows by maximizing hydrocarbon production and recovery from our existing production and development assets. In the year ended December 31, 2017, our revenue was \$452.2 million, our Adjusted EBITDAX was \$216.5 million and our production averaged 36,923 boepd (48.4% liquids). As at January 1, 2018, our 2P reserves were 477.2 MMboe and 2C contingent resources were 60.6 MMboe. We are listed on both the Nigerian Stock Exchange ("NSE") and the Main Market of the London Stock Exchange ("LSE") with a market capitalization of £706 million as at February 27, 2018. We have working interests in five of our six assets.

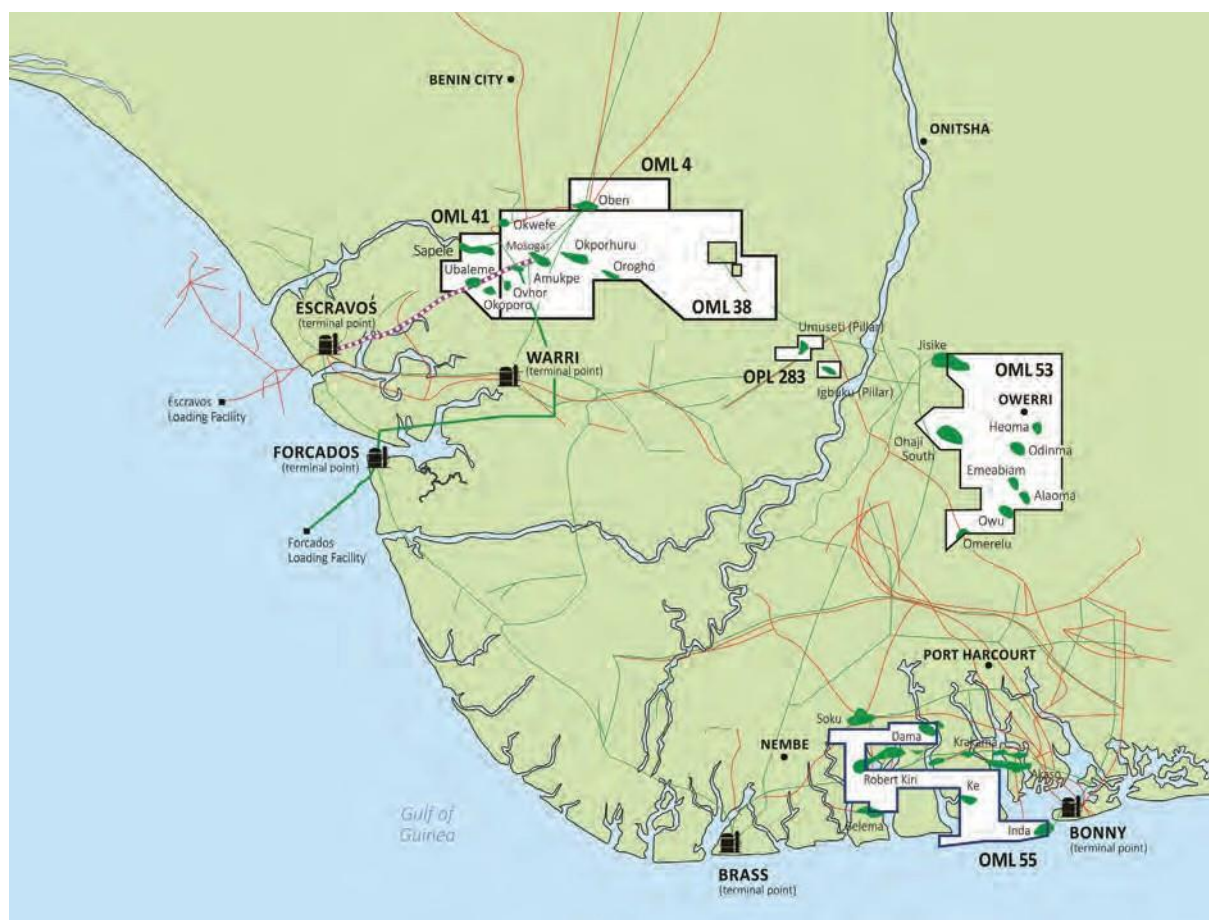
The following table sets forth a summary of field type, working interest average daily production for the years ended December 31, 2015, 2016 and 2017.

Assets	Field type	Working interest	Operator	Working interest production		
				Year ended December 31,		
				2015	2016	2017
OMLs 4, 38 and 41	Oil and gas	45%	Seplat			
Oil (bopd)				25,461	7,452	15,777
Gas (MMscfd) ⁽¹⁾				86	95	114
Oil equivalent (boepd)				39,830	23,238	34,847
OML 53	Oil and gas	40%	Seplat			
Oil (bopd)				686 ⁽²⁾	1,182	1,075
Gas (MMscfd)				—	—	—
Oil equivalent (boepd)				686	1,182	1,075
OPL 283	Oil and gas	40%	Pillar Oil			
Oil (bopd)				1,113	612	1,001
Gas (MMscfd)				—	—	—
Oil equivalent (boepd)				1,113	612	1,001
OML 55⁽³⁾	Oil	n/a	Asset Management Team			
Oil (bopd)				1,743 ⁽⁴⁾	845 ⁽⁵⁾	—
Gas (MMscfd)				—	—	—
Oil equivalent (boepd)				1,743	845	—
Total (boepd)				43,372	25,877	36,923

- (1) Our working interest gas production at OMLs 4, 38 and 41 does not reflect our further entitlement to gas revenues attributable to the Nigerian Petroleum Development Company's (the "NPDC") 55% interest under our agreement with NPDC to offset a portion of its outstanding receivables. See "Management's discussion and analysis of financial condition and results of operations – Significant factors affecting results of operations – NPDC receivables."
- (2) We completed the acquisition of our interest in OML 53 in February 2015. Our 2015 working interest oil production at OML 53 is derived from actual oil production from February 2015 through December 2015, which has been annualized across the entire year.
- (3) Under the OML 55 Deed of Settlement and Release, we are no longer a shareholder in BelemaOil, but instead have a financial interest in the asset until a discharge sum of \$330 million has been paid to us through the monetization of oil reserves at OML 55. Until the discharge sum is paid, we continue to recognize an interest in the OML 55 reserves. After the discharge sum is paid, we will no longer have any interest in OML 55. See "Management's discussion and analysis of financial condition and results of operations – Factors affecting comparability – BelemaOil."
- (4) We completed the acquisition of our interest in OML 55 in February 2015. Our 2015 working interest oil production at OML 55 is derived from actual oil production from February 2015 through December 2015, which has been annualized across the entire year.
- (5) Working interest production at OML 55 for the year ended December 31, 2016 has been calculated by annualizing average working interest production values from January 2016 to May 2016.

Oil business

Our portfolio comprises interests in six oil and gas assets, comprising five working interests and one financial interest. The graphic below presents the location of our oil and gas assets and related infrastructure.



We are the designated operator at four of the blocks in which we have working interests. All six assets are located onshore in the Niger Delta area. Since we acquired our first blocks and commenced production in 2010, we have increased oil and gas production and grown reserves through both organic activities and strategic acquisitions. Under our operation, gross operated liquids production at OMLs 4, 38 and 41, which are our most productive assets, has grown from an average daily gross oil production of approximately 14,000 bopd when we first acquired our interest in the blocks in August 2010 to approximately 67,000 bopd average daily gross production in December 31, 2017, representing a five fold average daily production increase. We have also significantly increased gross operated gas sales from 105 MMscfd in August 2010 to 324 MMscfd in December 2017, reflecting a threefold average daily gas sales increase. Our drilling and development activities at our core producing assets have also delivered organic reserves growth, driven largely by conversion of 2C resources to 2P reserves, which has been augmented via strategic acquisitions of interests in OMLs 53 and OPL 283 (which is located within OML 56). Our working interest 2P reserves have grown from 141 MMboe as at December 31, 2010 to 477.2 MMboe as at January 1, 2018, of which 213 MMboe working interest 2P reserves were converted from 2C resources while we acquired the remaining 197 MMboe working interest 2P reserves. Our oil is exported through third party infrastructure and sold internationally at a premium or discount to spot rates depending on prevailing market conditions and quality. We aim to maintain access to multiple export routes for each of our assets in order to minimize the impact of downtime at any specific route.

Gas business

We are also a leading producer and supplier of natural gas to the Nigerian domestic market. The graphic below presents the location of our gas and related infrastructure.



We consider natural gas to be a valuable primary commodity rather than a by-product and we believe natural gas will continue to form a significant component of our revenue and future success in Nigeria. Unlike other entities in the Nigerian oil industry that historically approached natural gas primarily as a by-product of oil production, we invested early in the primary development and monetization of the large-scale gas reserves that exist on our blocks. We have increased our gross natural gas output from 99 MMscfd in 2010 to an average of 254 MMscfd in 2017 with, a post-force majeure daily average of 283 MMscfd. Based on the NNPC monthly financial and operations report documenting the total gas supplied to the domestic market, we believe we supplied sufficient gas to underpin up to one-third of the Nigerian on-grid domestic power gas generation in the year ended December 31, 2017. In order to commercialize our gas resources, we have invested in the installation of dedicated gas processing facilities as well as in the drilling of gas production wells, both to meet government mandated domestic supply obligations and to provide feedstock to the Nigerian power and industrial sectors. In 2016 and 2017 we increased the gas processing capacity at our Oben gas processing plant, located on OML 4 and currently our most productive gas asset, to 465 MMscfd. Together with 60 MMscfd of processing capacity at the Sapele gas processing plant, this increased overall operated gross processing capacity to 525 MMscfd. Our investment has provided us with the capacity to increase production at our operated assets while also providing capacity to process third party gas volumes, if we determine to do so in the future, to further boost supply of processed gas to the domestic market and address some of the current gas supply deficits in thermal power generation. The Oben facility is also strategically positioned to provide a hub for access to the Lagos and Abuja markets, Nigeria's main gas demand centers, as well as providing the ability to export gas to neighboring markets via the West African Gas Pipeline. All of the gas we produce is currently sold in-country, priced in U.S. Dollars and paid in Naira using the CBN exchange rate. See "Currency Presentation and Exchange Rate Information – CBN Exchange Rate." We believe that the current capacity deficit in thermal power generation provides capacity for the placement of additional gas volumes. Our acquisition of OML 53 in 2015 provided us with an opportunity to play a key role in the ANOH development project, which is expected to be one of the largest onshore greenfield gas condensate development projects in Nigeria's history.

According to the Gas Master Plan, developed by Nigeria National Petroleum Company (the "NNPC"), domestic gas demand is expected to increase significantly as the government seeks to increase power generation in line with its 2020 targets. See "Risk factors – Risks relating to operating in Nigeria – The regulatory environment in the oil and gas sector in Nigeria is subject to significant ongoing change." We have experienced an increase of approximately 19% in our average realized gas price and a strong growth in demand from creditworthy buyers since 2014, and believe we are well positioned to continue to benefit from demand trends and improved infrastructure. Investing in natural gas production and processing facilities also allows us to diversify our business, both in terms of product and geography, which can help mitigate the impact of oil price volatility, oil production interruption or other industry events.

Recent developments

On January 16, 2018, our wholly owned subsidiary and a Guarantor of the Notes, Seplat West Ltd. was incorporated. We intend to transfer our interest in OMLs 4, 38 and 41, which is currently held by Seplat Petroleum Development Company Plc to Seplat West Ltd. The transfer of our interest is subject to the consent of the MPR. See *“Our business – Material agreements relating to our assets – Seplat/NPDC OMLs 4, 38 and 41 Joint Operating Agreement”* and *“Risk Factors – Risks relating to the industry and our business – Our operations are subject to ongoing licensing, contractual and regulatory requirements, each of which may be subject to amendment, renewal or reform, which could make compliance more challenging.”* While we do not expect ministerial consent to be withheld, we cannot provide assurances that consent for the asset transfer will be granted promptly or at all. Seplat West Ltd. is a Guarantor of the Notes.

We are also considering entering into third-party financing arrangements to fund a portion of our investment in the ANOH development project infrastructure. This investment will likely be financed through a combination of third-party borrowings within the restricted group and debt raised at the project level, however the structure, size and timing of any such financings are all under discussion both internally and with potential lenders and no decision has been made whether to proceed with this facility at all or if so, on what terms.

Significant factors affecting results of operations

The results of our operations and financial condition have been, and will continue to be, affected by many factors, some of which are beyond our control. This section sets out certain key factors that affected our results of operations and financial condition in the periods under review and could affect our results of operations and financial condition in the future.

Price of oil and gas

Our results of operations are influenced significantly by crude oil and gas prices. As oil and gas prices increase, so does the revenue we generate on each barrel of oil and cubic foot of gas that we produce. Prices for crude oil are based on world supply and demand as well as a number of other factors, including government regulation, OPEC production levels, social and political conditions and the weather. In addition to affecting our revenue and cost of sales, a sustained decrease in oil prices could impair the value of our reserves and assets. During the periods under review, global prices of oil and gas experienced significant fluctuations, which affected our results of operations.

Price of oil

After approximately four years of averaging approximately \$100 per barrel, crude oil prices fell significantly from 2014 through 2016, reflecting strong production growth in the United States, increases in global supply elsewhere and weaker global demand. According to the U.S. Energy Information Administration, Brent crude oil prices decreased from an average price of \$98.97 per barrel in 2014 to \$52.32 per barrel in 2015 and \$43.64 per barrel in 2016 due in part to ongoing expectations of a market surplus despite forecasts of growing oil demand and production outages in Canada, Nigeria and Libya. In the fourth quarter of 2016, prices increased to more than \$50.00 U.S. Dollars per barrel after the final OPEC decision to reduce its oil production, effective as of January 2017. This decision marked the first reduction in oil production since 2008. Global oil prices continued to fluctuate throughout 2017 and increased to an average price of \$54.12 per barrel in 2017.

We sell the oil we produce to Mercuria, ENI and Vitol at market prices calculated in accordance with the terms of their respective offtake agreements. See *“Our business – Material agreements relating to our assets – OMLs 4, 38 and 41 Mercuria Crude Offtake agreement,” “Our business – Material agreements relating to our assets – OML 53 ENI Crude Purchasing Agreement”* and *“Our business – Material agreements relating to our assets – OML 55 Vitol Offtake Agreement.”*

The following table presents our high, low and average realized price of oil sales for the years ended December 31, 2015, 2016 and 2017. We present realized oil price as the weighted oil sales price, tied to oil liftings, with an upward adjustment for hedging income, if any. We calculate realized oil price on a monthly basis.

(in \$/bbl)	Year ended December 31,		
	2015	2016	2017
Average realized oil price for the period	51.2	40.4	50.3

In response to heightened oil price volatility we initiated a hedging program in 2015 to help manage our exposure to fluctuations in crude oil prices. We continue to closely monitor prevailing oil market dynamics and will consider further measures to provide appropriate levels of cash flow assurance in times of oil price weakness and/or volatility. See “*Management’s discussion and analysis of financial condition and results of operations – Significant factors affecting results of operations – Derivative financial instruments.*”

Price of gas

In the year ended December 31, 2017, \$124.0 million, or 27.4%, of our revenues, were generated by gas sales. Our gas prices are not tied to global benchmarks, but are instead either sold at the domestic supply obligation price or on a willing buyer/willing seller basis. The domestic supply obligation price is determined by reference to the National Domestic Gas Framework, which has a floor price of \$2.50/Mscf for supply to power projects and is indexed against the OECD consumer price index. The domestic supply obligation price is currently \$2.50/Mscf. We have secured a number of medium to long term gas sales agreements covering firm and variable commitments. Our total contracted gas volumes are up to 436 MMscfd.

Our average realized gas price for non-domestic service obligations decreased by 0.3% to 2.97/Mscf for the year ended December 31, 2017 compared to \$3.05/Mscf for the year ended December 31, 2016. See “*Our business – Seplat gas opportunities*” and “*Our business – material agreements relating to our assets.*”

The following table presents information on realized gas prices for the years ended December 31, 2015, 2016 and 2017. We present realized gas price represents the weighted gas sales price based on actual gas sales per contract. We calculate realized gas price on a monthly basis.

(in \$/Mscf)	Year ended December 31,		
	2015	2016	2017
Average realized gas price for the period	2.55	3.05	2.97

Production volumes

Oil and gas production volumes are a primary revenue driver. If our production volume increases, assuming prices remain constant, our revenue increases. Increased volume also increases our total cost of sales as royalties and crude handling charges, each of which are calculated on a per barrel basis. Royalties paid to the Federal Government of Nigeria on produced gas are 7% as compared to 20% for produced oil.

Our production volume also affects the level of our reserves and depletion charges. The volume of our oil reserves and resources and production volumes may be lower than estimated or expected. See “*Risk factors – risks associated with our industry and business – Reserves and contingent resources data in this Offering Memorandum are estimates only and are inherently uncertain as they depend on many assumptions that may turn out to be inaccurate.*”

Our production volume is significantly affected by the availability of oil and gas export infrastructure. In 2016, we were forced to halt exports via the Forcados terminal when the terminal operator, Shell Petroleum, declared force majeure on February 21, 2016 following disruption by militants to the terminal’s subsea crude export pipeline. The Forcados terminal, which was the primary export route for OMLs 4, 38 and 41, remained under force majeure until June 6, 2017. See “*Risk Factors – Operational impediments or damage to, or the shut-down of, current production or processing infrastructure may hinder our access to oil and gas markets or delay or cease our production.*” In May 2016, we commenced export of production from OMLs 4, 38 and 41 via a Seplat constructed pipeline to the Warri refinery, for subsequent barging to offshore tankers. See “*Our business – Upstream assets – Description of assets – OMLs 4, 38 and 41 – Transportation – Warri refinery route.*” The export route facilities have since been upgraded to allow for up to 30,000 bopd from OMLs 4, 38 and 41 via this route, though at the relatively higher export cost to date of approximately \$11/bbl compared to the cost to export via the Forcados route under the OMLs 4, 38 and 41 Crude

Handling Agreement of approximately \$4/bbl (excluding reconciliation losses and downtime). See “*Our business – Material agreements relating to our assets – OMLs 4, 38 and 41 Crude Handling Agreement.*” During the period of force majeure in 2016 alone, we successfully exported 3 MMbbls of gross oil production via the Warri refinery export route. We are in the process of establishing a third export route for production from OMLs 4, 38 and 41 via the Escravos terminal. When completed, the Escravos pipeline is expected to have a pipeline capacity of 160,000 bopd. The pipeline is also buried between five and fifteen meters below ground, which we believe will lead to a high operational availability. Once operational, we intend to use the Escravos terminal, Forcados terminal and Warri refinery export routes in order to reduce down time and significantly de-risk the route to market. See “*Our business – Upstream assets – Description of assets – OMLs 4, 38 and 41 – Transportation – Escravos pipeline.*”

Our production volume is also affected by our effectiveness in developing our assets. We seek to maximize production return on our assets by performing work-overs and drilling operations, among other techniques, to increase volume. We also install specialized metering and explore other means of reduce reconciliation losses, including the installation of a lease automatic custody transfer (“**LACT**”) unit in 2011, which provides for the automatic measurement, including of water content, and the sampling and transfer of oil from the lease location into a pipeline, enabling significantly improved measurement of produced oil prior to injection into the transport pipeline. The use of barging at the Warri refinery, as compared to exporting produced oil through the Trans-Forcados pipeline, has also led to a reduction in reconciliation losses as barging via the Warri refinery allows us to control the export route. See “*Our business – Upstream assets – Description of assets – OMLs 4, 38 and 41 – Transportation – Warri refinery route.*”

The following table presents information on our average consolidated oil and gas production for all of our assets for the years ended December 31, 2015, 2016 and 2017.

	Year ended December 31,		
	2015	2016	2017
Average working interest oil production for the period (bopd)	29,003	9,248	17,853
Average working interest gas production for the period (MMscfd)	86	95	114
Average working interest oil equivalent production for the period (boepd)	43,372	25,877	36,923

The following table presents information on our average daily oil and gas production by OML or OPL, as applicable, for the years ended December 31, 2015, 2016 and 2017.

(in boepd)	Year ended December 31,		
	2015	2016	2017
OMLs 4, 38 and 41	39,830	23,238	34,777
OML 53	686 ⁽¹⁾	1,182	1,075
OPL 283	1,113	612	1,001
OML 55 ⁽²⁾	1,743 ⁽³⁾	845 ⁽⁴⁾	—
Total	43,372	25,877	36,923

- (1) We completed the acquisition of our interest in OML 53 in February 2015. Our working interest oil production at OML 53 is derived from actual oil production from February 2015 through December 2015, which has been annualized across the entire year.
- (2) Under the OML 55 Deed of Settlement and Release we are no longer a shareholder in BelemaOil, but instead have a financial interest in the asset until a discharge sum of \$330 million has been paid to us through the monetization of oil reserves at OML 55. Until the discharge sum is paid, we continue to recognize an interest in the OML 55 reserves. As at December 31, 2017, we have received \$35.8 million of the discharge sum from the monetization of oil production. Upon receipt of the full discharge sum, we will no longer have any interest in OML 55. See “*Management’s discussion and analysis of financial condition and results of operations – Factors affecting comparability – BelemaOil*”.
- (3) We completed the acquisition of our interest in OML 55 in February 2015. Our 2015 working interest oil production at OML 55 is derived from actual oil production from February 2015 through December 2015, which has been annualized across the entire year.
- (4) Working interest production at OML 55 for the year ended December 31, 2016 has been calculated by annualizing average working interest production values from January 2016 to May 2016.

Our gas production volumes depend in part on the availability of processing capacity, our ability to handle and export associated condensate volumes and offtakers. To maximize our processing capacity, we invested

in the two phase expansion of our Oben gas plant, located on OML 4, the first phase in 2016 (adding 150 MMscfd of processing capacity) and the second in 2017 (adding 225 MMscfd of processing capacity). The growth in processing capacity has allowed us to steadily increase gas production and also provides capacity headroom for us to handle and tariff third party gas volumes in the future. In the year ended December 31, 2015 gross average daily gas production stood at 192 MMscfd, increasing to 210 MMscfd in the year ended December 31, 2016 and 254 MMscfd in the year ended December 31, 2017. In addition to allowing us to acquire an interest in the ANOH gas processing project, our acquisition of an interest in OML 53 also added to our upstream gas reserves and resources. We also seek to establish a diverse set of reliable offtakers through medium to long-term gas sales agreements. See *“Our business – Material agreements relating to our assets.”*

Oil and gas reserves

The estimation and measurement of oil and gas reserves affect multiple aspects of our results, including depreciation, depletion and amortization, impairments and decommissioning provisions. The depletion of oil assets charged to our income statement is dependent on the estimate of our oil reserves. An increase in estimated reserves will cause a reduction to our annual income statement charge because a larger base exists on which to depreciate the asset. Correspondingly, a decrease in estimated reserves will cause an increase to our annual income statement charge. The estimate of oil reserves also underpins the net present value of a field used for impairment calculations, and in significant cases a reduction to the reserves estimate can lead to an impairment charge. These impairment charges would not impact our cash flow or tax charges.

Our estimation of proved reserves also factors into our determination of the timing of well closure and our estimation of decommissioning liabilities. There are numerous uncertainties inherent in estimating oil and gas reserves. Assumptions that are valid at the time of estimation may change significantly when new information becomes available. Changes in the forecast prices of commodities, exchange rates, production costs or recovery rates may change the economic status of reserves and may ultimately result in the reserves being restated. See *“Risk Factors – Risks relating to the industry our business – Reserves and contingent resources data in this Offering Memorandum are estimates only and are inherently uncertain as they depend on many assumptions that may turn out to be inaccurate.”*

Our ability to increase our oil and gas reserves will depend upon a number of factors including the availability and cost of capital, availability of suitable assets for acquisition, ability to convert our current contingent resources into reserves, current and projected oil and gas prices, receipt of government approvals, access to property, the costs and availability of drilling rigs and other equipment, supplies and personnel necessary to conduct these operations, success or failure of activities in similar areas and changes in the estimates to complete the projects. See *“Risk Factors – Risks related to our industry and business.”*

Government receivables

Delays in the payment of receivables by NPDC and NGMC (formerly NGC) have significantly affected our results of operations, but we have taken proactive steps to reduce historic receivables. NPDC is meeting current cash calls and NGMC is making payments for current oil and gas sales. At the start of 2015, we had an NPDC receivables balance of \$463 million relating to drilling activity cash calls at OMLs 4, 38 and 41. See *“Our business – Material contracts relating to our assets – Seplat/NPDC OMLs 4, 38 and 41 Joint Operating Agreement.”* In July 2015, we entered into an agreement with NPDC to use gas revenues attributable to NPDC’s 55% interest in OMLs 4, 38 and 41 in addition to ongoing U.S. Dollar payments from the NPDC to offset this receivable. The NPDC gas received under this agreement is not reflected in our working interest production. Since this agreement was entered into, NPDC’s unadjusted receivables have declined from \$492 million as at December 31, 2015 to \$239 million as at December 31, 2016 and \$113 million as at December 31, 2017. We expect to recover the full amount of our NPDC receivables via the offsetting agreement, but due to the timing of the receipts we also recognized an adjustment in the NPDC receivables, reflected under general and administrative expenses, to account for the anticipated present value of future cash flows. NPDC receivables also affect our results of operations through currency exchange losses. In the year ended December 31, 2016, \$101 million of operating loss related to unrealized currency exchange losses, which were principally on amounts owed by NPDC. Historically, Naira balances have arisen on the receivable as a result of Seplat carrying NPDC on cash calls and converting U.S. Dollar to Naira to pay Naira balances on NPDC’s behalf. Due to the depreciation in the Naira, the valuation of our outstanding receivable resulted in a currency exchange loss of \$0.7 million in the year ended December 31, 2017.

Included in our trade receivables are receivables from the sale of oil and gas due from NGMC. Our NGMC receivables as of December 31, 2015, 2016 and 2017 were \$62 million, \$67 million and \$72 million. NGMC receivables relate to historic sales and NGMC is currently making payments on invoiced sales.

Exploration and evaluation expenditures

The success or failure of our exploration and evaluation activities affects the level of our resources recognized and our future development plans for a particular licensed area. Geological and geophysical exploration costs are charged to the income statement as incurred. Exploration and evaluation expenditures incurred by the entity are accumulated separately for each area of interest. Such expenditures comprise net direct costs and an appropriate portion of related overhead expenditure, but do not include general overheads or administrative expenditure that is not directly related to a particular area of interest. Each area of interest is limited to a size related to a known or probable hydrocarbon resource capable of supporting an oil operation.

Costs directly associated with an exploration well, exploratory stratigraphic test well and delineation wells are capitalized until the drilling of the well is complete and the results have been evaluated. These costs include employee remuneration, materials and fuel used, rig costs, delay rentals and payments made to contractors. If proved reserves are not found, the exploration expenditure is written off as a dry hole and charged to the income statement. If proved reserves are found, the costs continue to be capitalized. Suspended exploration and evaluation expenditure in relation to each area of interest is carried forward as an asset provided that one of the following conditions is met:

- the costs are expected to be recouped through successful development of the area of interest or alternatively, by its sale;
- exploration and/or evaluation activities in the area of interest have not, at the reporting date, reached a stage which permits a reasonable assessment of the existence or otherwise of economically recoverable reserves; and
- active and significant operations in, or in relation to, the area of interest are continuing.

Exploration and/or evaluation expenditures which fail to meet at least one of the conditions outlined above are written off. In the event that an area is subsequently abandoned or exploration activities do not lead to the discovery of proved or probable reserves, or if we consider the expenditure to be of no value, any accumulated costs carried forward relating to the specified areas of interest are written off in the year in which the abandonment decision is made. While an area of interest is in the development phase, amortization of development costs is not charged pending the commencement of production. Exploration and evaluation costs are transferred from the exploration and/or evaluation phase to the development phase upon commitment to a commercial development. In the year ended December 31, 2015, 2016 and 2017, we did not write off or impair any costs in relation to our exploration and evaluation expenditures following unsuccessful exploration and evaluation activities.

We intend to continue development of our existing properties by improving operational efficiencies, investing in facilities and infrastructure to increase oil production, converting contingent resources into reserves and positioning ourselves to further monetize natural gas resources. As at January 1, 2018, our working interest 2C contingent resources were 47.7 MMbbls of oil and condensate and 74.5 Bscf of natural gas. Our exploration strategy includes pursuing identified exploration prospects on existing properties and the acquisition of seismic data where necessary for prospect identification and evaluation. Our exploration related capex is discretionary and we maintain the ability to reduce our discretionary capex in the face of an industry downturn. We currently do not have any mandatory minimum work programs and can plan our expenditure based on available funding.

We face inherent risks in connection with our development and production activities. These risks include the difference between estimated and actual reserves, our cost efficiency in development, timing of production activities and our level of production. We review our development and production projects at least semi-annually for indicators of impairment. Where such an indicator does exist, we compare the expected value of the asset with the carrying value on our balance sheet. If the expected value is lower than the carrying value we charge any impairment to the income statement. See “*Risk factors – Risks relating to our industry and business – Drilling for and producing oil and gas are high-risk activities with many uncertainties which may result in increased costs, decreased cash flows and failure to achieve planned production targets.*”

Underlying operating costs

Our net income depends on our ability to manage our costs per barrel of oil equivalent, which we track as production opex per boe. Our production opex consists of both fixed and variable costs. At constant oil prices, our ability to reduce production opex is an indicator of how cost efficiently we are able to produce oil and gas reserves.

Fixed

Fixed operating costs are substantially independent from production levels and therefore do not increase (or decrease) with an increase (or decrease) of our level of production. Fixed operating costs include routine and non-routine maintenance costs, certain labor costs and power costs. Certain significant maintenance programs also result in the temporary shut-in of production. An increase in fixed operating costs will result in an increase in underlying operating costs per barrel of oil equivalent due to higher costs with no associated increase in production.

Variable

The variable element of operating costs will increase (or decrease) with the level of production. An increase (or decrease) in production will result in an increase (or decrease) in underlying variable operating costs. The primary variable operating costs that affect our results include the costs associated with the use of infrastructure (including third party infrastructure such as pipelines and terminals) and production consumables. We pay tariffs for use of third party infrastructure based on our proportionate use of the infrastructure and such tariffs would typically increase as our production increases.

The greatest portion of our third party transportation and infrastructure costs arise through tariffs charged for the use of the Forcados terminal. These charges have increased from approximately \$3/bbl in the year ended December 31, 2015 to approximately \$4/bbl in the year ended December 31, 2017. See “*Our business – Upstream assets – Description of assets – OMLs 4, 38 and 41 – Transportation – Forcados terminal route.*” Following the declaration of force majeure at the Forcados terminal, we began exporting produced oil and gas via our own pipeline to the Warri refinery and exporting the oil via barge. Barging is more expensive than using the Forcados terminal (approximately \$11/bbl to barge via Warri refinery compared to approximately \$4/bbls (excluding reconciliation losses and downtime) to export via Forcados under OMLs 4, 38 and 41 Crude Handling Agreement and represented an increased variable cost in the year ended December 31, 2016 and 2017. See “*Risk factors – Risks relating to the industry and our business – Our exploration and production activities rely on equipment and services provided by third parties, including procurement of drilling rigs, and the availability, quality and cost of such equipment and services cannot be assured.*”

Taxation and royalties

We are subject to a taxation and royalty regime that affects our net income. Under the terms of our OMLs and OPLs, we pay oil royalties corresponding to 20% of oil produced (paid in kind), calculated on a field-by-field basis, and gas royalties equivalent to 7% of revenues (paid in cash). Royalties are recorded as part of the cost of sales in our income statement. Effective January 1, 2013, we were granted pioneer tax status incentive by the Nigerian Investment Promotion Commission for three years. During the period the incentive applied, we were exempt from petroleum profits tax on crude oil profits (otherwise taxed at 85%), corporate income tax on natural gas profits (otherwise taxed at 30%) and education tax of 2%. Following the expiry of our pioneer tax status, from January 1, 2016 to December 31, 2017 we were taxed at 65.75% based on our “new entrant” status under the Petroleum Profits Tax Act. Our effective tax rate from January 1, 2018, following the expiry of our new entrant status, has been 85%.

Net qualifying capital expenditures incurred during the pioneer period are accumulated and qualify for capital allowance claim effective January 1, 2016 (post-pioneer period), while certified losses incurred during the pioneer period may be utilized to offset taxable profit after the pioneer period. We are permitted to offset unutilized capital investment allowances in any year after the pioneer period against future taxes up to an annual limit. Capital expenditure is claimed back over a five-year period. The annual capital allowance rate is 20% for the first four years and 19% for the fifth year. See “*Our business – Taxation and royalties.*”

Finance (cost)/income

Our finance (cost)/income depends primarily on the principal amounts outstanding on our debt instruments during the relevant period, which impacts the costs associated with servicing our debts. The following table presents our finance (cost)/income for the years ended December 31, 2015, 2016 and 2017.

(\$ million)	Year ended December 31,		
	2015	2016	2017
Finance income:			
Interest income	12.8	59.0	4.3
Finance cost:			
Interest on bank loans and other bank charges	83.6	73.4	79.1
Unwinding of discount on provision for decommissioning	—	0.5	0.1
Interest capitalized	—	—	(6.4)
Total finance cost	(83.6)	(73.9)	(72.8)
Finance (cost)/income (net)	(70.8)	(14.9)	(68.4)

Currency exchange rates

Our presentational currencies are the Naira and U.S. Dollar. The majority of our sales are denominated in U.S. Dollars (oil and gas) and Naira (gas). Additionally, our costs are incurred in U.S. Dollar, Naira and pound sterling. As a result, our results are affected by changes in the U.S. Dollar/Naira and U.S. Dollar/pound sterling exchange rate. See “*Risk factors – Risks relating to the Notes – You may face currency exchange risks or adverse tax consequences by investing in the Notes denominated in currencies other than your reference currency*” and “*– Qualitative and quantitative disclosures about market risk.*” Our results are also impacted by exchange rate differences in our revenue and expenses. In the year ended December 31, 2015, 2016 and 2017, respectively, we earned \$493.5 million, or 87%, \$149.2 million, or 59%, and \$328.2 million, or 73%, of our revenue in U.S. Dollars, with the remaining percentages of revenue for the relevant periods earned in Naira. Our oil prices are denominated and paid in U.S. Dollars while our gas prices are denominated in U.S. Dollars but paid in Naira. In the year ended December 31, 2015, 2016 and 2017, respectively, \$303.2 million, or 72.4%, \$265.9 million, or 70.8%, and \$181.5 million, or 54.5%, of our operating costs (production opex and G&A) were incurred in U.S. Dollars, with the remaining percentages of operating costs for the relevant period incurred in Naira. Our primary Naira costs include salaries, local vendor payments production and processing facility, a portion of our drilling and engineering work program and other infrastructure maintenance. We also believe that future expenditure associated with the development of the ANOH facility will be denominated largely in Naira.

Derivative financial instruments

Our results are affected by commodity hedging. As an oil exploration and production company, we are exposed to risks arising from movements in exchange rates and commodity prices. Our finance committee meets regularly to discuss policies to be applied to address such risks, which consist primarily of commodity price and exchange rate fluctuations arising from operations as well as from our financing arrangements. In response to heightened oil price volatility we initiated a hedging program to help manage our exposure to fluctuations in crude oil prices. We continue to closely monitor prevailing oil market dynamics and will consider further measures to provide appropriate levels of cash flow assurance in times of oil price weakness and/or volatility. See “*– Qualitative and quantitative disclosures about market risk.*” We do not currently engage in foreign exchange hedging due to the limited market and the commercial terms associated with hedging programs protecting against the volatility of the Naira. However, we believe our operations provide us with a natural U.S. Dollar/Naira hedge as we generate revenues in both currencies (oil sales are denominated and paid for in U.S. Dollars and gas sales are denominated in U.S. Dollars and paid for in Naira) and also incur operational costs in both currencies.

The following table presents our hedging program for the years 2016, 2017 and 2018.

Coverage period ⁽¹⁾	Strike price (\$/bbl)	Volume (MMbbls)	Net protection provided (\$/bbl)
2016	42.75	6.00	39.50
H1 2017	47.00	1.99	41.98
H2 2017	50.00	1.70	44.14
H1 2018	40.00	3.60	39.31
H2 2018	50.00	3.00	49.34

(1) Our 2016 hedging program consisted of dated Brent put options whereas our 2017 and 2018 hedging arrangements consisted of deferred put options.

We do not currently engage in foreign exchange hedging due to the limited market and the commercial terms associated with hedging programs protecting against the volatility of the Naira. The gas contracts which generate naira reserves are USD denominated, but paid in Naira. The naira rate is by reference to the CBN official rate which would be adjusted in the event of a devaluation of the naira.

Factors affecting comparability

BelemaOil

The consolidation of BelemaOil into our financial statements in the year ended December 31, 2015 and subsequent deconsolidation in the year ended December 31, 2016 affects the comparability of our results during the period under review.

In 2015, we acquired 56.25% of BelemaOil, a Nigerian special purpose vehicle that had bought a 40% interest in the producing OML 55. NUNC holds the remaining 60% interest in OML 55. As a result of the acquisition, our effective working interest in OML 55 was 22.5%. Based on our purchase of the majority shareholding in BelemaOil, we consolidated BelemaOil in our December 31, 2015 consolidated financial statements.

In 2015, the minority shareholders of BelemaOil disputed our majority shareholding. In July 2016, we instituted legal action to secure our investment in OML 55. Subsequently, we entered into an agreement with BelemaOil which provides for a discharge sum of \$330 million, to be paid to us over a total six year period, which started in 2017, through allocation of crude oil reserves of OML 55 (the “**OML 55 Deed of Settlement and Release**”). The OML 55 Deed of Settlement and Release requires that the parties share the net proceeds of each crude oil lifting until the discharge sum has been paid and that the net proceeds from the liftings will be paid into a jointly operated escrow account, with 85% of the net proceeds accorded to Seplat and 15% of the net proceeds accorded to Belema Oil. Under a related agreement, throughout this six year period we and BelemaOil will remain co-operators of OML 55 (the “**Asset Management Agreement**”). For the avoidance of doubt, while the agreement foresees a six year period, beginning in 2017, for the payment of the discharge sum, the Asset Management Agreement shall govern OML 55 operations until the full discharge sum is paid. Under the OML 55 Deed of Settlement and Release, we relinquished claim to any shareholding of BelemaOil as an entity. See “*Our business – Litigation.*” Under the aforementioned agreements, we no longer control BelemaOil and as a result we deconsolidated BelemaOil in our financial statements for the years ended December 31, 2016 and December 31, 2017. The rights to receive the discharge sum from the crude oil reserves of OML 55 is recognized as an “other asset” on our statement of financial position as at December 31, 2016. We also derecognized the contingent consideration on OML 55 as a result of the deconsolidation of BelemaOil.

Tax Status

Changes in our tax status on December 31, 2015 affects the comparability of our results during the period under review. Income tax expense reflects the sum of current income tax and deferred income tax. In 2010 we were granted the “new entrant” tax status under the Petroleum Profits Tax Act for a period of five years, with an effective tax rate of 65.75%. Further, on December 31, 2012, we were granted “pioneer” tax status by the Nigerian Investment Promotion Commission for a three-year period effective January 1, 2013. For the period the “pioneer” incentive applied our effective tax rate was 0% as we were exempt from petroleum profits tax on crude oil profits (which would otherwise have been taxed at 65.75%), corporate income tax

on natural gas profits (currently taxed at 30%) and education tax of 2%. Our “pioneer” tax status expired on December 31, 2015 and on January 1, 2016 we reverted to our previous “new entrant” tax status and were taxed at 65.75% for the years ending December 31, 2016 and 2017. See “ – *Explanation of income statement items – Taxation*,” “*Our business – Taxation and royalties*,” “*Regulation – Fiscal regulations*” and “*Taxation – Nigeria*.” This change in effective tax rates from 0% in the year ended December 31, 2015 to 65.75% in the years ended December 31, 2016 and 2017 is reflected in our income tax expense, which reflects the sum on current income tax and deferred income tax. Current income tax is provided at amounts expected to be paid pursuant to Nigerian taxation law. Deferred tax is recognized on temporary differences arising between the tax base of assets and liabilities and their carrying amounts in the financial statements.

Explanation of income statement items

Revenue

Revenue is principally comprised of revenue from the sale of oil and gas. Revenue from crude oil comprises the realized value of crude oil lifted by customers. Revenue from crude oil is recognized when crude products are lifted by a third party (the buyer) “free on board” at our designated loading facility or lifting terminals. At the point of lifting, all risks and rewards are transferred to the buyer. Gas revenue is recognized when gas passes through the custody transfer point. The excess of the product sold during the period over the participant’s ownership share of production is termed an overlift and is accrued for as a liability and not as revenue. Conversely, an underlift is recognized as an asset and the corresponding revenue is also reported. Overlifts and underlifts are initially measured at the market price of oil at the date of lifting, consistent with the measurement of the sale and purchase. Subsequently, they are remeasured at the current market value. The change arising from this remeasurement is included in the income statement as revenue or cost of sales.

Cost of sales

Cost of sales is comprised of costs directly attributable to the production of oil and associated gas, including royalties, depletion, depreciation and amortization, crude handling fees, NESS fees, barging costs, the NDDC levy, rig related costs and other operational and maintenance expenses. As noted above, overlifts and underlifts are initially measured at the market price of oil at the date of lifting, consistent with the measurement of the sale and purchase. Subsequently, they are remeasured at the current market value. The change arising from this remeasurement is included in the income statement as revenue or cost of sales.

Other operating income

For the year ended December 31, 2015, other income primarily consisted of long stop date income relating to penalties levied on Azura Energy for failure to take up 100 MMscf of gas from July 1, 2014 (the long stop date period is from July 1, 2014 to December 31, 2015 as well as profit on the disposal of plant and equipment.

Other operating income in the year ended December 31, 2016 or the year ended December 31, 2017 was nil.

Fair value (loss)/gain

We measure all financial instruments at initial recognition at fair value and financial instruments carried at fair value through profit and loss such as derivatives at fair value at each balance sheet date. From time to time, the fair values of non-financial assets and liabilities are required to be determined, for example when we acquire a business or where an entity measures the recoverable amount of an asset or cash-generating unit. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest. A fair value measurement of a non-financial asset takes into account a market participant’s ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use. We use valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs.

Finance income

Finance income represents interest on our fixed deposits. Included in finance income is the interest income calculated on outstanding NPDC receivables in accordance with provisions of our joint operating agreements with NPDC.

Finance costs

Finance costs primarily consist of interest on bank and shareholder loans and unwinding the discount to the future value of provisions for decommissioning liabilities. We make full provision for the future cost of decommissioning oil production facilities on a discounted basis at the commencement of production. This relates to the removal of assets as well as their associated restoration costs. This obligation is recorded in the period in which the liability meets the definition of a “probable future sacrifice of economic benefits arising from a present obligation” and in which it can be reasonably measured.

Taxation

Income tax expense reflects the sum of current income tax and deferred income tax. Current income tax is provided at amounts expected to be paid pursuant to Nigerian taxation law. Deferred tax is recognized on temporary differences arising between the tax base of assets and liabilities and their carrying amounts in the financial statements. We recognize deferred tax assets on unused tax losses and capital allowances where it is probable that future taxable profits will be available for utilization. We earn capital investment allowances on capital expenditures in Nigeria and these are charged to deferred income tax in our income statement as tax benefits are realized.

In 2010 we were granted the “new entrant” tax status under the Petroleum Profits Tax Act for a period of five years, with an effective tax rate of 65.75%. We benefited from the new entrant status for three years, from January 1, 2010 to December 31, 2012, before we were granted “pioneer” tax status by the Nigerian Investment Promotion Commission. We were granted pioneer status for a three-year period effective January 1, 2013. For the period the incentive applied our effective tax rate was 0% as we were exempt from petroleum profits tax on crude oil profits (which would otherwise have been taxed at 65.75%), corporate income tax on natural gas profits (currently taxed at 30%) and education tax of 2%. Our three year pioneer tax status expired on December 31, 2015 and on January 1, 2016 we reverted to our new entrant status and were taxed at 65.75% for the remaining two years of new entrant status that we had originally been allotted. Our effective tax rate from January 1, 2018, following the expiry of our new entrant status, has been 85%. Should we acquire additional assets in Nigeria and structure the acquisition in an appropriate manner, the reduced tax rate of 65.75% may apply to the taxable profit generated by such additional assets for the period of the “new entrant” status.

Results of operations

The following table sets out certain of our historical revenue and expense items for the years ended December 31, 2015, 2016 and 2017.

(in millions of \$, unless stated)	Year ended December 31,		
	2015	2016	2017
Revenue	570.5	254.2	452.2
Cost of sales	(321.7)	(182.4)	(240.1)
Gross profit	248.8	71.8	212.1
Other operating income	2.3	—	—
General and administrative expenses	(121.5)	(113.8)	(81.9)
(Losses)/gains on currency exchange (net)	7.7	(101.5)	0.7
Gains on deconsolidation of subsidiary	—	0.7	—
Fair value (loss)/gain	20.5	(15.1)	(18.5)
Operating (loss)/profit	157.9	(157.9)	112.4
Finance income	12.8	59.0	4.3
Finance costs	(83.6)	(73.9)	(72.8)
Profit/(loss) before taxation	87.1	(172.8)	44.0
Taxation	(21.5)	6.7	221.2
Profit/(loss) for the year	65.6	(166.1)	265.2
Profit/(loss) attributable to equity holders of parent	67.8	(164.6)	265.2
(Loss) attributable to non-controlling interest	(2.2)	(1.5)	—

Comparison of results of operations for the years ended December 31, 2017 and 2016

Revenue

Revenue increased by \$198.0 million, or 77.9%, to \$452.2 million for the year ended December 31, 2017 from \$254.2 million for the year ended December 31, 2016, driven primarily by the lifting of the force majeure at the Forcados terminal on June 6, 2017 and the resulting increase in oil and gas production as well as higher oil price realizations.

Our crude oil sales increased to \$366.4 million in the year ended December 31, 2017 from \$132.9 million in the year ended December 31, 2016, reflecting a shift to an overlift of \$38.2 million in the year ended December 31, 2017 from a \$15.8 million underlift in the year ended December 31, 2016 and an increase in gas sales to \$124.0 million in the year ended December 31, 2017 from \$105.5 million in the year ended December 31, 2016. The increase in crude oil sales and underlift was primarily due to the lifting of the force majeure at the Forcados terminal and the use of alternative export routes. The increase in gas sales was primarily due to the increase in our overall gas processing facilities to a minimum of 525 MMscfd as well as the increasing gas demand in the Nigerian domestic market. As a result of the lifting of the force majeure and the resumption of pre-force majeure production levels, we returned to profitability in the third and fourth quarters of 2017.

Our average realized oil price increased by \$9.9/bbl, or 24.5%, to \$50.4/bbl for the year ended December 31, 2017 from \$40.4/bbl for the year ended December 31, 2016. Furthermore, our average realized gas price decreased by \$0.08/Mscf, or 0.03% to \$2.97/Mscf for the year ended December 31, 2017 from \$3.05/Mscf for the year ended December 31, 2016.

Cost of sales

Cost of sales increased by \$57.6 million, or 31.6%, to \$240.1 million in the year ended December 31, 2017 from \$182.4 million in the year ended December 31, 2016. The following table details the components of our cost of sales for the years ended December 31, 2016 and 2017:

	Year ended December 31,	
	2016	2017
	(\$ million)	
Royalties	44.8	73.3
Depletion, depreciation and amortization	54.2	82.1
Crude handling fee	7.8	32.1
NESS fee	0.1	0.4
Barging costs	17.9	9.1
Niger Delta Development Commission Levy	–	3.9
Rig-related costs	9.1	3.2
Operational & maintenance expenses	48.4	35.9
	182.4	240.1

The increase in cost of sales for the year ended December 31, 2017 was primarily due to: (i) an increase in royalties of \$28.5 million corresponding to the increase in oil production volumes in 2017; (ii) an increase in crude handling fees of \$24.3 million due to improved production volumes; and (iii) an increase in depletion, depreciation and amortization of \$27.9 million due to increased production. Our costs as a percentage of revenue decreased to 53.1% in the year ended December 31, 2017 from 71.8% in the year ended December 31, 2016.

General and administrative expenses

General and administrative expenses decreased by \$31.9 million, or 28.1%, to \$81.9 million in the year ended December 31, 2017 from \$113.8 million in the year ended December 31, 2016. The following table details the components of our general and administrative expenses for the years ended December 31, 2016 and 2017:

	Year ended December 31,	
	2016	2017
	(\$ million)	
Depreciation	5.5	4.2
Auditor's remuneration	0.5	0.7
Professional and consulting fees	28.4	21.1
Directors' emoluments (Executive)	2.8	3.5
Directors' emoluments (Non-Executive)	4.3	3.1
Donations	0.2	0.3
Employee benefits	20.9	25.9
Business development expenses	11.0	–
Flights and other travel costs	6.2	7.3
Rentals	4.9	1.7
Loss on disposal of plant and equipment	–	0.3
Impact of receivables discounting	10.3	–
Other general expenses	18.9	13.8
	113.8	81.9

The decrease in general administrative expenses was primarily due recognizing expenses relating to the settlement under OML 55 Asset Management Agreement and OML 55 Deed of Settlement and Release, see “ – Factors affecting comparability – BelemaOil,” in the year ended December 31, 2016 that were not recognized in the year ended December 31, 2017.

(Losses)/gains on currency exchange (net)

Net losses on currency exchange decreased by \$100.8 million, or 99.3%, to \$0.7 million in the year ended December 31, 2017 from a net loss of \$101.5 million in the year ended December 31, 2016. The decrease was primarily the result of the Naira, our major foreign currency, being relatively stable throughout the year ended December 31, 2017 as compared to the year ended December 31, 2016, when the Naira depreciated from ₦ 196.50 at January 1, 2016, to ₦ 304.5 at December 31, 2016, according to the exchange rates as published by the CBN.

Fair value (loss)/gain

Fair value loss for the year ended December 31, 2017 was \$18.5 million compared to \$15.1 million in the year ended December 31, 2016. The increase primarily relates to increased payments for crude oil price options that expired on December 31, 2016 as well as the fair value remeasurement of our rights to receive the discharge sum under the OML 55 Asset Management Agreement and OML 55 Deed of Settlement and Release. See “ – Significant factors affecting results of operations – Derivative financial instruments” and “Our business – Upstream assets – OML 55.”

Finance income

Finance income decreased by \$54.7 million, or 92.7%, to \$4.3 million in the year ended December 31, 2017 from \$59.1 million in the year ended December 31, 2016. The decrease was primarily due to a substantial decrease in interest income related to foreign exchange losses associated with Naira denominated interest on NPDC receivables.

Finance costs

Finance costs remained relatively stable, decreasing by \$1.1 million, or 1.6%, to \$72.8 million in the year ended December 31, 2017 from \$73.9 million in the year ended December 31, 2016.

Taxation

Tax credit increased to \$221.5 million in the year ended December 31, 2017 compared to \$6.7 million due in the year ended December 31, 2016. The shift was primarily due to the recognition of previously unrecognized tax deductibles and the impact of tax incentives.

Comparison of results of operations for the years ended December 31, 2016 and 2015 (including the deconsolidation of Belema Oil)

Revenue

Revenue decreased by \$316.3 million, or 55.4%, to \$254.2 million for the year ended December 31, 2016 from \$570.5 million for the year ended December 31, 2015, driven primarily by the declaration of force majeure at the Forcados terminal on February 21, 2016 and our inability to export a significant portion of our crude production.

Our crude oil sales decreased to \$132.9 million in the year ended December 31, 2016 from \$459.4 million in the year ended December 31, 2015, reflecting a decrease in underlift to \$15.8 million in the year ended December 31, 2016 from \$34.1 million in the year ended December 31, 2015 and an increase in gas sales to \$105.5 million in the year ended December 31, 2016 from \$77.0 million in the year ended December 31, 2015. The decrease in crude oil sales and underlift was primarily due to the declaration of force majeure at the Forcados terminal. The increase in gas sales was primarily due to the doubling in our capacity at our Oben gas processing plant.

Our average realized oil price decreased by \$10.8/bbl, or 21.1%, to \$40.4/bbl for the year ended December 31, 2016 from \$51.2/bbl for the year ended December 31, 2015. Conversely, our average realized gas price increased by \$0.50, or 19.6%, to \$3.05/Mscf for the year ended December 31, 2016 from \$2.55/Mscf for the year ended December 31, 2015, due primarily to increasing willing seller/willing buyer market prices as a result of increasing demand for gas from domestic industry.

Cost of sales

Cost of sales decreased by \$139.3 million, or 43.3%, to \$182.4 million in the year ended December 31, 2016 from \$321.7 million in the year ended December 31, 2015. The following table details the components of our cost of sales for the years ended December 31, 2015 and 2016:

	Year ended December 31,	
	2015	2016
	(\$ million)	
Royalties	102.2	44.8
Depletion, depreciation and amortization	68.1	54.3
Crude handling fee	64.5	7.8
NESS fee	0.7	0.1
Barging costs	–	17.9
Niger Delta Development Commission Levy	7.8	–
Rig-related costs	8.6	9.1
Operational & maintenance expenses	69.8	48.4
	321.7	182.4

The decrease was primarily due to: (i) a decrease in royalties of \$57.4 million corresponding to the decrease in oil production volume in 2016; and (ii) a decrease in crude handling fees of \$56.7 million due to reduced production volume; and was partially offset by an increase in barging costs of \$17.9 million related to our use of alternative export route for oil production to Warri instead of through the Forcados pipeline. Our costs as a percentage of revenue increased to 71.8% in the year ended December 31, 2016 from 56.4% in the year ended December 31, 2015.

General and administrative expenses

General and administrative expenses decreased by \$7.7 million, or 6.34%, to \$113.8 million in the year ended December 31, 2016 from \$121.5 million in the year ended December 31, 2015. The following table details the components of our general and administrative expenses for the years ended December 31, 2015 and 2016:

	Year ended December 31,	
	2015	2016
	(\$ million)	
Depreciation	5.5	5.5
Auditor's remuneration	1.0	0.5
Professional and consulting fees	42.8	28.4
Directors' emoluments (Executive)	6.4	2.8
Directors' emoluments (Non-Executive)	6.0	4.3
Donations	0.2	0.2
Employee benefits	26.0	20.9
Business development expenses	0.1	11.0
Flights and other travel costs	7.6	6.2
Rentals	3.4	4.9
Impact of receivables discounting	–	10.2
Other general expenses	22.2	18.9
	121.5	113.8

The decrease in general and administrative expenses was primarily due to the recognition of a \$10.3 million impairment charge on the NPDC receivables. In 2017, NPDC's net expenditure was \$92.8 million and we received a total of \$219.2 million towards the settlement of outstanding cash calls. As a result of this and the settlement of current cash calls, we reversed this impairment provision in our financial statements for the year ended December 31, 2017. See " – Significant factors affecting results of operations – Government receivables."

(Losses)/gains on currency exchange (net)

Net losses on currency exchange were \$101.4 million in the year ended December 31, 2016 compared to a net gain of \$7.7 million in the year ended December 31, 2015. The increase was primarily due to the Naira devaluation of approximately 53% as announced by the Central Bank of Nigeria during the year ended December 31, 2016. Losses were primarily attributable to outstanding balances due from NPDC.

Fair value (loss)/gain

Fair value loss for the year ended December 31, 2016 was \$15.1 million, as compared to a fair value gain of \$20.5 million in the year ended December 31, 2015. The change was primarily due to losses on crude oil price options charged to our income statement and the remeasurement of contingent consideration on our acquisition of working interest in our OMLs.

Finance income

Finance income increased by \$46.2 million, or 360.9%, to \$59.0 million in the year ended December 31, 2016 from \$12.8 million in the year ended December 31, 2015. The increase was primarily due to an increase in interest income on fixed deposits. See “ – Significant factors affecting results of operations – NPDC Receivables” and “Risk factors – Risks relating to our industry and business – We are subject to risks involving partners and other project participants and any disagreements with, or the exercise of termination rights by, any partners or other project participants may result in delays or additional costs.”

Finance costs

Finance costs decreased by \$9.7 million, or 11.6%, to \$73.9 million in the year ended December 31, 2016 from \$83.6 million in the year ended December 31, 2015. The decrease was primarily due to a reduction in interest expense related to bank loans as a result of principal repayments made in 2016 as well as an unwinding of the discount on the decommissioning provision due to the passage of time. The principal balance as at December 31, 2016 was \$676.0 million compared to \$915.5 million as at December 31, 2015.

Taxation

Taxation reduced by \$28.2 million to a credit of \$6.7 million in the year ended December 31, 2016 from \$21.5 million in the year ended December 31, 2015. The decrease was primarily due to deferred assets arising from unutilized capital allowances and tax loss for the year ended December 31, 2016. See “Our business – Taxation and royalties” and “Taxation”

Liquidity

Liquidity requirements arise principally from our capital expenditure and working capital requirements. See, “ – Capital investment.” Our principal source of liquidity has been cash generated from operations. Our cash and bank balances as at December 31, 2015, 2016 and 2017 were \$326.0 million, \$159.6 million and \$437.2 million respectively. Historically, we have utilized a combination of short- and long-term debt and equity financings to supplement cash flow from operations to finance our cash needs and the growth of our business. Our net financial indebtedness fluctuates over time due to the variability of cash receipts, including in relation to cash calls relating to NPDC’s share of the annual work program and budget in relation to our OMLs.

We manage our liquidity risk by regularly monitoring cash flows from operating activities, holding adequate amounts of cash and cash equivalents and utilizing our long-term debt facilities. We transact with major Nigerian and international banks and do not anticipate difficulty in accessing cash and cash equivalents or drawing against committed facilities as and when required. Our financial strategy has been to fund our liquidity requirements by reinvesting funds from operations and to use credit facilities to fund development and production activities.

In 2016 and 2017, we sought and received consent from our corporate lenders to reprofile our debt repayment schedule to reflect the decreased oil production at OML 4, 38 and 41 as a result of the Forcados terminal force majeure combined with the global drop in crude oil prices and the illiquid Naira/U.S. Dollar market. Overall, our indebtedness under our Existing Term Loan and Existing Revolving Credit Facility has reduced by \$422 million at December 31, 2017, from its height of \$1 billion in the first quarter of 2015. See “Risk factors – Risks relating to the industry and our business – Oil prices are volatile and could be subject to a substantial or extended decline, which may have an adverse impact on our ability to service our debt” and “Risk

factors – Risks relating to operating in Nigeria – CBN may intervene in the currency markets by drawing on external reserves and the Naira is subject to volatility.”

Debt financing

Total debt was \$570.1 million as of December 31, 2017, compared to \$664.1 million as of December 31, 2016 and \$899.6 million as of December 31, 2015. Net debt, representing total debt less cash and cash equivalents, was \$132.9 million as of December 31, 2017, compared to \$504.5 million as of December 31, 2016 and \$573.6 million as of December 31, 2015.

On December 30, 2014 we signed a \$1.0 billion debt refinancing package, made up of (i) the Existing Term Loan, a \$700 million term loan, with the ability to increase to \$1.4 billion contingent on a qualifying acquisition with a consortium of four local banks; and (ii) the Existing Revolving Credit Facility, a \$300 million corporate revolving loan primarily to manage working capital requirements with a consortium of eight international banks. Total debt for the year ended December 31, 2017 represents the outstanding balance under the Existing Term Loan and Existing Revolving Credit Facility less \$8.0 million of amortized fees per IFRS.

In 2016, as a result of our reduced production volumes due to the declaration of force majeure at the Forcados terminal, we proactively engaged in discussions with our lenders in the \$700 million term loan to re-align near-term debt service obligations within the existing tenor. Our lenders under the term loan agreed to defer principal debt service obligations totaling \$150 million that were due in the second half of 2016 and in 2017 until the end of 2017. See “Description of certain financing arrangements.”

Cash flows

The following table sets forth consolidated cash flows information for the years ended December 31, 2015, 2016 and 2017.

	Year ended December 31,		
	2015	2016	2017
	(in millions of \$)		
Cash flows from operating activities			
Cash generated from operations	38.0	161.1	447.6
Defined benefits paid	—	(0.2)	(0.5)
Receipts from derivatives	—	10.7	—
Employer’s contribution to plan assets	—	—	—
Net cash flows from operating activities	38.0	171.6	447.0
Cash flows from investing activities			
Investment in oil and gas properties	(366.9)	(51.8)	(32.0)
Acquisition of other property, plant and equipment	(4.6)	(2.3)	(1.5)
Disposal of other property, plant and equipment	—	0.3	0.2
Acquisition of subsidiary	(79.4)	—	—
Proceeds from sale of assets	0.2	—	—
Receipts from other assets	—	—	35.8
Interest received	3.2	1.7	4.3
Refunds from advances on investment	368.1	—	—
Net cash (outflows)/inflows from investing activities	(79.2)	(52.1)	6.8
Cash flows from financing activities			
Proceeds from bank financing	967.1	—	—
Repayments of bank financing	(735.9)	(187.0)	(98.0)
Dividends paid	(71.8)	(22.5)	—
Interest paid on bank financing	(77.3)	(73.4)	(69.4)
Interest paid on advance payments for crude oil sales	—	—	(5.8)
Net cash (outflows)/inflows from financing activities	82.0	(283.0)	(173.2)
Net (decrease)/increase in cash and cash equivalents	40.7	(163.5)	280.7
Cash and cash equivalents at beginning of year	285.3	326.0	159.6
Effects of exchange rate changes on cash and cash equivalent	—	(2.9)	(3.1)
Cash and cash equivalents at end of year	326.0	159.6	437.2

Net cash from operating activities

Net cash flows from operating activities increased by \$275.4 million to \$447.0 million in the year ended December 31, 2017 compared to \$171.6 million in the year ended December 31, 2016, principally due to increased production following the lifting of the force majeure at the Forcados terminal. Profit before tax was \$44.0 million in the year ended December 31, 2017 compared to a loss before tax of \$172.8 million in the year ended December 31, 2016. Working capital decreased to \$169.6 million in the year ended December 31, 2017 compared to \$181.8 million in the year ended December 31, 2016.

Net cash flows from operating activities increased by \$133.6 million to \$171.6 million in the year ended December 31, 2016 compared to \$38.0 million in the year ended December 31, 2015. While loss before tax was \$172.8 million in the year ended December 31, 2016 compared to a profit before tax of \$87.1 million in the year ended December 31, 2015, the increase was offset by a decrease in working capital of \$383.5 million, moving to a working capital of \$181.8 million in the year ended December 31, 2016 compared to \$565.3 million in the year ended December 31, 2015, principally due to a decrease in trade and other receivables of \$420.6 million.

Net cash used in investing activities

Net cash used in investing activities consists principally of the purchase of producing assets and other property, plant and equipment. Net cash inflows from investing activities were \$6.8 million in the year ended December 31, 2017 compared to a net cash outflow of \$52.1 million in the year ended December 31, 2016, principally due to receipts from other assets of \$35.8 million.

Net cash outflows used in investing activities decreased by \$27.2 million to \$52.1 million in the year ended December 31, 2016 compared to \$79.3 million in the year ended December 31, 2015 principally due to a reduction in investment in our oil and gas properties, as a result of the decreased production due to the Forcados terminal force majeure. See *“Risk factors – Risks relating to the industry and our business – Operational impediments or damage to, or the shut-down of, current production or processing infrastructure may hinder our access to oil and gas markets or may result in the temporary delay or long-term cessation of our production.”*

Net cash generated by financing activities

Net cash outflows from financing activities decreased by \$109.8 million to \$173.2 million in the year ended December 31, 2017 compared to a net cash outflow from financing activities of \$ 283.0 million in the year ended December 31, 2016, principally due to a smaller year-on-year repayment of bank financing and our decision to not pay a dividend.

Net cash flows outflows from financing activities increased to \$283.0 million in the year ended December 31, 2016 compared to a net cash inflow from financing activities of \$82.0 million in the year ended December 31, 2015, principally due to a reduction in proceeds from bank financing from \$967.1 million in the year ended December 31, 2015 to nil in the year ended December 31, 2016 (offset by a reduction in the repayment of bank financing from a repayment of \$735.9 million in the year ended December 31, 2015 to a repayment of \$187.0 million in the year ended December 31, 2016) and a reduction in dividends paid from \$71.8 million in the year ended December 31, 2015 to \$22.5 million in the year ended December 31, 2016.

Capital investment

A significant portion of our capital expenditures are discretionary allowing us to closely align between spending and cash flows by quickly adjusting our expenditures based on market realities. Additionally, as an onshore operator, our capital projects benefit from shorter lead times than deep water offshore operations, providing further flexibility in terms of scaling back capital expenditures if prudent. At the start of the 2016 we were operating under fiscal year capital investment program of approximately \$130 million but, following the force majeure at the Forcados terminal, we were able to adjust our capital investment program down to \$54 million. Our capital expenditures primarily relate to drilling, investments in our facilities and fixed assets. In 2017, our capital investment was \$34 million and included costs for drilling the Anagba well on OPL 283, the completion of the Phase II Oben gas processing capacity expansion and costs incurred in relation to the ANOH gas processing project. In 2018, we intend to retain discretion over our capital expenditures, to appropriately phase and to scale our investment program taking account the prevailing operating environment, availability of export terminals, oil price, debt service obligations and the

influence of these factors on free cash generation within the underlying business. We anticipate capital investment of approximately \$98 million in 2018.

Our capital expenditure for the years ended December 31, 2015, 2016 and 2017 is presented in the following table.

	Year ended December 31,		
	2015	2016	2017
	(\$ millions)		
Drilling	64.4	6.0	7.1
Facilities	28.6	3.1	2.8
Gas projects	59.4	45.1	23.6
Total	152.4	54.2	33.5

Our capital investments are made in both U.S. Dollars and Naira, providing a natural hedge against currency fluctuations and reducing our exposure to Naira volatility. Our expenditures were 57.9% U.S. Dollars and 42.1% Naira in the year ended December 31, 2015, 30.8% U.S. Dollars and 69.2% Naira in the year ended December 31, 2016 and 63.3% U.S. Dollars and 27.7% Naira in the year ended December 31, 2017. The following table presents the dollar equivalents of our U.S. Dollar and Naira capital investments for the years ended December 31, 2015, 2016 and 2017.

	Year ended December 31,		
	2015	2016	2017
	(\$ millions)		
U.S. Dollar	86.9	25.8	20.8
Naira ⁽¹⁾	63.1	57.9	12.1
Total	150.0	83.7	32.9

(1) Naira values have been calculated at the historical CBN exchange rate for the relevant year.

Commitments and contingencies

As is common in our industry, we have entered into various commitments related to the exploration and appraisal of, and production from, commercial oil and gas assets. We have entered into operating leases for the use of drilling rigs and rentals, however, we have no minimum lease payments to disclose as the total lease payments were prepaid at inception of the lease. See “*Our business – Material agreements affecting our assets.*”

We also face contingent liabilities relating to our involvement in a number of legal suits as the defendant. The estimated value of the contingent liabilities for the year ended December 31, 2017 is \$187.0 million, as compared to an estimated value of contingent liabilities of \$15.5 million in the year ended December 31, 2016 and \$299.9 million in the year ended December 31, 2015. We have not made any provision for these potential liability in these financial statements. Management, after consultation with our solicitors, are of the opinion that we will suffer no loss from these claims. However, by their nature, contingencies will only be resolved when one or more uncertain future events occur or fail to occur. The assessment of the existence, and potential quantum, of contingencies inherently involves the exercise of significant judgement and the use of estimates regarding the outcome of future events. See “*Our business – litigation.*”

Qualitative and quantitative disclosures about market risk

Credit risk management

Credit risk refers to the risk of a counterparty defaulting on its contractual obligations resulting in a financial loss. Credit risk arises from cash and cash equivalents, favorable derivative financial instruments, deposits with banks and financial institutions as well as credit exposures to customers and joint venture partners, in particular in relation to NPDC and outstanding receivables.

Our offtake agreement with Mercuria in relation to OMLs 4, 38 and 41 is effective for five years until July 31, 2020, with a 30-day payment term. Our offtake agreement with ENI in relation to OML 53 is effective until December 3, 2018, with a 30-day payment term. See “*Our business – Material agreements*

relating to our assets – OMLs 4, 38 and 41 Mercuria Offtake Agreement” and “Our business – Material agreements relating to our assets – OML 53 ENI Crude Purchasing Agreement.” In addition, we are exposed to credit risk in relation to our trade with NGMC (formerly NGC), a subsidiary of NNPC, our sole gas customer during the year. We monitor receivable balances on an ongoing basis and there has been no significant history of impairment losses except for the NPDC receivables which were impaired during the year ended December 31, 2016. In 2017, NPDC’s net expenditure was \$93 million and we received a total of \$219 million towards the settlement of outstanding cash calls. As a result of this and the settlement of current cash calls, we reversed this impairment provision in our financial statements for the year ended December 31, 2017

Our credit risk on cash is limited because the majority of our deposits are with banks that have an acceptable credit rating assigned by an international credit agency. Our maximum exposure to credit risk due to default of the counterparty is equal to the carrying value of our financial assets.

As at December 31, 2016, the undiscounted/discounted value of the NPDC receivable was \$239 million/\$229 million, respectively. We have made certain assumptions about the recoverability of financial assets exposed to credit risk from NPDC. These are based on management’s past experiences with NPDC, current discussions with NPDC and financial capacity of NPDC.

Our maximum exposure to credit risk as at the relevant reporting date is presented in the following table.

	Year ended December 31,		
	2015	2016	2017
	(\$ millions)		
Trade and other receivables (gross)	799.9	391.6	299.6
Cash and cash equivalents	326.0	159.6	437.2
Derivatives	23.2	—	—
Gross amount	1,149.1	551.2	736.8
Impairment of NPDC receivables	—	10.3	—
Net Amount	1,149.1	540.9	736.8

Liquidity risk management

Liquidity risk is the risk that we will not be able to meet our financial obligations as they fall due. We manage liquidity risk by ensuring that sufficient funds are available to meet our commitments as they fall due.

We use both long-term and short-term cash flow projections to monitor funding requirements for activities and to ensure there are sufficient cash resources to meet operational needs. Cash flow projections take into consideration our debt financing plans and covenant compliance. Surplus cash held is transferred to the treasury department which invests in deposit bearing current accounts, time deposits and money market deposits.

Interest rate risk management

Our exposure to interest rate risk relates primarily to long-term borrowings. Borrowings issued at variable rates expose us to cash flow interest rate risk which is partially offset by cash and fixed deposit held at variable rates. Borrowings issued at fixed rates do not expose us to market interest rate risk. Most of our borrowings are denominated in U.S. Dollars.

We are exposed to cash flow interest rate risk on short-term deposits to the extent that the significant reductions in market interest rates would result in a decrease in our interest earned.

The sensitivity of our (loss)/profit before tax to changes in LIBOR rate, with all other variables held constant, is presented in the following table.

	Effect on (loss)/ before tax 2017	Effect on other components of profit equity before tax 2017
	\$ million	
Increase/decrease in interest rate		
+1%	5.7	—
-1%	(5.7)	—

Currency risk

We have transactional currency exposures that arise from sales or purchases in currencies other than the respective functional currency. We are exposed to exchange rate risk to the extent that balances and transactions are denominated in a currency other than the U.S. Dollar.

We hold the majority of our cash and cash equivalents in U.S. Dollar. However, we maintain deposits in Naira in order to fund ongoing general and administrative activity and other expenditure incurred in this currency. Other monetary assets and liabilities which give rise to currency exchange risk include trade and other receivables and trade and other payables. In particular, our NPDC receivables, discussed above, are Naira denominated and, as such, give rise to currency exchange risk.

Our sensitivity to a change in the currency exchange rate, with all other variables held constant, of our (loss)/profit before tax due to changes in the carrying value of monetary assets and liabilities at the reporting date is presented in the following table.

	Effect on (loss)/ before tax 2017	Effect on other components of profit equity before tax 2017
	\$ million	
Increase/decrease in currency exchange risk		
+5%	(3.8)	—
-5%	4.2	—

Commodity price risk management

We are exposed to the risk of fluctuations in crude oil prices. We hedge against this risk and sell the oil that we produce to our offtake partners at market prices calculated in accordance with the terms of the respective offtake agreement. The impact on our (loss)/profit before tax of a 10% change in crude oil prices, with all other variables held constant is presented in the following table.

The impact on our (loss)/profit before tax of a 10% change in crude oil prices, with all other variables held constant is summarized in the following table.

	Effect on (loss)/ before tax 2017	Effect on other components of profit equity before tax 2017
	\$ million	
Increase/decrease in crude oil prices		
+10%	32.8	—
-10%	(32.8)	—

The impact on our (loss)/profit before tax of a 10% change in gas prices, with all other variables held constant is summarized in the following table.

	Effect on (loss)/ before tax 2017	Effect on other components of profit equity before tax 2017
	\$ million	
Increase/decrease in gas prices		
+10%	12.4	—
-10%	(12.4)	—

Critical accounting policies

Critical accounting policies involve judgements and uncertainties that are sufficiently sensitive to result in materially different results under different assumptions and conditions. Accounting estimates are an integral part of the preparation of our financial statements and the financial reporting process. The preparation of financial statements in conformity with IFRS requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities

at the date of the financial statements and the reported amounts of revenues and expenses during the

reported period. We have identified below the IFRS accounting policies that are most critical to our business operations and the understanding of our results. In each case, the application of these policies requires us to make complex judgments based on information and financial data that may change in future periods, the results of which can have a significant effect on our results of operations. As a result, determinations regarding these items necessarily involve the use of assumptions and judgments as to future events and are subject to change. Certain accounting estimates and judgments are particularly sensitive because of their complexity and the possibility that future events affecting them may differ materially from our current estimates and judgments.

A detailed description of the principal accounting policies adopted by us, the critical accounting judgments that we have made in the preparation of our audited consolidated financial statements and the key sources of estimation uncertainty at each balance sheet date is set out in the section headed "Accounting policies" in our audited consolidated financial statements for the years ended December 31, 2015, 2016 and 2017 which are incorporated by reference into this Offering Memorandum.

Oil and gas accounting

Oil and natural gas exploration, evaluation and development expenditures are accounted for using the full cost method of accounting. Costs incurred in the exploration, evaluation and development of oil and gas properties are capitalized on a cost pool basis accordingly. Capitalized costs include land acquisition, exploration and development wells, both successful and unsuccessful, related plant and equipment, directly attributable interest costs, overhead charges directly related to exploration and development and the estimated discounted cost of the asset retirement obligations.

Exploration and evaluation expenditure

Geological and geophysical exploration costs are charged against income as incurred. Exploration and evaluation expenditure incurred by the entity is accumulated separately for each area of interest and is limited to a size related to a known or probable hydrocarbon resource capable of supporting an oil operation. Costs directly associated with exploration wells, exploratory stratigraphic test wells and delineation wells are capitalized until the drilling of the well is complete and the results have been evaluated. If proved reserves are not found, the exploration expenditure is written off as a dry hole and charged against income. If hydrocarbons are found, the costs continue to be capitalized. In the event that an area is subsequently abandoned or exploration activities do not lead to the discovery of proved or probable reserves, or if the directors consider the expenditure to be of no value, any accumulated costs carried forward relating to the specified areas of interest are written off in the year in which the decision is made. While an area of interest is in the development phase, amortization of development costs is not charged pending the commencement of production.

Development expenditure

Development expenditure incurred by the entity is accumulated separately for each area of interest in which economically recoverable reserves have been identified to the satisfaction of the directors. Such expenditure comprises net direct costs and an appropriate portion of related overhead expenditure directly related to the development property. All expenditure incurred prior to the commencement of commercial levels of production from each development property is carried forward to the extent to which recoupment is expected out of revenue to be derived from the sale of production from the relevant development property.

Impairment of intangible assets and property, plant and equipment

We assess our property, plant and equipment, including exploration and evaluation assets, for possible impairment if there are events or changes in circumstances that indicate that carrying values of the assets may not be recoverable, or at least at every reporting date.

If there are low oil prices or natural gas prices during an extended period we may need to recognize significant impairment charges. The assessment for impairment entails comparing the carrying value of the cash-generating unit with its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs of disposal and its value in use. The value in use calculations, for the purpose of impairment testing, require the use of estimates and assumptions such as discount rates, exchange rates, commodity prices, future capital requirements, future operating performance, production profiles and the outlook for

regional market supply-and-demand conditions for crude oil and natural gas. Determination as to whether and how much an asset is impaired involves management estimates on highly uncertain matters such as future commodity prices, the effects of inflation on operating expenses, discount rates, production profiles and the outlook for regional market supply-and-demand conditions for crude oil and natural gas.

In 2016, in response to the force majeure at Forcados terminal, we executed an impairment assessment on OMLs 4, 38 and 41. We used the value in use in determining the recoverable amount of the cash-generating unit. The assessment did not result in an impairment charge. In determining the value, we used a recent forward curve for five years, reverting to our long-term price assumption for impairment testing which is \$55 in 2017, \$60 in 2018 and \$70 per barrel from 2019 point forward. We used a post-tax discount rate of 10.0% based on our weighted average cost of capital. Management has considered whether a reasonably possible change in one of the main assumptions will cause an impairment and believes otherwise.

Estimated oil and gas reserves

Reserve estimates have a significant impact on earnings due to their impact on depletion rates and asset impairment. Our reservoir engineers perform an internal evaluation on an annual basis of all of our crude oil reserves. The estimation of reserves is based on engineering data, projected future prices, expected future rates of production and the timing of future capital expenditures, all of which are subject to numerous uncertainties and interpretations. We expect over time that our reserves will change, upwards or downwards, as a result of the results of future drilling, testing, production levels, changes in future price estimates and economics of recovery based on cash flow forecasts.

Proved oil and gas reserves are used in the units of production calculation for depletion as well as the determination of the timing of well closure for estimating decommissioning liabilities and impairment analysis. There are numerous uncertainties inherent in estimating oil and gas reserves. Assumptions that are valid at the time of estimation may change significantly when new information becomes available. Changes in the forecast prices of commodities, exchange rates, production costs or recovery rates may change the economic status of reserves and may ultimately result in the reserves being restated.

Independent petroleum engineering consultants evaluate 100% of the oil properties on an annual basis and a reconciliation is performed between our reserves estimates and that of the independent consultants.

Decommissioning

Liabilities for decommissioning costs are recognized as a result of the constructive obligation of past practice in the oil and gas industry, when it is probable that an outflow of economic resources will be required to settle the liability and a reliable estimate can be made. The estimated costs, based on current requirements, technology and price levels, prevailing at the reporting date, are computed based on the latest assumptions as to the scope and method of abandonment.

Provisions are measured at the present value of management's best estimates of the expenditure required to settle the present obligation at the end of the reporting period. The discount rate used to determine the present value is a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The increase in the provision due to the passage of time is recognized as interest expense. The corresponding amount is capitalized as part of the oil and gas properties and is amortized on a unit-of-production basis as part of the depreciation, depletion and amortization charge. Any adjustment arising from the estimated cost of the restoration and abandonment cost is capitalized, while the charge arising from the accretion of the discount applied to the expected expenditure is treated as a component of finance charges.

If the change in estimate results in an increase in the decommissioning provision and, therefore, an addition to the carrying value of the asset, we consider whether this is an indication of impairment of the asset as a whole, and if so, tests for impairment in accordance with IAS 36. If, for mature fields, the revised oil and gas assets net of decommissioning provisions exceed the recoverable value, that portion of the increase is charged directly to expense.

Useful life of other property, plant and equipment

We recognize depreciation on other property, plant and equipment on a straight line basis in order to write-off the cost of the asset over its expected useful life. The economic life of an asset is determined based on existing wear and tear, economic and technical ageing, legal and other limits on the use of the asset, and

obsolescence. If some of these factors were to deteriorate materially, impairing the ability of the asset to generate future cash flow, we may accelerate depreciation charges to reflect the remaining useful life of the asset or record an impairment loss.

Critical accounting judgments

In the process of applying our accounting policies, we have made the following judgements, which have the most significant effect on the amounts recognized in the consolidated historical financial information:

OMLs 4, 38 and 41

OMLs 4, 38 and 41 are grouped together as a cash-generating unit for the purpose of impairment testing. These three OMLs are grouped together because they each cannot independently generate cash flows; rather, they operate as a single block sharing resources for the purpose of generating cash flows. Crude oil and gas sold to third parties from these OMLs are invoiced together.

Deconsolidation of BelemaOil

In 2016, following an agreement with BelemaOil with respect to OML 55, we deconsolidated BelemaOil from our financial statements ending in accordance with IFRS 10, as we no longer exercise control over the entity. We have recognized our financial interest in BelemaOil on our financial statements as "other assets."

IFRS 9: financial instruments

On January 1, 2018 we adopted IFRS 9 as an accounting measure. IFRS 9 addresses the classification, measurement and de-recognition of financial assets and financial liabilities, and introduces new rules for hedge accounting and a new impairment model for financial assets. It replaces the guidance in IAS 39 that relates to the classification and measurement of financial instruments. The new hedge accounting rules will align the accounting for hedging instruments more closely with our risk management practices. As a general rule, more hedge relationships might be eligible for hedge accounting, as the standard introduces a more principles-based approach. We do not expect a significant impact on the accounting for our hedging relationships as a result of the adoption of IFRS 9, as we have not formally elected to apply hedge accounting.

The new impairment model under IFRS 9 requires the recognition of impairment provisions based on expected credit losses which considers more forward looking information in establishing a provision for impairment. It applies to financial assets classified at amortized cost and contract assets under IFRS 15: Revenue from Contracts with Customers.

INDUSTRY AND MARKET DATA

Certain of the projections and other information set forth in this section have been derived from external sources including the: BP (Energy Outlook 2018), BP (Statistical Review of World Energy, June 2017), Central Bank of Nigeria (Reserve Management Statistics), CIA World Factbook, Energy Information Administration (Short-Term Energy Outlook, January 2018), National Bureau of Statistics (Nigerian Gross Domestic Product Report Q3 2017), Nigerian National Petroleum Corporation (Monthly Performance Data), PwC (2017 Oil & Gas Trends – Adjusting business models to a period of recovery) and World Bank, among others. Industry publications, surveys and forecasts generally state that the information contained therein has been obtained from sources believed to be reliable, but that the accuracy and completeness of such information is not guaranteed. We believe that these industry publications, surveys and forecasts are reliable but we have not independently verified them and cannot guarantee their accuracy or completeness.

The projections and forward-looking statements in this section are not guarantees of future performance and actual events and circumstances could differ materially from current expectations. Numerous factors could cause or contribute to such differences. See “Risk Factors” and “Forward-Looking Statements.”

The global oil and gas market

Oil production

In 2017, global oil production increased from 2016 levels by 0.5%, or 0.46 MMbopd, to 91.12 MMbopd. Almost two-thirds of this net growth was accounted for by the United States, where production increased by 3.4% or 0.75 MMbopd to 22.7 MMbopd over the same period. Oil production by OPEC member states remained relatively flat in 2017 at 32.47 MMbopd driven by production restrictions enforced through the November 2016 OPEC production agreement. There were however increases in production from Nigeria (0.10 MMbopd), Libya (0.44 MMbopd) and Iran (0.26 MMbopd) due to their exemption from OPEC production restrictions during this period.

The following table sets forth the geographical distribution of oil production in 2017.

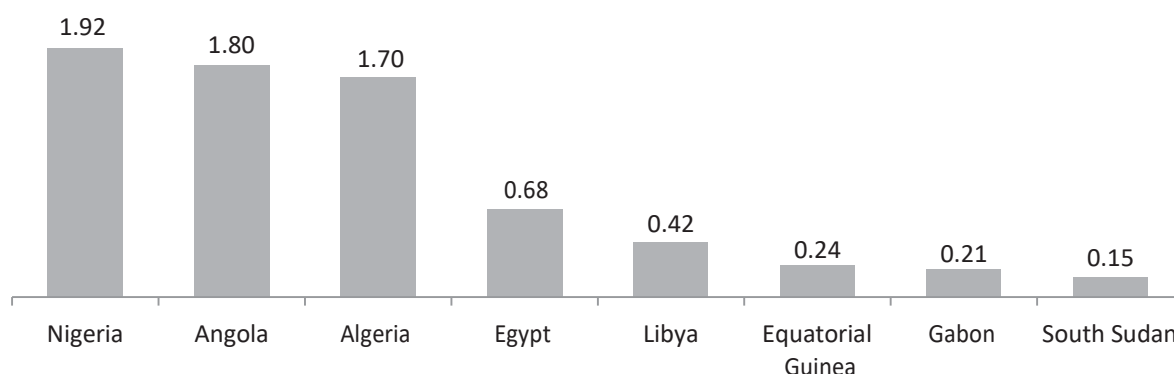
Region	MMbopd	YoY Change (2016-2017)
Africa	7.3	6.2 %
North America	22.7	3.4%
South & Central America	7.8	-2.0%
Europe & Eurasia	18.4	0.4%
Middle East	25.7	-1.5%
Asia Pacific	9.3	-2.4%
Total	91.1	0.5%

Source: Energy Information Administration (Short-Term Energy Outlook, January 2018)

The EIA forecasts crude oil production to increase by 2.25 MMbopd to an average 93.4 MMbopd in 2018 largely driven by a recovery in North American production to 24.4 MMbopd. Nigeria is Africa’s largest oil producer with average 2016 production of 1.92 MMbopd placing it ahead of Angola (1.80 MMbopd) and Algeria (1.70 MMbopd) despite the macro-environmental issues the country experienced during the year.

The following table sets forth the top oil producing countries in Africa in 2016.

2016 AFRICA OIL PRODUCTION (MMbopd)



Source: Energy Information Administration (Short-Term Energy Outlook, January 2018)

Oil & liquid fuels consumption

Crude and liquid fuels have a wide range of uses particularly once they are refined into petroleum products. Petroleum products include transportation fuels, fuel oils for heating and electricity generation, asphalt and road oil, and feedstocks for making chemicals, plastics, and synthetic materials.

The EIA estimates that world oil and liquid fuels consumption in 2017 averaged 98.4 MMbopd, which represented a 1.4 MMbopd, or 1.4%, year-on-year growth from 2016 (97.0 MMbopd). This was largely driven by consumption growth in the non-OECD countries, with China and India expected to remain the primary sources of this consumption growth. China's consumption is expected to increase by 0.4 MMbopd in 2018 and 0.3 MMbopd in 2019, with India's consumption forecasted to grow by 0.3 MMbopd in of the same each years. Non-OECD consumption is also expected to continue to grow during 2018 (+1.2 MMbopd) and 2019 (+1.3 MMbopd) as a result of a forecasted increase in oil weighted GDP growth in these countries (4.3% in 2018 and 4.4% in 2019 compared to 3.9% in 2017).

The following table sets forth geographical distribution of world oil demand as at the end of 2017.

Region	MMbopd	YoY Change (2016-2017)
Africa	4.3	4.1%
North America	24.2	0.4%
South & Central America	7.0	0.1%
Europe & Eurasia	19.9	1.7%
Middle East	8.6	0.8%
Asia Pacific	34.3	2.3%
Total	98.4	1.5%

Source: Energy Information Administration (Short-Term Energy Outlook, January 2018)

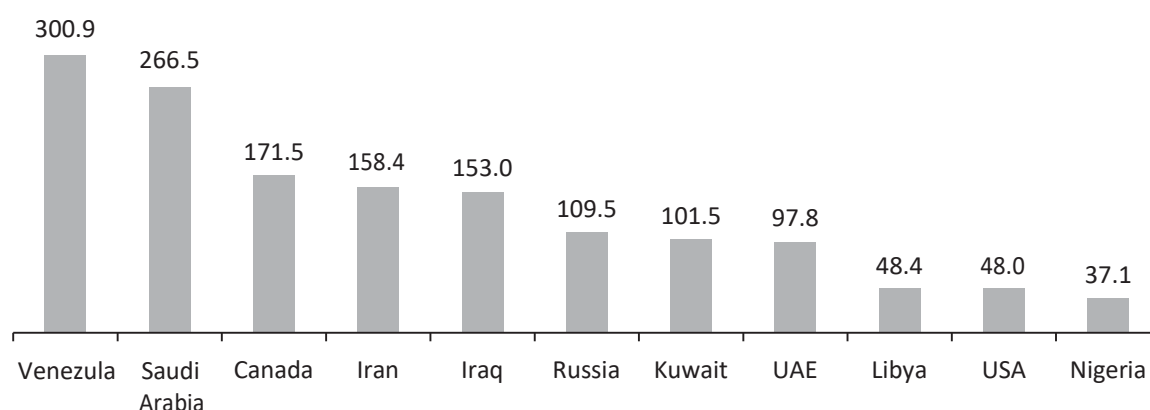
In many African countries there is insufficient infrastructure, namely refineries, to be able to optimally refine produced crude into petroleum products and as such the majority of crude oil is exported to refineries in the US, Europe and Asia. While this means many African producers are able to export crude at spot prices rather than selling to domestic refineries at a discounted price there is a fundamental inefficiency in the value chain. Some African countries such as Nigeria are looking to address this issue, with the NNPC outlining plans to develop, upgrade and expand refineries across the country. However, global refining capacity already exceeds demand and this has led to a downward pressure on refining margins making development projects increasingly difficult to finance.

Oil reserves

At the end of 2016 proved oil reserves amounted to 1706.7 billion bbls, of which 1220.5 billion bbls were held by OPEC member states. Nigeria is the world's eleventh largest oil nation with 37.1 billion bbls of underlying reserves.

The following table sets forth the geographic distribution of proved reserves at the end of 2016.

GLOBAL PROVED OIL RESERVES (BILLION BBLs)



Source: BP (Statistical Review of World Energy, June 2017)

Oil prices

Dated Brent crude oil averaged \$54 per barrel in 2017, compared to \$44 per barrel in 2016 and a year low of \$26 per barrel on January 20, 2016. Oil prices have continued to recover in the beginning of 2018 with crude oil hitting a three year high of \$71.28 per barrel on January 25, 2018. The recovery in oil prices is widely thought to be driven by encouraging world economic growth statistics, a near 100% compliance rate for OPEC production restrictions and global inventory draws through 2017. The EIA estimates that liquid fuels inventory fell by an average of 0.4 MMBopd in 2017. Analysts expect a slight decline in prices during 2018 to \$60 per barrel as a result of modest inventory builds with the EIA forecasting growth of 0.2 MMBopd. Uncertainty remains regarding geopolitical events, compliance with OPEC restrictions and the versatility of the US tight oil sector which could impact oil prices both positively and negatively in 2018 and beyond.

Gas production and reserves

A combination of the depressed oil price environment and a focus on reducing air pollution and other emissions has helped accelerate the growth of the global gas industry. This trend is expected to accelerate with the gas sector forecasted to grow faster than oil and coal, at 1.6% per annum over the next 5 years. According to the BP Statistical Review, global natural gas production stood at 342.7 Bscf per day in 2016.

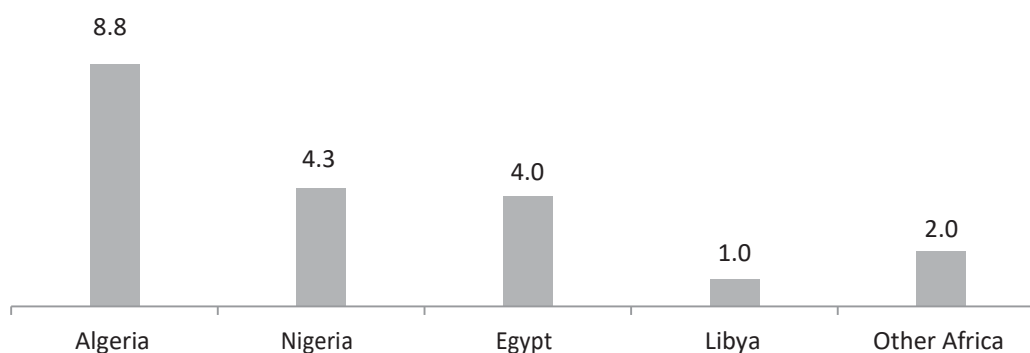
The following table sets forth the geographical distribution of gas production in 2016.

Region	Bscf per day	YoY Change (2016-2017)
Africa	20.1	-1.1 %
North America	91.5	-2.4 %
South & Central America	17.1	-0.8 %
Europe & Eurasia	96.5	0.2 %
Middle East	61.5	3.3 %
Asia Pacific	56.0	2.9 %
Total	342.7	0.3 %

Source: BP (Statistical Review of World Energy, June 2017)

Despite a lack of infrastructure and well documented issues with gas flaring, Nigeria is Africa's second largest gas producer with 4.3 Bscf per day of sales gas production. The bulk of gas produced in Nigeria is a converted to LNG and exported.

AFRICA GAS PRODUCTION (BCF PER DAY)

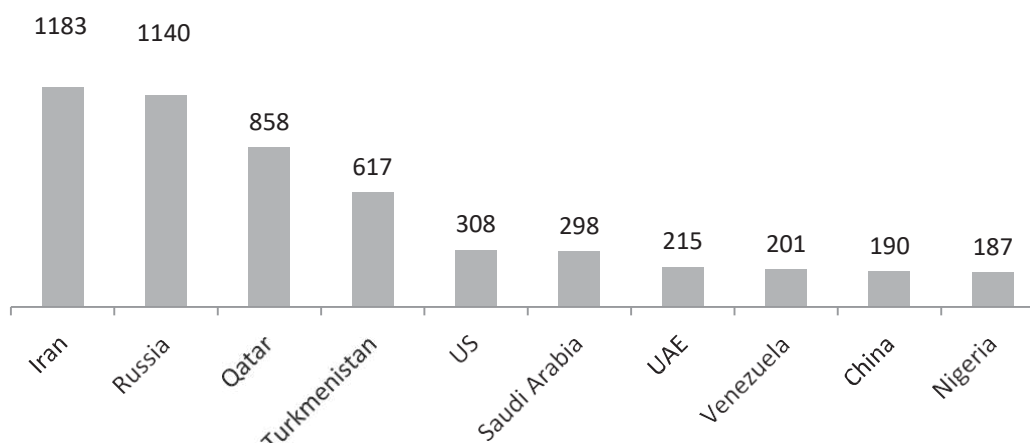


Source: BP (Statistical Review of World Energy, June 2017)

At the end of 2016 the world's total proved natural gas reserves amounted to 6,589 tcf with Iran, the Russian Federation, Qatar and Turkmenistan combined accounting for 58% of global reserves. Nigeria's natural gas reserves are estimated at 186.6 tcf, making it the largest proved natural gas reserve in Africa and in the top 10 globally.

The following table sets forth global gas reserves for the top ten countries as of the end of 2016.

GLOBAL GAS RESERVES (TCF)



Source: BP (Statistical Review of World Energy, June 2017)

Global gas demand, driven by increased use in the chemical sector, strong fertilizer demand in India and South-East Asia, and the replacement of coal by gas in China, is set to grow at 3% per annum from 2018. In addition, gas market reform, through an increase in private company participation across the supply chain, is expected to increase the use of gas as a fuel source domestically and attract new investment in the sector. The result is likely to be more sustainable demand and supply balances with increased certainty of payment, improved counterparty credit profiles and more reliable domestic power transmission.

Long Term Energy Outlook

The long-term energy outlook is changing as a result of the decarbonization of the fuel mix driven by technological improvements and environmental concerns. While fossil fuels (oil, gas and coal) will remain the dominant sources of energy the gradual transition will see renewable, nuclear and hydroelectric power accounting for around 40% of the global growth in energy supplies by 2040.

Although demand for oil is expected to continue to grow through to 2040, the rate of growth will be negatively impacted particularly by the falling demand from the transport industry where vehicles are becoming increasingly efficient and there is a movement towards electric vehicles ("EV"). This movement to EV is likely to be a key factor in how the energy sector evolves over the next 20 years with global electrification pointing towards nearly two thirds of forecast energy growth being consumed by the global power sector.

While growth in the sector is mitigated to some extent due to improving energy efficiencies, rising prosperity in fast-growing emerging economies is still expected to increase energy demand by around a third by 2040. China, India and other emerging Asian countries account for around two-thirds of the growth in energy consumption. In addition, Africa will play a key role in determining the growth rate of global energy to 2040 and beyond – contributing more to global demand growth in the final five years of the BP’s outlook than China, with the continent accounting for around 20% of the total increase. Like the growth curves of China and India, Africa’s demand growth will be driven by urbanization, population growth and underlying GDP growth.

Finally, the impact of oil prices falling between 2014 and 2016 has changed the way in which the oil and gas industry operates. Corporate strategic objectives will need to adapt and will be increasingly focused on sustainable profitability through increased portfolio optimization and cost management. Consolidation and development of new partnerships is set to continue across the industry as companies become more focused on their specific skillset and the necessity to collaborate in order to develop the underlying resources in a more efficient manner.

Sources: BP (Energy Outlook 2018), PWC 2017 Oil & Gas Trends – Adjusting business models to a period of recovery

Overview of the Nigerian oil and gas industry

Background

General

Occupying approximately 923,770 square kilometers of West-Africa, with a population of about 186 million as at December 2016 according to the World Bank, Nigeria is Africa’s largest economy and most populous country. According to the Nigerian Gross Domestic Product Report (Q1 2017), which was published in November 2017 by the National Bureau of Statistics (“**NBS**”), Nigeria’s real GDP for 2016 stood at approximately ₦67.93 trillion (\$451 billion) compared to World Bank estimates of \$419 billion for South Africa and \$260 billion for Egypt. With proved oil and natural gas reserves of approximately 37.1 billion bbls and 186.6 tcf, respectively, Nigeria has the largest proved oil and gas reserves in Africa and is ranked as having the 10th largest natural gas and 11th largest oil reserves globally, according to CIA World Factbook estimates as of January 1, 2017.

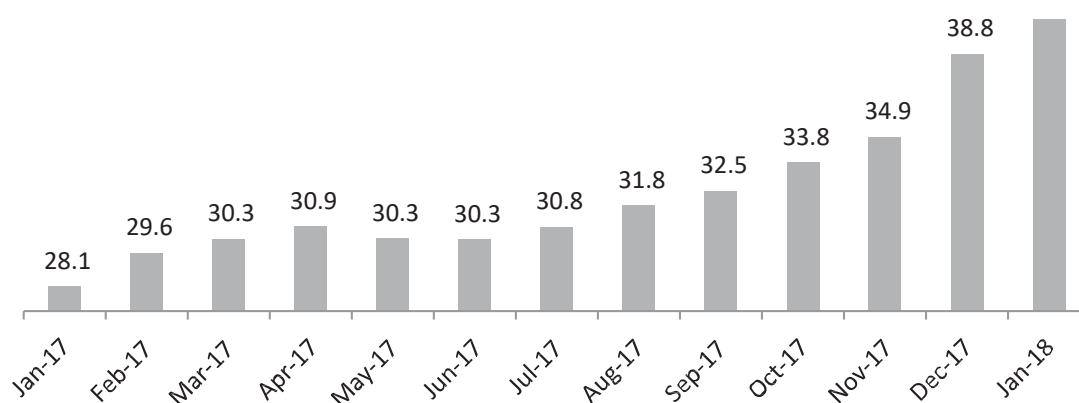
According to the World Bank, Nigeria has one of the largest populations of youth in the world with a population of approximately 117 million under the age of 25 in 2016. The country’s urban population, which is approximately 90 million, is also the continent’s largest and is expected to grow to 107 million by 2020. This will drive oil and electricity consumption higher in the coming years.

Economy

The oil and gas sector is of major importance to Nigeria’s economy primarily in relation to foreign exchange earnings and revenue generation for the government. Oil receipts account for the majority of fiscal revenue, government earnings and exports in the country.

The Nigerian economy has been negatively impacted by a significant decline in oil prices in recent years, with crude dropping from about \$110 per barrel in 2014 to around \$28 in January 2016. Due to the weakening in oil and gas prices, the government has put in place various fiscal policies to promote diversification of the economy with the aim of moving away from an ‘oil revenue-reliant’ economy. Such fiscal policies were also aimed at protecting the Naira which came under severe pressure due to falling oil prices. The CBN was ultimately forced to intervene and devalue the Naira in June 2017 as the nation’s foreign exchange reserves became increasingly strained. The effect was a 30% fall in the NGN/USD exchange rate. Since the intervention, oil prices have also recovered significantly from the 2016 lows, with the Brent trading close to \$70 in January 2018, a level not reached since 2014. Following a recession in 2016, Nigeria’s GDP grew by 1.0% in 2017 and is expected to grow by 2.7% on average in 2018-2020, according to the World Bank. Nigeria’s foreign exchange reserves have also rebounded with the latest CBN statistics reporting foreign exchange reserves of approximately \$40.3 billion.

NIGERIA'S FOREIGN RESERVES (\$ BILLION)



Source: Central Bank of Nigeria, Reserve Management Statistics

According to the NBS, real growth of the oil sector was 25.89% (production year-on-year) in the first quarter of 2017. This represents an increase of 48.92% relative to the rate recorded in the corresponding quarter of 2016. Quarter-on-quarter, the oil sector grew by 21.10% in the first quarter of 2017. As a share of the economy, the oil sector contributed 10.04% of total real GDP in the first quarter of 2017, up from figures recorded in the corresponding period of 2016 and up from the preceding quarter, where it contributed 8.09% and 9.04% to GDP respectively.

Table 1: Summary statistics of Nigeria

	2014	2015	2016	2017	2018	2019	2020
				(forecast)	(forecast)	(forecast)	(forecast)
GDP (current, USD\$ billion)	568.5	481.1	404.7	408.7	418.9	430.69	442.7
GDP growth (real, annual %)	6.3%	2.7%	1.6%	1.0%	2.5%	2.8%	2.8%
Population (millions)	176.5	181.2	186.0	190.9	195.9	201.0	206.2
Population growth (annual %)	2.7%	2.6%	2.6%	2.6%	2.6%	2.6%	2.6%
Urban population (millions)	82.8	86.6	90.4	94.3	98.3	102.4	106.6
Urban population growth (annual %)	4.5%	4.4%	4.3%	4.3%	4.3%	4.2%	4.1%

Source: World Bank

Politics

Nigeria is a federation comprising thirty-six states and a Federal Capital Territory. The federation operates three tiers of government, namely the federal government, the thirty-six state governments, and 774 local government councils. At both the federal and state levels, there is a separation of powers amongst the executive, legislative and judicial arms of government.

Nigeria gained independence from the United Kingdom in 1960 and became a republic in 1963. Due in part to its multi-ethnic and multi-religious population, the country has experienced numerous political changes since independence in 1960. In 1999, after about 39 years of independence (28 years of which was under military rule characterized by political instability), the country completed a peaceful transition to democratic civilian government with the election in February 1999 of retired General Olusegun Obasanjo as President. The current constitution of the country (the "**Constitution**") was adopted in May 1999 and has since been amended on three occasions. It provides for a President, a National Assembly (comprising a Senate and a House of Representatives) and a Judiciary.

Since 1999, Nigeria has had four consecutive democratic governments and five successful quadrennial democratic elections, reinforcing the renewed political stability within the country. Between May 1999 and May 2015, the People's Democratic Party ("**PDP**") was the ruling party at the federal government level and in a majority of the 36 states. In March 2015, however, President Muhammadu Buhari of the All Progressives Congress ("**APC**") was elected as President, thus bringing to an end the PDP's 16-year dominance of the Nigerian political landscape.

Mr. Buhari was helped in the election by hopes that his military experience would help him combat militant insurgencies in Nigeria. Dealing with the Boko Haram insurgency, which has plagued Nigeria over the past four years, is a major hurdle for the Government. Although steps have been taken, such as the movement of the military command center into the heart of the crisis and the recapture of most towns which had

previously been captured by Boko Haram, the crisis remains unabated. In addition to the instability caused by Boko Haram in the North, the Niger Delta region of Nigeria continues to experience militant activities, including sabotage on oil and gas installations across the region by groups such as the Niger Delta Avengers. These activities have led to a drop in Nigeria's oil production.

Since the first half of 2016, Nigeria has experienced a degree of political uncertainty as a result of the recurring ill-health of President Buhari. On three different occasions between June 6 and June 19, 2016, January 19 and March 13, 2017 and May 7 and August 19, 2017, President Buhari, whilst undergoing medical treatment in the United Kingdom, designated his Vice-President, Professor Yemi Osinbajo as Acting President of the Federal Republic of Nigeria in accordance with the provisions of the Constitution. Upon President Buhari's return to Nigeria on each of the above three occasions, he resumed office as President, while Professor Yemi Osinbajo returned to being Vice-President.

General elections will be held in Nigeria on February 16, 2019, to elect the President and the National Assembly. Presidential primaries are likely to be held during the second half of 2018. Barring any major change in circumstances, Muhammadu Buhari will be eligible to seek re-election. The winner is scheduled to be inaugurated on May 29, 2019.

The oil and gas industry in Nigeria

Nigeria has the largest oil reserves in Sub-Saharan Africa and the eleventh largest worldwide. Most of Nigeria's reserves and resources are found in the Niger Delta across 75,000km of onshore swamp and shallow water and up to 150km offshore in the Bight of Benin, the Gulf of Guinea and the Bight of Bonny. The crude in Nigeria is primarily high quality, light, sweet oil with gravities ranging from API 29° – 47° and low Sulphur contents of 0.05-0.3%. These characteristics make Nigerian crudes a preferred gasoline feedstock and as a result most Nigerian crudes trade at a premium to the price of Brent.

In addition to Nigeria's vast oil reserves the country also boasts some of the largest gas reserves on the continent, however, a lack of infrastructure has meant historically much of the associated gas produced has been flared at peak rates of up to 2 Bscf per day. In 1989, in an effort to reduce gas flaring, the NLNG JV was incorporated with a mandate to produce LNG and natural gas liquids for export. Today approximately 70% of produced gas is exported via NLNG with the JV accounting for approximately 7% of the world's total LNG supply. Infrastructure and fiscal terms however remain the key impediments to Nigeria becoming a key player in the global gas market.

The following table sets forth Nigeria's oil and gas reserves.

Nigeria Reserves Overview	December 31, 2016
Oil (billion bbls)	37.1
Gas (Tcf)	186.6
Total (billion boe)	70.1

Source: BP (Energy Outlook 2018 and Energy Outlook 2017)

Nigeria's oil industry began in 1956, when Shell D'Arcy, a Shell/BP joint venture, made the first commercial oil discovery in Nigeria at Oloibiri in the present-day state of Bayelsa). In the 1950s and 1960s, other international oil companies such as Gulf Oil and Texaco (now Chevron Corporation), Mobil (now ExxonMobil), Elf Petroleum (now TOTAL) and AGIP joined Shell D'Arcy in exploration across the Niger Delta. These E&P companies were later joined by other international companies such as Addax Petroleum (which was acquired by Sinopec in 2009), ConocoPhillips, Petrobras and others.

By the early 1970s, Nigeria had attained a production level of over 2 MMbpd, and was granted OPEC membership in 1971. The Nigerian government's participation coming through the Nigerian National Petroleum Corporation. NNPC was established in 1977, as a state-owned oil company with the primary aim of taking firmer control of the country's oil and gas resources. The Nigerian National Petroleum Corporation currently holds the majority stake in five of the joint ventures alongside the major oil companies listed above.

State participation & regulation

- **Nigerian National Petroleum Corporation (“NNPC”)** – The Nigerian National Oil Company (“NOC”) was formed in 1971. The NOC was mandated to acquire, on behalf of the Nigerian government, assets and liabilities in the existing foreign oil companies and to participate in oil and gas exploration. In 1977, the NNPC was formed by the merger of NOC and the then Ministry of Petroleum Resources.

NNPC is the majority shareholder of all government joint ventures, and is allocated an annual funding budget from the federal government, from which it meets its joint venture cash calls.
- **Nigeria Petroleum Development Company (“NPDC”)** – The NPDC was established in 1986 as a wholly-owned subsidiary of the NNPC with responsibility for the NNPC’s exploration and production activities. The NPDC currently operates a number of assets located both onshore and offshore. These assets include the OMLs divested by the Shell Petroleum joint venture between 2010 and 2011 and a non-operated interest in certain deep-water acreages.
- **Department of Petroleum Resources (“DPR”)** – The DPR is the regulatory body established in 1970 to exercise statutory supervision and control of the Nigerian oil and gas industry. The DPR’s supervision stretches across the upstream, midstream and downstream sectors.
- **National Petroleum Investment Management Services (“NAPIMS”)** – NAPIMS is a Corporate Services Unit (“CSU”) in the Exploration and Production (“E&P”) Directorate of the NNPC charged with the responsibility of managing the Nigerian government’s investment in the upstream sector of the oil and gas industry. NAPIMS oversees NNPCs investments in JVs, production sharing contracts and service contracts.
- **Federal Inland Revenue Service (“FIRS”)** – FIRS was created in 1943 having been spun-off from the Inland Revenue Department. FIRS’s mission is to operate a transparent and an efficient tax system that optimizes tax revenue collection and voluntary compliance. As approximately 80% of Nigeria’s foreign currency revenues are derived from the oil and gas industry FIRS plays an integral role in the wider management of Nigeria’s economy.

Operating framework

There are six primary legal arrangements for crude oil production currently in force in Nigeria:

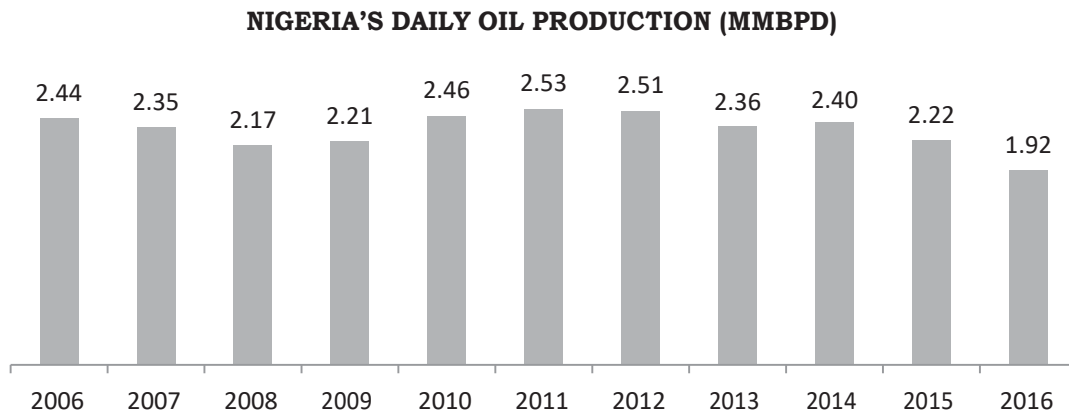
- **Concession/sole-risk** – an independent company with a concession bears the full risk and costs of exploration, development and production, has interests over the crude oil produced and is liable for all royalties and PPT payments. Currently, concessions in respect of OMLs are only awarded to Nigerian companies that have at least 51% of their shares held by Nigerian citizens.
- **Joint Ventures** – an arrangement that was formed when the Nigerian government acquired participation interests in OMLs held by the Nigerian subsidiaries of the international oil companies. In a joint venture, the government holds a majority interest in the OMLs and the relationship between the Nigerian government and the international oil companies is governed by the Joint Operating Agreement. Currently, NNPC directly participates in six joint ventures with Shell, ExxonMobil, Chevron, Total, AGIP and Pan Ocean. In addition, NPDC participates in joint ventures through a 55% equity share in OMLs 4, 38, 41, 26, 30, 34, 40, and 42.
- **Production Sharing Contracts (“PSCs”)** – adopted in 1993 as a result of increasing funding pressure from the joint ventures, a PSC is an arrangement pursuant to which the company bears the risk of exploration and, when oil is found in commercial quantities, the company is entitled to recoup its costs. If the operation is not commercially successful the company bears any losses. Thereafter crude oil is produced and shared by the company and the Nigerian government. In respect of PSCs involving the Nigerian government, the OMLs are held by the NNPC.
- **Marginal Fields** – an arrangement pursuant to which the private industry or non-governmental OML holder farms out certain fields within its license. In 2003, international oil companies were made to farm out to indigenous companies fields that had remained unproduced for more than 10 years. In 2003, many fallow fields were awarded to indigenous companies, although less than half of 24 such fields have begun production due to lack of access to capital or other obstacles.
- **Service Contract (“SC”)** – an arrangement pursuant to which the OML holder enters into a contract with a service contractor that provides risk capital for exploration and production. If no commercial discovery is made, the contract is then terminated with no further obligation on either party. If a

commercial discovery is made, the contractor is entitled to recover its costs and receive some additional periodical remuneration as specified in the contract. For example, Agip Energy and Natural Resources contract with NNPC in relation to OML 116.

- **Strategic Alliance Agreement**—an arrangement pursuant to which a company pays the cash call on behalf of the state oil company, NPDC, and recovers its investment by lifting cost oil and then taking a share of the ongoing profit oil.

Oil production

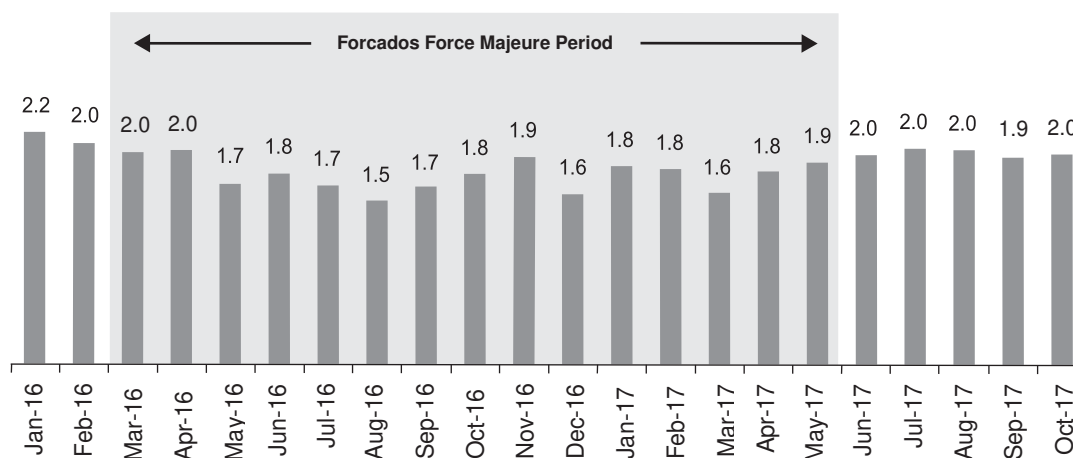
Nigeria has an estimated 37.1 billion bbls of oil reserves remaining with production coming from approximately 200 fields, over half of which are relatively small, onshore assets with small scale production (<0.01 MMbpd). In 2016, Nigeria's total oil production averaged 1.92 MMbpd, making the country the largest oil producer in Africa. The country's total production capacity however is closer to 2.5 MMbpd which would make it Africa's largest and in the top six globally.



Source: Energy Information Administration (Short-Term Energy Outlook, January 2018)

It should be noted that the decline in production in 2016 was as a result of the Forcados Force Majeure incident which saw Nigeria briefly lose its position as Africa's largest oil producer to Angola. Since the reopening of the Forcados Terminal, however, Nigeria has ramped up oil production to levels reached prior to February 2016, as evidence by NNPC production data.

NIGERIA'S DAILY OIL PRODUCTION 2016/2017 (MMBOPD)



Source: Nigerian National Petroleum Corporation (Monthly Performance Data)

The majority of Nigeria's current oil production comes from onshore fields. However, as these fields have matured and depleted, there has been an increased level of activity in shallow water and deep-water areas, largely driven by the Majors and other major international oil companies. The depressed oil price and uncertainty around fiscal terms, particularly the introduction of PIB, has however negatively impacted the development of deep water assets with many no longer considered economical due to high breakeven prices.

Nigeria is a member of OPEC and subject to the organization's production quota. However, the application of the OPEC quota system is limited to oil produced by NNPC and its joint venture partners, and does not apply to oil produced by Nigerian companies. Nigeria was exempt from OPEC restrictions as it looked to recover from production interruptions in 2016 and 2017 as a result of militancy operations in the Delta however in December 2017 OPEC announced that Nigeria's production would be capped at 2017 levels until the end of 2018.

Crude produced in Nigeria is typically sold to counterparties or buyers in Europe and Asia. The crude is sold via NNPC's trading arm, Duke Oil, which has a 0.09 MMBopd allocation and 38 other companies who each have a 0.03 MMBopd allocation. India and Indonesia are currently the largest purchasers of Nigerian crude. Historically the US has also been a major importer of Nigerian crude however this abated somewhat in 2014 and 2015 as a result of the shale revolution.

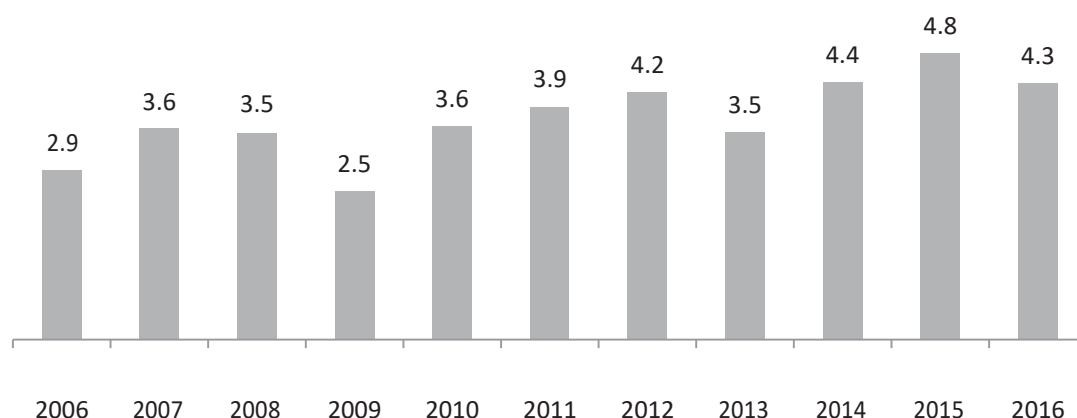
Finally, a significant proportion of the oil produced onshore is lost before it can be sold as oil companies face losses related to the theft of oil, known as "bunkering," at a rate between 0.1 MMBopd and 0.5 MMBopd. Most offshore fields are unaffected by bunkering.

Gas sector

According to the BP Statistical Review of World Energy 2017 Nigeria has an estimated 186.6 tcf of natural gas reserves and resources, making it the largest in Africa and 10th largest worldwide. Most of the country's gas reserves are of an associated nature, extracted as a result of oil production.

Commercial gas production in Nigeria commenced in 1976, although the volumes produced have been negligible when compared to oil volumes. Part of the issue historically has been due to the Nigerian government's regulation of the price of gas, which has historically been kept so low that it has been cheaper to flare it than collect and transport it to market. Nigeria produces in excess of 7.5 Bscfd of gas per day with approximately 40% (3.0 Bscfd) sent to NLNG at Bonny Island where it is liquefied and subsequently exported to Europe, Asia and the United States. The majority of the remaining gas is used for reinjection (approximately 25%) and sales to the domestic market (approximately 18%) with the amount flared reduced to just 11% in 2016 according to the DPR.

NIGERIA'S DAILY SALES GAS PRODUCTION (Bscf PER DAY)



Source: BP (Statistical Review of World Energy, June 2017)

Significant investment and development is required for Nigeria to be able to meet its domestic gas demand projections in the short to medium term. The NNPC expects domestic gas demand to rise to over 10 Bscf per day by 2020, from an expected 7 Bscf per day in 2017 while the Economist Intelligence Unit (EIU) forecasts that gas consumption will grow strongly from 2017 to 2021, at an annual average of 3.1%, reaching 16.1 million toe in 2021, up from 14.2 million toe in 2017. It is anticipated that the majority of the required additional gas supply will come from the indigenous companies.

The absence of adequate infrastructure and limited, but growing, domestic markets has been the primary obstacle to gas utilization in Nigeria. Nigeria currently has 7,000 MW of functional power generation capacity however only 5,000 MW of transmission capacity due to a lack of distribution infrastructure. Significant developments are expected in the “gas to power” space with the NNPC stating it will generate 4,000 MW of power in the next 10 years to boost supply in the country. This will involve the upgrade of its existing Okpai power plant, a JV with NAOC, and the construction of two new plants in Obite and Agura through further JV partnerships.

The existing network infrastructure is largely concentrated in the areas around Lagos and Port Harcourt.

NIGERIA'S GAS NETWORK INFRASTRUCTURE



In addition to the above, the West African Gas Pipeline (“**WAGP**”), a 678km pipeline, is designed to transport natural gas from Escravos in Nigeria to Ghana via Togo and Benin Republic. The pipeline has an initial capacity of 170 mscf/day, however, negligible amounts of gas are exported via this route.

Gas infrastructure projects

A significant impasse in the gas network, operated by the Nigeria Gas Transportation and Pipelines Company ("**NGTPC**"), is the absence of connections between the east and west. This is to be addressed by the OB3, 120km, 48-inch pipeline connecting the Obiafu-Obrikom gas plant in OML 61 to the Oben gas plant in OML 4 which is currently under construction.

NLNG is Nigeria's most significant natural gas project to date. The plant, which has six processing trains, has an annual production capacity of 22.5MT of LNG and 4MT of LPG. A 7th train has been earmarked as a key project for NNPC in 2018. Once completed, train 7 will increase NLNG's total production capacity to 30MT per annum.

The Dangote Industries Ltd sponsored East West Offshore Gas Gathering System ("**EWOGGS**") is one of the largest gas infrastructure projects currently being developed in Nigeria. The project consists of two 38", 550km offshore pipelines with a total throughput capacity of 3.0 Bscfd. The pipeline will seek to monetize the vast gas resources in the east of the delta by connecting them directly to the main demand center in and around Lagos.

Security

Nigeria has suffered from a long-standing and well-publicized militancy that has regularly disrupted production in the Delta. This militancy saw a significant increase with the rise of the Movement for the Emancipation of the Niger Delta ("**MEND**") during 2006-2007 which resulted in the introduction of an amnesty program in 2009. Under the amnesty program, various militant groups came to an agreement with the government to hand over their arms in exchange for a pardon, training opportunities, a commitment by the government towards developmental initiatives in the Niger Delta, and other incentives. The operating environment has been helped by the amnesty, and there was a significant increase in Nigeria's oil production in 2010.

The militancy has continued off and on with varying levels of severity since, under the guise of several splinter organizations, but ultimately believed to be under the authority of MEND's de-facto leader Government Ekpemupolo ("**Tompson**"). Typically, the incidents of crude oil theft ("**bunkering**"), small-scale vandalism and more serious sabotage have taken place in the onshore and swamp areas on poorly secured infrastructure that was easily accessible for the perpetrators. Although disruptive, this activity did not completely shut-down production as repairs could take place relatively quickly, in most cases within days.

The Nigerian government, in partnership with international oil companies, has embarked on a number of initiatives targeted at addressing oil theft in the Niger Delta. These initiatives include:

- increasing the joint task force patrol in the Niger Delta creeks;
- improving community relations between the oil companies and their host communities;
- educating host communities on the environmental impact caused by oil spills from damaged pipelines; and
- using technology for early detection of breaches in the pipelines.

However, following the 2015 elections the amnesty program was suspended by President Buhari and led to a significant up-turn in militant activity as the source of income for many influential people in the Niger Delta was lost. This culminated in the attack on the Forcados Oil Terminal sub-sea export line in 2016 which changed the threat landscape and highlighted a more sophisticated militant capability that had the potential to shut-down a significant portion of Nigeria's production for prolonged periods. The effect that this had on the Nigerian economy ultimately forced the Nigerian federal government to negotiate and make a series of concessions to satisfy the demands of the Niger Delta communities.

The other export terminals in the Delta have not been free from security issues. Although unsuccessful, it was reported that an attempted attack on the sub-sea export line at Bonny Island took place in September 2016 highlighting the vulnerability to copy-cat style attacks. In addition, the Nembe Creek Trunkline ("**NCTL**") and Trans Niger Pipeline ("**TNP**"), two major trunk lines in the Bonny export system, are susceptible to sabotage and bunkering and this has led to significant downtime over the years at the terminal.

Export Routes

Nigeria has a complex network of oil pipelines that link most of the developed fields in the Delta. For the majority of the onshore, swamp area and shallow water fields their production converges into one of five main pipeline systems that terminate at five onshore oil terminals (see below) from where oil export to the international market takes place.

NIGERIA'S PRIMARY CRUDE EXPORT ROUTES



The Forcados incidents in 2016 highlighted the capability of militant groups to directly attack the onshore oil terminals and this is now a threat that cannot be ignored with many companies ensuring they have multiple export routes available to them. The terminals are significant assets for the major international oil companies that operate them and a major source of revenue for the Nigerian state, therefore protecting them has been prioritized by the Nigerian government. It should be noted that the duration of any disruption to export would not be related to the time taken to repair the damage, which in most cases would be relatively short (approximately 1–3 months) for even the more severe attacks. It would, in reality, be dictated by the political situation that had led to the specific attack that would determine the willingness, or even the ability, of the terminal operator to make those repairs.

Petroleum Industry Bill

On May 25, 2017, the Nigerian Senate (the upper house of the bicameral Nigerian House of Assembly) passed the Petroleum Industry Governance and Institutional Framework Bill ("**PIGB**"), after several years of political delays. The PIGB has subsequently taken a further step to becoming a law of the Federal Republic of Nigeria as it was passed by the House of Representatives (the lower legislative chamber) on January 17, 2018. The final step required is the signature and accession by President Buhari. See "*Regulation – Petroleum Industry Bill*" and "*Risk factors – Risks relating to operating in Nigeria – The regulatory environment in the oil and gas sector in Nigeria is subject to significant ongoing change*" and "*Industry and Market Data – Overview of the Nigerian Oil and Gas Industry – Petroleum Industry Bill.*" The PIGB is one of the four bills comprising the Petroleum Bills. The Petroleum Bills adopted an all-encompassing approach to the reform of the operations and regulation of the Nigerian petroleum industry. Local sector growth and asset opportunities

A large portion of Nigeria's onshore, commercially recoverable resources are dispersed across a wide range of small fields. A number of these fields were drilled and tested decades ago, and logged hydrocarbons within a range usually considered less attractive by most of the international oil companies. Most of these

discovered resources have been lying undeveloped for years and are deemed non-material by most of the international oil companies. This presents an opportunity for Nigerian companies that have the willingness and ability to commercially exploit these discoveries thanks to their lower overhead costs and flexible personnel allocation.

Since 1996, the Nigerian government has engaged in a resource-optimization exercise which is aimed both at the development of a sustainable, Nigerian upstream industry and the full monetization of the country's resources. A key driving objective was to establish a more stringent relinquishment policy, by which international oil companies (and other non-Nigerian license holders) were pushed either to accelerate the development of "marginal" assets or to return them back to the Nigerian government, an alternative being to farm them out or to dispose to Nigerian oil companies.

Marginal fields development program and bidding rounds

In 1996, the Petroleum Act 1969 was amended to give the Nigerian government the power to order the farm-out of marginal fields to Nigerian companies in exchange for farm-out fees and royalty payments. This amendment was part of measures/initiatives by the Nigerian government to encourage local participation in the full and efficient monetization of the country's natural resources. The new rule also sought to reduce the rate of abandonment of mature fields that, whilst not commercially attractive to the international oil companies, would instead constitute the core of Nigerian companies' portfolios.

Marginal fields are defined in the Guidelines for Farm-out and Operation of Marginal Fields issued by the Department of Petroleum Resources of the Ministry of Petroleum Resources in November 2013 as fields that have reserves reported annually to the DPR and have remained unproduced for over 10 years. Specified marginal fields have some or all of the following characteristics:

- are not considered by license holders for development because of assumed economics under prevailing fiscal and market conditions;
- have had at least one successful exploratory well drilled on the structure and have been reported as oil and gas discoveries for more than 10 years, with no follow-up appraisal or development effort;
- have crude oil characteristics different from current streams, which cannot be profitably produced through conventional methods or current technology;
- have high gas and low oil reserves;
- have been abandoned by the leaseholders for upwards of three years for economic reasons; and
- the present leaseholders may consider farming out due to portfolio rationalization.

The initial bidding-round for marginal fields was held in 2003, under the Guidelines on Farm-out and Operation of Marginal Fields (August 2001), where 24 "marginal" licenses were awarded to 31 Nigerian companies. Whilst these companies were permitted to enter into agreements with international oil and gas companies for assistance with financing and technical support, such international companies are not permitted to hold more than a 40% participating interest in the marginal fields. Notwithstanding a decade-long effort by the Nigerian government, less than half of the 24 fields have been developed contributing very little to the country's overall production.

The marginal field initiative has however had some positive impact. Nigeria is the only country in sub-Saharan Africa with a home-grown E&P industry made up of over 100 indigenous companies in the upstream sector.

The DPR is understood to be planning a further licensing round in early 2018 whereby over 40 more fields will be made available, 25 of which have production potential of 5 MMbopd to 10 MMbopd. It is expected that the Government would hold a larger interest in these fields than it has previously. Uncertainty remains surrounding the fiscal terms associated with these new licenses particularly given the proximity of the elections in 2019.

International oil companies' assets divestment processes

Alongside the marginal field development program noted above, it is expected that international oil companies will continue with the process of divesting oil blocks, particularly those located onshore, in swamp land or in shallow waters where there are the additional local community and security issues to take into consideration. In efforts to further rationalize portfolios and achieve economies of scale, most of the

large international oil companies have gradually shifted their operational focus to larger discoveries, often taking them further offshore and in deeper water ranges where they still possess technological and capital advantages over domestic oil companies.

The wave of divestitures referenced above began with Shell Petroleum JV's sale of interests in OMLs 4, 38 and 41 and has continued with other assets through a combination of negotiated sales and competitive auctions. Subsequent to the start of the Shell Petroleum JV divestitures, ConocoPhillips, for strategic reasons, also started the process of exiting its business in Nigeria (among other countries) and Chevron Nigeria Ltd ("**CNL**") soon followed Shell Petroleum and ConocoPhillips by divesting its interest in five Nigerian assets.

The Shell Petroleum JV divestiture process brought about a new class of Nigerian companies, all of which acquired producing acreage and as such are exposed to lower exploration risk than their counterparts that hold OPLs. This has allowed these companies to better access to large amounts of capital which might otherwise have proved challenging. The companies that have thus far benefited from the Shell Petroleum JV divestiture include; Seplat, Neconde Energy Ltd, First Hydrocarbon Limited, Elcrest E&P Nigeria Ltd, Niger Delta Western, Shoreline/Heritage Oil, Newcross E&P Ltd, Eroton E&P Ltd and Aiteo Eastern E&P Co. Ltd.

In 2012, ConocoPhillips announced its intention to divest its Nigerian business unit and, in December 2012, ConocoPhillips entered into an agreement to sell its Nigerian business to Oando Energy Resources, an affiliate of Oando Plc. The Nigerian business unit included two offshore properties consisting of a 95 percent operating interest in OML 131 (Chota field) and a 20 percent non-operated interest in OPL 214 (Uge field), as well as a 20 percent non-operated interest in onshore OMLs 60, 61, 62 and 63, a 20 percent non-operated interest in the Kwale-Okpai Independent Power Plant and a 17 percent non-operated interest in the Brass LNG project.

Similar to the Shell Petroleum JV divestiture process, CNL also sought to rationalize its portfolio in 2015 through the divestment of its 40 percent interest from the onshore blocks OMLs 52, 53, and 55 and the offshore blocks OMLs 83 and 85. OML 52 was acquired by Amni Petroleum, OML 53 by Seplat and OML 55 by BelemaOil while OMLs 83 and 85 were acquired by First Exploration & Petroleum Development Company.

There is the expectation that major international oil companies' divestments will continue in Nigeria providing attractive opportunities for Nigerian companies to gain access to ready-to-drill discoveries located onshore, in swamp land or in shallow waters and achieve material increases in scale.

OUR BUSINESS

In this Offering Memorandum, the words “we,” “us,” and “our” refer to Seplat Petroleum Development Company Plc together with its subsidiaries on a consolidated basis, except where otherwise specified or clear from the context. The commercial reserves and contingent resources data presented in this section have been estimated at our request by Ryder Scott in accordance with PRMS guidelines and definitions. Estimated commercial reserves and contingent resources presented herein may differ from estimates made in accordance with guidelines and definitions used by other companies in the industry or by the SEC. See “Presentation of financial and other information.” **Unless otherwise indicated, all production figures are presented on a net to our working interest basis or our financial interest, as applicable. Where gross amounts are indicated, they are presented on a total basis—i.e., the actual interest of the relevant license holder in the fields and license areas without deduction for the economic interest of other participants, taxes or royalty interests or otherwise.** See “—Material agreements relating to our assets” for a more detailed discussion of the terms of the agreements governing our interests. Any projections and other forward-looking statements in this section are not guarantees of future performance and actual results could differ materially from current expectations. Numerous factors could cause or contribute to such differences. See “Risk factors” and “Forward-looking statements.”

Overview

We are a leading independent indigenous upstream oil and gas company operating in Nigeria. As an upstream oil and gas development and production company, our focus is on growing cash flows by maximizing hydrocarbon production and recovery from our existing production and development assets. In the year ended December 31, 2017, our revenue was \$452.2 million, our Adjusted EBITDAX was \$216.5 million and our production averaged 36,923 boepd (48.4% liquids). As at January 1, 2018, our 2P reserves were 477.2 MMboe and 2C contingent resources were 60.6 MMboe. We are listed on both the Nigerian Stock Exchange (“**NSE**”) and the Main Market of the London Stock Exchange (“**LSE**”) with a market capitalization of £706 million as at February 27, 2018. We have working interests in five of our six assets.

The following table sets forth a summary of field type, working interest average daily production for the years ended December 31, 2015, 2016 and 2017.

Assets	Field type	Working interest	Operator	Working interest production		
				Year ended December 31,		
				2015	2016	2017
OMLs 4, 38 and 41	Oil and gas	45%	Seplat			
Oil (bopd)				25,461	7,452	15,777
Gas (MMscfd) ⁽¹⁾				86	95	114
Oil equivalent (boepd)				39,830	23,238	34,847
OML 53	Oil and gas	40%	Seplat			
Oil (bopd)				686 ⁽²⁾	1,182	1,075
Gas (MMscfd)				—	—	—
Oil equivalent (boepd)				686	1,182	1,075
OPL 283	Oil and gas	40%	Pillar Oil			
Oil (bopd)				1,113	612	1,001
Gas (MMscfd)				—	—	—
Oil equivalent (boepd)				1,113	612	1,001
OML 55⁽³⁾	Oil	n/a	Asset Management Team			
Oil (bopd)				1,743 ⁽⁴⁾	845 ⁽⁵⁾	—
Gas (MMscfd)				—	—	—
Oil equivalent (boepd)				1,743	845	—
Total (boepd)				43,372	25,877	36,923

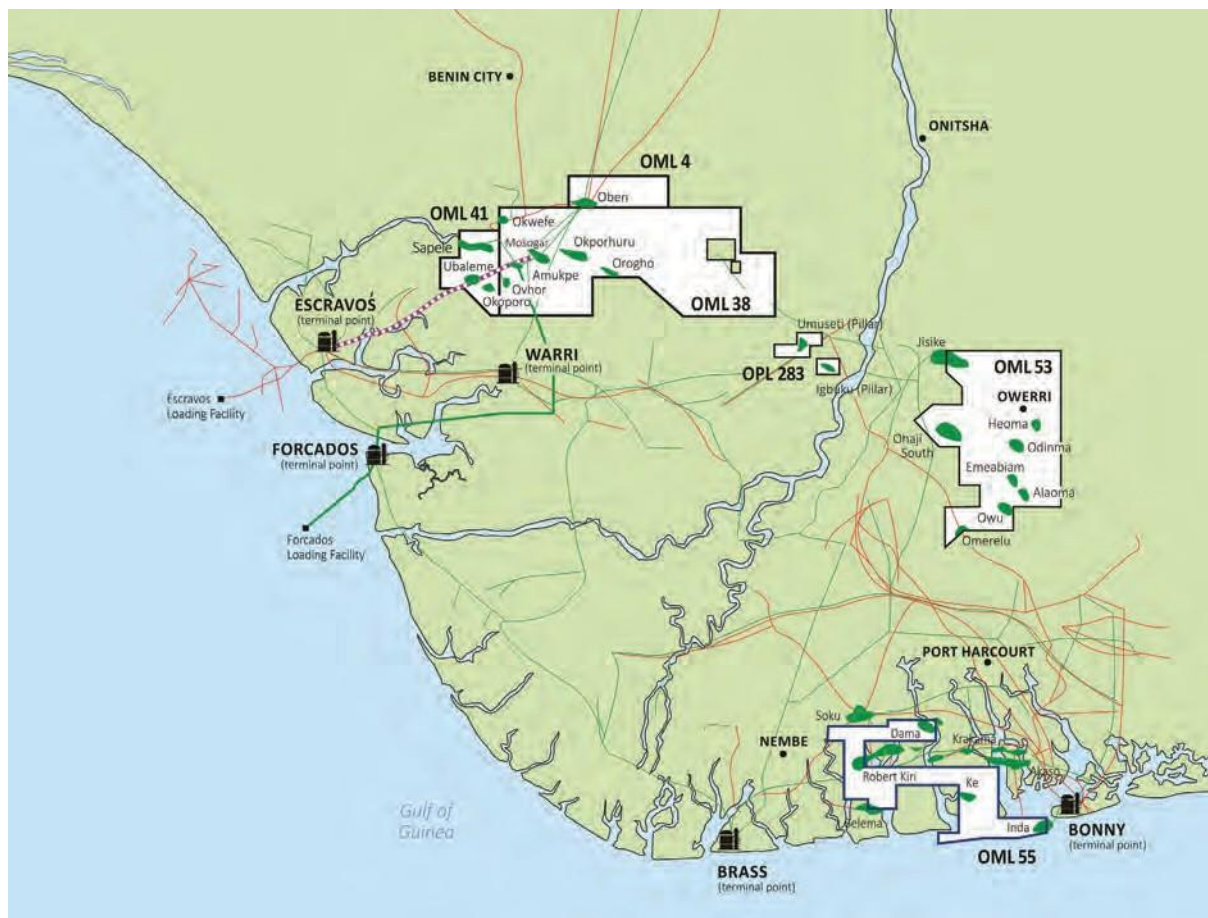
- (1) Our working interest gas production at OMLs 4, 38 and 41 does not reflect our further entitlement to gas revenues attributable to the Nigerian Petroleum Development Company’s (the “**NPDC**”) 55% interest under our agreement with NPDC to offset a portion of its outstanding receivables. See “Management’s discussion and analysis of financial condition and results of operations – Significant factors affecting results of operations – NPDC receivables”
- (2) We completed the acquisition of our interest in OML 53 in February 2015. Our 2015 working interest oil production at OML 53 is derived from actual oil production from February 2015 through December 2015, which has been annualized across the entire year.
- (3) Under the OML 55 Deed of Settlement and Release, we are no longer a shareholder in Belema Oil, but instead have a financial interest in the asset until a discharge sum of \$330 million has been paid to us through the monetization of oil reserves at OML 55.

Until the discharge sum is paid, we continue to recognize an interest in the OML 55 reserves. After the discharge sum is paid, we will no longer have any interest in OML 55. See “Management’s discussion and analysis of financial condition and results of operations – Factors affecting comparability – BelemaOil.”

- (4) We completed the acquisition of our interest in OML 55 in February 2015. Our 2015 working interest oil production at OML 55 is derived from actual oil production from February 2015 through December 2015, which has been annualized across the entire year.
- (5) Working interest production at OML 55 for the year ended December 31, 2016 has been calculated by annualizing average working interest production values from January 2016 to May 2016.

Oil business

Our portfolio comprises interests in six oil and gas assets, comprising five working interests and one financial interest. The graphic below presents the location of our oil and gas assets and related infrastructure.



We are the designated operator at four of the blocks in which we have working interests. All six assets are located onshore in the Niger Delta area. Since we acquired our first blocks and commenced production in 2010, we have increased oil and gas production and grown reserves through both organic activities and strategic acquisitions. Under our operation, gross operated liquids production at OMLs 4, 38 and 41, which are our most productive assets, has grown from an average daily gross oil production of approximately 14,000 bopd when we first acquired our interest in the blocks in August 2010 to approximately 67,000 bopd average daily gross production in December 31, 2017, representing a five fold average daily production increase. We have also significantly increased gross operated gas sales from 105 MMscfd in August 2010 to 324 MMscfd in December 2017, reflecting a threefold average daily gas sales increase. Our drilling and development activities at our core producing assets have also delivered organic reserves growth, driven largely by conversion of 2C resources to 2P reserves, which has been augmented via strategic acquisitions of interests in OMLs 53 and OPL 283 (which is located within OML 56). Our working interest 2P reserves have grown from 141 MMboe as at December 31, 2010 to 477.2 MMboe as at January 1, 2018, of which 213 MMboe working interest 2P reserves were converted from 2C resources while we acquired the remaining 197 MMboe working interest 2P reserves. Our oil is exported through third party infrastructure and sold internationally at a premium or discount to spot rates depending on prevailing market conditions and

quality. We aim to maintain access to multiple export routes for each of our assets in order to minimize the impact of downtime at any specific route.

Gas business

We are also a leading producer and supplier of natural gas to the Nigerian domestic market. The graphic below presents the location of our gas and related infrastructure.



We consider natural gas to be a valuable primary commodity rather than a by-product and we believe natural gas will continue to form a significant component of our revenue and future success in Nigeria. Unlike other entities in the Nigerian oil industry that historically approached natural gas primarily as a by-product of oil production, we invested early in the primary development and monetization of the large-scale gas reserves that exist on our blocks. We have increased our gross natural gas output from 99 MMscfd in 2010 to an average of 254 MMscfd in 2017 with, a post-force majeure daily average of 283 MMscfd. Based on the NNPC monthly financial and operations report documenting the total gas supplied to the domestic market, we believe we supplied sufficient gas to underpin up to one-third of the Nigerian on-grid domestic power gas generation in the year ended December 31, 2017. In order to commercialize our gas resources, we have invested in the installation of dedicated gas processing facilities as well as in the drilling of gas production wells, both to meet government mandated domestic supply obligations and to provide feedstock to the Nigerian power and industrial sectors. In 2016 and 2017 we increased the gas processing capacity at our Oben gas processing plant, located on OML 4 and currently our most productive gas asset, to 465 MMscfd. Together with 60 MMscfd of processing capacity at the Sapele gas processing plant, this increased overall operated gross processing capacity to 525 MMscfd. Our investment has provided us with the capacity to increase production at our operated assets while also providing capacity to process third party gas volumes, if we determine to do so in the future, to further boost supply of processed gas to the domestic market and address some of the current gas supply deficits in thermal power generation. The Oben facility is also strategically positioned to provide a hub for access to the Lagos and Abuja markets, Nigeria's main gas demand centers, as well as providing the ability to export gas to neighboring markets via the West African Gas Pipeline. All of the gas we produce is currently sold in-country, priced in U.S. Dollars and paid in Naira using the CBN exchange rate. See "Currency Presentation and Exchange Rate Information – CBN Exchange Rate." We believe that the current capacity deficit in thermal power generation provides capacity for the placement of additional gas volumes. Our acquisition of OML 53 in 2015 provided us with an opportunity to play a key role in the ANOH development project, which is expected to be one of the largest onshore greenfield gas condensate development projects in Nigeria's history.

According to the Gas Master Plan, developed by Nigeria National Petroleum Company (the "NNPC"), domestic gas demand is expected to increase significantly as the government seeks to increase power

generation in line with its 2020 targets. See “Risk factors – Risks relating to operating in Nigeria – The regulatory environment in the oil and gas sector in Nigeria is subject to significant ongoing change.” We have experienced an increase of approximately 19% in our average realized gas price and a strong growth in demand from creditworthy buyers since 2014, and believe we are well positioned to continue to benefit from demand trends and improved infrastructure. Investing in natural gas production and processing facilities also allows us to diversify our business, both in terms of product and geography, which can help mitigate the impact of oil price volatility, oil production interruption or other industry events.

Strengths

Attractive portfolio of producing assets with a substantial oil and gas reserves base

We acquired our first asset in July 2010 from the Shell Petroleum Development Company Limited (“**Shell Petroleum**”), the Nigerian AGIP Oil Company Limited, total E&P Nigerian Limited (formerly ELF (Nigeria) Limited), collectively, the “**Shell Consortium**” obtaining a 45% participating interest in, and becoming operator of, OMLs 4, 38 and 41, and since that time we have continued to build an attractive portfolio of onshore oil and gas assets in Nigeria with low extraction costs. Our portfolio of assets combines a focus on production, with a significant reserve base and a decline rate of around 10-12% per annum from producing wells at OMLs 4, 38 and 41. Our total production rates have grown significantly since inception to an average gross daily production of 67,000 bopd and 382.4 MMscfd, for oil and gas respectively, in the year ended December 31, 2017, attributable to our value-oriented work programs which have helped achieve organic growth and also arrest our oil production decline rate. Our portfolio has strong underlying performance, with an average production of 43,372 boepd, 25,879 boepd and 36,923 boepd during the years ended December 31, 2015, 2016 and 2017, respectively, as well as diversification across wells, reservoirs and fields. Our average production in the year ended December 31, 2017 reflects over 180 days of production interruptions at our core asset, OMLs 4, 38 and 41, as a result of the Trans-Forcados pipeline *force majeure*. Additionally, our low capex and opex spending on a per barrel basis demonstrates the quality of our assets and our ability to maintain cost effective production, even in low oil price environments. As of January 1, 2018, our aggregate 2P oil reserves were 226.3 MMbbls and our gas reserves were 1,456 MMscf. In addition, we also have significant undeveloped resources, including 2C resources of 60.6 MMboe.

Portfolio diversification through a thriving gas business

We have grown our gas business from an average daily gas production of 105 MMscfd in August 2010 to 324 MMscfd in December 2017, representing a CAGR of 17%. We also increased our 2P gas reserves from 70 MMboe as at December 31, 2010 to 251.0 MMboe as at January 1, 2018, representing a CAGR of 20%. Our increase in reserves and production has gone hand-in-hand with strategic investment and development in our gas processing facilities. As a sole risk project, we successfully implemented a two-phase upgrade to our Oben gas plant, which is itself strategically located with access to Lagos and Abuja, Nigeria’s two primary gas demand centers. Phase I, of the Oben hub expansion, implemented in 2015, included the installation of a new 150 MMscfd processing plant, doubling our gross processing capacity to 300 MMscfd. Phase II, implemented in 2016, included the installation of three processing modules to bring our gross processing capacity at Oben to a minimum of 465 MMscfd as well as the installation of 100,000 total bbls condensate storage tanks to support continual gas production. In 2017, we also installed two additional 10 MMscfd compressors at the Oben flow station, which help reduce associated gas flares and redirect associated gas for sale via the Oben gas plant. Additionally, we have entered into multiple long-term gas contracts, which improve our revenue stabilization and long-term development and strategic planning capabilities. See “Our business – Material agreements relating to our assets.” Our overall investment in our gas production and processing capacity is the foundation of what we believe to be our ability to supply enough processed gas to underpin up to one-third of Nigeria’s current on-grid power generation. With a further 60 MMscfd of gas processing capacity at the Sapele facility, we currently operate an overall gross gas processing capacity of 525 MMscfd.

Our gas business allows us to diversify our overall portfolio and mitigate risks associated with the oil business. prices are “delinked” from oil prices, providing us with a natural hedge against fluctuations in global oil prices. Historically there has been a low correlation between oil prices and realized gas prices, for example, while average realized oil price dropped by 21% between 2015 and 2016, average realized gas price increased by 19% in the same period. Furthermore, our installation of the 100,000 total bbls capacity storage tanks, combined with our Warri refinery barging operations, means that our gas condensate evacuation are largely unaffected by downtime at the Forcados terminal. Additionally, through the

Associated Gas Fiscal Arrangement, the Nigerian government incentivizes gas investments by allowing gas producing companies to net gas capital expenditures and operating expenses off oil revenues.

Significant operating experience with an established technical track record of reserve replacement and production growth

We act as the operator at four of our assets, providing us with significant operational control over our asset production and investments. For example, 94% of our 2017 annual production was under our operational control. We believe we run a highly efficient operation using up-to-date technology which enables us to optimize value from our assets. We have consistently, and significantly, increased reserves in our portfolio through organic and strategic acquisition-related growth, with 2P reserves increasing significantly in the last seven years from 141 MMboe as at December 31, 2010 to 477.2 MMboe as at January 1, 2018, representing a CAGR of 24%. Part of the increase in our reserves stems from our ability to convert 2C resources to 2P reserves, and since our inception, as of January 1, 2018, we have converted 213 MMboe as well as increased our average daily gross production from approximately 14,000 bopd in August 2010 to 67,000 bopd in December 2017. We have also increased our gas production from 99 MMscfd in August 2010 to 254 MMscfd for the year ended December 31, 2017, representing a CAGR of 14%. We have historically increased oil and gas production by drilling additional wells on our existing acreages and by employing advanced and proven technologies to increase production in mature fields. In parallel with our increased gas production, we have also invested in gas processing infrastructure, such as the additional processing plant and modules at the Oben hub, to ensure we are able to fully commercialize our gas resources.

Prior to the 2016 *force majeure* at the Forcados terminal, our oil production had increased from an annual average oil and gas production rate of 22,679 boepd to 43,372 boepd from 2010 to 2015. Following the lifting of the *force majeure* in June 2017, production was restored to prior levels almost immediately. During the *force majeure* we maintained close to 20% of oil and condensate exports from OMLs 4, 38 and 41, which were originally expected to go through the Forcados terminal, via barging out of Warri refinery jetties. In addition, we have been steadily decreasing our downtime and transmission losses and our reconciliation factor has reduced from up to 12% in 2015 to 3.5% in 2017 jointly due to our installation of a Lease Automated Custody Transfer ("**LACT**") unit in late 2014 and increased DPR supervision in oil production reconciliation. We anticipate our crude evacuation flexibility will be further bolstered once the Amukpe to Escravos route is completed, allowing us to shift production to the additional export route, with sufficient redundancy then being available to us across all three export routes to minimize the impact of downtime, reconciliation and capacity limitations.

Our success in achieving oil and gas production and reserves growth is underscored by a strong health, safety, security and environment ("**HSSE**") track record. We have had no fatalities for the past five years and an LTIF of 0.00, 0.30 and 0.31 in 2015, 2016 and 2017 respectively.

Uniquely positioned to capture growth in the domestic gas market

We believe we are strategically positioned to benefit from growing gas demand in Nigeria. Our gas reserves and resources are strategically located in the center of an existing network of gas infrastructure (including gas pipelines and power plants) and this position along with the use of alternative export routes during Trans-Forcados Pipeline downtime supports regular gas production and supply to the domestic market. The map below shows the existing and planned gas infrastructure in Nigeria. As shown in the map, the Oben hub is strategically located to access both the Lagos and Abuja markets, as well as having the ability to export gas condensate via the Warri refinery.



Gas is important to Nigeria's economy and we have increasingly cemented our position as a strategic gas player in Nigeria by becoming one of the main suppliers to the domestic market. Nigeria currently faces a per capita electricity deficit despite growing gas demand and we believe that this supply deficit creates a market for our growing gas production. In 2017, we believe that the processed gas we supplied to the domestic market was sufficient to underpin up to one-third of Nigeria's domestic on-grid power generation. Our investment in the gas industry has helped us build strategic relationships with the Government which was illustrated when we were granted an expedited export license from Warri during the Forcados terminal shutdown in order to ensure continuous production of our associated gas (i.e. without an export route for our oil, in particular condensate, gas production would have been forced to stop once our storage terminals were filled up).

The domestic gas market in Nigeria has been growing since the Nigerian government more than doubled the domestic supply obligation price. The domestic supply obligation is a government mandated domestic supply obligation that requires all operators in the oil and gas sector in Nigeria set aside part of their production and gas reserves to supply gas to the local market. The domestic supply obligation price of gas was set at \$2.50 Mscf in 2014, where it remains today. In addition, Nigeria's per capita gas demand is growing which has resulted in new power plants requiring gas for their operations and plans to further develop the gas infrastructure and network connectivity, in particular, through the development of the OB3 pipeline to connect the East and West gas hubs. Nigeria currently faces a per capita electricity deficit and we believe that this supply deficit creates a market for our gas processing capacity. Furthermore, the Nigerian government has indicated it would like to shift consumption away from more expensive red diesel, further incentivizing gas infrastructure development and positioning us to utilize our expanded gas processing capacity to fill gaps in supply. We believe our emphasis on our gas business will allow us to capitalize on the growing demand for gas in Nigeria and benefit from the lower royalties and taxes associated with onshore gas sales which are 7% and 30%, respectively, for onshore gas producers compared to 20% and 85% for onshore oil gas producers.

Prudent management through the commodity cycle minimizing operational and financial risk

Operational

Our operations consist of an established infrastructure which has been further enhanced through prudent management and optimization. We have access to significant evacuation and storage infrastructure allowing for efficient and cost effective export methods. We have also sought to diversify our export routes to mitigate the risks of downtime via any specific route. While the Trans-Forcados system has historically been our primary export route, we have established a direct pipeline link to the Warri refinery to utilize the Warri refinery jetties as an alternative export route via barging with our offtaker Mercuria. In addition to export

via the Forcados terminal and Warri refinery, we anticipate that the new Amukpe to Escravos pipeline will become operational in the third quarter of 2018, providing a third export route for oil and gas produced on OMLs 4, 38 and 41. We expect that this additional pipeline, in combination with our access to the Forcados system and the Warri barging arrangements, will provide adequate redundant capacity to enable us to mitigate the majority of any potential impact of future downtime on any of our evacuation routes and significantly de-risk the distribution of oil production to the market. The Escravos pipeline will be between five and fifteen meters underground, making bunkering more difficult compared to above ground pipelines. The Escravos pipeline is designed to provide 160,000 bopd gross capacity. In line with our export diversification plan, once the Escravos Pipeline is operational we intend to export OMLs 4, 38 and 41 production via all three export routes.

Our gas strategy has focused on the commercialization of our gas business with expanded processing capacity of 525 MMscfd in 2017, up from 150 MMscfd before the commencement of our Oben hub expansion program, including the modular build-up of our processing capacity at the Oben facility. We have also installed 100,000 bbls of storage capacity to support continual associated gas production. The additional storage combined with the diversified export routes provides flexibility to continue gas production in the event of interruptions to our traditional export routes. The 375 MMscfd gas expansion at Oben was funded by Seplat as a sole risk project.

We have secured a number of medium to long term gas sales agreements covering firm and variable commitments. Our total contracted gas volumes are up to 436 MMscfd. We believe these contracts provide long term value for our business, as well as, in some cases, visible cash flows with take or pay provisions and third party payment guarantees.

Financial

Our operational control of most of our assets provides us with the ability to manage our operations and related operational and capital expenditures with most of our capex being discretionary. We have minimal maintenance capex requirements, as evidenced by our successful and prudent financial policies used under the lower oil price environment and export and infrastructure challenges in 2015 through 2017. We can quickly scale back drilling programs and capital projects during downturns or in the face of unforeseen events, and we have the flexibility to optimize our operations through additional investment during normal operating periods. For example we reduced our total capital expenditure from \$152 million in 2015 to \$34 million in 2017. Furthermore, our focus on onshore operations gives us shorter lead times compared to offshore/ deep water projects, creating further flexibility and foresight on our capital expenditures. We also maintain and continually improve our robust cost controls, with the low production opex per boe of \$5.96 in 2017, reflecting a 27% reduction in production opex from 2015 to 2016 and a further 32% reduction from 2016 to 2017.

In addition we have reduced our total debt, by achieving a \$422 million debt reduction from January 2015 to December 31, 2017. This debt reduction was funded through internal cash flow generation and cash on balance sheet. We continually monitor our debt profile and seek to maintain a prudent level in order to provide sufficient headroom to allow for unforeseen volatility. We also carefully track our liquidity buffer utilizing cash generated from operations and cash on hand, the latter of which stood at \$437 million as at December 31, 2017. We strategically utilize short- and long-term debt and equity financings alongside our cash flow from operations in order to finance our cash needs and the growth of our business. In addition, we have also been successful in reducing the outstanding receivables owed to us by the NPDC from \$239 million as at December 31, 2016 to \$113 million as at December 31, 2017. Finally, we seek to reduce our exposure to risks associated with movement in commodity prices by applying an annual hedging program that is determined by our Board. Our senior management has the authority to execute our hedging strategy within budgetary limits set by the Board. For the 2018 fiscal year, we have hedged a total 6.6 MMbbls at a weighted average strike price of \$44.5/bbl via deferred premium puts at a total cost of \$4.5 million.

Advantaged position as a leading indigenous operator

We are one of the leading indigenous oil and gas operators in Nigeria and one of the first to acquire assets from major international oil companies as part of their Niger Delta onshore divestment programs in 2010. We are also one of the first indigenous companies to be granted operatorship from the NPDC when we began operating OMLs 4, 38 and 41 (and subsequently OML 53). Following our initial acquisition (OMLs 4, 38 and 41) we have made three further acquisitions, a 40% interest in both OPL 283 and OML 53, and

a financial interest in OML 55 where we expect to receive about \$300 million in revenues in the next five years from asset operations. The Nigerian government is promoting indigenous ownership and further onshore and shallow water divestments are being offered to consortiums with majority ownership from indigenous Nigerian companies. Given our indigenous nature and demonstration of operational excellence, we believe we are strategically positioned within the Nigerian oil and gas market.

In addition to our strong working relationship with the regulators, we have built a strong working relationship, and generated deep proactive community engagement in the communities in which we operate, which we call the “Seplat Model.” We have agreed a comprehensive Global Memorandum of Understanding (the “**GMOU**”) with local communities in OMLs 4, 38, and 41 and OML 53 in order to engage positively with the communities, provide investment in healthcare, education, infrastructure development and environmental stewardship, as well as promote the security of our facilities and employees. The GMOU provides a framework within which we and the host communities work together to encourage sustainable community development by improving essential infrastructure, such as health centers, schools and water projects. The GMOU was most recently renewed for a further five years in January 2016. We work with the communities that inhabit areas in close proximity to the fields and pipelines to manage the security and operation of those assets (by, for example, employing local contractors) and promote community engagement through our use of local contractor preferences. In 2017, 2,252 of our 2,404 registered contractors and vendors were indigenous. We have had year on year increases in recruitment from local communities, with 98% of our employees being of Nigerian nationality as of December 31, 2017. Community engagement has been essential in reducing the rate of disruptions, with zero incidents of disruptions on self-owned pipeline infrastructure since 2013.

We also strive to maintain strong principles of environmental stewardship and have implemented regular monitoring of effluents and emissions, implemented a rigorous waste management plan and conducted environmental impact assessments and environmental evaluation studies on upstream projects. As a result, over the last five years, we have reduced flares-to-gas production from 32% in 2013 to 8% in 2017 and volume of oil spilled due to our operations from 70 bbls oil spill volumes in 2013 to 16 bbls oil spill volumes. Through our HSSE initiatives, we consistently achieved a low LTIF in recent years, demonstrating a commitment to improving our health, safety and environment standards. As a matter of business priority, we continually strive to adhere to the highest HSSE standards and procedures when conducting our business.

We have also maintained a strong safety track record, targeting and achieving zero fatalities in the past five years. We have implemented safety procedure systems, and increased our incident reporting and investigations, as well as implemented periodic health screening for staff and contract employees.

Experienced management and strong corporate governance

Our management team has a deep understanding of both the complex oil and gas industry, as well as the communities and social dynamics in which we operate, which we believe are fundamental to the success of our business. Our senior executive and operational management team have considerable technical and operating experience in the oil and gas industry, previously working for major reputable international oil companies as well as independent indigenous oil and gas companies. Dr. A.B.C. Orjiako and Mr. Austin Avuru, our Non-Executive Chairman and CEO, respectively, have a comprehensive understanding of Nigeria’s operating environment, as well as over 50 years of combined experience in the oil and gas industry. Our board of directors also includes highly qualified members with extensive experience in the oil and gas industry. The Board has been strengthened by the addition of a number of experienced independent non-executive directors and is currently comprised of six independent non-executive directors. We believe that the local ties of members of our senior management and board are beneficial to our relationships with the local communities where we operate. In addition, we are the only Nigerian corporation to be dual listed on both the NSE and the main market of the LSE and we are subject to and measure ourselves against both the Nigerian and the UK corporate governance codes. We are committed to high standards of corporate governance and have adopted a detailed board charter and codes of conduct that reflect these standards and are implemented across our business.

Strategies

Maximize production and cash flows from our existing assets

We aim to continue to generate strong returns from our assets through proactive asset management, targeting year-on-year production growth and improvements in operational efficiency. We aim to increase

oil and gas production at our existing assets by investing in drilling new wells, completing workovers of existing wells, and executing strategic capital projects through a disciplined capital allocation approach. To achieve our sustainable growth aspirations, maintaining strict cost control, implementing the most appropriate technical solutions and organizing ourselves and our service providers so that we deliver projects on time and within budget is a top priority. We believe that our status as operator of our key assets enhances our ability to execute our production growth plans, in particular as our strict cost discipline enables us to generate strong margins and cash flows from our production. Being operator also allows us to run a flexible work program by responding to the realities of the business and economic environment and positioning ourselves to access growth opportunities. In addition to cost controls, we plan to continue improving operational efficiency by maximizing uptime and reducing reconciliation losses through the use of enhanced monitoring and processing technologies. We plan to further improve operational efficiency by diversifying our export routes for each of our assets and reducing our reliance on third party export infrastructure. See *“Our business – Upstream assets – Description of assets – OMLs 4, 38 and 41 – Transportation.”* We plan to maintain multiple export routes for each of our assets so that, should any one route experience downtime, we will be able to continue production by utilizing our alternative routes.

Increase our reserve base and develop and commercialize 2C resources into 2P reserves

We intend to grow our reserves base through the commercialization of undeveloped resources and the acquisition of assets with strong reserve replacement potential. Our drilling program includes the drilling of development wells along with an appraisal component enabling us to test upside potential of our assets. See *“Our business – Drilling.”* We will continue to use our drilling program to gather and interpret new information that we believe will allow us to maximize hydrocarbon recovery from our reservoirs and capitalize on low-risk reserve addition opportunities. We also recognize the importance of exploration as a means of growing reserves. We intend to include the drilling of exploration wells in our drilling plans as and when we identify opportunities that we believe are economically viable, focusing on prospects that, if successful, could offer rapid monetization and, where possible, will utilize our existing infrastructure. In line with our exploration objectives, we intend to drill exploration wells as and when oil prices and free cash flows permit. Our annual reserves target is to achieve a 1:1 reserves replacement ratio. We are proactive in realizing this target, as we recognize that maintaining and growing strong oil and gas reserves is critical to our sustainable growth and development.

Commercialize gas reserves and production to grow market share in Nigeria’s growing gas market

Nigeria has vast natural gas resources that remain underdeveloped. We intend to continue capitalizing on the increasing commercialization and monetization of Nigeria’s natural gas resources and we view gas monetization as an attractive and strategic long-term opportunity to complement our core crude oil production. We have strategically positioned ourselves by developing the Oben facility, located in OML 4, as a core gas processing hub through which the Lagos and Abuja markets, Nigeria’s greatest domestic and industrial demand centers, can be accessed and supplied. Over the past three years we have increased processing capacity at the Oben facility to 465 MMscfd and have entered into strategic long-term gas sales contracts. Together with the 60 MMscfd Sapele gas processing facility our total gas processing stands at 525 MMscfd. In 2017, we believe that we supplied sufficient gas to the domestic market to underpin up to one-third of Nigeria’s on-grid power generation and we plan to continue to improve our processing capabilities and operational efficiency at Oben. See *“Our business – Upstream assets – Description of assets – OMLs 4, 38 and 41 – Gas development – Oben hub.”* We believe that an increasing focus on domestic gas consumption for power generation and the construction of significant additional generation capacity present attractive opportunities for stable long-term cash generation from our gas business. Furthermore, in addition to providing us with additional oil reserves, our acquisition of an interest in OML 53 positions us as a key participant in the ANOH development project, which is expected to be one of the largest onshore greenfield gas condensate development projects in Nigeria’s history. Gas prices are de-linked from oil prices and have steadily increased to commercial levels, which allows us to confidently plan, finance and invest in gas opportunities independent of oil price dynamics. During periods of oil price weakness, our gas business takes on added importance, and we plan to continue growing our gas business as a means of diversifying our revenues and providing a natural hedge to oil price fluctuations. Additionally, while oil is both priced and paid in U.S. Dollars, gas is priced in U.S. Dollars but paid in Naira, providing us with a natural foreign exchange hedge, as we incur a significant portion of our costs in Naira.

Pursue a focused acquisition strategy to selectively acquire interests in assets with potential for strong return on investment

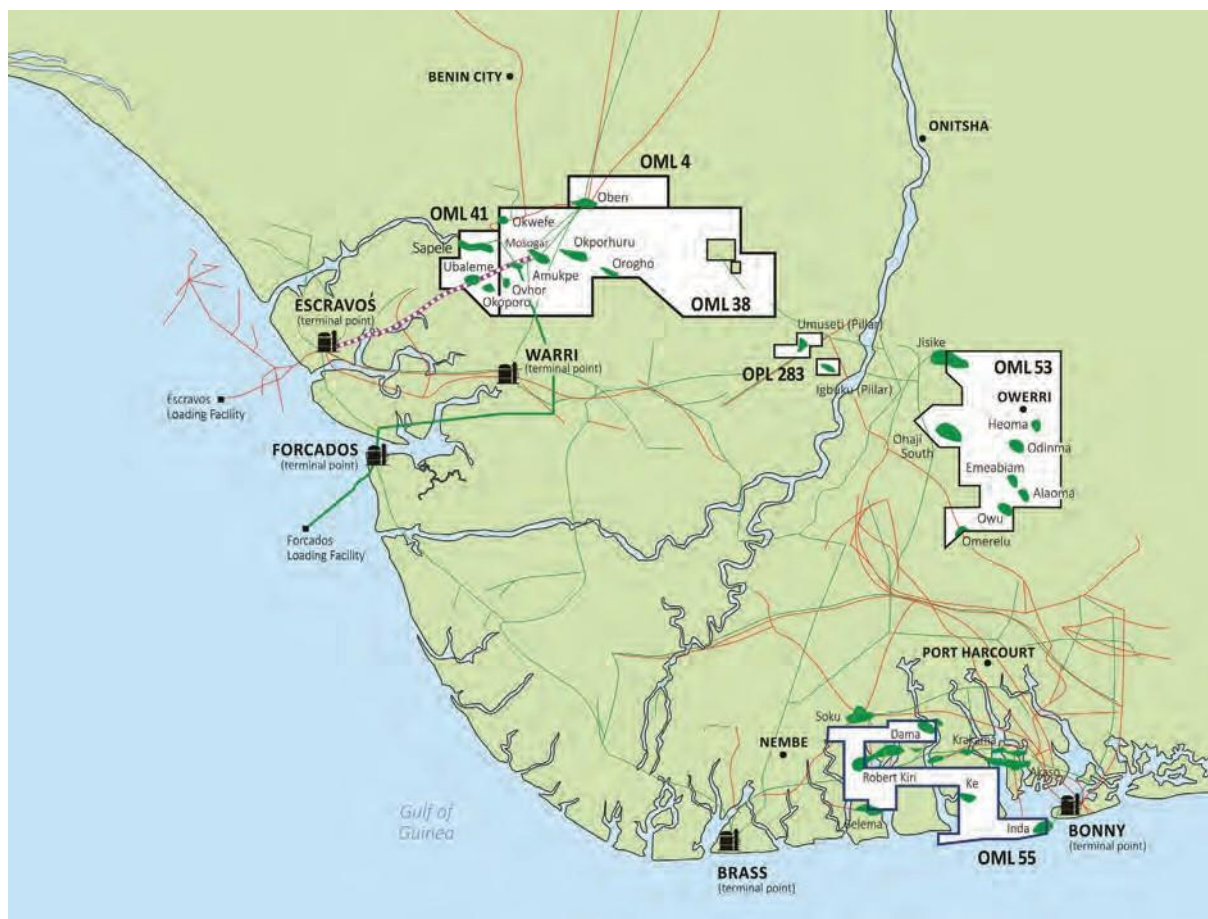
We plan to selectively pursue acquisitions that we believe have a strong potential for attractive returns on investment, realization of synergies and long term sustainable growth enabling us to have a balanced portfolio of producing and development assets. We see a rich opportunity set and a wide range of acquisitive growth opportunities in Nigeria, including further asset divestments by major international oil companies, asset farm-ins and acquisition opportunities in the independent exploration and production sector. We intend to prioritize value accretive onshore and shallow water offshore acquisitions that offer near-term production growth, cash flow and reserve replacement potential while exercising price discipline in the acquisition process. Where appropriate, we intend to continue to seek operational control of any acquired assets in order to ensure high operational efficiency and strict cost-control in the management of the asset.

Continue to be a leading Nigerian corporate citizen

We intend to continue operating as a strong community partner and highly responsible and accountable Nigerian corporate citizen. We recognize that minimizing the effects of our activities on the environment, understanding local issues, positively contributing to our local communities, being a first-rate employer and providing our staff with a safe working environment and career development opportunities are essential to achieving our operational goals. See *“Our business – Corporate social responsibility, employee safety and environmental safe-guarding.”* Underpinning all of this is a strict adherence to strong corporate governance and business integrity throughout our organization. We plan to continue engaging with all of the communities in which we operate to ensure that our presence is beneficial to local communities and to Nigeria as a whole.

Overview of assets

Our portfolio comprises five working interests in oil and gas blocks, four of which we are the operator of, and one financial interest. This portfolio provides us with a robust platform of oil and gas production and oil and gas reserves and contingent resources.



- OMLs 4, 38 and 41:* We have a 45% working interest in each of OMLs 4, 38 and 41, which are onshore blocks located in Edo (OML 4) and Delta (OMLs 38 and 41) States. We are the operator of the three blocks. OMLs 4, 38 and 41 together cover an area of approximately 2,652km². The block contains seven producing fields (Oben, Amukpe, Okporhuru, Orogho, Ovhon, Sapele and Sapele Shallow). The Oben field is the main producing field. Infrastructure on the block includes a 60,000 bopd capacity flow station, a non-associated gas processing plant and an associated gas compressor station. Oil produced on OMLs 4 and 41 is routed via the Oben-Amukpe pipeline to the Amukpe facilities on OML 38 and is thereafter exported to either the Forcados terminal or to the Warri refinery depending on export route availability. We are supporting PanOcean/NAPIMS JV in the completion of the 160,000 bopd capacity Amukpe to Escravos pipeline project, which, when completed, will provide us with a third export alternative for production from OMLs 4, 38 and 41 via the Escravos terminal. The project is expected to be operational in the third quarter of 2018. Produced gas is exported via the state-owned pipeline system, which provides access to the country's largest demand centers, the Lagos and Abuja markets.
- OML 53:* We have a 40% working interest in OML 53, which is located onshore in the north-eastern Niger Delta. We are the operator of OML 53. OML 53 covers an area of approximately 1,585km². The block currently contains one producing field (Jisike) located in the north-western area of the block. The block also contains the Ohaji South gas and condensate field, the development of which will be coordinated with the Shell Petroleum-operated Assa North field, located on the adjacent OML 21 block. The Assa North – Ohaji South fields development, the ANOH gas project, which is expected to be one of the largest onshore greenfield gas condensate development projects in Nigeria's history. Infrastructure on OML 53 comprises flow-lines, phase one separation facilities and a flow station. Oil produced on OML 53 is sent for further processing at the nearby Izombe facilities on OML 124 and from there it is exported via pipeline to either the Brass Terminal or Bonny Terminal.
- OPL 283:* We have a 40% non-operated working interest in OPL 283, which is located in the northern onshore depo-belt of the Niger Delta. OPL 283 is operated by Pillar Oil. OPL 283 is located within OML 56. The block contains one producing field (Umuseti). Facilities on the block include a 5,000 bopd Early Production Facility ("**EPF**") and two crude storage tanks. Umuseti production is evacuated to a Group Gathering Facility ("**GGF**") where it is metered and thereafter exported either

via the Nigerian AGIP Oil Company Limited's Kwale processing facilities to the Brass Terminal or via NPDC's pipeline to Forcados.

- **OML 55:** Under the OML 55 Asset Management Agreement and OML 55 Deed of Settlement and Release, we have a financial interest in the revenue from the production from, and with BelemaOil are joint operators of, OML 55. The block is located in the swamp to shallow water offshore areas in the south-eastern Niger Delta. OML 55 covers an area of approximately 840km². The block contains five producing fields, with the majority of production coming from three fields (Robertkiri, Idama and Inda). Infrastructure at OML 55 includes four flow stations, a network of flow-lines, and two eight-inch pipelines that connect to third-party operated infrastructure. Oil produced on OML 55 is delivered via third-party infrastructure to the Bonny Terminal for processing and shipping. In addition to the oil potential on the block there is also an opportunity to develop the block's gas resources. Following the repayment of the discharge sum, we will no longer have any interest in OML 55. See *"– Upstream assets – Description of assets – OML 55."*

Reserves and resources

The following tables set forth a summary of our working interest 2P reserves and 2C contingent resources as of January 1, 2018.

	As of January 1, 2018		
	Oil (MMbbls)	Gas (Bscf)	Total (MMboe)
Working Interest Reserves (2P)			
OMLs 4, 38 and 41	174.7	657.1	288.0
OML 53	41.5	736.4	168.4
OPL 283	5.1	62.4	15.8
OML 55 ⁽¹⁾	5.0	—	5.0
Total	226.3	1,455.9	477.2

	As of January 1, 2018		
	Oil (MMbbls)	Gas (Bscf)	Total (MMboe)
Working Interest Contingent Resources (2C)			
OMLs 4, 38 and 41	40.6	44.5	48.3
OML 53	1.1	2.7	1.6
OPL 283	6.0	27.3	10.7
OML 55 ⁽¹⁾	—	—	—
Total	47.7	74.5	60.6

Source: 2018 Ryder Scott Report.

- (1) Our interest in OML 55 is governed by the OML 55 Deed of Settlement and Release, which provides for a discharge sum of \$330 million to be paid to us over a total six year period, which started in 2017, through the allocation of crude oil produced on OML 55. As at December 31, 2017, we have received \$35.8 million of the discharge sum from the monetization of oil volumes produced. Upon receipt of the full discharge sum, we will no longer have any interest in OML 55. Under the OML 55 Deed of Settlement and Release, we no longer recognize an interest in OML 55 resources. See *"Management's discussion and analysis of financial condition and results of operations – Factors affecting comparability – BelemaOil."*

Corporate history

Seplat Petroleum Development Company Plc was formed in June 2009 by Shebah Petroleum Development Company Limited and Platform Petroleum Joint Ventures Limited. The Company was created to pursue upstream oil and gas opportunities in Nigeria, and, in particular, acquisition opportunities associated with divestments by major international oil companies. In December 2009, Maurel et Prom acquired a 45% shareholding in Seplat. See *"Principal Shareholders."*

In July 2010, we acquired a 45% working interest in, and were appointed operator of, OMLs 4, 38 and 41 from Shell Petroleum, Total E&P Nigeria Limited and the Nigerian AGIP Oil Company Limited. In June 2013, we acquired a 40% non-operated working interest in the Umuseti and Igbuku marginal fields (OPL 283) from Pillar Oil. In February 2015, we completed the acquisition of a 40% working interest in OML 53, significantly growing our production profile and expanding our reserves. In February 2015, we

also completed the acquisition of our interest in OML 55 from Chevron Nigeria Limited. See “ – Upstream assets – Description of assets – OML 55 – interest and production.”

We completed our dual listing of the Company on both the main market of the LSE and the NSE in April 2014, which allowed us to further implement our business strategy by raising \$535 million in an initial public offering.

Upstream assets

Our 2017 full-year average production stood at 36,923 boepd, representing an overall increase of 42.7% year on year. The occurrence of a force majeure closure at the Forcados terminal for the majority of the first half of 2017 had a material impact on our production volumes, as the Forcados terminal was the main export route for oil produced from our 45% working interest in OMLs 4, 38 and 41. The use of barging via the Warri refinery enabled some exports during the force majeure. Once the Forcados terminal became fully operational on June 6, 2017, we quickly reached pre-force majeure production levels, with an average daily production for the third quarter of 2017 of 44,810 boepd. See “Risk factors – Risks relating to the industry and our business – Operational impediments or damage to, or the shut-down of, current production or processing infrastructure may hinder our access to oil and gas markets or may result in the temporary delay or long-term cessation of our production.” As at January 1, 2018, based on the 2018 Ryder Scott Report, we had working interest 2P reserves of 477.2 MMboe, comprising 226.3 MMbbls of oil and condensate and 1,456 Bscf of natural gas. As at January 1, 2018, based on the 2018 Ryder Scott Report, we had working interest 2C resources of 60.6 MMboe, comprising 47.7 MMbbls of oil and condensate and 74.5 bscf of natural gas. At January 1, 2018, our working interest 2P+2C reserves and resources stood at 532.8 MMboe, comprising 268.9 MMbbls oil and condensate and 1530.4 Bscf of natural gas.

The following table shows our average daily production for the year ended December 31, 2017.

	Gross			Seplat %	Working interest		
	Liquids bopd	Gas MMscfd	Oil equivalent boepd		Liquids bopd	Gas MMscfd	Oil equivalent boepd
OMLs 4, 38 and 41 ⁽¹⁾	35,060	254	77,438	45	15,777	114	34,847
OML 53	2,687	—	2,687	40	1,075	—	1,075
OPL 283	2,502	—	2,502	40	1,001	—	1,001
OML 55 ⁽²⁾	—	—	—	n/a	—	—	—
Total	40,249	254	82,627	82,627	17,853	114	36,923

- (1) Liquid production volumes as measured at the lease automatic custody transfer (LACT) unit for OMLs 4, 38 and 41 reconciliation will differ from sales volumes within the period due to discrepancies arising from the timing of cargo liftings, though Shell Petroleum has agreed that, following the installation of the LACT unit, reconciliations due to metering inaccuracies will no longer be applied.
- (2) Our interest in OML 55 is governed by the OML 55 Deed of Settlement and Release, which provides for a discharge sum of \$330 million to be paid to us over a total six year period, which started in 2017, through the allocation of crude oil produced on OML 55. As at December 31, 2017, we have received \$35.8 million of the discharge sum from the monetization of oil volumes produced. Upon receipt of the full discharge sum, we will no longer have any interest in OML 55. “Management’s discussion and analysis of financial condition and results of operations – Factors affecting comparability – BelemaOil.”

The following table shows our gross 2P reserves as at December 31, 2015 and 2016 and as at January 1, 2018.

	Gross reserves (MMboe)		
	As at December 31,		As at
	2015	2016	January 1, 2018
OMLs 4, 38 and 41	644	635	680
OML 53	656	747	813
OPL 283	58	52	39
OML 55 ⁽¹⁾	347	68	15
Total	1,705	1,502	1,548

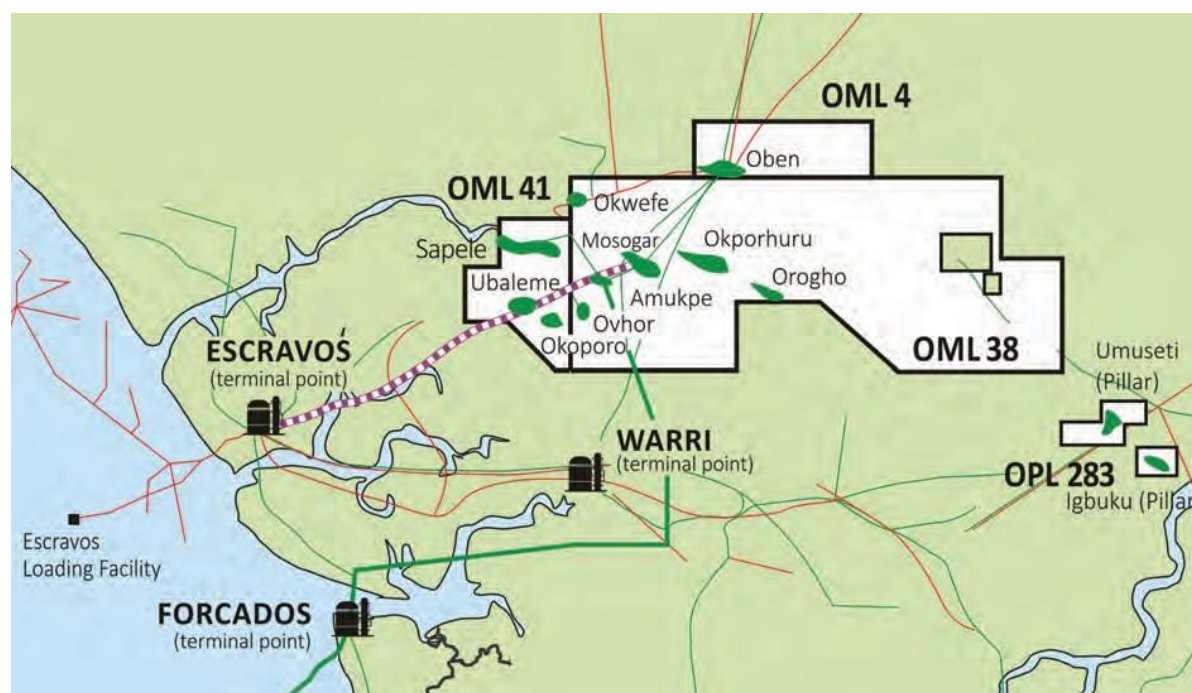
(1) Under the OML 55 Deed of Settlement and Release we are no longer a shareholder in BelemaOil but instead have a financial interest in the asset until a discharge sum of \$330 million has been paid to us through the monetization of oil reserves at OML 55. Until the discharge sum is paid, we continue to recognize an interest in the OML 55 reserves. See "Management's discussion and analysis of financial condition and results of operations – Factors affecting comparability – BelemaOil."

Description of assets

OMLs 4, 38 and 41

OMLs 4, 38 and 41

Operator	Seplat
Working Interest	45%
Partner	NPDC (the Nigerian Petroleum Development Company)
Main Fields	Oben, Amukpe, Okporhuru, Ovhor, Orogho, Sapele, Sapele Shallow
2017 working interest liquids production	15,777 bopd
2017 working interest gas production	114 MMscfd
Gross 2P oil reserves (January 1, 2018)	421.4 MMbbls
Gross 2P gas reserves (January 1, 2018)	1,501.3 MMscf
2018 activities	Production and development



Interest and production

Production on OMLs 4, 38 and 41 is predominantly from seven fields (Oben, Amukpe, Okporhuru, Orogho, Ovhor, Sapele and Sapele Shallow). The Oben field being our highest producing field and will be a key focus of future development activity. Our combined 2017 working interest liquids production for OMLs 4, 38 and 41 was 15,777 bopd and our combined 2017 working interest gas production was 114 MMscfd. Our production numbers for the year ended December 31, 2017 reflect the adverse effect of the Trans-Forcados pipeline system force majeure for the majority of the first half of 2017. “See *“Risk factors – Risks relating to the industry and our business – Operational impediments or damage to, or the shut-down of, current production or processing infrastructure may hinder our access to oil and gas markets or may result in the temporary delay or long-term cessation of our production.”* OMLs 4, 38 and 41 produce low sulphur crude with an average API gravity of 38°. In the year ended December 31, 2017, oil produced at OMLs 4, 38 and 41 sold at premium to Brent.

As the operator of OMLs 4, 38 and 41, we run the day-to-day activities, set production and operational improvement goals and lead near-field extension opportunities and appraisal activities, subject to the approval of our joint venture partner. See “–*Material agreements relating to our assets – Seplat/NPDC OMLs 4, 38 and 41 Joint Operating Agreement,*” “*Risk factors – Risks relating to the industry and our business – We are subject to risks involving partners and other project participants and any disagreements with, or the exercise of termination rights by, any partners or other project participants may result in delays or additional costs*” and “*Management’s discussion and analysis of financial condition and results of operations – Significant factors affecting results of operations – NPDC receivables.*” Since acquiring the blocks in July 2010, we have drilled 45 development wells, completed multiple workovers, reactivated production from pre-existing wells, constructed and installed a new liquid treatment facility, upgraded and significantly expanded the Oben gas plant, completed a new liquids pipeline linking our assets directly to the Warri refinery, installed additional storage capacity and implemented gas lift to aid our production. We have grown oil production, primarily through the drilling of new wells and employing commercially appropriate technologies to increase production in mature fields. We have increased our average daily gross production from 21,431 boepd in the year ended December 31, 2011 (our first full year of operations) to 36,923 boepd in the year ended December 31, 2017.

In 2011, we became the first operator in the Niger Delta to install a LACT unit, which provides for the automatic measurement, sampling and transfer of oil from the lease location into a pipeline, enabling significantly improved measurement of produced oil prior to injection into the Trans-Forcados pipeline. Following the installation of the LACT unit, Shell Petroleum agreed to reduce the reconciliation factor attributable to metering inaccuracies in relation to oil produced at OMLs 4, 38 and 41 and transported via the Shell-operated Trans-Forcados pipeline system. The installation of the LACT unit combined with an increased supervisory role by DPR in crude reconciliation matters, has greatly reduced the reconciliation losses applied to our oil production, with post-LACT installation reconciliation loss levels reduced to approximately 3.5% in the year ended December 31, 2017, compared to an average of approximately 18% to 20% prior to the installation of the LACT unit.

We have also prioritized the commercialization and development of the substantial gas reserves and resources identified at OMLs 4, 38 and 41 and are a leading supplier of gas to the domestic market in Nigeria. Going forward, we plan to increase our gas production and processing capacity to help meet Nigeria’s growing natural gas demand, particularly in the power sector. A major step forward in this respect has been the modular build-up of processing capacity at the Oben facility to create a gas hub strategically located to aggregate and supply gas to Nigeria’s main demand centers. See “–*Recent developments – Gas development – Oben hub*” and “–*Seplat gas opportunities.*”

Background and facilities

OML 4 was awarded to Shell Petroleum in 1960 and OMLs 38 and 41 were awarded to Shell Petroleum in 1962. The licenses for OMLs 4, 38 and 41 were renewed in July 1989 for a 30-year term. We acquired the right to operate OMLs 4, 38 and 41 under the terms in which they were awarded to Shell Petroleum (and by extension, its joint venture partners, NNPC, Total E&P Nigeria Limited and Nigerian AGIP Oil Company, who acquired participating interests in the fields in the course of the terms of the leases), and, as such, the licenses are due for renewal in June 2019. Under the Petroleum Act Cap P10 Laws of the Federation of Nigeria 2004, operators are able to extend their licenses for a further period of up to 20 years subject to compliance with agreed field development plans and other considerations. See “*Risk factors – Risks relating to operating in Nigerian – The regulatory environment in the oil and gas sector in Nigeria is subject*

to significant ongoing change.” We submitted our application for early lease renewal for OMLs 4, 38 and 41 on January 9, 2018 and DPR has acknowledged receipt of our application. We have provided DPR with the information that has subsequently been requested. We believe we are in compliance with the relevant government considerations and we expect to have the license extension approved before June 2019.

The Company has no reason not to believe, based on the applicable provisions of the Petroleum Act, that upon fulfilment by the Company of the conditions prescribed thereunder, the renewal of OMLs 4, 38 and 41 will be granted by the MPR in the ordinary course.

Paragraph 13(1) of the First Schedule to the Petroleum Act states that “[t]he lessee of an oil mining lease shall be entitled to apply in writing to the Minister, not less than twelve months before the expiration of the lease, for a renewal of the lease either in respect of the whole of the leased area or any particular part thereof; and the renewal shall be granted if the lessee has paid all rent and royalties due and has otherwise performed all his obligations under the lease.”

Based on consultations with Nigerian counsel, the Company believes that the use of the words “shall be granted” makes license renewals mandatory with no room for ministerial discretion, provided that the applicant has satisfied the conditions enumerated in the foregoing provision, namely (i) submission of a duly completed application and payment of the applicable fees within the prescribed timeline, (ii) payment of all rent and royalties due and (iii) performance of all the lessee’s obligations under the lease. In essence, the fulfilment of the above stated conditions imposes an obligation on the MPR to grant renewal of OMLs 4, 38 and 41, and Nigerian counsel have advised that they are not aware of a prior history of non-renewal in a circumstance in which the relevant conditions have been satisfied. The Company believes that it is in compliance with the terms of its licenses and that it has satisfied all conditions required by the Petroleum Act for their renewal (including payment of all rents and royalties due on its participating interests and performance of all other statutory and contractual obligations). The Company has formally submitted an application for license renewal and has not received any communication or indication from the MPR that would lead it to believe the renewal of its rights under OMLs 4, 38 and 41 will not be granted. See *“Risk Factors – Risks relating to the industry and our business – Our rights under OMLs 4, 38 and, 41, which collectively comprise our primary revenue-generating asset, expire in June 2019. Renewal of OMLs is subject to the approval of the Nigerian government, which may impose additional, or more onerous, conditions to, or withhold, its approval.”*

OML 4 covers an area of 267km² and is located 78km north east of Warri, Delta State. The Oben field is the main producing field on OML 4. Facilities on the block include a 60,000 bopd capacity flow station, a 465 MMscfd capacity non-associated gas processing plant and an associated gas compressor station with 5x10MMscfd associated gas compressors to help eliminate and monetize associated gas that was previously flared. Production operations and facilities are supported by our Oben Field Logistics Base. Oil exports from the Oben flow station are routed via the Oben–Amukpe pipeline to the Amukpe facilities and onwards to either the Forcados terminal or Warri refinery. The Oben field, in particular, is central to our future gas expansion plans and is strategically located as an important gas hub with access to Nigeria’s main gas demand centers.

OML 38 covers an area of 2,094km² and is located 48km north of Warri, Delta State. There are three producing fields on the block, namely Amukpe, Okpohuru and Ovhon, which straddles OML 38 and OML 41. There are three further discoveries in OML 38 – the Mosogar, Orogho and Jesse discoveries – which have not yet been brought into production. Facilities on the block include a 45,000 bopd capacity flow station, a liquid treatment facility (“**LTF**”) and two 50,000 bbls crude storage tanks, all located at Amukpe. In the first half of 2017, we commenced the workover of the Orogho-7 production well and also completed upgrades to the LTF that allow for the injection of export grade crude into available export routes.

OML 41 covers an area of 291km² and is located 50km from Warri, Delta State. There are three producing fields on the block (Sapele, Sapele Shallow and Ovhon (which straddles OML 41 and OML 38)), and two discoveries with contingent resources, the Ubaleme and Okoporo discoveries. Facilities on the block include a flow station with 60,000 bopd capacity, a 60 MMscfd capacity non-associated gas processing plant and a 26 MMscfd state-owned gas compressor station.

Reserves and resources

Reserves

Estimates of the gross oil and condensate and marketable gas reserves (2P) for OMLs 4, 38 and 41 as of January 1, 2018 are summarized in the following table.

BLOCK	FIELD	Gross Reserves (2P)		
		Oil and Condensate	Marketable Gas	Total
		(MMBOIS)	(MMSCF)	(MMBOE)
OML 4	Oben	102.8	1,020.6	278.8
	Mosogar	2.4	0.4	2.5
	Amukpe	4.6	72.8	17.2
OML 38	Okporhuru	26.6	57.6	36.5
	Orogho	8.8	38.8	15.4
	Okwefe	43.7	54.0	53.1
	Ovhor	63.3	14.3	65.7
OML 41	Sapele	169.3	243.0	211.1
Total		421.4	1,501.3	680.3

Resources

The contingent resources estimates reflect undeveloped discoveries where our development plan is not yet confirmed or where the field requires further development before the field may be considered to have proved reserves. Estimates of the gross oil and condensate and marketable gas contingent resources (2C) for OMLs 4, 38 and 41 as of January 1, 2018 are summarized in the following table.

BLOCK	FIELD	Gross Contingent Resources (2C) ⁽¹⁾⁽²⁾		
		Oil and Condensate	Marketable Gas	Total
		(MMBOIS)	(MMSCF)	(MMBOE)
OML 4	Ogegere	1.5	0.3	1.5
	Mosogar	70.4	10.6	72.2
OML 38	Orogho	2.1	74.6	15.0
	Okoporo	12.8	12.9	15.1
OML 41	Ubaleme	3.4	0.5	3.4
Total		90.2	98.9	107.3

(1) There is no certainty that it will be commercially viable to produce any portion of the contingent resources.

(2) Contingent resources have an economic status of “sub-marginal”.

Transportation

Forcados terminal route

The oil we extract from the producing fields within OMLs 4, 38 and 41 has historically been routed to the Forcados terminal through the Rapele and Amukpe manifold. The Oben – Amukpe pipeline transports the oil from the Oben field in OML 4 to OML 38, while the Sapele – Amukpe pipeline transports the oil and condensate stream from the Sapele field in OML 41 to OML 38. From the centralized Amukpe manifold in OML 38, all oil is delivered to the pipeline manifold at Rapele via the Amukpe-Rapele trunk line. From this point, under the terms of the Crude Handling Agreement, Shell Petroleum, historically, was responsible for the transportation of the oil to the Forcados terminal via its Trans-Forcados pipeline. In 2012, Shell Petroleum assigned its interest in OML 30, which included a large portion of the Trans-Forcados pipeline, to the Shoreline-NPDC Joint Venture. The Shoreline-NPDC Joint Venture, as operator of the assigned portion of the Trans-Forcados pipeline, manages the pipeline system for transportation of our OMLs 4, 38 and 41 oil from the injection point to the Forcados River manifold. The final section of the Trans-Forcados pipeline system from the Forcados River manifold to the Forcados terminal is owned and operated by Shell Petroleum. Under our OMLs 4, 38 and 41 Crude Handling Agreement, Shell provides us with a reserved production capacity of 80,000 bbls per day. See “—Material agreements relating to our assets – OMLs 4, 38 and 41 Crude Handling Agreement.” We also transport PanOcean and NPDC crude oil through the manifold at Amukpe. See “—Material agreements relating to our assets – Crude Transportation Agreement with PanOcean.”

Warri refinery route

Following the Forcados terminal force majeure and as a part of our diversification strategy, we began transporting crude oil from OMLs 4, 38 and 41 via our pipeline linking Rapele manifold to the Warri refinery. See *“Risk factors – Risks relating to the industry and our business – Operational impediments or damage to, or the shut-down of, current production or processing infrastructure may hinder our access to oil and gas markets or may result in the temporary delay or long-term cessation of our production.”* The pipeline was constructed in 2012 before the Trans-Forcados pipeline system was historically the primary export route for oil produced from OMLs 4, 38 and 41. From the Warri refinery our oil is then sold free on board (“**FOB**”) to our offtaker Mercuria at the Warri refinery jetties. The oil is then transported by barge to a mother-tanker positioned offshore. Barging commenced in May 2016. In 2016, we were able to export a gross volume of 3 MMbbls via the Warri refinery. In total, from the commencement of barging operations through December 31, 2017, we have exported 4.8 MMbbls (gross) and 2.2 MMbbls (working interest) through barging. Using one of the two jetties at Warri refinery, we estimate an export capacity of up to 30,000 bopd. Barging also has the benefit of reduced downtime as we oversee the barging operations directly. Additionally, prior to establishing the alternative oil export route via the Warri refinery, our gas production was limited by storage constraints for condensate volumes, which would ordinarily be spiked into crude oil production and exported via the Forcados terminal. However, the alternative export route has removed these storage constraints and enabled us to maintain gas deliveries to the domestic market as well as improve the security of gas supply to the domestic market as we control the barging export. While barging via the Warri refinery has a higher cost per barrel of oil than exporting via the Trans-Forcados pipeline (approximately \$11/bbl as compared to approximately \$4/bbl of Forcados crude handling charges (excluding historic reconciliation losses and downtime)), assuming the pipeline is fully operational, the benefit of barging is that exports are less exposed to interruptions. Barging provides us with the optionality to continue producing and exporting oil even when the Trans-Forcados terminal is closed and to manage export costs.

Escravos pipeline

Separately, we have agreed to work in partnership with the PanOcean/NAPIMS JV in the completion of Amukpe to Escravos pipeline project, the maintenance of the pipeline and the crude handling negotiation with Chevron, the Escravos Terminal operator. Once operational, the Amukpe to Escravos pipeline will offer a third export route with a pipeline capacity of 160,000 bopd. This additional export pipeline alternative will provide a redundant capacity and flexibility to limit the impact of extended periods of downtime at any of our three export routes.

The pipeline is expected to be operational in the third quarter of 2018. We are currently constructing the tie-in to the new pipeline at the Amukpe pipeline on OML 4. Once operational, we intend to utilize all three routes, in order to ensure adequate redundant capacity remains available to us which in turn can help reduce down time and significantly de-risk the route to market. The Escravos pipeline is likely to become our primary export route in time, augmented by the Forcados system with the Warri refinery jetties providing a backup option if required, and also provides the potential to enhance economics with reduced crude handling costs as a result of increased volumes of dry crude being injected and measured by the LACT unit. Additionally, the pipeline is buried at depths of between five and fifteen meters, which makes it more difficult to “bunker” from than other pipelines, such as the Trans-Forcados pipelines, that are buried at a lower depth or at surface. Going forward, with a diversity of export solutions in place, we believe we have the potential to mitigate the risks of significant production constraints resulting from disruption to any single export route.

Gas development – Oben Hub

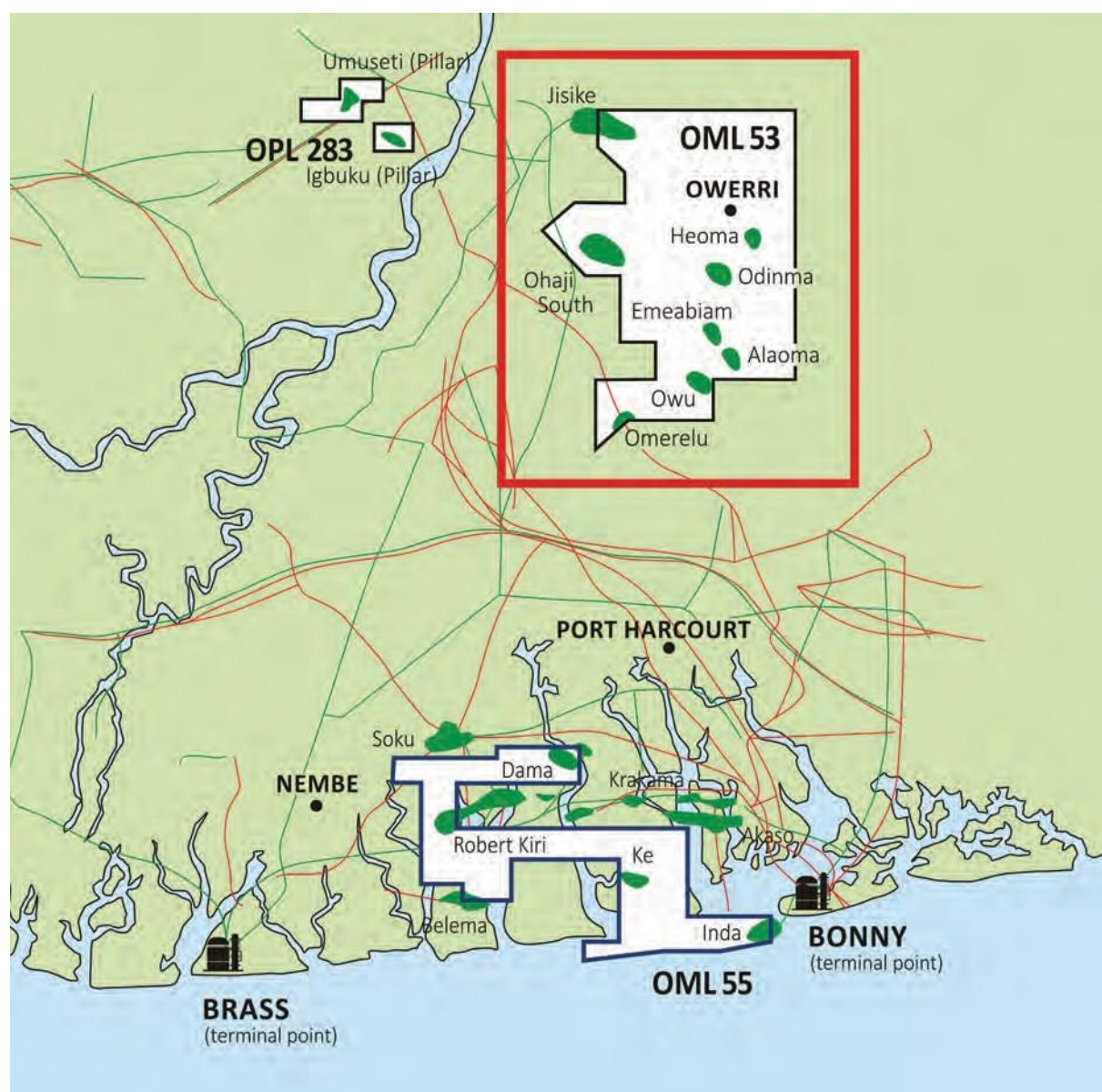
We have also prioritized the commercialization and development of the substantial gas reserves and resources identified at our operated blocks, helping to solidify our position as a leading supplier of natural gas to the domestic market. We believe that our Oben gas hub is strategically positioned to access Nigeria’s main gas demand centers of Lagos and Abuja, as well as, in the future, to potentially export gas to neighboring markets. Nigeria has one of the largest economies in sub-Saharan Africa, with a population in excess of 182 million, and has experienced strong and increasing demand for local gas from power industries and other commercial enterprises, largely based in Lagos and Abuja. Both the domestic supply obligation price as well as commercial pricing for gas have significantly increased and the country’s capacity deficit in thermal power generation provides headroom to place additional gas volumes. See *“Regulation – Gas regulations”* and *“Industry and market data.”* We plan to continue increasing our gas production and processing capacity to help meet Nigeria’s growing demand for natural gas, particularly in the gas-to-power sector.

crude oil exports, we are now defining a full development and drilling strategy for the Sapele Shallow. We believe that the development of Sapele-Shallow represents a material upside opportunity.

OML 53

OML53

Operator	Seplat
Working Interest	40%
Partner	NNPC, NAPIMS
Main Fields	Jisike (producing) and Ohaji South (discovery)
2017 working interest liquids production	1,075 bopd
2017 working interest gas production	n/a
Gross 2P oil reserves (January 1, 2018)	180.5 MMbbls
Gross 2P gas reserves (January 1, 2018)	3666.1 Bscf
2018 activities	Production and development



Interest and production

In February 2015, we completed the acquisition from Chevron Nigeria Limited of a 40% working interest in, and the operatorship of, OML 53, in partnership with NAPIMS. The Jisike oil field, located in the north-western area of the block, is the only producing field on OML 53. The license of OML 53 is set to expire in

June 2027, but under the Nigerian 1969 Petroleum Act, operators are able to extend their licenses for a period of up to 20 years if they have paid all rent and royalties due and have otherwise performed all their obligations under the lease. Our 2017 working interest liquids production at OML 53 was 1,075 bopd. OML 53 produces crude with an API gravity of 40°. In the year ended December 31, 2017, Brass River blend traded at a discount to Brent.

The acquisition of an interest in OML 53 forms a key part of our oil and gas strategy and we believe that gas sales from OML 53 will commence following the commissioning of the ANOH project. Development of the Ohaji South oil field is expected to form a key component of our future development activities, and is expected to comprise the re-entry and completion of two existing wells in the first instance together with installation of necessary flow lines and crude handling facilities. It is envisaged that subsequent phases of production drilling could comprise up to a further seven wells and ultimately see gross production climb to as much as 13 Mbopd and 17 MMscfd of associated gas. Development of the Ohaji South oil field would allow for future condensate output from the ANOH project to be blended and exported as a light oil stream via two existing oil pipelines located within 11km of ANOH and can transport the product to either the Bonny terminal or Brass Terminal via existing crude oil pipeline systems operated by Shell Petroleum and NAOC respectively.

In addition to producing and exporting crude oil, through the development of the ANOH gas project, we will be able to export the large scale gas reserves and condensate located in the Eastern Delta to Nigeria's main gas demand centers via the OB3 gas pipeline (under construction) and the Oben gas processing facilities. Our participation in the ANOH gas project places us at the heart of what is expected to be one of the largest onshore greenfield gas condensate development projects in Nigeria's history and is set to drive future growth of our gas business and cement our position as a leading supplier of gas to the domestic market.

Background and facilities

OML 53 covers an area of approximately 1,585km² and is located onshore in the north-eastern Niger Delta. The Jisike oil field, located in the north-western area of the block, is the only producing field on OML 53. The block also includes the Ohaji South oil and ANOH gas and condensate fields. Existing infrastructure at Jisike comprises flow-lines, phase one separation facilities and a flow station with a design capacity of 12,000 bopd and 8 MMscfd. Prior to initiating development of the ANOH project, we expect to focus our efforts on increasing oil production at the Jisike field and on the development of the shallow oil reservoirs in Ohaji South. We manage the maintenance of our assets and infrastructure with third parties.

OML 53 also hosts six unappraised discoveries and partially appraised wells (Apani, Alaoma, Emeabiam, Iheoma, Odinma and Owu) and five mapped exploration prospects (Aku A, Manu A, Ezi Irete, Ibigwe NE and Onyinye) as well as further exploration leads. We expect the execution of the Ohaji South Field Development Plan to commence in 2018 with the re-entry and completion of two Ohaji South oil wells.

Reserves and resources

Reserves

Estimates of the gross oil and condensate and marketable gas reserves (2P) for OML 53 are as of January 1, 2018 summarized in the following table.

Block	Field	Gross Reserves (2P)		
		Oil and Condensate (MMbbls)	Marketable Gas (MMscf)	Total (MMboe)
OML 53	ANOH	153.6	3,650.1	782.9
	Jisike	3.4	6.4	4.3
	Ohaji South Shallow Zone	23.4	9.7	25.1
Total		180.5	3,666.1	812.6

Resources

Estimates of the gross oil and condensate and marketable gas contingent resources (2C) for OML 53 as of January 1, 2018 are summarized in the following table.

Block	Field	Gross Contingent Resources (2C) ⁽¹⁾⁽²⁾		
		Oil and Condensate	Marketable Gas	Total
		(MMbbls)	(MMscf)	(MMboe)
OML 53	Alaoma	0.2	0.0	0.2
	Emeabiam	0.1	6.6	1.2
	Iheoma	0.5	0.2	0.5
	Owu	2.1	0.0	2.1
Total		2.8	6.9	4.0

(1) There is no certainty that it will be commercially viable to produce any portion of the contingent resources.

(2) Contingent resources have an economic status of “sub-marginal”.

Transportation

Oil produced on OML 53 is sent for further processing at the nearby Izombe facilities (located on OML 124) and from there it is exported via pipeline to the Brass Terminal.

Gas Development – ANOH Hub

The acquisition of an interest in OML 53, in which the Ohaji South fields are located, places us at the heart of what is expected to be one of the largest onshore greenfield gas condensate development projects in Nigeria’s history and is set to drive future growth of our gas business and cement our position as a pre-eminent supplier of gas to the Nigerian market. OML 53 contains the large undeveloped Ohaji South gas and condensate field and forms part of the Assa North – Ohaji South development project. The Assa North gas field was discovered in 1961 and straddles the border of OML 21 which extends into OML 53, where the field is defined as Ohaji South. OML 21 is operated by the Shell Petroleum OML 21 joint venture with NNPC. The combined field areas are known as the ANOH unit area. The ANOH development project is a unitized gas asset with a fully executed unit operating agreement between the Seplat OML 53 joint venture with NNPC and NAPIMS and the Shell Petroleum OML 21 joint venture with NNPC. The unit development is based on a 50/50 percent equity split between the partners. Shell Petroleum is the unit operator. See “—Material agreements relating to our assets—Seplat/NNPC OML 53 Joint Operating Agreement” and “—Material agreements relating to our assets—Assa North Ohaji South Unitization and Unit Operating Agreement.”

ANOH contains a large volume of gas, which the Company expects to supply the domestic market. In January 2018, Ryder Scott, an independent reservoir evaluation company, at our request estimated that the ANOH gas field contains 3.7 tcf and 154 million barrels of gross 2P recoverable reserves, mainly from two identified major gas reservoirs, H1000 and H4000. In January 2017, we incorporated a new subsidiary, the ANOH Gas Processing Company Limited, with the purpose of processing gas from the OML 53 unitized field with the adjacent OML 21. The ANOH Gas Processing Company Limited operates in partnership with NGPTC. We are working with NGPTC to finalize a framework within which to progress the upstream and midstream elements of the project to a final investment decision in the first half of 2018.

It is intended that the ANOH Gas Processing Company Limited will design and build a 300 MMscfd gas processing facility, which will be sufficient to underpin an estimated 1,200 MW of new gas fired power generation capacity. The ANOH gas processing facility will be based on the Oben gas processing facility design and will benefit from our experience in the construction, expansion and operation of the Oben hub. The ANOH Gas Processing Company Limited will purchase the OML 53 share of gas from the ANOH field on an exclusive basis and will produce sales spec gas sold to offtakers at arm’s length.

The following table presents our gas assets and relevant gas infrastructure in Nigeria.

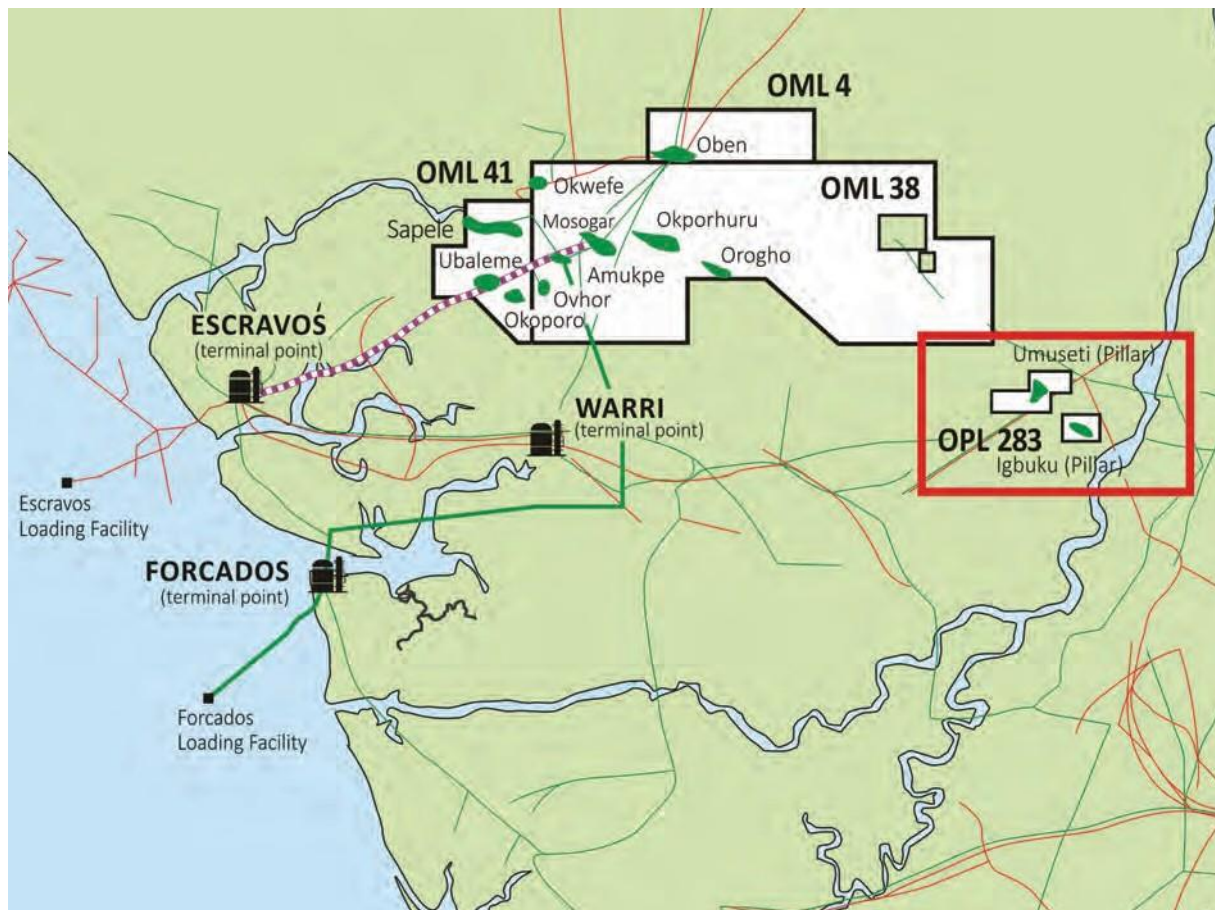


The ANOH gas processing facility will benefit from being in close proximity to the 130km OB3 gas export pipeline (under construction) and Shell and AGIP crude pipelines. The OB3 pipeline will connect ANOH to Oben and from there on to Abuja and Lagos via the Northern Line and ELPS. The anticipated completion date for the OB3 is the fourth quarter of 2018. The export gas pipeline system owned and operated by the NGPTC will also connect ANOH gas to the wider region through the ELPS and Ajakota pipelines.

OPL 283

OPL 283

Operator	Pillar Oil
Working Interest	40% (working interest)
Partner	Pillar Oil (60% interest)
Main Fields	Umuseti and Igbuku
2017 working interest liquids production	1,001 bopd
2017 working interest gas production	n/a
Gross 2P oil reserves (January 1, 2018)	12.6 MMbbls
Gross 2P gas reserves (January 1, 2018)	155.6 MMscf
2018 activities	Production and development



Interest and production

We have a 40% non-operated working interest in the Umuseti/Igbuku marginal field area, which is operated by Pillar Oil. OPL 283 is located within OML 56. The block contains one producing field, Umuseti, which came onstream in May 2012 and is producing from three development wells. Our 2017 working interest liquids production at OPL 283 was 1,001 bopd. Sales of gas from OPL 283 have yet to commence. In the year ended December 31, 2017, oil from OPL 283 sold at a discount to Brent.

There are 15 identified oil bearing reservoirs in Umuseti with production coming from four of these reservoirs. Further development drilling will be required to drain the remaining reservoirs. The Igbuku marginal field contains predominantly gas and condensate and is undergoing appraisal prior to development. The block also contains four satellite exploration leads, namely Igbuku North, Igbuku Deep, Umuseti East and Umuseti North-East, which the joint venture partners intend to further evaluate. Key development activities in OPL 283 include completion of a detailed subsurface study, which will be used to define the optimal development strategy to access additional oil reservoirs in the Umuseti marginal field, as well as 3D seismic surveys in Igbuku. The Igbuku marginal field consists predominantly of gas and condensates, and development of this field includes completing an existing discovery well in 2019, and drilling further appraisal wells in subsequent years.

Background and facilities

On June 1, 2013, Newton Energy Ltd, a wholly-owned subsidiary of Seplat, entered into an agreement with Pillar Oil to acquire our 40% working interest in the Umuseti and Igbuku marginal fields (OPL 283). The area that encompasses OPL 283 was originally part of OML 56 and OPL 283 is subject to the same license terms as OML 56. The production agreement for OPL 283 will expire on October 28, 2028; however, the Nigerian Petroleum Act includes a provision for automatic renewal of an OPL upon application by the operator, provided the operator has paid all rents and royalties due and has otherwise performed all obligations under the terms of the lease. Facilities on the block include a 5,000 bopd EPF and two 20,000 bbls crude storage tanks.

Reserves and resources

Reserves

Estimates of the gross oil and condensate and marketable gas reserves (2P) for OPL 283 as at January 1, 2018 are summarized in the following table.

Block	Field	Gross Reserves (2P)		
		Oil and Condensate (MMbbls)	Marketable Gas (MMscf)	Total (MMboe)
OPL 283	Umuseti	8.0	11.6	10.0
	Igbuku	4.7	144.0	29.5
Total		12.6	155.6	39.5

Resources

Estimates of the gross oil and condensate and marketable gas contingent resources (2C) for OPL 283 as of January 1, 2018 are summarized in the following table.

Block	Field	Gross Contingent Resources (2C) ⁽¹⁾⁽²⁾		
		Oil and Condensate (MMbbls)	Marketable Gas (MMscf)	Total (MMboe)
OPL 283	Umuseti	0.6	20.2	4.0
	Igbuku	0.4	0.3	0.5
	Anagba	14.0	47.7	22.2
Total		15.0	68.2	26.7

(1) There is no certainty that it will be commercially viable to produce any portion of the contingent resources.

(2) Contingent resources have an economic status of “marginal” in some fields and “sub-marginal” in others.

Transportation

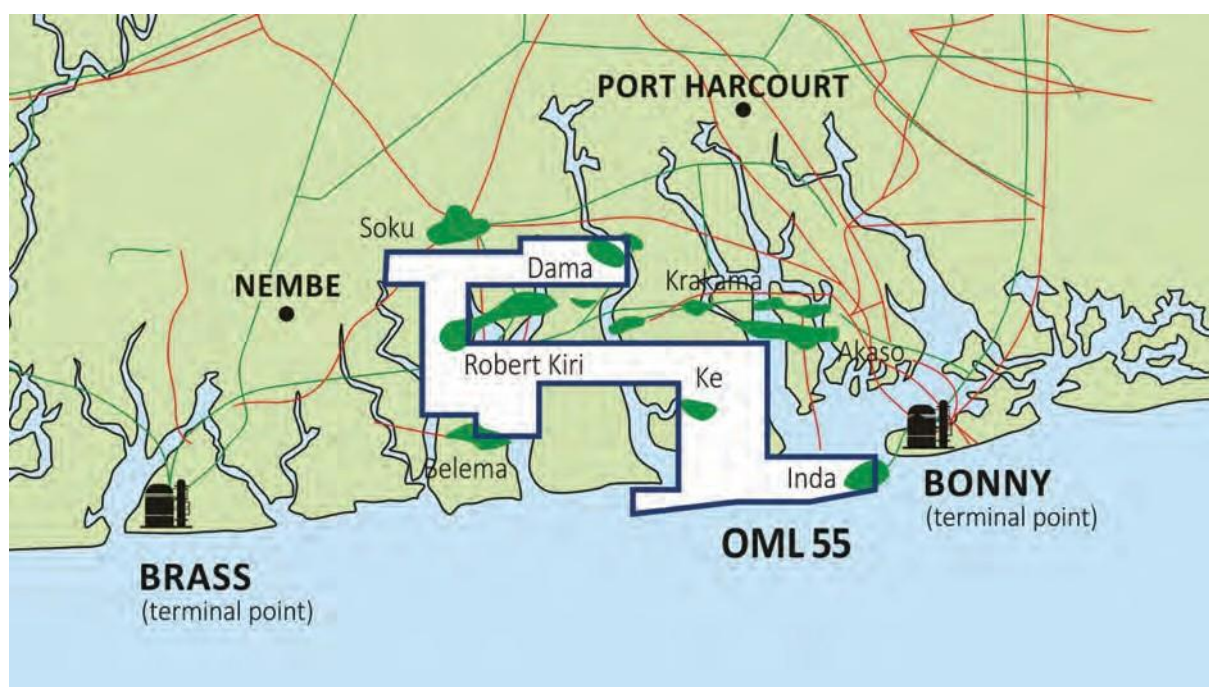
Umuseti production is evacuated to a Group Gathering Facility (“GGF”) where it is metered and thereafter exported either via AGIP’s Kwale facilities to the Brass Terminal or via NPDC’s pipeline to the Forcados terminal.

Recent developments

Our OPL 283 operational focus is on production efficiency and minimizing operating costs. A detailed subsurface study was completed in 2016 which will be used to define the optimal development strategy to access additional oil reservoirs in the Umuseti field. Technical work also continued on Igbuku, planning wells and the monetization of its gas reserves. We concluded negotiations with contractors for the acquisition of 106km² of 3D seismic data over the southern section of the Igbuku field in the fourth quarter of 2017. The seismic data will allow full definition of the Igbuku structure required for future development drilling activities. During 2017, we drilled a well in the Anagba field on behalf of Pillar Oil which has confirmed the link between the Anagba field and the Ashaka field located on the neighboring OML 60 (operated by the Nigerian AGIP Oil Company Limited). The well will support Pillar in ongoing unitization discussions with the Nigerian AGIP Oil Company Limited, thereby enabling Pillar Oil, and, by virtue of our 40% interest, ourselves, to share in the Ashaka wells’ oil production.

Operator	Asset Management Team
Working Interest	Financial Interest
Partner	NNPC, BelemaOil
Main Fields	Robertkiri, Idama and Inda (producing)
2017 working interest liquids production	n/a
2017 working interest gas production	n/a
Gross 2P oil reserves (January 1, 2018)	14.8 MMbbls
Gross 2P gas reserves (January 1, 2018)	—
2018 activities	Production

(1) Under the OML 55 Deed of Settlement and Release we are no longer a shareholder in BelemaOil, but instead have a financial interest in the asset until a discharge sum of \$330 million has been paid to us through the monetization of oil reserves at OML 55. Until the discharge sum is paid, we continue to recognize an interest in the OML 55 reserves. As at December 31, 2017, we have received \$35.8 million of the discharge sum from the monetization of oil volumes produced. Upon receipt of the full discharge sum, we will no longer have any interest in OML 55. *“Management’s discussion and analysis of financial condition and results of operations – Factors affecting comparability – BelemaOil” and “Risk Factors – Risks relating to the industry and our business – We are subject to risks involving partners and other project participants and any disagreements with, or the exercise of termination rights by, any partners or other project participants may result in delays or additional costs.”*



Interest and production

We have a financial interest in the revenues derived from oil produced from OML 55. In 2015, we concluded negotiations to purchase 56.25% of BelemaOil, a Nigerian special purpose vehicle that had purchased a 40% operating interest in OML 55 (NNPC holds the remaining 60% interest in OML 55). In July 2016, we agreed to a new commercial arrangement with BelemaOil, the OML 55 Deed of Settlement and Release, that provides for a discharge sum of \$330 million to be paid to us over a total six year period, which started in 2017, through the allocation of crude oil reserves from OML 55. The OML 55 Deed of Settlement and Release requires that the parties share the net proceeds of each crude oil lifting until the discharge sum has been paid and that the net proceeds from the liftings will be paid into a jointly operated escrow account, with 85% of the net proceeds accorded to Seplat and 15% of the net proceeds accorded to Belema Oil. In 2017, we received \$35.8 million of the discharge sum. Under a related agreement, the OML 55 Asset Management Agreement, throughout this six year period we and BelemaOil will remain co-operators of OML 55. See *“—Material agreements relating to our assets—OML 55 Asset Management Agreement”*. Under the OML 55 Asset Management Agreement, the OML 55 40% operating interest is jointly controlled by Seplat and BelemaOil through an asset management team (the **“Asset Management Team”**) comprising equal representatives of both parties. The Asset Management Team makes all key decisions regarding the technical and commercial activities of the underlying asset, and unanimous consent

of all parties is required for material decision-making. In the year ended December 31, 2017, Bonny light blend produced at OML 55 traded at a premium to Brent.

Background and facilities

OML 55 covers an area of approximately 840km² and is located in the swamp to shallow water offshore areas in the south-eastern Niger Delta. The block contains five producing fields: Robertkiri, Inda and Idama. The Robertkiri field is located in swamp at a water depth of five meters and has a production platform and utility platform installed. Production capacity at the Robertkiri facilities is 20,000 bopd and 10 MMscfd. Production facilities at the Idama field comprise a jack-up mobile offshore production unit (“**MOPU**”) and riser platform that have a capacity of 30,000 bopd of total fluids and 34 MMscfd. Production facilities at the Inda field comprise a MOPU with a capacity of 30,000 bopd of total liquids and 34 MMscfd. Overall, the infrastructure on OML 55 comprises four flow stations, a network of flow-lines, and two eight-inch pipelines that connect to third-party operated infrastructure. The Belema field is unitized with OML 25 and oil is produced via a flow station on that block.

Reserves and resources

Reserves

Estimates of the gross oil and condensate and marketable gas reserves (2P) for OML 55 as at January 1, 2018 are summarized in the following table.

Block	Field	Gross Reserves (2P)		
		Oil and Condensate	Marketable Gas	Total
		(MMbbls)	(MMscf)	(MMboe)
OML 55	Idama	6.4	0.0	6.4
	Inda	1.1	0.0	1.1
	Robertkin	3.8	0.0	3.8
	Jokka	0.1	0.0	0.1
	Belema	2.3	0.0	2.3
Total		14.8	0.0	14.8

Source: 2018 Ryder Scott Report.

- (1) Our interest in OML 55 is governed by the OML 55 Deed of Settlement and Release, which provides for a discharge sum of \$330 million to be paid to us over a total six year period, which started in 2017, through the allocation of crude oil produced on OML 55. As at December 31, 2017, we have received \$35.8 million of the discharge sum from the monetization of oil volumes produced. Upon receipt of the full discharge sum, we will no longer have any interest in OML 55. Under the OML 55 Deed of Settlement and Release, we no longer recognize an interest in OML 55 resources. See “Management’s discussion and analysis of financial condition and results of operations—Factors affecting comparability—Belema Oil.”

Resources

We do not recognize contingent resources at (2C) at OML 55.

Transportation

Produced liquids from OML 55 are exported to Shell’s Bonny Terminal for processing and shipping, with crude from Robertkin, Jokka, and Idama transported to Bonny via Shell Petroleum’s Ekulama facilities and crude from offshore Inda transported to Bonny via the Eastern Coastal Trunk Line (“**ECTL**”).

Recent developments

Pursuant to our agreement with Belema Oil, we received \$35.8 million of the OML Deed of Settlement and Release and OML 55 Asset Management Agreement discharge sum in the year ended December 31, 2017.

Export Routes

The following table presents the export routes for OMLs 4, 38 and 41, OML 53, OPL 283 and OML 55.

Asset	Offtake Location	Offtaker ⁽¹⁾
OMLs 4, 38 and 41	Forcados terminal	Mercuria
	Escravos terminal	— ⁽²⁾
	Warri refinery	Mercuria
OML 53	Brass Terminal	Platform
		Petroleum
	Forcados terminal	Shell Western
		Supply and
		Trading Limited
OPL 283	Brass Terminal	ENI ⁽³⁾
OML 55	Bonny Terminal	Vitol ⁽⁴⁾

(1) See “—Material agreements relating to our assets.”

(2) The pipeline to transport oil from OMLs 4, 38 and 41 to the Escravos terminal is under construction and export operations and yet to commence. See “—Upstream assets—Description of assets—OMLs 4, 38 and 41—Transportation—Escravos Pipeline.” We have yet to enter into an offtake agreement in relation to oil exported via the Escravos terminal.

(3) The offtake agreement in relation to OPL 283 was entered into by our partner and the OPL 283 operator, Pillar Oil. We are not a party to offtake agreement in relation to OPL 283. See “—Material agreements relating to our assets—OPL 283 Pillar Oil Offtake Agreement.”

(4) The offtake agreement for OML 55 was entered into by Belema Oil. We are not a party to the offtake agreement in relation to OML 55. See “—Material agreements relating to our assets—Vitol Crude Sale Agreement.”

Seplat gas opportunities

Domestic demand for natural gas has been increasing in Nigeria, driven in part by increasing demand from the Nigerian power industry and other commercial enterprises. There has been an increase in the domestic supply obligation price which as of 2017 stood at \$2.50/Mscf. Gas prices have also delinked from oil prices while average realized oil price dropped by 21% between 2015 and 2016, average realized gas price increased by 19% in the same period. Our average realized gas price in the year ended December 31, 2017 was \$2.97/Mscf. All of our gas production is currently sold to the domestic market. Our executed gas sales agreements contain take-or-pay provisions by which offtakers are obliged to either take delivery of the annual contract quantity or pay the value of 80% of the annual contract quantity. As noted above, we have successfully completed Phases I and II of the Oben gas processing plant, which were both sole risk projects, and the barging at the Warri refinery which began in 2016 now allows us to better ensure regular gas production and supply to the domestic market. We believe that our large gas reserves at Oben and ANOH together with our current and planned future gas processing capacity make us well placed to continue as a leader in gas production in Nigeria.

As the following table shows, we have increased our gas producing capacity over the past five years.

	Gas Plants Capacity (MMscfd)				
	Year ended				
	2013	2014	2015	2016	2017
Sapele	60	60	60	60	60
Oben	90	90	90	90	90
Oben (Phase I).	—	—	150	150	150
Oben (Phase II).	—	—	—	—	225
Total	150	150	300	300	525

As a further indication of our commitment to capture future growth in Nigerian gas demand, we are also in advanced discussions to finalize the following additional gas sales agreements, which we believe will underpin future gas capacity increases at our Oben and ANOH Hubs.

Drilling

In response to the force majeure conditions at the Forcados terminal between February 21, 2016 and June 6, 2017 and abrupt decline in oil prices, in common with the rest of industry we exercised discretion over

expenditures and reduced levels of drilling activity. As a consequence, having been one of the most active drillers in Nigeria in recent years, we reduced our rig-based activity in 2016 to comprise only the workover and recompletion of the Sapele-4 well as a water disposal well. In 2017 we deployed just one rig for a workover well in the Orogho field. The workover and re-completion of the Orogho-7 production well commenced in July and was completed as planned in August.

Following the resumption of full production operations at OMLs 4, 38 and 41 after the lifting of force majeure, and relative strengthening of oil prices, we intend to resume drilling activities and implement a future drilling program aimed at capitalizing on the large number of production drilling opportunities across our portfolio. Our enlarged asset base provides greater optionality and will allow us to more rigorously benchmark and high grade the extensive inventory of production drilling and development opportunities we have, making sure that each dollar invested goes to the highest cash return projects.

Taxation and royalties

Royalties are the first claim on production, though all costs applicable to handling, treating and storing the oil produced and transporting it to a ship at a Nigerian terminal or to a refinery in Nigeria are deductible in ascertaining the net revenues to which the royalty applies. In accordance with our OMLs 4, 38 and 41 and OML 53 concession agreements, we must pay royalties of 20% of crude oil produced and 7% of natural gas revenues, calculated on a field-by-field basis. Our overriding royalty for oil produced at OPL 283 is 2.5%.

In 2010, we qualified for the “new entrant” tax status under the Petroleum Profits Tax Act for a period of five years, with an effective tax rate of 65.75%. We benefited from the new entrant status for three years, from January 1, 2010 to December 31, 2012, before we were granted “pioneer” tax status by the Nigerian Investment Promotion Commission. We were granted pioneer status for a three-year period effective January 1, 2013. For the period the incentive applied our effective tax rate was 0% as we were exempt from petroleum profits tax on crude oil profits (which would be otherwise have been taxed at 65.75%), corporate income tax on natural gas profits (currently taxed at 30%) and education tax of 2%. Our three year pioneer tax status expired on December 31, 2015 and on January 1, 2016 we reverted to our new entrant status and were taxed at 65.75% for the remaining two years of new entrant status. Our effective tax rate from January 1, 2018, following the expiry of our new entrant status, has been 85%. Should we acquire additional assets in Nigeria and structure the acquisition in an appropriate manner, the reduced tax rate of 65.75% may apply to the taxable profit generated by such additional assets for the period of the new entrant status. Net qualifying capital expenditures incurred during the pioneer period are accumulated and qualified for capital allowance claim effective January 1, 2016 (post-pioneer period), while losses incurred during the pioneer period, when certified, may be utilized to offset taxable profit after the pioneer period. We may have unutilized capital investment allowances in any year after the pioneer period which we can use to offset future taxes up to an annual limit. Capital expenditure is claimed back over a five-year period. The annual capital allowance rate is 20% for the first four years and 19% for the fifth year.

Offtake

OMLs 4, 38 and 41

All of crude oil allocated to us from OMLs 4, 38 and 41, in which we hold a 45% working interest, and delivered to the Forcados terminal under the Crude Handling Agreement is sold to Mercuria Energy Trading S.A. (“**Mercuria**”) under the terms of the Mercuria Crude Offtake Agreement, entered into on December 17, 2013. The Agreement is effective for a period of five years. See “—*Material agreements relating to our assets – OMLs 4, 38 and 41 Mercuria Crude Offtake Agreement.*” We also transport some of the oil we produce from OMLs 4, 38 and 41 to the Warri refinery using our 100,000 bopd capacity pipeline linking Rapele manifold to the Warri refinery. Our oil is then sold FOB from the Warri to our offtaker Mercuria at the Warri refinery jetty. See “—*Upstream assets – Description of assets – OMLs 4, 38 and 41 – Transportation – Warri refinery.*”

OML 53

All of the crude oil that we produce from the non-unitized fields in OML 53, in which we have a 40% working interest, is delivered and sold FOB at the Brass Terminal to ENI Trading & Shipping S.P.A. (“**ENI**”) under the OML 53 ENI Crude Purchasing Agreement, entered into on January 1, 2017. See “—*Material agreements relating to our assets – OML 53 ENI Crude Purchasing Agreement.*”

OPL 283

All of the oil produced from the Umuseti and Igbuku marginal fields, in which we have a 40% interest, is sold by our partner Pillar Oil to ENI at the Brass Terminal under the OPL 283 Pillar Oil Platform Crude Sale Agreement, entered into on April 27, 2010. See “*Material agreements relating to our assets – OPL 283 Pillar Oil Platform Crude Sale Agreement.*”

OML 55

All of the crude oil produced by BelemaOil, which is managed by the Asset Management Team, is delivered and sold to Vitol SA at the Bonny Terminal under the OML 55 BelemaOil – Vitol Crude Sale Agreement, entered into on February 8, 2018. See “*Material agreements relating to our assets – OML 55 BelemaOil – Vitol Crude Sale Agreement.*”

Partners

Our assets are developed through partnerships or joint ventures with government entities, other indigenous companies and international companies. We partner with NPDC and NAPIMS, both of which are Nigerian government entities and subsidiaries of NNPC, in the development of our OMLs and OPL under our joint operating agreements. NPDC and NAPIMS broader activities cover the upstream oil and gas industry, with involvement in several OMLs and OPLs across Nigeria. We also partner with NAPIMS in the completion of the Amukpe to Escravos pipeline project. Our Nigerian partners include Belema Oil, which, through the Asset Management Team jointly manages OML 55 with Seplat, and Pillar Oil, the operator of OPL 283

In connection with our commercial partnerships and joint ventures, we seek an active role, particularly in the technical and financial management of operations. We work closely with our commercial partners to ensure that we remain in compliance with ongoing obligations under the licenses or agreements pursuant to which we operate. For a discussion of certain risks associated with our reliance on partners or joint venture partners, see “*Risk factors – Risk factors relating to our business – We are subject to risks involving partners and other project participants, including credit risks, and any disagreements with, or non-fulfillment of obligations by termination rights by, any partners or other project participants may result in delays or additional costs*” and “*Risk factors – Risk factors relating to our business – Our operations in marginal fields are subject to indigenous ownership restrictions with which we may not comply in the future.*”

Hedging

We initiated an oil price hedging program to help manage our exposure to fluctuations in crude oil prices. We continue to closely monitor prevailing oil market dynamics and will consider further measures to provide appropriate levels of cash flow assurance in times of oil price weakness and/or volatility. We do not currently engage in foreign exchange hedging due to the limited market and the commercial terms associated with hedging programs protecting against the volatility of the Naira. See “*Management’s discussion and analysis of financial condition and results of operations – Significant factors affecting results of operations – Derivative financial instruments.*”

Competition

The oil and gas industry is competitive, and we compete with a substantial number of other companies, many of whom have greater resources than we do. See “*Risk Factors – Risks relating to the industry and our business – We operate in a highly competitive industry.*” Many of these companies explore for, produce and market oil and natural gas, carry on refining operations and market the resulting products on a worldwide basis. Our competitors include international oil companies, independent oil and gas companies and other indigenous companies. The oil and gas business is highly competitive in the search for and acquisition of reserves, in the procurement of rigs and other production equipment, in the production and marketing of oil and gas and in the recruitment and employment of qualified personnel. See “*Risk factors – Risk factors relating to our business – We are dependent on key members of senior management and our technical, financial, operational and marketing teams and our long-term success depends on our ability to attract and retain skilled personnel.*” In addition, we compete with oil and gas companies in the bidding for production licenses, farm-ins and other contractual interests in licenses that are made available by governments or third parties. See “*Industry and Market Data.*”

Anti-corruption policies

Bribery and corruption presents a risk throughout the global oil and gas industry and represents an ongoing risk to any oil and gas company. We maintain a Board-approved Anti-Bribery and Corruption Policy which was adopted by the Board on December 13, 2012. The Policy demonstrates our zero tolerance commitment to bribery and corruption. It prohibits facilitation payments, misappropriation, 'kickbacks' and blackmail/extortion, and sets the parameters under which Directors and employees may give or receive gifts and hospitality, deal with public officials, and make political and charitable donations. The Policy includes reporting, documentation and whistleblowing provisions as well as provisions regarding zero tolerance disciplinary action for any breach.

We also provide our employees with extensive training on anti-bribery and corruption and on the use of external whistleblowing channels, particularly in areas of the business that may be more susceptible to corruption, such as the contracting and procurement processes. We maintain specific processes to guide dealings with public officials and also maintain anti-corruption policies within our corporate governance principles.

Corporate social responsibility, employee safety and environmental safe-guarding

Shared value remains at the center of our investment in Nigeria and delivering a longstanding and positive social and economic legacy for our local stakeholders is our priority. We strive to ensure the safety and security of our stakeholders through compliance with applicable statutory regulators and industry codes of practice, the implementation of safety procedure systems, incident reporting and investigation procedures to track performance and share lessons learned, periodic health screening/survey of staff and contractor employees and health, safety, security and environment induction and awareness programs and competency training.

Our commitment to upholding industry best practice in all of our activities is particularly relevant to its health and safety practices as well as its environmental performance. We have a strong health and safety culture and a sustained commitment to minimizing the environmental impact of our operations. Our performance in these areas is measured and evaluated year on year to ensure we continue to achieve industry-high standards.

In 2017, we have continued to maintain our target of zero fatalities and remain proud of our strong safety record. We know maintaining this requires constant monitoring, innovation and vigilance. We focus on creating a working environment where safety is deeply rooted into behavior, performance and company culture.

We focus on environmental safe-guarding and conservation through the implementation of an approved Environmental Management Plan and rigorous waste management plan. We conduct weekly monitoring of the quality of effluents, emissions and groundwater against statutory/international guidelines, and also conduct, as applicable, Environmental Impact Assessment studies and thereafter periodic Environmental Evaluation Studies to monitor the impact of our operations and implement mitigation measures as appropriate

Community

An integral part of our operating model has been the positive relationships we have built with our host communities, ultimately resulting in a stable environment at our operated facilities and infrastructure. In December 2010, we entered into a memorandum of understanding with the host communities within OMLs 4, 38 and 41 and established a trust fund structure for projects based on sustainable development principles (the "**Global Memorandum of Understanding**"). Our Global Memorandum of Understanding is inclusive of all groups within our host communities, and has as its primary objective building capacity and empowerment within the community, including through the use of local contract preferences, where qualified local contractors exist, and the proactive implementation of sustainable development programs. These initiatives seek to support capacity building, community participation and enhance quality of life through provision of high-standard healthcare, education and development programs. Since taking over OMLs 4, 38 and 41, third-party interference has been significantly minimized. Since 2011, we have not suffered a single day of production downtime due to disruption at our operated facilities and infrastructure. It is this successful model of engagement that also forms the basis of our community engagement activities at our operated assets.

Insurance

Our operations are subject to the risks and hazards common to the oil and gas industry, including, but not limited to, encountering unusual or unexpected rock formations or geological pressures, geological uncertainties, seismic shifts, blowouts, oil spills, explosions, fires, operation of equipment and equipment damage or failure, natural disasters, leakage of hydrocarbons, uncontrollable flows of oil, gas or well fluids, adverse weather conditions, pollution and other environmental risks. We manage our insurance through Insurance Brokers of Nigeria Limited. While we maintain insurance coverage for multiple risks, we are not insured against all risks. We believe that our existing insurance coverage is sufficient to cover the risks associated with our operations.

Employees

As of December 31, 2017, we had 431 employees, and have grown our workforce from 87 employees in 2010. The leadership team comprises of diverse professionals with one-third of the team female. Across the rest of the organization, the gender diversity balance is approximately 1:3 female/ male, which is comparable to statistics in the oil and gas industry. Our objective is to continue to drive diversity across the organization through transparent, fair and focused hiring processes.

Approximately 98% of our in-country employees are of Nigerian nationality, exceeding the required participation level of 70% under the Local Content Act. For more information on the Local Content Act, see "*Legal and regulatory – Government regulations.*"

The following table sets forth the average monthly number of employees employed for the years ended December 31, 2015, 2016 and 2017.

	For the year ended December 31,		
	2015	2016	2017
Employees	448	439	442

Pensions and employee benefits

We contribute to a defined contribution scheme for our employees in compliance with the provisions of the Pension Reform Act 2014. The scheme is fully funded and is managed by licensed Pension Fund Administrators. Membership of the scheme is automatic upon commencement of duties at Seplat. Our contributions to the defined contribution scheme are charged to the profit and loss account in the year to which they relate. The amount payable as at December 31, 2015, 2016 and 2017, was \$394.6 thousand, \$419.0 thousand and \$195.3 thousand, respectively.

Contractors

We also use a number of contractors, particularly in connection with our various infrastructure projects. The number of contractors that we utilize is project dependent and varies according to the number, type and activity level of the projects undertaken.

Litigation

From time to time, and in the normal course of business, we, or our subsidiaries, may be a plaintiff, defendant or otherwise involved in or subject to various lawsuits, legal actions, claims and proceedings relating to employment matters, asset title, or other matters incidental to the business. These disputes are in the ordinary course of business and based upon information presently known to us. While we presently are a party to numerous claims, primarily related to right of way and other property-related disputes, we do not believe that the ultimate resolution of any such pending matters will have a material adverse impact on our business, financial condition or results of operations.

Material agreements relating to our assets

Seplat/NPDC OMLs 4, 38 and 41 Joint Operating Agreement

General

On July 11, 1991, the Shell Consortium and NNPC entered into a joint venture agreement to govern the joint venture relationship between the parties in the exploration, development and operation of certain OMLs in Nigeria, including OMLs 4, 38 and 41. Under the terms of this agreement, NNPC retained a 60% working interest and Shell Petroleum, the Nigerian AGIP Oil Company Limited and Total E&P Nigeria Limited retained a 40% interest. Shell Petroleum was designated as operator of the fields. The parties to the original the OMLs 4, 38 and 41 joint operating agreement executed a Deed of Novation on July 30, 2010 in respect of the OMLs 4, 38 and 41 joint venture, transferring their respective interests to Seplat and Seplat replaced Shell Petroleum, the Nigerian AGIP Oil Company Limited and Total E&P Nigerian Limited as party to the OMLs 4, 38 and 41 joint operating agreement and amended the working interest allocation of the parties to 55% in the case of NPDC and 45% in the case of the Company. NNPC subsequently transferred its interest in the joint operating agreement to NPDC via a side letter dated March 7, 2013. The joint operating agreement and deed of novation executed on July 31, 2010 are together referred to as the **"OMLs 4, 38 and 41 JOA."**

The agreement is governed by Nigerian law and remains in force while the parties have the right to develop OMLs 4, 38 and 41.

The following is a summary of the key terms of the OMLs 4, 38 and 41 JOA:

- **Term and relinquishment:** OMLs are typically granted for terms of 20-30 years. OML 4 was awarded to Shell Petroleum, Total E&P Nigeria Limited and the Nigerian AGIP Oil Company Limited in 1960 and OML 38 and OML 41 were awarded in 1962. The licenses for OMLs 4, 38 and 41 were renewed in July 1989 for a 30-year term. We were successful in taking over these licenses on July 30, 2010 under the original contract terms, i.e. due for renewal in June 2019. Under the Nigerian 1969 Petroleum Act operators are able to extend their licenses for a period of up to 20 years if they have paid all rent and royalties due and have otherwise performed all their obligations under the lease. We began the process to renew the OMLs 4, 38 and 41 licenses in February 2017 and have submitted all of the requisite documents. We believe we are in good standing with the government and have no reason to believe our application for renewal will not be successful.
- **Work obligations:** Each member of the OMLs 4, 38 and 41 JOA is required to contribute its working interest share of funds required for joint operations to the joint account pursuant to the operator's cash calls. The NPDC has the option of paying its cash calls in kind. All payments and taxes for which the Seplat/NPDC Joint Venture is responsible are charged to the joint account in proportion to each party's working interest.
- **Bonus payments:** No bonus payments are due to the Nigerian government, nor the NPDC, under the OMLs 4, 38 and 41 JOA.
- **Special fiscal considerations:** Capital expenditures in respect of oil and gas operations, including capital expenditures on oil and gas facilities and transportation, may be deducted from Petroleum Profit Tax ("**PPT**").

The following table summarizes the key fiscal terms of OMLs 4, 38 and 41 JOA and related key financial terms with its partners.

Contract	OMLs 4, 38, 41 JOA	
Working interest	45%	
Expiry date	June 2019	
Royalty.	Oil 20.0%	Gas 7%
Investment tax allowances ⁽²⁾	5%	
Annual capital allowances	Oil 20.0%	Gas Capital expenditures may be deducted against PPT
Years 1-4		
Years 5+	19%	
PPT/CITA	Oil 85.0% PPT	Gas 30.0% CITA
Other taxes/fees:		
VAT ⁽⁴⁾	5%	
NDDC levy ⁽⁵⁾	3%	
Education tax ⁽⁶⁾	2%	
Annual lease payments per km ²	\$15	

- (1) We submitted our application for early lease renewal for OMLs 4, 38 and 41 on January 9, 2017 and DPR has acknowledged receipt of our application. We are in the process of providing DPR with information that has subsequently been requested. We believe we are in compliance with the relevant government considerations and we have no reason to believe that our application for renewal will not be successful.
- (2) The petroleum investment tax allowance is an allowance granted to an exploration and production company in the first year in which qualifying capital expenditures are incurred and is equal to the qualifying capital expenditures in such year.
- (3) As at December 31, 2017.
- (4) VAT is levied at 5% on all capital and operating costs.
- (5) The NDDC Levy is 3% of the total annual budget (i.e. all costs) of oil producing companies operating onshore and offshore in the Niger Delta area must be paid to a fund maintained by the NDDC.
- (6) Education Tax is levied at 2/102% of assessable profits: revenue less royalty and operating costs (but not capital allowances), as defined for PPT purposes. Education tax payments are deductible for PPT purposes.

The OMLs 4, 38 and 41 JOA also includes the following provisions:

Operator responsibilities

Under the terms of the OMLs 4, 38 and 41 JOA, we are designated as operator of OMLs 4, 38 and 41. As operator, we may enter into agreements with third parties relating to (i) the provision of the facilities used within the context of the OMLs 4, 38 and 41 JOA (after written consent from NPDC) and (ii) the supply of goods or services, within certain monetary limits and subject to any limitations on such authority decided by the operating committee. We are also in charge of preparing the timetable for the work schedules and required budgets and are responsible for hiring and assigning employees, preparing the financial statements, managing joint bank accounts with NPDC and obtaining titles of ownership or leases for the land necessary to conduct operations as well as any surface rights and easements needed.

Financing joint operations

Each party contributes to the financing of joint operations in proportion to its working interest in the OMLs. All costs and expenses in respect of programs and budgets and all income from the operations are determined, placed into accounts and authorized according to specific procedures set out in the OMLs 4, 38 and 41 JOA.

Each party shares in all expenses incurred for the joint account in proportion to its working interest. NPDC is entitled to pay its share of expenses in crude oil, on condition that the operator is given 60 days' prior notice. If a party fails to make payment further to a call for funds, it will be given notice by the operator and, if necessary, an emergency meeting of the operating committee will be convened to examine the situation. As long as a payment default persists, the defaulting party's portion of the joint account may be

used to reimburse the party that has advanced the funds. The non-defaulting party may take recourse against the defaulting party after four months by any legal means, or may suspend joint operations related to the interest held by the defaulting party.

Operating committee

The operating committee is composed of 12 members, comprising six representatives from NPDC and six from Seplat. For the committee's decisions to be adopted: (i) a quorum of two-thirds of the members of the operating committee, including a minimum of four representatives from NPDC and four Seplat representatives, must be met; and (ii) such decisions must be approved unanimously by the members present, unless otherwise provided for in the OMLs 4, 38 and 41 JOA. The powers of the operating committee include the management, control and supervision of all matters pertaining to joint operations. In particular, the operating committee has the power to:

- approve, revise or reject programs and budgets;
- study and approve the recommendations from subcommittees relating to programs and budgets;
- study and make decisions, subject to approval by the parties to the OMLs 4, 38 and 41 JOA, concerning the expansion or reduction of the contract area;
- settle any dispute over 500,000 in value;
- ensure that the operator applies the decisions of the operating committee; and
- more generally, to make any decisions on joint operations that do not fall within the operator's remit and exclusive control.

Sole risk operations

A party may decide to undertake performance of a sole-risk operation (in limited circumstances as set forth therein) after the operating committee and the other party have decided not to pursue or to abandon a given joint operation. Such party will then assume the risks and costs. The operator must perform the operation even if it is not a participant. However, the risks, costs, investments and supervision of the sole risk operations are the responsibility of the sole risk party.

OMLs 4, 38 and 41 Crude Handling Agreement

The OMLs 4, 38 and 41 Crude Handling Agreement, entered into with Shell Petroleum, has been operative since August 1, 2016 and expires on July 1, 2021. Crude handling services provided by Shell Petroleum include the delivery of our crude oil from OMLs 4, 38 and 41, as well as the crude oil we transport for PanOcean and NPDC between Amukpe and Rapele manifolds, to the Forcados terminal, the treatment, processing and storage of the crude oil and the delivery of processed crude oil to a nominated tanker where it can be exported. Under the terms of the Crude Handling Agreement, Shell Petroleum provides us with a reserved production capacity of 80,000 bbls per day. The tariff structure under the agreement includes both a production and capacity charge. For the use of the terminal, we pay a capacity charge of \$1.75 per barrel of the applicable reserved production capacity for every day of the month and this charge is payable regardless of our actual use of the terminal. The capacity charge is redetermined annually to take into account any increases in capital expenditure on the terminal. We also pay a production charge of \$1.20 per barrel of allocated reconciled volume on our actual usage of the terminal. The production charge is redetermined annually as the preceding three-years average actual annual operating costs per barrel. If, over the course of a calendar year, we exceed the reserved production capacity, calculated on an average monthly reconciled volume basis, we shall pay an additional charge of \$0.29 per barrel exceeding the reserved production capacity. We may exceed 120% of the reserved production capacity only with the prior written approval of Shell Petroleum. We are invoiced on the 15th day of each month, with the invoices due within 30 days of receipt and 50% payable in U.S. Dollar and 50% payable in Naira.

OMLs 4, 38 and 41 Mercuria Crude Offtake Agreement

On December 17, 2013, we entered into an offtake agreement with Mercuria (the "**Mercuria Crude Offtake Agreement**") for a period of five years, beginning on the earlier of August 1, 2015 and the date on which we delivered our first cargo to Mercuria in excess of 500,000 barrels. From the date of the delivery of our first cargo, we agreed to sell to Mercuria our full entitlement to crude oil production from OMLs 4, 38 and 41

less any entitlement sold and delivered to Shell Western Supply and Trading Limited. Our crude oil purchase agreement with Shell Western Supply and Trading Limited in relation to oil produced on OMLs 4, 38 and 41 terminated on July 31, 2017. From August 1, 2017, per the Mercuria Crude Offtake Agreement, we have sold our entire entitlement to oil produced at OMLs 4, 38 and 41 to Mercuria.

Unless otherwise agreed by the parties, oil sold pursuant to this agreement shall be Forcados Crude Oil of the usual export quality at the time and place of loading. The contract price is determined according to the average of the mean dated Brent quotations as published in Platt's Crude Oil Marketwire for the five consecutive published quotations in accordance with the NNPC pricing formula plus a differential to the dated Brent quotation established by the official selling price for Forcados blend crude oil prompt option as published by the NNPC. The contract price is subject to certain adjustments.

The title and risk of the loss of the oil passes to Mercuria at the load port as the oil passes the flange connection between the delivery hose and the permanent hose connection of Mercuria's vessel.

On July 18, 2016, we signed an amendment to the OMLs 4, 38 and 41 Mercuria Crude Offtake Agreement. Under the amendment, for any of the oil we evacuate from our fields to the Warri refinery, we may request that Mercuria lift whatever Warri refinery export grade crude oil as we make available, and Mercuria will make all reasonable efforts to accept the crude oil. The price for all Warri refinery oil we delivery FOB to Mercuria shall be the average of the mean Dated Brent quotations as published in Platts Crude Oil Marketwire minus a transport fee of \$9.40/bbl, a marketing fee of \$0.35/bbl and a quality differential of \$1.25/bbl. The quality differential and transportation fees shall be reviewed and adjusted as needed per the terms of the agreement. Title and risk of loss for oil delivered at the Warri refinery shall pass to Mercuria as the oil passes the incoming flange of the shuttle vessels.

Crude Transportation Agreement with PanOcean

As part of our acquisition of OMLs 4, 38 and 41, we acquired a portion of the Trans-Forcados pipeline system between the Amukpe manifold and Rapele manifold. PanOcean routes its crude oil production from certain of its fields via this section of the Trans-Forcados pipeline, and consequently requires us to provide crude transportation services. The original agreement entered into with PanOcean (the "**PanOcean Crude Transportation Agreement**") was for a term of two years from July 31, 2011 to July 31, 2013 and provided that its terms shall continue to apply until a new crude transportation agreement is executed by the parties. We are in the process of agreeing a new agreement with PanOcean on substantially the same terms.

Under the terms of the PanOcean Crude Transportation Agreement, PanOcean is entitled to inject a maximum production capacity of an amount which we notify them of on the 28th day of each month. The tariff structure under the PanOcean Crude Transportation Agreement is as follows:

- Transportation charge for the use of the Trans-Forcados pipeline system of \$0.51/bbl where the transported crude oil for the month includes wet crude. For dry crude the charge drops to \$0.36/bbl.
- Where the average daily transported crude oil is in excess of PanOcean's maximum production capacity, the transportation charge will apply plus an excess charge of 140% of the transportation charge on injected volumes exceeding 120% of the advised limit.

Summit Oil OML 142 Crude Handling and Transportation Services Agreement

On December 22, 2017, we entered into a Crude Handling Agreement with Summit Oil International Limited ("**Summit Oil**"), the operator of OML 142, in which we have agreed to provide crude handling services consisting of the acceptance, transportation, processing and storage of Summit Oil's share of crude oil produced on OML 142. We agree to transport, process and store the oil utilizing the pipeline system starting from Oben flowstation to Rapele that form part of our crude oil delivery network for OMLs 4, 38 and 41. We also agree to deliver the entitlement of oil at the Forcados terminal based on the monthly stock certificate we issue to Summit Oil, per this agreement. The agreement also provides for our periodic redelivery of Summit Oil crude oil to locations other than the Forcados terminal, if the parties so agree. Title to the injected oil is at all times held by Summit Oil. Notwithstanding title at all times remaining with Summit Oil, we are deemed to have custody of the injected oil from the time the oil is injected into our delivery network until it is delivered as export crude to the tankers at the Forcados terminal.

The agreement provides that we shall provide Summit Oil with a reserved production capacity, with a maximum allowable injected volume that shall not exceed 120% of the reserved production capacity. In consideration for our acceptance, transportation, processing and storage of its crude oil produced on OML

142, Summit Oil has agreed to pay \$4.20 per barrel of the applicable reserved production capacity for every day of the month, with such charges payable regardless of actual use of the crude oil delivery network, and \$1.80 per barrel of the applicable injected volume in any particular day of the month, with these charges dependent upon the actual usage of the pipeline facilities. Additional fees shall apply if Summit Oil exceeds the reserved production capacity. Summit Oil is responsible for the cost of any gas flaring penalties for Associated Gas produced along with crude oil when injection into the facility is done by direct flowline connection to Oben W/14S.

The agreement shall remain in place for a period of five years.

Seplat/NNPC OML 53 Joint Operating Agreement

In February 2015, we completed the acquisition of a 40% working interest in OML 53 and an effective 22.5% working interest in OML 55 from Chevron Nigeria Limited (formerly Gulf Oil Company (Nigeria) Limited) ("**CNL**"), in partnership with NAPIMS. CNL and NNPC were both parties of a joint operating agreement dated July 25, 1991, which governed operations relating to OML 53 and under which CNL owned a 40% operating interest in OML 53 and NNPC retained a 60% working interest. By deed of novation dated January 27, 2015, CNL assigned to us its entire right, title and interest in and under the OML as well as its corresponding interest in the joint operating agreement as we assumed all of CNL's obligations and liabilities under the joint operating agreement. The joint operating agreement dated July 25, 1991 and deed of novation dated January 27, 2015 are together referred to as the "**OML 53 JOA**."

The agreement is governed by Nigerian law and remains in force while the parties have the right to develop OML 53.

The following is a summary of the key terms of the OML 53 JOA

- **Term and relinquishment:** OMLs are generally granted for a term of 20 years. OML 53 was renewed in 1997 and expires in 2027.
- **Work obligations:** Each member of the Seplat/NNPC Joint Venture is required to contribute its working interest share of funds required for joint operations to the joint account pursuant to the operator's cash calls. The NNPC has the option of paying its cash calls in kind. All payments and taxes are charged to the joint account in proportion to each party's working interest.
- **Bonus payments:** No bonus payments are due to the Nigerian government, nor the NPDC, under the OML 53 JOA.
- **Special fiscal considerations:** Capital expenditures in respect of oil and gas operations, including capital expenditures on oil and gas facilities and transportation, may be deducted from Petroleum Profit Tax ("**PPT**") PPT.

The following table summarizes the key fiscal terms of the OML 53 JOA and related key financial terms with its partners.

Contract	OML 53 JOA	
Working interest	40%	
Expiry date	June 2027	
Royalty.	Oil 20.0%	Gas 7%
Investment tax allowances ⁽¹⁾	5%	
Annual capital allowances	Oil 20.0%	Gas
Years 1-4		Capital expenditures may be deducted against PPT
Years 5+		19%
PPT/CITA	Oil 85.0% PPT	Gas 30.0% CITA
Other taxes/fees:		
VAT ⁽³⁾	5%	
NDDC levy ⁽⁴⁾	3%	
Education tax ⁽⁵⁾	2%	
Annual lease payments per km ²	\$15	

- (1) The petroleum investment tax allowance is an allowance granted to an exploration and production company in the first year in which qualifying capital expenditures are incurred and is equal to the qualifying capital expenditures in such year.
- (2) As at December 31, 2017.
- (3) VAT is levied at 5% on all capital and operating costs.
- (4) The NDDC Levy is 3% of the total annual budget (i.e. all costs) of oil producing companies operating onshore and offshore in the Niger Delta area must be paid to a fund maintained by the NDDC.
- (5) Education Tax is levied at 2% of assessable profits: revenue less royalty and operating costs (but not capital allowances), as defined for PPT purposes. Education tax payments are deductible for PPT purposes.

The OML 53 JOA also includes the following provisions:

Operator responsibilities

Under the terms of the OML 53 JOA, we are designated as operator of OML 53. As operator, we may enter into agreements with third parties relating to (i) the provision of the facilities used within the context of the OML 53 JOA (after written consent from NNPC) and (ii) the supply of goods or services, within certain monetary limits and subject to any limitations on such authority decided by the operating committee. We are also in charge of preparing the timetable for the work schedules and required budgets and are responsible for hiring and assigning employees, preparing the financial statements, managing joint bank accounts with NNPC and obtaining titles of ownership or leases for the land necessary to conduct operations as well as any surface rights and easements needed.

Financing joint operations

Each party contributes to the financing of joint operations in proportion to its working interest in the OMLs. All costs and expenses in respect of programs and budgets and all income from the operations are determined, placed into accounts and authorized according to specific procedures set out in the OML 53 JOA.

Each party shares in all expenses incurred for the joint account in proportion to its working interest. NNPC is entitled to pay its share of expenses in crude oil, on condition that the operator is given 60 days' prior notice. If a party fails to make payment further to a call for funds, it will be given notice by the operator and, if necessary, an emergency meeting of the operating committee will be convened to examine the situation. As long as a payment default persists, the defaulting party's portion of the joint account may be used to reimburse the party that has advanced the funds. The non-defaulting party may take recourse against the defaulting party after four months by any legal means, or may suspend joint operations related to the interest held by the defaulting party.

Operating committee

The operating committee is composed of 10 members, comprising six representatives from NNPC and four from Seplat. For the committee's decisions to be adopted: (i) a quorum of eight of the members of the operating committee, including a minimum of four representatives from NNPC and four Seplat representatives, must be met; and (ii) such decisions must be approved unanimously by the members present, unless otherwise provided for in the OML 53 JOA. The powers of the operating committee include the management, control and supervision of all matters pertaining to joint operations. In particular, the operating committee has the power to:

- approve, revise or reject programs and budgets;
- study and approve the recommendations from subcommittees relating to programs and budgets;
- study and make decisions, subject to approval by the parties to the OML 53 JOA, concerning the expansion or reduction of the contract area;
- settle any dispute over ₦500,000 in value;
- ensure that the operator applies the decisions of the operating committee; and
- more generally, to make any decisions on joint operations that do not fall within the operator's remit and exclusive control.

Sole risk operations

A party may decide to undertake performance of a sole-risk operation (in limited circumstances as set forth therein) after the operating committee and the other party have decided not to pursue or to abandon a given joint operation. Such party will then assume the risks and costs. The operator must perform the operation even if it is not a participant. However, the risks, costs, investments and supervision of the sole risk operations are the responsibility of the sole risk party.

Assa North Ohaji South Unitization and Unit Operating Agreement

We have a 40% working interest in OML 53 and are the designated operator of the asset. OML 53 contains the large undeveloped Ohaji South gas and condensate field and forms part of the Assa North – Ohaji South (ANOH) development project. The Assa North gas field was discovered in 1961 and straddles the border of OML 21 which extends into OML 53, where the field is defined as Ohaji South. The combined field areas are known as the ANOH unit area.

The ANOH development project is a unitized gas asset with a fully executed Unitization and Unit Operating Agreement ("**ANOH UUOA**") between Shell Petroleum's operated Joint Venture (the "**Shell Petroleum JV**") on OML 21 and the parties to the OML 53 JOA. The unit development is based on a 50/50 percent equity split between the Shell Petroleum JV and the Seplat/NPDC operated joint venture. The ANOH UUOA was originally signed by the NNPC, Shell Petroleum, Total E&P Nigeria Limited, the Nigerian AGIP Oil Company Limited and CNL. By deed of novation, we assumed CNL's rights and responsibilities under the ANOH UUOA on January 27, 2015. Under the ANOH UUOA, the Unit Operator shall conduct all unit operations. Shell Petroleum is the Unit Operator. All work programs as well as budgets must be approved by the Operating Committee, with each party to ANOH UUOA allowed one representative on the Unit Operating Committee.

OML 53 ENI Crude Purchasing Agreement

On January 1, 2017, we entered into a crude purchasing agreement with ENI. Under this agreement we warrant that we have the authority to sell our equity share of crude oil production deriving from non-unitized fields in OML 53. We agree to sell and deliver FOB at the Brass Terminal and ENI agrees to purchase, receive and pay for all of the crude oil we produce from the non-unitized fields in OML 53 (in which we have a 40% working interest). The U.S. Dollar FOB price per net bill of lading barrel under the agreement shall be the average of the mean Dated Brent quotations as published in Platts Crude Oil Marketwire over the pricing period plus a differential to Dated Brent quotation corresponding to the pricing option selected by ENI as established by the Official Selling Price for the appropriate grade of crude oil as published by the NNPC for the month of loading. We shall provide ENI with forecasts, on a quarterly basis, of our estimate of the maximum number of barrels of oil that we will produce per day and per month. Unless otherwise agreed, ENI shall lift its entire entitlement on a monthly basis. The quality of crude oil

that we deliver pursuant to the agreement shall be the quality of crude oil as is usually made available at the Brass Terminal. The risk and property in the crude oil delivered under the agreement shall pass to ENI when the crude oil passes the loading vessel's permanent hose connection at the Brass Terminal.

OPL 283 Umuseti/Igbuku Joint Operating Agreement

On June 1, 2013, Newton Energy Ltd, a wholly-owned subsidiary of Seplat, entered into an agreement with Pillar Oil to acquire our 40% working interest in the Umuseti and Igbuku marginal fields (located on OPL 283). The area that encompasses OPL 283 was originally part of OML 56 and OPL 283 is subject to the same license terms as OML 56.

Operator responsibilities

Under the terms of the Umuseti/Igbuku JOA, Pillar Oil's duties as operator include conducting joint operations, executing joint programs and joint budgets which have been approved by the operating committee and keeping accurate records and books of accounts. Pillar Oil is required to make certain data available to Newton Energy Ltd, including without limitation information and data concerning reserves, drilling reports, production reports, forecasts and financial data required for cash calls.

Operating committee

The powers of the operating committee include the management, control and supervision of all matters pertaining to joint operations. The operating committee is composed of six members, comprising three representatives from each of Newton Energy Ltd and Pillar Oil. All committee decisions must be made by unanimous vote of the members of the committee from time to time, unless otherwise provided for in the Umuseti/Igbuku JOA.

Financing joint operations

Each party contributes to the financing of joint operations in proportion to its working interest in the marginal fields. All costs and expenses in respect of programs and budgets and all income from the operations are determined, placed into accounts and authorized according to specific procedures set out in the Umuseti/Igbuku JOA. Each party has the option of paying its share of expenses in crude oil, on condition that the operator is given 30 days' prior notice.

Sole risk operations

A party may decide to undertake performance of a sole-risk operation (in limited circumstances as set forth therein) after the operating committee and the other party have decided not to pursue or to abandon a given joint operation. Such party will then assume the risks and costs. The operator must perform the operation even if it is not a participant. However, the risks, costs, investments and supervision of the sole risk operations are the responsibility of the sole risk party.

OPL 283 Pillar Oil Platform Crude Sale Agreement

On April 27, 2010 Pillar Oil, our partner in the development of OPL 283, entered into a crude sale agreement covering the sale and purchase of brass light Nigerian crude oil from the Umuseti and Igbuku marginal fields with Platform Petroleum Limited ("**Platform**") and Newcross Petroleum Limited. Platform had previously entered into a crude sale and purchase agreement with ENI for the sale of crude oil produced from the Umuseti and Igbuku marginal fields. The agreement regulates the custody by Platform of the crude oil produced at the Umuseti and Igbuku fields ("**Pillar Oil's Crude**") for onward sale to ENI. From the effective date, the agreement is automatically extended until such time as Pillar Oil enters into a crude sales agreement directly with ENI or any other potential buyer.

The agreement provides that Pillar Oil shall deliver Brass Light Nigerian crude oil of normal export quality. Crude production from the Umuseti and Igbuku marginal fields is co-mingled with crude oil produced from other fields belonging to marginal field operators and transported via crude handling facilities owned by a consortium of marginal field operators and the pipelines system owned by NAOC to the Brass River Export Terminal for sale and export. Production and entitlement to crude oil stored at the brass River export terminal is separately accounted for by the operators of the fields, the consortium of crude handling facilities operators and the Brass River Terminal Operators. The quantity of crude oil delivered by Pillar

Oil to Platform, for onward sale to ENI, shall be Pillar Oil's entire entitlement available for lifting in that month as allocated to Pillar Oil by the consortium of crude handling facilities operators and the Brass Terminal operators.

The quality and quantity of crude oil shall be determined in accordance with the standard measuring and testing procedures in force at the time of delivery at the loading terminal. The final price to be remitted by Platform to Pillar Oil shall be the total amount, without any deduction, paid to Platform by ENI, pro-rated against the crude oil produced at the Umuseti and Igbuku marginal fields of which Platform had custody. ENI shall be responsible for the payment of any taxes, duties, imposts and fees of any description on the Pillar Oil produced at the Umuseti and Igbuku marginal fields after such produced oil passes the flange connection of the loading vessel's delivery hose at the loading port. All title and risk of loss of the produced oil shall also pass to ENI when such oil passes the flange connection of the loading vessel's delivery hose at the loading port.

OPL 283 Pillar Oil Shell Western Crude Sale Agreement

On August 26, 2014 Pillar Oil entered into a crude sale agreement with Shell Western Supply and Trading Limited ("**Shell Western**") relating to the oil produced on OPL 283. Pillar Oil agreed to sell, and Shell Western agreed to buy FOB at the Brass Terminal the oil exported from OPL 283 by Pillar Oil. The contract price is determined according to the average of the mean dated Brent quotations as published in Platt's Crude Oil Marketwire plus the average of the mean Brass River Crude Oil differential to dated Brent as published in Platt's Crude Oil Marketwire. All payments are due within 30 calendar days of the bill of lading date. Title and risk of loss or damage to the crude oil supplied to Shell Western passes to Shell Western when the oil passes the loading vessel's permanent hose connection. The agreement is effective for a period of 60 months.

OML 55 Deed of Settlement and Release

We entered into the a settlement agreement with BelemaOil on August 25, 2015. The agreement provides that BelemaOil shall pay us a discharge sum of \$330 million, taken out of the net proceeds of crude oil lifted from OML 55. The agreement further requires that the parties share the net proceeds of each crude oil lifting until the discharge sum has been paid and that the proceeds from the liftings will be paid into a jointly operated escrow account, with 85% of the net proceeds accorded to Seplat and 15% of the net proceeds accorded to BelemaOil.

OML 55 Asset Management Agreement

In 2015, we concluded negotiations to purchase 56.25% of BelemaOil, a Nigerian special purpose vehicle that had purchased a 40% interest OML 55 (NNPC holds the remaining 60% interest in OML 55). In July 2016 See "*Our business – Upstream assets – Description of assets – OML 55.*" The OML 55 Asset Management Agreement allows us to carry out joint operations on behalf of BelemaOil, but BelemaOil is the operator of record of OML 55. Under the agreement, BelemaOil assigns the duties of managing OML 55 to the Asset Management Team. The Asset Management Team comprises equal representatives from both Seplat and BelemaOil, is responsible for the day-to-day running and operations of OML 55 and shall exercise all the duties, functions and obligations of an operator without interference from or reference to BelemaOil. For each of the key operating functions (technical, finance, procurement, contracts, legal and security), a Seplat or BelemaOil representative shall occupy the lead or deputy role, with the lead and deputy roles switching after 3 years. The OML 55 Asset Management Agreement shall be effective until the date on which BelemaOil fully repays the discharge sum due to Seplat, at which date the agreement shall automatically terminate.

OML 55 Vitol Crude Sale Agreement

BelemaOil Producing Limited has agreed to sell 100% of its entitlement of Bonny Light Crude Oil exported via the Bonny Terminal from January 1, 2018 to June 30, 2018 to Vitol SA. The agreement automatically extends first until September 30, 2018 and again until December 31, 2018 provided neither party provides written notice for termination. The U.S. Dollar price per barrel under the agreement is (i) the arithmetic average of the mean quotations as published by Platt's Crude Oil Marketwire; (ii) plus the relevant premium declared by NNPC for Bonny Light Crude Oil for the month in which the date of bill of lading falls; and (iii) either \$0.600 per net U.S. barrel for part cargoes or U.S. 0.850 per net barrel for full cargoes. Payment shall be made in U.S. Dollars no later than the fifth day following the bill of lading date. The risk

and property in the crude oil shall pass from BelemaOil Producing Limited to Vitol SA as the product passes the vessel's permanent hose connection at the location of loading.

This agreement was jointly negotiated by BelemaOil and us for the purpose of ensuring payment to us of the discharge sum out of the proceeds of crude oil lifted from OML 55 in accordance with the OML 55 Deed of Settlement and Release.

Sapele Power and Geregu Power Gas Sale and Purchase Agreements

On February 21, 2013, we entered in two gas and sale purchase agreements with, amongst others, Sapele Power and Geregu Power, each for a term of 10 years (or until the required amounts have been delivered) on standard industry terms. Under these agreements, we agreed to supply Sapele Power with 182,500,000 MMBtu of gas and Geregu Power with 292,000,000 MMBtu of gas on a take or pay basis, over the course of the 10-year terms. The minimum contract price for gas supplied under each agreement is calculated and adjusted from \$2.0 MMBtu in accordance with a power sector price formula which takes into consideration the current price, the price the previous year and the Organization for Economic Co-operation and Development ("**OECD**") Consumer Price Index.

KEL/VPL JV Gas Sale Agreement

On December 23, 2013, we entered into a gas supply agreement with the Kaego Energy Limited and Virile Petroleum Limited and NPDC (the "**KEL/VPL JV**") to route sales-quality gas through the KEL/VPL JV gas plant to enable it to extract liquids. Under the agreement we supply the KEL/VPL JV with 50 MMscfd, subject to our other prior existing supply obligations, as well as any additional quantities as the parties may agree, from which the KEL/VPL JV extracts liquefiable hydrocarbons and dry gas before returning the natural gas to our processing facilities. The KEL/VPL JV has a payment obligation for all volumes that are not returned to our processing facilities, the shrinkage price, and a fee related to the fuel required to extract the natural gas liquids. Both prices are increased annually based on the OECD Consumer Price Index. The agreement is for a term of 10 years with an option for Southfield Petroleum to request an extension of a further period not exceeding 10 years.

Macaulay Ofhurie, a Non-Executive Director of the Company, is also a director of KEL/VPL JV. See "*Certain relationships and related party transactions.*"

Southfield Petroleum Gas Sale Agreement

On December 17, 2013, we entered into an agreement with Southfield Petroleum Limited ("**Southfield**") and NPDC to route sales-quality gas through the Southfield Petroleum LPG plant to enable it to extract liquids. Under the agreement we supply Southfield with gas not exceeding 90 MMscfd from the Oben gas plant from which Southfield will extract natural gas liquids before returning the natural gas to our processing facilities. Southfield has a payment obligation for all volumes that are not returned to our processing facilities, the shrinkage price, and a fee related to the fuel required to extract the natural gas liquids. Both prices are adjusted on the first day of each contract year based on the current price, the previous year's price and the OECD Consumer Price Index. The agreement is for a term of 10 years with an option for Southfield Petroleum to request an extension of a further period not exceeding 10 years.

Azura Power Gas Sale Agreement

On April 14, 2014, we entered into a gas sale and purchase agreement with Azura Power West Africa Limited and NPDC to supply it, on a take-or-pay basis, with an annual quantity equal to 42,306,818 MMBtu of gas at an initial unit price of \$3.00/MMBtu. The price may be adjusted in accordance with a power sector price formula which takes into consideration the current price, price during the immediately preceding year and the OECD Consumer Price Index. The agreement is effective for a period of 15 years with an option to extend the period by a further five years by written agreement between the parties.

Nigerian Gas Company Interim and Interruptible Gas Sale Agreements

Effective July 1, 2015 we entered into a gas sale agreement with NGC and NPDC in relation to the natural gas and other hydrocarbons we produce on OMLs 4, 38 and 41. Under the agreement, through December 31, 2015, 100 MMscfd of gas volumes were sold to NGC at a price of \$3.50 for further resale to NGC customers and amounts in excess of 100 MMscfd were sold to NGC at the price of \$2.65/Mscf. Beyond

December 31, 2015, the applicable contract price is determined based on a formula which takes into account the current contract price, the price for the immediately preceding year and the OECD Consumer Price Index. Under the agreement the volume of gas sold is invoiced not later than the 15th day of the subsequent month and is paid within 30 days of the receipt of the invoice. The agreement terminates on June 30, 2018 unless extended by mutual agreement of the parties. The NGC was split into the NGPTC and the NGMC in 2016. The NGMC assumed the gas sale agreements previously entered into by the NGC.

Oando Gas Sale Agreement

Effective September 8, 2017 we entered into a gas sale agreement with NPDC and Oando Gas & Power Limited in relation to the natural gas and other hydrocarbons we produce on OMLs 4, 38 and 41. Under the agreement, we have agreed to sell and Oando has agreed to buy 50 MMscfd of gas produced on OMLs 4, 38 and 41 annually. The parties may increase the quantity of gas sold by mutual agreement. Under the agreement, the volume of gas sold is invoiced not later than the 15th day of the subsequent month and is paid by the 20th day of the following month. The agreement is effective for a period of 10 years with an option to extend by written agreement.

Shareholders Agreement

On December 22, 2009 Sheba Petroleum Development Company Ltd, Platform Petroleum Joint Ventures Limited, Etablissements Maurel et Prom ("**Maurel et Prom**") and Seplat Petroleum Company Limited entered into a shareholders agreement (the "**Shareholders Agreement**") with the aim of working together to invest in Seplat Petroleum Company Limited to invest in the acquisition of oil and gas assets in the Niger Delta region of Nigeria, initially through the acquisition of OMLs 4, 38 and 41. See "*Principal Shareholders*." In conjunction with the Shareholder's Agreement, Maurel et Prom provided a shareholder loan of \$153 million and an additional loan of \$187 million, both of which have been repaid, and capital contribution of \$40 million for the working capital requirements of Seplat Petroleum Company Limited.

Relationship Agreement

On March 25, 2014, we entered into a relationship agreement (the "**Relationship Agreement**") with the MPI SA, a subsidiary of Maurel et Prom,, Sheba Petroleum Development Company Ltd, Platform Petroleum Joint Ventures and our two co-founders Dr. A.B.C. Orjiako and Mr. Austin Avuru to ensure that transactions between the parties to the agreement and Seplat Petroleum Development Company Plc are at an arm's length basis and on commercial terms.

Under the terms of the Relationship Agreement, Maurel et Prom, Sheba Petroleum Development Company Ltd and Platform Petroleum Joint Ventures shall each have the right to two directors for so long as the entity, together with any of its associates, has a direct or indirect legal or beneficial interest in, or is able to exercise or procure the exercise of voting rights attaching to 17.5%, in the case of Sheba Petroleum Development Company Ltd, Platform Petroleum Joint Ventures and Dr. A.B.C. Orjiako, or 30%, in the case of Maurel et Prom, or more of the issued ordinary shares from time to time. Each entity shall have the right to appoint one director for so long as the entity, together with any of its associates, has a direct or indirect legal or beneficial interest in, or is able to exercise or procure the exercise of voting rights attaching to 7.5%, in the case of Sheba Petroleum Development Company Ltd, Platform Petroleum Joint Ventures and Dr. A.B.C. Orjiako, or 15%, in the case of Maurel et Prom, or more of the issued ordinary shares from time to time.

The parties have also agreed in the Relationship Agreement to exercise their voting rights to ensure, so far as they are reasonably able, that the Board always comprises at least three directors who are, having regard to the criteria set out in the UK Corporate Governance Code and the Nigerian Code of Corporate Governance, independent of each of them and their respective associates and to exercise their voting rights to ensure, so far as they are reasonably able, that at least one Independent Non-Executive Director will have prior experience of sitting on the board of a company whose ordinary shares were, at the time such Independent Non-Executive Director held such position, listed on the main market of the LSE and admitted to the Official List of the FCA.

REGULATION

Like other participants in the oil and gas industry, we are subject to various laws and regulations administered by local, national and other government entities, and similar agencies in Nigeria. The oil and gas industry is subject to extensive regulations at the local, national and international level, and these regulations are subject to change. These regulations have a significant impact on oil and gas exploration, development production and marketing activities, and could potentially increase the cost of doing business, and consequently, affect profitability. Some of the legislation and regulation affecting the oil and gas industry in Nigeria carry significant penalties for failure to comply. While there can be no assurance that we will not incur fines or penalties, we believe that we are, and we intend to remain, in substantial compliance with all material governmental laws and regulations affecting our business and maintain all material permits and licenses relating to our operations. Because the enactment of new laws affecting the oil and gas business is common and because existing laws are often amended or reinterpreted, we are unable to predict the future cost or impact of complying with such laws. We do not expect that any of these laws would affect us in a materially different manner than any other similarly sized oil and gas company operating in Nigeria.

From time to time, we receive notices and inquiries from regulatory authorities in connection with such laws and regulations. In some instances, litigation ensues. In addition, individuals may initiate litigation against us. See *“Our business – Litigation.”*

Oil and gas production is regulated under a wide range of statutes, rules orders and regulations in the jurisdictions in which we operate, including laws related to location of wells; drilling and casing of wells; well production limitations; spill prevention plans; surface use and restoration; platform, facility and equipment removal; the calculation and disbursement of royalties; the plugging and abandonment of wells; bonding; permits for drilling operations; and production, severance and ad valorem taxes. Oil and gas companies may encounter delays in drilling as a result of bureaucratic processes and requirements for obtaining relevant permits and other authorizations. Our operations are subject to regulations governing operation restrictions and conservation matters, including provisions for the unitization or pooling of oil and gas properties in straddling fields, the establishment of maximum rates of production from oil and gas wells, and prevention of flaring or venting of gas. The conservation laws have the effect of limiting the amount of oil and gas we can produce from our wells and limiting the number of wells or the locations at which we can drill.

Below is a summary of certain key Nigerian legal and regulatory regimes under which we operate. For a discussion of certain risks associated with these legal and regulatory regimes, see *“Risk Factors.”*

Nigeria’s OPEC quota

Nigeria is a member of OPEC and is subject to OPEC regulations and quotas for the control of production of oil, which may cause fluctuations in our production levels. See *“Risk factors – Risks relating to the industry and our business – Production of oil in Nigeria may be impacted by OPEC and other production quotas.”*

Government regulations

By the provisions of the Constitution of the Federal Republic of Nigeria 1999 (as amended) and the Petroleum Act Chapter P10 Laws of the Federation of Nigeria, 2004 (the **“Petroleum Act”**), all minerals, mineral oils and gas in, under or on any land in Nigeria and its territorial waters and exclusive economic zone are vested in the Federal Government of Nigeria, managed in the manner prescribed by the Nigerian National Assembly and held in trust for the benefit of the people of Nigeria.

There are various laws and regulations that directly and indirectly regulate the Nigerian oil and gas industry: these laws and regulations vary from those applying to the operational aspects, such as the Petroleum Act, to the fiscal aspects, such as the Petroleum Profit Tax Act Chapter P13 Laws of the Federation of Nigeria 2004 and the Companies Income Tax Act Chapter C21 Laws of the Federation of Nigeria 2004 (as amended). Some legislation and regulations affecting the oil and gas industry carry significant penalties for failure to comply with the provisions thereof. In addition, each state in which oil and gas business is undertaken has laws on environmental standards, land ownership and land use, which may restrict or prohibit transportation and storage of oil and gas in certain areas.

The Petroleum Act is the principal statute governing petroleum operations, including petroleum exploration, production and use. It vests ownership and control of all petroleum exclusively in the government and the exercise of the powers consequent on this title in the minister of petroleum resources.

Persons wishing to carry out any form of petroleum operations can do so only on the basis of authorization granted by the minister. The Petroleum Act and its subsidiary legislation, including the Petroleum (Drilling and Production) Regulations 1969 (as amended), the Petroleum Regulations 1967 and the Petroleum Refining Regulations 1974, govern petroleum operations in Nigeria including, but not limited to, exploration, development, production, storage, transportation, marketing, and refining.

The Oil Pipelines Act Chapter O7 Laws of the Federation of Nigeria 2004 and the Oil and Gas Pipelines Regulations (S.I. 14 of 1995) provide the legal and regulatory framework for the establishment, operation and maintenance of pipelines that are related to, incidental and supplementary to oil and gas activities and operations in Nigeria.

The Deep Offshore and Inland Basin Production Sharing Contracts Act Chapter D3 Laws of the Federation of Nigeria 2004 prescribes fiscal incentives for companies operating in the deep offshore and inland basin areas of Nigeria under production sharing contracts

The Federal Executive Council approved a National Petroleum Policy in July 2017. The National Petroleum Policy seeks to diversify the economy from an oil dependent economy, minimize the environmental impact of oil exploration and production to create a market driven petroleum industry, maximize production of hydrocarbons, drive cost efficient downstream petroleum operations and create a balance between depleting oil resources and renewable energy sources.

The Local Content Act addresses indigenous capacity and local content participation across the Nigerian oil and gas industry, including the upstream and support services of the Nigerian energy industry. The Local Content Act prescribes minimum thresholds for Nigerian participation in activities, generally provides for preferential treatment for Nigerian companies (i.e. companies with a minimum of 51% Nigerian equity holdings) in the award of oil blocks and licenses and provides for exclusivity to Nigerian indigenous service companies who demonstrate their capacity to operate in land and swamp terrain. The Local Content Act also requires that we retain a minimum 10% of our revenue from our Nigerian operations in Nigeria. Noncompliance with the provisions of the Local Content Act in the award or execution of a project or contract can result in the cancellation of the project or a fine of up to 5% of the project sum.

The Nigerian Senate passed the Nigerian Petroleum Industry Governance Bill on May 25, 2017, while the House of Representatives passed its own version of the same bill on January 17, 2018. Both houses are yet to undergo a process of harmonization of their respective bills, after which the harmonized bill must receive presidential assent before it becomes law. The Petroleum Industry Governance Bill seeks to establish transparency and accountability in the administration of petroleum resources, create efficient and effective governing institutions with clear and distinct roles for the petroleum industry, create a construct for ensuring commercially oriented and profit driven petroleum entities and promote a sound business environment for petroleum operations.

To this end, the bill proposes to unbundle the NNPC and establish three commercial entities—the Nigeria Petroleum Assets Management Company, the Ministry of Petroleum Incorporated, and the National Petroleum Company (the “NPC”). It is proposed that the Management Company will be responsible for managing the NNPC’s interest in production sharing contract assets and “back-in right” assets, and the NPC will take-over all other NNPC assets. A fourth entity, the Nigeria Petroleum Liability Management Company, is proposed to assume certain liabilities of the NNPC and the DPR. The bill also limits the powers of the MPR by restricting the Minister’s primary function to acting as representative to the federal government on petroleum matters and national petroleum policy adviser and provides for the establishment of a Nigeria Petroleum Regulatory Commission (the “NPRC”) that will be vested with the combined functions of the Petroleum Inspectorate, the DPR and the Petroleum Products Pricing Regulatory Agency. Once established, the NPRC, rather than the Petroleum Minister, will issue, modify, suspend and review upstream licenses.

On July 27, 2017, the Petroleum Host Community Bill, Petroleum Industry Administration Bill Petroleum Industry Fiscal Bill passed the second reading at the Nigerian Senate and were referred to the relevant committees for deliberation. Nigeria’s legislative process requires that bills be deliberated on for a second time at the third reading stage before being passed. The House of Representatives is also required to pass the bills adopting a similar process before they can be signed into law by the president.

We are unable to predict if and when such bills will be enacted and become operative. We are also unable to predict the future cost or impact of complying with these regulations if such bills are enacted. However, we do not expect that these laws would disproportionately affect us as compared to any other similarly sized oil and gas company operating in Nigeria. See “Risk factors—Risks related to operating in Nigeria.”

The regulatory environment in the oil and gas sector in Nigeria is subject to significant ongoing change.

Exploration and production regulations

The Petroleum Act is the primary legislation governing the development of petroleum in Nigeria. The industry is regulated by the Ministry of Petroleum Resources (the “**MPR**”) and is headed by the Minister of petroleum resources (the “**Petroleum Minister**”). The Ministry is responsible for policy formulation and regulating the Nigerian petroleum industry and is empowered to authorize petroleum activities.

Oil mining leases

The MPR has broad powers including the powers to grant OMLs for the development and disposal of petroleum and OPLs for the right to explore and prospect for petroleum in respect of an area. The Petroleum Minister’s consent is required for assignments of interests in OMLs and OPLs, and the Petroleum Minister has the authority to issue regulations further to the Petroleum Act. The Petroleum Minister acts primarily through the Department of Petroleum Resources (“**DPR**”), which carries out routine monitoring, compliance, and oversight and functions and is the petroleum regulatory agency of Nigeria. Although the majority of its regulatory oversight is carried out through the DPR, the Ministry also carries out other regulatory activities through the Nigerian National Petroleum Corporation, which participates in petroleum operations on behalf of the government (and is established by the Nigerian National Petroleum Corporation Act) as well as the Petroleum Product Pricing Regulatory Agency.

The Nigerian Content Development and Monitoring Board, established by the Local Content Act, also administers, coordinates, supervises and monitors the development and implementation and of Nigerian local content participation in the oil and gas industry.

The Federal Ministry of Environment and the National Oil Spill Detection and Response Agency are also involved in the regulation of the oil and gas industry.

In the last few years, most of the grants by the Nigerian government have been in the form of production sharing contracts and marginal fields. As an alternative method of acquiring interests in oil and gas assets, indigenous companies have been acquiring working interests in OMLs held by international majors and other asset holders, upon obtaining the consent of the Petroleum Minister. For instance, we acquired our 45% working interest in OMLs 4, 38 and 41 from Shell Petroleum, Total E&P Nigeria Limited and the Nigerian AGIP Oil Company Limited. See “*Our business – Corporate history.*”

Marginal fields

A marginal field typically consists of a capped oil field within an OML that has not been developed by the OML holder for a period of ten (10) years or more because it falls below the materiality and economic thresholds of major oil and gas producers. The policy governing marginal fields arose from the indigenization policy of the Nigerian government which sought to encourage Nigerian companies to participate in the exploration and production of oil and gas. The marginal field regime also sought to curb the rates of abandonment of depleting fields that, while not commercially attractive to major oil and gas producers, would be attractive to smaller indigenous companies. Further to this policy, the Nigerian government auctioned some of these marginal fields to smaller players in the industry.

Marginal field owners have since worked to develop the fields for their own account paying taxes, royalties and dealing directly with the governmental authorities. Upon the grant of the marginal field, the marginal field owner enters into a farm-out agreement with the OML holder which may be an international oil company and/or the NNPC or the NPDC and, as part of the agreement, the marginal field owner is required to pay an “**overriding royalty**” to the original OML holder.

Marginal fields are typically granted for an initial period of 60 months. If production is not attained within the 60 month period, the Nigerian government is entitled to withdraw the award of the marginal field and the farm-out agreement lapses. However, if production is attained within the 60 month period, the farm-out agreement is renewed for the remaining life of the field and the farm-out agreement remains valid irrespective of any expiry, withdrawal, surrender/relinquishment of the underlying OML. The Nigerian government has in the past provided extensions to grants of marginal fields beyond the initial 60 month period notwithstanding that the marginal field awardee did not attain production. For example, the Nigerian government extended the life of the marginal fields it granted in 2003, although none of the fields had attained production within 60 months of their award. In the event of bankruptcy or insolvency of the

marginal field owner, the farm-out agreement will terminate and the marginal field will be returned to the marginal field pool of the OML holder. The Nigerian government will then reallocate the marginal field to another indigenous company.

We are also subject to regulations made pursuant to the Petroleum Act, including the Petroleum (Drilling and Production) Regulations, 1969 (“**PDPR**”) which regulate operational aspects of the drilling and production of petroleum. The PDPR sets forth fees, rents and rates of royalty payable (depending on the location, royalty rates range from 0% in deep offshore areas to 20% onshore) by a licensee or lessee under the Petroleum Act. In addition, licensees and lessees are obligated to obtain permits and licenses before engaging in most activities in furtherance of petroleum operations under the relevant OML or OPL and also have reporting obligations. The Crude Oil (Transportation and Shipment) Regulations regulate the transportation and shipment of the oil after production. In addition, we are subject to regulations relating to construction, maintenance and operation of oil and gas pipelines.

Ministerial consent

With respect to the assignment or transfer of a license or the lease of any right, power or interest in oil and gas assets in Nigeria or the acquisition of a company which holds any such right (or the parent of such company), the prior consent of the Petroleum Minister is required. Consequently, the acquisition by an entity of an interest in a company whose subsidiary or affiliate has interest in an OML or OPL would also trigger the consent of the Petroleum Minister. By the Guidelines and Procedures for Obtaining Ministerial Consent to the Assignment of Interest in Oil and Gas Assets, the grant of consent for transfer or assignment of an interest is premised on satisfying the Minister that the proposed assignee is of good reputation; is acceptable to the Federal Government; and is likely to possess requisite technical and financial knowledge and experience to develop the asset. The process for obtaining the consent of the Petroleum Minister can be complex and time-consuming.

Gas regulations

Petroleum is defined in the Petroleum Act to include gas hence the provisions of the Petroleum Act which relate to exploration and production of oil generally also apply to the exploration and production of gas. Paragraph 35 of the First Schedule to the Petroleum Act merely provides that the Petroleum Minister may impose special provisions on licensees and lessees with regard to any gas discovered in a license or lease area, including (i) the right of the Nigerian government to take such gas produced with oil free of cost at the flare or at an agreed cost and without payment of royalty; and (ii) the obligation of the licensee/lessee to obtain the approval of the Nigerian government as to the price at which gas produced (and not taken by the Nigerian government) is to be sold. Historically, however, the Petroleum Act has only been applied to the exploration and production of oil.

Since June 2017, the regulation of gas development in Nigeria has been guided by the National Gas Policy. The National Gas Policy has as its objectives the legal separation of gas infrastructure ownership and operations from gas trading and the separation of the petroleum upstream from midstream, increased value from liquefied natural gas, the adoption of a project-based approach to gas development and the establishment of strong links with other sectors (i.e., the electric power, agriculture, transport and industrial sectors).

From February 2008 to June 2017, gas development was guided by the Gas Master Plan, which informed government policy on gas pricing, domestic gas supply and development of gas infrastructure within Nigeria. In a bid to give effect to the Gas Master Plan, the Federal Government of Nigeria subsequently issued the National Domestic Gas Supply and Pricing Policy (the “**NDGSPP**”) and the National Gas Supply and Pricing Regulations (the “**NGSPR**”). The NDGSPP recognizes a domestic reserves obligation and the NGSPR imposes a domestic gas supply obligation. The effect of both of these obligations was to impose a requirement on all licensed petroleum producers to dedicate a specific volume of gas for strategic sectors within the domestic economy and to deliver such gas to a purchaser in accordance with a specified nominations procedure as well as to submit gas production and supply plans consistent with their domestic gas supply obligations. The NGSPR also provides for the role of a domestic gas aggregator to act as an intermediary between suppliers and purchasers of gas in the domestic market and to ensure the supply of gas to strategic sectors based on aggregated prices. Noncompliance with the domestic gas supply obligation may expose a company to fees for volumes of gas not supplied, in addition to prohibiting a company from exporting gas. The NGSPR and NDGSPP remain in place under the National Gas Policy.

The Associated Gas Re-injection Act

The Associated Gas Re-injection Act was enacted to curb gas flaring in Nigeria and prohibits the flaring of gas produced in association with oil without the permission of the Petroleum Minister. However, since 1984, the Petroleum Minister has under the Associated Gas Reinjection (Continued Flaring of Gas) Regulations been able to permit flaring of gas if satisfied that utilization or re injection of the produced gas is not appropriate or feasible in a particular field or fields. Such permission is, however, subject to such terms and conditions as may be imposed at the discretion of the Minister of Petroleum, including the payment of such fee as may be prescribed by the Minister of Petroleum.

Oil and gas pipelines

The principal legislation governing the transportation of oil and gas by pipeline is the Oil Pipelines Act (Chapter O7, Laws of the Federation of Nigeria, 2004). It provides for licenses to be granted for the establishment and maintenance of pipelines from oil and gas fields, oil and gas refineries/processing plants and distribution depots and “all other matters connected therewith”, including the payment of compensation where rights or interests in land are adversely affected by the exercise of the rights conferred by licenses. The Petroleum Minister first grants permits for a survey of the route of the proposed pipeline and, ultimately, a license to construct, maintain and operate an oil and gas pipeline.

Petroleum Industry Bill

Nigeria is pursuing a number of new policy initiatives with the aim of restructuring its oil and gas industry, but the final form and adoption of new regulations and the implementation of suggested reforms is highly uncertain and may be subject to political and economic influences. In particular, the PIB, first submitted to the National Assembly in 2008, has since undergone a number of iterations and now comprises the four Petroleum Bills, specifically the Petroleum Industry Governance Bill, the Petroleum Industry Administration Bill, the Petroleum Industry Fiscal Bill and the Petroleum Host Community Bill, which were introduced in 2016 in the hope of expediting the passage of the intended reforms in a more manageable incremental fashion.

Each of the Nigerian Senate and the House of Representatives has passed its own version of the Petroleum Industry Governance Bill in substantially the same form and both houses are still required to harmonize the bill before it is presented for presidential assent. The Petroleum Industry Fiscal Bill and the Petroleum Host Community Bill are still at the early stages of the legislative process. See *Risk factors – Risks relating to operating in Nigeria – The regulatory environment in the oil and gas sector in Nigeria is subject to significant ongoing change*” and *“Industry and Market Data – Overview of the Nigerian Oil and Gas Industry – Petroleum Industry Bill.”*

Fiscal regulations

Petroleum Profit Tax Act

The Petroleum Profits Tax Act (“**PPTA**”) Chapter P13 Laws of the Federation of Nigeria 2004 governs the taxation of upstream petroleum operations with the baseline applicable tax for oil operations set at 85% of chargeable profits; with royalties ranging between 0% and 20% depending on water depth; a lower tax rate of 65.75% is payable by companies who have not yet amortized all pre-production capital expenditure for the first five years of production. Gas operations are liable to tax at 30% of their revenue under incentives included in the PPTA.

Niger Delta Development Commission Levy and Local Content Levy

In addition to the taxation of petroleum profits, pursuant to the PPTA or DIBPSA, there is also a levy of 3% imposed by the Niger Delta Development Commission Act chargeable on the total annual budget of any oil producing or gas processing company operating onshore and offshore of the Niger Delta area.

The Local Content Act requires that 1% of every contract awarded to any operator, contractor, subcontractor, alliance partner or any other entity involved in any project, operation, activity or transaction in the upstream sector of the Nigerian oil and gas industry shall be deducted at source and paid into the Nigerian Content Development Fund.

Other tax regimes

There is also a 2% Education Tax imposed on the assessable profits (before capital allowances and losses) of every company registered in Nigeria and 5% VAT is charged on all supply of goods and services except goods and services expressly exempted by the Value Added Tax Act.

Incentives

The PPTA creates a number of incentives to encourage utilization of gas, usually although not exclusively, found when exploring for oil. These incentives apply exclusively to oil producers engaged in the utilization of both associated and non-associated gas.

The Nigerian government introduced incentives under the PPTA that would allow companies involved in the utilization of gas to be taxed at the corporation tax rate of 30% under the Companies Income Tax Act CITA Chapter C21 Laws of the Federation of Nigeria 2004, in relation to the income from the gas utilization project (as opposed to the 65.75% and 85% rates under the PPTA and 50% under the DIBPSA). No definition is provided for utilization of gas in the PPTA; however, the PPTA specifically provides that the incentives shall be available to companies which invest in gas liquids extraction facilities to supply gas in usable forms to downstream projects (such as aluminum smelter and methanol) and other gas utilization projects.

Under the CITA, other incentives are available to gas utilization companies, including a tax free period of up to five years for gas utilization projects and attractive loan and capital allowance provisions.

The Petroleum Bills would, if signed into law in their present forms, introduce changes to the fiscal landscape with regards to tax rates and allowances, royalty regime, and gas related incentives. See “—*Petroleum Industry Bill.*”

For a discussion on certain other tax considerations, see “*Taxation – Certain Nigeria Tax Considerations.*”

Environmental regulations

Our operations are subject to various environmental, health and safety regulations. These laws and regulations govern the handling, generation, storage and management of hazardous substances, including how these substances are released or discharged into the air, water, surface and subsurface. The laws and regulations often require permits and approvals from various agencies before we can commence or modify our operations or facilities, and on occasion require the preparation of an environmental impact assessment or study (which can result in the imposition of various conditions and mitigation measures) prior to or in connection with obtaining such permits. In connection with the release of hydrocarbons or hazardous substances into the environment, we may be responsible for the cost of remediation under applicable laws. Failure to comply with applicable laws, permits or regulations can result in project or operational delays, civil or in some cases criminal fines and penalties and remedial obligations. See, “*Risk factors – Risks related to our business – Our operations and those of our partners are subject to health, safety and environmental laws and regulations that may expose it to significant costs and liabilities.*”

Environmental Impact Assessment Act

The Environmental Impact Assessment Act, Chapter E12, Laws of the Federation of Nigeria 2004 (“**EIAA**”) requires every company whose activity or project is likely to have significant effect on the environment to carry out an impact assessment program prior to the commencement of the project. The assessment is to be referred to the Federal Ministry of Environment, the regulatory body charged with the responsibility of administering the EIAA, for approval. In addition, the EIAA classifies oil and gas development and construction of off-shore pipelines in excess of 50 km in length among projects that will require environmental impact assessment program.

Environmental Guidelines and Standards for the Petroleum Industry in Nigeria

The Environmental Guidelines and Standards for the Petroleum Industry in Nigeria (2002) (the “**Guidelines**”) were compiled by the DPR, which is the main regulatory arm of the petroleum industry in Nigeria. The Guidelines mandate all license holders or operators in the petroleum industry to adopt a systematic and integrated environmental management plan. They control the quality and quantity of industrial effluents associated with oil drilling activities/operations to ensure that such discharges do not cause any hazard to human health and living organisms. The Guidelines require that a mandatory

environmental permit be obtained from the DPR prior to the commencement of seismic and drilling operations in Nigeria. An application for an environmental permit must be accompanied by an EIA report. While there can be no assurance that we will not incur fines or penalties, we believe we are in material compliance with the Guidelines.

Action for recovery

Outstanding debts owed to a creditor by a debtor under Nigerian transactions are recoverable by way of litigation against the debtor. An action for recovery is the only available option for unsecured creditors. An action can also be brought against a debtor in circumstances where a debt is guaranteed and the creditor has already made a claim against the guarantors. Where a judgment is obtained in favor of a creditor and a debtor fails to comply, the creditor may attach the debtor's assets in enforcement proceedings. A court action for enforcement of a debt or guarantee can generally be concluded within a period of six to twelve months. Where a debtor or guarantor fails to comply with a judgment, a further three to six months is generally required for attachment of assets.

Nigerian capital markets regulators

The Nigerian capital market consists of equity and debt markets. The equity market comprises shares and stocks of Nigerian public companies and the debt market consists of government and corporate bonds, notes, debentures and their derivatives, treasury bills, treasury certificates and other debt instruments.

The Nigerian SEC

The Nigerian SEC, established by Section 1 of the ISA, is the regulatory authority for the Nigerian capital market, and is supervised by the Federal Ministry of Finance. Section 13 of the ISA sets out in detail the functions of the Nigerian SEC.

The Nigerian SEC performs oversight and surveillance functions in the capital market, with the objective of ensuring that the integrity of the market is maintained, investors are adequately protected and the capital market is developing as well as functions such as registering and regulating capital market operators and issuing rules and regulations for the operation of the Nigerian capital market, the conduct of operators and the issuance of securities by public companies. The Nigerian SEC has investigative powers which enable it to protect the interest of investors and maintain an orderly securities market. In order to effectively and efficiently carry out the objectives of the ISA, the Nigerian SEC prescribed the Nigerian SEC Consolidated Rules and Regulations, 2013 (as amended).

The Nigerian SEC is also the supervisory body of the NSE.

The NSE

The NSE is a self-regulatory organization, supervised by the Nigerian SEC. The NSE offers listing and trading services, licensing services, market data solutions, as well as ancillary technology services. As a self-regulatory organization, the NSE is responsible for enforcing members' compliance with its rules, guidelines, agreements and other regulations, as well as monitoring and enforcing compliance by issuers of listed or quoted securities.

The FMDQ OTC Securities Exchange (the "FMDQ")

The FMDQ is a self-regulatory organization, supervised by the Nigerian SEC. The FMDQ was incorporated on 6 January 2011, following contributions from the CBN and each of the 25 banks and 5 discount houses (operational in Nigeria as at December 2010) to the FMDQ's initial capital.

The FMDQ brings together Nigeria's fixed income and currency operations under a single market governance structure by promoting market development in the Nigerian OTC financial markets, with a primary focus on the OTC markets – fixed income (money, repos, commercial papers, treasury bills, and bonds), currencies and derivatives. The FMDQ presently provides the platform on which all secondary market trading activities for debt securities are executed. FMDQ listings and quotations can be carried out either individually or under a program.

As a self-regulatory organization, the FMDQ is responsible for enforcing members' compliance with its rules, guidelines, agreements and other regulations, as well as monitoring and enforcing compliance by issuers of listed or quoted securities.

The NASD OTC Securities Exchange (the “NASD OTC”)

The National Association of Securities Dealers (the “**NASD**”), is a public liability company and self-regulatory organization of broker/dealers operating in the NASDAQ market in Nigeria, regulated by the U.S. SEC. The NASD promotes a trading network that eases secondary market trading of all securities of unquoted public companies primarily in Nigeria but with a focus on the West African region.

Regulations and legal framework for the Nigerian capital markets

The ISA is the primary legal framework governing the Nigerian capital markets and it, amongst other things, provides for (a) the establishment of Securities and Exchange Commission; (b) the repeal of the Investments and Securities Act 1999; (c) the enlarged powers and functions of the Nigerian SEC over the capital market ; and (d) a set of market infrastructures and wide-ranging system of regulation of investment and securities business in Nigeria, especially in the area of Mergers, Acquisitions and Take-Over, and collective Investment Schemes.

The Nigerian SEC Rules which are made pursuant to the ISA provide details of the standards expected of participants, including issuers, within the market, setting out sanctionable conduct, whilst promoting fairness and equal treatment amongst market participants.

The Nigerian SEC Code of Corporate Governance for Public Companies dated April 4, 2011 (as amended) (the “Nigerian **SEC Corporate Governance Code**”) provides mandatory corporate governance guidelines for public companies in Nigeria and promotes standards of transparency, accountability and good corporate governance. The Nigerian SEC Corporate Governance Code, regulates governance related activities of public companies, such as, amongst others, responsibilities of the board of the company, risk management, multiple directorships, remuneration of directors, insider trading, conflict of interest, accountability and reporting requirements.

The Rulebook of the NSE, 2015 (as amended) (the “NSE Listing Rules”) governs the listing of securities on the platform of the NSE. The NSE Listing Rules provide, among other things, conditions for the listing of securities of companies having part of their capital already listed and the listing of securities of companies without listed capital.

See “Risk factors – Risks relating to operating in Nigeria – The regulatory environment in the oil and gas sector in Nigeria is subject to significant ongoing change.”

MANAGEMENT

Board of Directors and senior management

The persons set forth below are our members of the Board of Directors and our members of senior management. The address for each of our directors and executive officers is Seplat Petroleum Development Company Plc, 25A, Lugard Avenue, Ikoyi, Lagos, Nigeria. In March 2017 we announced that Stuart Connal had retired from his role as Chief Operating Officer an executive director, effective March 31, 2017.

Name	Position
Ambrosie Bryant Chukweueloka (“A.B.C.”) Orjiako	Non-Executive Chairman, Co-founder
Ojunekwo Augustine (“Austin”) Avuru	Chief Executive Officer; Executive Director, Co-founder
Roger Thompson Brown	Chief Financial Officer; Executive Director
Effiong Okon	Chief Operations Director
Michael Richard Alexander	Senior Independent Non-Executive Director
Basil Omiyi	Independent Non-Executive Director
Lord Mark Malloch-Brown	Independent Non-Executive Director
Charles Okeahalam	Independent Non-Executive Director
Ifueko M. Omoigui Okauru, MFR	Independent Non-Executive Director
Damian Dinshiya Dodo (S.A.N.)	Independent Non-Executive Director
Macaulay Agbada Ofurhie	Non-Executive Director
Michel Hochard	Non-Executive Director
Nathalie Delapalme	Alternate Director to Michel Hochard

A.B.C. Orjiako

Dr. A.B.C. Orjiako is a co-founder and Chairman of Seplat. Dr. Orjiako has developed extensive experience in the Nigerian oil and gas sector, having established and managed various companies in the upstream, downstream and oil services sectors through companies including Abbeycourt Trading Company Ltd, Abbeycourt Energy Services Ltd, Zebbra Energy Ltd and Shebah Exploration and Production Company Ltd. He is also the Chairman of Neimeth Pharmaceutical International Plc, which is listed on the NSE. By invitation of the LSE, he became a founding member of the LSE Group’s Africa Advisory Group, a select group working to resolve the commercial and social issues affecting Africa. Dr. Orijako received his M.B.B.Ch. degree in 1985 from the College of Medical Sciences, University of Calabar, Nigeria, and trained as a General Surgeon at the Lagos University Teaching Hospital, Lagos. He is qualified as an orthopedic surgeon and became a fellow of the West African College of Surgeons in 1996.

Austin Avuru

Mr. Avuru is a co-founder of Seplat and became Chief Executive Officer on May 1, 2010. A geologist by background, Mr. Avuru spent 12 years at the NNPC, where he held various positions including Well Site Geologist, Production Seismologist and Reservoir Engineer. In 1992, he joined Allied Energy Resources in Nigeria, a pioneer deepwater operator, where he served as Exploration Manager and Technical Manager. In 2002, Mr. Avuru established Platform Petroleum Ltd and held the role of Managing Director until 2010, when he left to take up the Chief Executive Officer position at Seplat. Mr. Avuru received his B.Sc. in Geology from the University of Nigeria, Nsukka (UNN) in 1980 (Second Upper), and a Post Graduate Diploma in Petroleum Engineering from the University of Ibadan, Nigeria (U. I.) in 1992 (Distinction).

Roger Thompson Brown

Mr. Brown joined Seplat as Chief Financial Officer and a member of our Board in 2013. With a background in finance, he is a qualified Chartered Accountant with the Institute of Chartered Accountants of Scotland. Mr. Brown has over 20 years’ experience in the financial sector, primarily focused on emerging markets with extensive experience in structuring energy and infrastructure transactions on the African continent. Prior to joining the Company, he held the position of Managing Director of Oil and Gas EMEA for Standard Bank Group. Mr. Brown received a B.Sc. in Finance from the University of Dundee in 1992 and an M.Sc. in Finance from the University of Ulster in 1993.

Effiong Okon

Mr. Okon joined Seplat as Chief Operations Director and member of our Board in February 2018. Mr. Okon joined Shell Petroleum Development in 1992 as a Reservoir Engineer and was subsequently appointed as the Manager North Field Wells and Reservoir and then General Manager Deepwater Production for Shell Nigeria. Mr. Okon has 26 years of experience in the unstream and integrated gas business across Africa, Europe and the Middle East. Mr Okon graduated from the University of Benin in Petroleum Engineering with Honours in 1991.

Michael Richard Alexander

Mr. Alexander was appointed to the Board in 2013. He spent 25 years at BP Plc in various roles and was Chief Executive Officer of British Energy Group Plc between 2003 and 2005. Prior to that he was an Executive Director of Centrica Plc having held a number of senior positions within British Gas Plc, including Commercial Director of British Gas Exploration & Production. Mr. Alexander received a B.Sc. in Chemical Engineering in 1969 from the University of Manchester, U.K., and an M.Sc. in Computer Control of Process Plants in 1970. In the U.K., he is a fellow of the Institution of Engineering and Technology, the Institution of Chemical Engineers, the Institution of Gas Engineers and Managers and the Institute of Directors.

Basil Omiyi

Mr. Omiyi was appointed to the Board in 2014. Mr. Omiyi's career spans 40 years at Royal Dutch Shell, during which time he occupied a number of senior roles in Nigeria and Europe, including Managing Director of Shell Petroleum Development Company of Nigeria Limited and Country Chairman of Shell Companies, Nigeria. Mr. Omiyi has held a number of board memberships and in 2011 was awarded the National Honor of Commander of the Order of the Niger by the President of Nigeria for pioneering Nigerian leadership in the oil and gas sector. Mr. Omiyi was elected Chairman of the board of directors of Stanbic IBTC Holdings Plc in 2017. Stanbic IBTC Holdings is a member of the Standard Bank Group. Mr. Omiyi received a B.Sc. in Chemistry in 1969 and a post-graduate diploma in Petroleum Technology in 1970 from the University of Ibadan.

Lord Mark Malloch-Brown

Lord Malloch-Brown was appointed to the Board in 2014. Lord Malloch-Brown is a former Deputy Secretary General of the United Nations as well as a previous Administrator of United Nations Development Program. He has also served in the British Cabinet and Foreign Office. He is active both in business and in the non-profit sector and he remains deeply involved in international affairs. Lord Malloch-Brown is a former Chair of the Royal Africa Society. Lord Malloch-Brown received a B.A. and a subsequent M.A. in history from Magdalene College, Cambridge University. He also holds an M.A. in political science from the University of Michigan, USA, which he received in 1977.

Charles Okeahalam

Dr. Okeahalam was appointed to the Board in 2013. Dr. Okeahalam is a co-founder of AGH Capital Group, a private equity and diversified investment holding company based in Johannesburg, with assets in several African countries. Prior to co-founding AGH Capital Group in 2002, he was a Professor of Financial Economics and Banking at the University of the Witwatersrand in Johannesburg. His other roles have included advising a number of African central banks and government ministries, the World Bank and the United Nations. He has held several board positions and is a former non-executive chairman of Heritage Bank Limited, Nigeria. Mr. Okeahalam received a PhD in Econometrics from the University of London in 1991 and a higher doctorate (D.Sc. in Financial Economics) from the University of Exeter in 2010 for contributions to banking and finance in Africa. His qualifications also include an M.Sc. in International Shipping from the Plymouth Polytechnic/University of Plymouth in 1986, an M.A. in Manpower Studies from the Polytechnic of Central London/University of Westminster in 1985 and a Higher National Diploma in Business and Finance from Hammersmith and West London College in 1984.

Ifueko M. Omoigui Okauru, MFR

Mrs. Okauru was appointed to the Board in 2013. Mrs. Okauru is the Managing Partner of Compliance Professionals Plc., a compliance consulting firm. She is also a Commissioner in the Independent

Commission for the Reform of International Corporate Taxation. She serves as Independent Director in other Nigerian public companies and is a founding member of the Board of Trustees of DAGOMO Foundation Nigeria Ltd/Gte. Previously, she worked as Chief Responsibility Officer for ReStraL Ltd, a company she founded and prior to that she spent 12 years at Arthur Andersen & Co. where she became National Partner of the firm's strategy practice. She has served as Executive Chairman of Nigeria's Federal Inland Revenue Service, Chairman of Nigeria's Joint Tax Board, and part-time member of the United Nations Committee of Experts on International Cooperation in Tax Matters. Mrs. Okauru received a Master of Public Administration degree from the Harvard Kennedy School in 2014; a Master of Science, Management Science from Imperial College, University of London in 1986; and a Bachelor of Science (First Class), Accounting from the University of Lagos in 1983. She is a Fellow of the Institute of Chartered Accountants of Nigeria, 2001 and a Fellow of the Chartered Institute of Taxation of Nigeria, 2007. She was awarded a Member of the Order of Nigeria in 2000, and a Member of the Federal Republic of Nigeria (MFR) in 2006.

Damian Dinshiya Dodo (S.A.N.)

Mr. Dodo was appointed to the Board in 2014. Mr. Dodo has acted and continues to act as a lawyer for a wide range of major Nigerian corporations, and governmental and regulatory bodies across a number of business sectors and has served on a number of panels and commissions in Nigeria, including the NNPC Commission of Inquiry and the Governing Board of the National Agency for the Prohibition of Traffic in Persons. In 2001, Mr. Dodo was awarded Nigeria's highest legal practice rank of Senior Advocate of Nigeria and in 2011, he was awarded the National Honor of Officer of the Order of the Federal Republic of Nigeria by the President of Nigeria. He is also a Fellow of the Chartered Institute of Arbitrators in London and is a member of the Body of Benchers and the Taraba Judicial Service Commission. Mr. Dodo received his LLB from Ahmadu Bello University, Zaria, in 1985 and his BL from the Nigerian Law School, Lagos, in 1986.

Macaulay Agbada Ofurhie

Chief Ofurhie was appointed to the Board as a nominee of our shareholder Shebah Petroleum Development Company Limited in 2009. A geoscientist by background, Chief Ofurhie has worked in the Nigerian upstream oil and gas industry in a career spanning 34 years. During this time he has held various executive positions in NNPC and served as Director at NDPR. At NNPC, Chief Ofurhie was the Managing Director of the NPDC and Nigerian Gas Processing and Transportation Company. Chief Ofurhie received a B.Sc. in geology in 1971 from the University of Ibadan, Nigeria and in 1973 he obtained a diploma in petroleum technology from the Centre Formation Boussens in France.

Michel Hochard

Mr. Hochard was appointed to the Board of Seplat as a nominee of our shareholder, Maurel et Prom in 2009. Mr. Hochard is presently the Chief Executive Officer of Maurel et Prom. Mr. Hochard is a Chartered Accountant in France, whose experience includes serving as Internal Auditor for the Department of Finance of ELF Aquitaine, Head of the Finance Division for Africa and the Middle East, and Director of Finance of the SNEAP, then of ELF Aquitaine production. Mr. Hochard received an ICN Diploma in 1977 from the Commercial Institute of Nancy, France and in 1985, he graduated as a certified public accountant.

Madame Nathalie Delapalme

Madame Delapalme is an alternate to Maurel et Prom's nominee, Michel Hochard, and has acted as an alternate since June 30, 2014. She is an Independent Director on the Board of Directors of Maurel et Prom. Madame Delapalme served the French Government as an Inspector of Finance at the Ministry of Economy and Finance, an advisor for the Finance and Budgetary Commission in the French Senate, and an advisor for Africa and Development in the offices of various Foreign Affairs Ministers. She remains deeply involved in governance and leadership issues in Africa. Madame Delapalme received her DEA Economique Applique from the Institut d'Etudes Politiques de Paris.

Committees

In order to carry out its responsibilities, the Board has established five Board Committees and has delegated aspects of its responsibilities to them. The Committees of the Board are as follows:

- Finance Committee

- Remuneration Committee
- Nomination and Establishment Committee
- HSSE and Risk Management Committee
- Corporate Social Responsibility Committee

In addition to these Board Committees, the Company formed a statutory Audit Committee at its June 30, 2014 Annual General Meeting in compliance with Sections 359(3) and (4) of the Companies and Allied Matters Act (“**CAMA**”). In compliance with CAMA, three shareholder representatives and three Non-Executive Directors are elected at every AGM to sit on the Audit Committee.

All six Committees have terms of reference that guide their members in the execution of their duties, and these terms of reference are available for review by the public. All the Committees present a report to the Board with recommendations on the matters within their Terms of Reference.

Finance Committee

The Finance Committee consists of four members, all of whom are Independent Non-Executive Directors. The Finance Committee, amongst others, assists the Board in:

- monitoring the integrity of financial statements and any formal announcements relating to its financial performance, reviewing any significant financial reporting judgements contained in them;
- reviewing the Company’s internal financial controls and financial risk management systems;
- overseeing financial strategy, policy and treasury matters;
- reviewing and approving major capital expenditures;
- reviewing and monitoring the external auditor’s independence and objectivity and the effectiveness of the audit process;
- monitoring and reviewing the effectiveness of the Company’s internal audit function and its activities;

Remuneration Committee

The Remuneration Committee wholly comprises Independent Non-Executive Directors, under the chairmanship of the Senior Independent Director, in order to preserve the transparency and integrity of remuneration processes. The Remuneration Committee was established to ensure that remuneration arrangements for Seplat’s Chairman, Executive Directors, Non-Executive Directors, and senior management support the strategic aims of the business and enable the recruitment, motivation and retention of relevant skilled personnel while satisfying the expectations of shareholders.

The Remuneration Committee, amongst others, assists the Board in:

- Determining the framework for the remuneration of the Chairman, Chief Executive Officer, Executive Directors, Non-Executive Directors, and members of senior management, including without limitation, the schemes of performance-based incentives (including share incentive plans), awards, and pension arrangements and benefits for the Executive Directors and senior management.
- Ensuring that contractual terms and payments in respect of dismissal, loss of office or termination (whether for misconduct or otherwise) are fair and not excessive to the individual.
- Preparing necessary remuneration procedures and policies in compliance with applicable laws and in consideration of remuneration trends in the oil and gas industry in the area where Seplat operates.
- Overseeing any major changes in employee benefits structures throughout Seplat.

Nomination and Establishment Committee

The Nomination and Establishment Committee is a standing committee of the Board and comprises four Non-Executive Directors, three of whom are Independent Non-Executive Directors. The Nomination and Establishment Committee, amongst others, assists the Board in:

- reviewing and making recommendations on the size, composition and balance of the Board and its Committees;

- evaluating the performance of Directors and making recommendations on the addition or replacement of Executive and Non-Executive Directors and the Chairman of the Board; overseeing management's implementation of the Company's human capital development policies and procedures;
- ensuring that a succession policy and plan exist for the positions of Chairman, Chief Executive Officer, Executive Directors and managing directors for the subsidiary companies;
- reviewing the performance and effectiveness of the subsidiary company boards on an annual basis where applicable;
- overseeing the implementation of Seplat's Code of Conduct as it relates to the functions undertaken or overseen by the Committee and reporting any lapses and recommending remedial action to the Board.

HSSE and Risk Management Committee

The role of the HSSE and Risk Management Committee in compliance with the provisions of the Nigerian SEC Code of Corporate Governance is to assist the Board in overseeing the Company's risk management processes, key business risks including the risk appetite, risk profile and risk-reward strategies for the Company. It also reviews the adequacy and effectiveness of risk management and controls, has the oversight of the Company's process for identification of significant risks across its business operations and the adequacy of prevention, detection and reporting mechanisms. There is a regular review of the risk factors in the business, the health, safety, security and environmental matters in the Company and proposals made on risk mitigation and value-protecting strategies to the Board. The HSSE and Risk Management Committee consists of three members: two Independent Non-Executive Directors (one of whom is the Committee Chairman), and one Non-Executive Director.

The HSSE and Risk Management Committee, amongst others, assists the Board to:

- Set risk management strategies taking into account credit, market, operational and certain other risks, including without limitation: health, safety, security and environmental risks, capital risk framework and risk-reward strategy.
- At least annually, conduct a review of the effectiveness of the Company's risk management and internal control systems (including financial, operational and compliance), which is then used to update the risk management framework of the Company.
- Ensure compliance with all applicable health, safety, security and environmental laws in providing a safe and healthy workplace. The Committee also reviews management's processes in getting contractors and sub-contractors to comply with the Company's safety requirements and standards.

Corporate Social Responsibility ("CSR") Committee

The CSR Committee has oversight of Seplat's Community Relations Policy and practices and procedures, its corporate social responsibility initiatives and review of key issues which impact community relations. It also advises the Board on broader societal-related matters in addition to key issues which may impact Seplat's reputation, brand management and successful business operations. The CSR Committee comprises three Non-Executive Directors, two of whom are Independent. The Committee meets at least three times a year.

The CSR Committee, amongst others, assists the Board to:

- Oversee the development of strategy and implementation of Seplat's Community Relations Policy, CSR programs, Corporate Branding efforts and policies on all key areas of CSR including standards of business conduct, ethics, charitable activities and community initiatives, while ensuring that Seplat maintains a cooperative relationship with relevant environmental, health and safety agencies (public and private) as well as with community representatives.
- Ensure that there is recognition by all within the Group of the impact of its activities upon all stakeholders including shareholders, customers, suppliers, employees and the wider community and environment and that those activities are regulated such that, consistent with sustainable business and development, they are conducted in a socially responsible manner and have a positive impact on communities.

- Oversee and monitor implementation of the newly executed Global Memorandum of Understanding between Seplat and its host communities towards ensuring that equity and fairness is promoted in the distribution of CSR-related initiatives amongst the various communities and that the program's activities positively impact the lives of all host community residents.

Audit Committee

In compliance with Section 359(6) of the Companies and Allied Matters Act Cap C20 Laws of the Federation of Nigeria 2004, the Audit Committee reviews our financial statements and reports thereon to the Board.

The Audit Committee assists the Board to:

- Determine whether our accounting and reporting policies are in compliance with legal requirements and agreed ethical practices.
- Assess whether the scope and planning of audit requirement is compliant with legal requirements and best practice.
- Review findings, in conjunction with external auditors, on management matters to assess management's responsiveness.
- Review whether our systems of accounting and internal controls are in compliance with legal requirements and best practice.
- Conduct reviews of the implementation of our corporate governance framework and reviews of the internal and external audit plans, including making assessments of the external auditor's independence, and the budget and work program

Code of ethical conduct and anti-bribery and corruption program

We strive to conduct business with the highest standards of ethics, accountability and transparency, and to this end the Board adopted a Code of Conduct and other corporate governance policies covering anti-bribery and corruption and whistleblowing on December 13, 2012. It outlines the ethical framework under which Seplat conducts business. The Code of Conduct was fashioned into an easy-to-read aesthetic handbook which was circulated Company-wide, together with a statement of acknowledgement for recipients to sign. We believe that the Code of Conduct is a social contract between the Company and its employees, contract staff and business partners to conduct business with the highest ethical standards.

The Anti-Bribery and Corruption Policy was adopted by the Board on December 13, 2012. The Anti-Bribery and Corruption Policy demonstrates Seplat's zero tolerance of bribery and corruption. It prohibits facilitation payments, misappropriation, "kickbacks" and blackmail/extortion, and sets the parameters under which Directors and employees may give or receive gifts and hospitality, deal with public officials, and make political and charitable donations. The Anti-Bribery and Corruption Policy includes reporting, documentation and whistleblowing provisions as well as provisions regarding zero tolerance disciplinary action for any breach.

Corporate governance

Our directors and members of our board committees are considered to be key personnel of our group. The Board of Directors is committed to sound corporate governance and compliance with Nigerian and U.K. corporate governance regulations as well as international best practice.

Board remuneration

For the year ended December 31, 2017, total director's (executive and non-executive) emoluments were \$6,705 million, compared to \$7,067 million for the year ended December 31, 2016.

PRINCIPAL SHAREHOLDERS

We are dual listed on the NSE and LSE with a market capitalization of £706 million as at February 27, 2018. Voting power of shareholders is equivalent to share ownership.

The following shareholders hold more than 5.0% of our issued share capital as at December 31, 2017:

Shareholder	% ownership
MPI SA ⁽¹⁾	21.4
Petrolin Trading ⁽²⁾	14.4
Mr. Austin Avuru ⁽³⁾	13.2
Dr. A.B.C. Orjiako ⁽⁴⁾	8.4
Allan Gray ⁽⁵⁾	6.1

- (1) MPI is a subsidiary of Maurel et Prom. See “*Management’s discussion and analysis of financial condition and results of operations – Liquidity.*”
- (2) Petrolin is an international petroleum group active in hydrocarbons, mines and energy.
- (3) 27,271,010 ordinary shares are held by Professional Support Limited and 1,920,000 ordinary shares are held by Abtrust Integrated Services Limited, each of which is an entity controlled by Austin Avuru. 44,160,000 ordinary shares are held by Platform Petroleum Limited, which is an entity Austin Avuru has a 23% equity interest in and 1,249,730 ordinary shares are directly held by Austin Avuru.
- (4) Of the 47,251,325 ordinary shares beneficially owned by Dr. A.B.C. Orjiako, (i) Shebah Petroleum Development Company Limited (BVD), which is an entity controlled by Dr. A.B.C Orjiako and members of his family, has beneficial ownership rights in 33,773,824 ordinary shares, of which 18,500,000 ordinary shares are held by Vitol Energy (Bermuda) Limited for the benefit of Shebah Petroleum Development Company Limited (BVD), (ii) 12,600,000 ordinary shares are held directly by Dr. A.B.C. Orjiako’s siblings and (iii) 877,501 ordinary shares are held directly by Dr. A.B.C. Orjiako.
- (5) Allan Gray is a privately owned investment management company based in South Africa.

CERTAIN RELATIONSHIPS AND RELATED PARTY TRANSACTIONS

In the course of our ordinary business activities, we may from time to time enter into agreements with or render services to related parties. In turn, such related parties may render services or deliver goods to us as part of their business. Purchase and supply agreements between subsidiaries and affiliated companies and with associated companies or shareholders of such associated companies are entered into from time to time within the ordinary course of business.

To the best of our knowledge, all transactions with our affiliated companies are negotiated and conducted on a basis equivalent to those that would have been achievable on an arm's-length basis, and that the terms of these transactions are comparable to those contracted with unrelated third-party suppliers, manufacturers and service providers. Our Related Party Transactions Policy and Guidelines is updated regularly to align with changes in the Nigerian and the U.K. transfer pricing regulations. The policy outlines processes for disclosing, reviewing, approving and recording all related party transactions and also provides guidelines aimed at ensuring all related party transactions are conducted on an arm's-length basis. We are committed to conducting all related party transactions in accordance with arm's length principles and good corporate governance practices.

Seplat Petroleum Development Company Plc is owned in part either directly by entities controlled by our co-founders: 8.39% beneficially owned by Dr. A.B.C. Orjiako, our Chairman, and members of his family and 13.23% beneficially owned by Mr. Austin Avuru. See "Management."

Our General Counsel and Company Secretary, Dr. Mirian Kene Kachikwu, is married to Dr. Emmanuel Ibe Kachikwu, who was appointed Minister of State for Petroleum Resources and NNPC Group Managing Director on November 11, 2015.

We have received services from the following related parties in the year ended December 31, 2015, 2016 and 2017:

Abbeycourt Trading Company Limited:

Our Chairman is a director and shareholder of Abbeycourt Trading Company Limited. Abbeycourt Trading Company Limited provided diesel supplies to Seplat in respect of Seplat's rig operations.

Abtrust Integrated Services:

The spouse of our Chief Executive Officer is shareholder and director of Abtrust Integrated Services. Abtrust Integrated Services provides bespoke gift hampers to Seplat.

Berwick Nigeria Limited:

Our Chairman is a shareholder and director of Berwick Nigeria Limited. Berwick Nigeria Limited provides construction services to Seplat in relation to a field base station in Sapele.

Cardinal Drilling Services Limited (formerly Caroil Drilling Nigeria Limited):

Cardinal Drilling Services Limited provides drilling rigs and drilling services to Seplat and is owned by common shareholders with Seplat Petroleum Development Company Plc.

Charismond Nigeria Limited:

A sibling of our Chief Executive Officer works at Charismond as a general manager. Charismond Nigeria Limited provides administrative services including stationary and other general supplies to the field locations.

D. D. Dodo & Co:

D. D. Dodo & Co is owned by one of our Independent Non-Executive Directors who is also a partner of the law firm that provided us with legal services valued at \$0.59 million in 2015.

Helko Nigeria Limited:

Our Chairman is a shareholder and director of Helko Nigeria Limited. Helko Nigeria Limited owns the lease to Seplat's main office at 25A Lugard Avenue, Lagos, Nigeria.

Keco Nigeria Enterprises:

A sibling of our Chief Executive Officer is a shareholder and director of Keco Nigeria Enterprises. Keco Nigeria Enterprises provides diesel supplies to Seplat in respect of its rig operations.

Montego Upstream Services Limited:

Our Chairman's nephew is a shareholder and director of Montego Upstream Services Limited. Montego Upstream Services Limited provides drilling and engineering services to Seplat.

Nabila Resources & Investment Ltd:

Our Chairman's in-law is a shareholder and director of Nabila Resources & Investment Ltd. Nabila Resources & Investment Ltd provides lubricant to Seplat.

Neimeth International Pharmaceutical Plc:

Our Chairman is also the chairman of Neimeth International Pharmaceutical Plc, which provides medical supplies and drugs that we use in connection with our corporate social responsibility and community healthcare programs.

Nerine Support Services Limited:

Nerine Support Services Limited owned by common shareholders with Seplat. We lease a warehouse from Nerine and Nerine also provides agency and contract workers to Seplat.

Oriental Catering Services Limited:

The spouse of our Chief Executive Officer is a shareholder and director of Oriental Catering Services Limited. Oriental Catering Services Limited provides catering services to Seplat at the staff canteen.

Platform Petroleum Limited:

Our Chief Executive Officer is a director and shareholder of Platform Petroleum Limited, which seconded support staff to Seplat.

ResourcePro Inter Solutions Limited:

An in-law of our Chief Executive Officer in-law is the U.K. representative of Platform Petroleum Limited, which supplies furniture to Seplat.

Shebah Exploration and Production Company Limited:

Our Chairman is a director and shareholder of Shebah Exploration and Production Company Limited. Shebah Exploration and Production Company Limited provided consulting services to Seplat.

Stage Leasing (formerly Ndosumuli Ventures Limited):

Stage Leasing is a subsidiary of Platform Petroleum Limited. Our Chief Executive officer is a director and shareholder of Platform Petroleum Limited. Stage Leasing provides transportation services to Seplat.

The following table presents the 2015, 2016 and 2017 year end balances arising from related party purchases of goods and services.

	2015	2016	2017
	\$ thousand		
Shareholders of the Seplat Petroleum Development Company Plc			
Shebah Exploration and Production Company Limited	1,517	1,364	—
Shebah Petroleum Development Company Limited (BVI)	—	—	1,350
Platform Petroleum Limited	35	—	—
Total >\$1 million	1,552	1,364	1,350
Entities controlled by management personnel:			
Contracts>\$ 1 million in 2017			
Nerine Support Services Limited ⁽¹⁾	21,015	14,991	7,066
Cardinal Drilling Services Limited	17,244	6,931	3,272
Helko Nigeria Limited	566	1,976	1,453
Total <\$1 million	38,825	23,898	11,791
Contracts<\$ 1 million in 2017			
Montego Upstream Services Limited	9,449	13,513	427
Abbeycourt Trading Company Limited	2,362	598	650
Oriental Catering Services Limited	941	579	520
Keco Nigeria Enterprises	1,896	259	361
ResourcePro Inter Solutions Limited	1,841	81	31
Nabila Resources & Investment Ltd	226	58	—
Berwick Nigeria Limited	27	28	—
Neimeth International Pharmaceutical Plc	—	10	2
Charismond Nigeria Limited	—	—	55
Stage leasing (formerly Ndosumuli Venture Limited)	1,350	1,729	560
Total >\$1 million	18,092	16,855	2,606
Total	56,917	40,753	14,397

(1) Nerine on average charges a mark-up of 75% on agency and contract workers assigned to Seplat. The amounts shown are gross i.e. include salaries and Nerine's mark-up.

The following table presents the 2015, 2016 and 2017 year end balances arising from related party prepayment/receivables and payables.

	2015	2016	2017
	\$ thousand		
Prepayments/Receivables			
Entities controlled by key management personnel			
Cardinal Drilling Services Limited – current portion	12,632	6,211	5,498
Cardinal Drilling Services Limited – non-current portion	1,333	—	—
Total	13,965	6,211	5,498

	2015	2016	2017
	\$ thousand		
Payables			
Entities controlled by key management personnel			
Montego Upstream Services Limited	—	11,540	375
Nerine Support Services Limited	—	11,411	8
Keco Nigeria Enterprises	—	—	25
Cardinal Drilling Services Limited	—	1,009	954
Total	—	23,960	1,362

DESCRIPTION OF CERTAIN FINANCING ARRANGEMENTS

The following summary of the material terms of certain financing arrangements to which we and certain of our subsidiaries are a party does not purport to be complete and is subject to, and qualified in its entirety by reference to, the underlying documents.

We and certain of our subsidiaries have entered into financing arrangements which are summarized below.

Revolving Credit Facility

Overview

We entered into the Existing Revolving Credit Facility Agreement and the Existing Term Loan Facility Agreement at the end of 2014. We now propose to issue the Notes and to amend and restate the Existing Revolving Credit Facility. The proceeds made available to the Company under the Revolving Credit Facility and the Notes will be used to repay the Existing Revolving Credit Facility Agreement and the Existing Term Loan Facility Agreement and to repay outstanding amounts under the Mercuria Prepayment Facility.

The facility to be provided to the Company on or about the Issue Date under the Revolving Credit Facility will be equal to the total commitments of \$300 million, with a final maturity date of June 30, 2022.

Borrower

The Company will be the borrower under the Revolving Credit Facility.

Guarantors

Newton Energy Ltd and Seplat West Ltd (together with the Company, the “**Obligors**”) guarantee and indemnify the Obligors’ obligations under the Revolving Credit Facility and related finance documents.

Security

The Revolving Credit Facility will be secured by security interests granted by the Obligors over certain of their assets, including, but not limited to:

- the shares of Seplat West Ltd and Newton Energy Ltd;
- certain monetary claims (including, without limitation, under hedging agreements and offtake agreements); and
- amounts standing to the credit of each collection account and the stamping reserve account,

pursuant to the terms of certain Nigerian law debentures and English law security agreements.

Following the transfer by the Company of OMLs 4, 38 and 41 to Seplat West Ltd and novation of offtake agreements related to OMLs 4, 38 and 41 to Seplat West Ltd, certain security granted by the Company may be released (other than any security interest granted by the Company over its collection account in London, the stamping reserve account in Nigeria, hedging agreements related to OMLs 4, 38 and 41, OPL 283 and other Petroleum assets (the “**Assets**”) and intercompany loans).

Commitments and additional commitments

The Revolving Credit Facility to be provided to the Company on or about the Issue Date will be a revolving credit facility equal to the total commitments of \$300 million. Subject to certain conditions, we may request an increase in the total commitments.

Reduction and repayment

Each loan must be repaid on the last day of its interest period (being our choice of one, three or six months or any other period agreed with the Corporate Facility Agent). We must make repayments to ensure that at all times the outstanding amount is equal to or less than the total commitments at the relevant time. On and from December 31, 2018, the Revolving Credit Facility straight-line amortizes on a semi-annual basis.

In addition, there is a mechanism in the Revolving Credit Facility for the commitments to be adjusted in certain circumstances. If there is a reduction to the commitments, subject to a minimum production level

and commitments and reduction mechanism (see “—*Key Covenants*”), we are required to make a payment within 45 days of such reduction to ensure that the outstanding amount is equal to or less than the revised commitments.

Voluntary prepayment and cancellation

We may, by giving at least 5 business days’ notice (or such shorter period as may be agreed), cancel the whole or any part (being a minimum amount of \$10 million) of the available facility.

We may likewise voluntarily prepay the whole or any part (being a minimum amount of \$10 million) of the loan on at least 5 business days’ notice (or such shorter period as may be agreed).

Subject to our ability to increase the commitments, no amount of the Revolving Credit Facility which is cancelled may be reinstated. Any repayment or prepayment shall be made together with accrued interest on the amount repaid or prepaid, together with any break costs.

Mandatory prepayment

The Revolving Credit Facility contains provisions for the cancellation of a lender’s commitment or prepayment on it becoming unlawful for a lender to perform its obligations, the occurrence of an expropriation event, a change of operator in respect of the Assets, certain disposals of the Assets and change of control events. Any mandatory prepayment must be made within a specified period of time as set out in the Revolving Credit Agreement.

In addition, following each calendar quarter commencing June 30, 2019 until the date on which the relevant asset holder has renewed their interests in OMLs 4, 38 and 41, we are required to make a mandatory prepayment in an amount equal to the funds standing to the credit of certain collection accounts on such quarter date, less certain amounts required for, among other things, debt service and costs required to operate the Assets for the following six month period.

Interest and fees

The rate of interest payable on each loan for each interest period is the percentage rate per annum which is the aggregate of the applicable margin and LIBOR. As at the date of the Revolving Credit Facility, the applicable margin is 6% per annum and such percentage is subject to adjustment in certain circumstances which may result in the applicable margin being decreased to 5% per annum or increased to 7% per annum.

There is provision for fees in the Revolving Credit Facility, including a commitment fee on available undrawn commitments.

Additional payment obligations

LMA standard provisions for: tax gross up and indemnity including FATCA, increased costs, currency indemnity and other indemnities, mitigation by lenders and costs and expenses. In addition, there is an environmental indemnity in respect of any loss or liability suffered by the finance parties in connection with an actual or alleged breach of any environmental law or an environmental claim relating to the Company’s subsidiaries, assets or business.

Guarantee

Newton Ltd and Seplat West Ltd irrevocably and unconditionally, jointly and severally guarantee each Obligor’s liabilities and obligations under the Debt Documents (as such term is defined in the Revolving Credit Facility).

Representations and warranties

The Revolving Credit Facility includes certain customary representations and warranties as well as specific representations in relation to the corporate model, the Assets, field documents related to the Assets, the group liquidity plan and sanctions. The representations are deemed to be made by each Obligor on the date of each utilization request, the date of each loan and the first day of each interest period (see “—*Interest and fees*”).

Information undertakings

The Revolving Credit Facility includes information covenants requiring us to procure the delivery of certain information, subject to certain agreed exceptions and qualifications, including but not limited to an operations report (to be provided to the Corporate Facility Agent within 30 days of the end of each calendar quarter), a group liquidity plan, the corporate model, information in respect of the Assets and an independent reserves report. In respect of the renewal of OMLs 4, 38 & 41, the asset holder is required to provide certain updates to the Corporate Facility Agent at specified intervals until OMLs 4, 38 & 41 are renewed.

Key covenants

We must ensure that in respect of each 12 month period, the ratio of total net debt to EBITDA is not greater than 3:1. This covenant is to be tested biannually as of 30 June and 31 December in each calendar year and by reference to the most recently delivered financial statements. In addition, the Company is required to deliver a group liquidity plan demonstrating that sources of funds exceed uses for each semi-annual period in the next 18 month period and, to the extent there is any shortfall, it must be remedied within 30 days.

The Company is required under the Revolving Credit Facility to ensure that net entitlement to production from the Assets is greater than certain specified minimum production levels on each 30 June and 31 December (other than June 30, 2018) which range from approximately 15,000 bopd to 22,000 bopd and approximately 85 MMscfd to 140 MMscfd for each six-month period.

The consequences of a breach of the minimum production levels is that an event of default may be triggered where the Company fails to make a prepayment in order to ensure that the amount outstanding under the Revolving Credit Facility doesn't exceed the total commitments (as adjusted in accordance with the mechanics in the Revolving Credit Facility).

The Revolving Credit Facility also provides for certain amendments to be made to the minimum production levels and commitments. Certain key principles apply for the purpose of adjusting the minimum production levels and commitments (e.g. a requirement for the debt service cover ratio for each semi-annual period up to the final maturity date to be at least 1.20:1). The minimum production level covenant is tested by reference to the quarterly information for the relevant period delivered by us under the operations report information undertaking (see "*Information Undertakings*").

General undertakings

The Revolving Credit Facility includes certain customary undertakings, restricting our operations and ability to take certain actions, subject to certain agreed exceptions and qualifications, including but not limited to:

- maintenance of corporate existence and relevant authorizations;
- creating or permitting security (negative pledge);
- disposing of the Assets (with the exception of certain permitted disposals);
- incurring financial indebtedness (with certain exceptions);
- any Obligor making loans (with the exception of loans between Obligors, any carry obligations with a co-venture partner entered into by an Obligor, or a loan made by an Obligor with funds not held in an account or released in a collection account);
- making distributions (with certain exceptions and subject to certain conditions);
- compliance with laws, including environmental laws and regulations;
- payment of taxes;
- taking action in respect of relevant field documents;
- maintaining insurances;
- change of business and merger;

- ensuring applicable stamp taxes and registration charges have been paid in respect of relevant security documents;
- ensuring that our obligations under certain finance documents rank at least *pari passu* with its other unsecured obligations;
- compliance with the agreed hedging policy in respect of derivatives transactions; and
- taking all reasonable steps to progress our application in respect of the renewal of the OMLs 4, 38 and 41.

Most undertakings apply to the Obligor but certain have application to all members of the group.

Bank accounts

The Obligor is required to deposit revenues related to the Assets and hedging receipts into a system of bank accounts in Nigerian and London that have been charged to the Revolving Credit Facility lenders. The Obligor may not withdraw funds from these accounts for general corporate purposes or make distributions, unless it has first paid all outstanding gross expenditures, royalty payments, taxes, debt service under the Corporate Facility Agreement and hedging payments (on a pro rata basis) and payments to the stamping reserve account. The Corporate Facility Agent (acting on the instruction of the majority lenders) may elect to block the Obligor's access to these accounts upon the occurrence of an event of default which is continuing.

There is provision for reserved security registration amounts to be paid into a Nigerian stamping reserve account in specific proportions and at specific times periods, with provision for adjustment to reflect any changes in the commitments.

Events of Default

The Revolving Credit Facility sets out certain events of default, the occurrence of which would allow the Corporate Facility Agent to, among other things, accelerate or cancel the facility, demand repayment of loans, declare amounts under finance documents are immediately due and payable, and exercise rights under finance documents.

The events of default are customary provisions, subject to certain exceptions and grace periods, including but not limited to:

- non-payment (save for administrative or technical errors or disruption event and a grace period of three business days after the due date in which to make payment);
- breach of key covenants (including the net debt to EBITDA ratio);
- non-compliance with provisions in the finance documents (unless capable of remedy and remedied within 15 business days);
- misrepresentation (unless capable of remedy and remedied within 15 business days);
- cross-default (subject to a *de minimis* of \$25 million);
- insolvency and insolvency proceedings;
- creditors' process (subject to a *de minimis* of \$15 million);
- unlawfulness and invalidity of finance documents or transaction security;
- cession of business;
- ownership of Seplat West Ltd and Newton Energy Ltd;
- certain events of default related to the Assets and the field documents related to the Assets;
- litigation proceedings against the Obligor or their assets which have or are reasonably likely to have a material adverse effect; or
- any of OMLs 4, 38 and 41 expire.

Governing law

The Revolving Credit Facility is governed by English law.

Dispute resolution

Any dispute arising out of the Revolving Credit Facility shall be referred to and finally resolved by arbitration under the London Court of International Arbitration (LCIA) Arbitration Rules, provided that, prior to certain arbitration filings being made, the Corporate Facility Agent may elect to refer the dispute to the English courts to be settled.

Hedging

We initiated an oil price hedging program to help manage our exposure to fluctuations in crude oil prices. We continue to closely monitor prevailing oil market dynamics and will consider further measures to provide appropriate levels of cash flow assurance in times of oil price weakness and/or volatility. We do not currently engage in foreign exchange hedging due to the limited market and the commercial terms associated with hedging programs protecting against the volatility of the Naira. See “*Management’s discussion and analysis of financial condition and results of operations – Significant factors affecting results of operations – Derivative financial instruments.*”

DESCRIPTION OF NOTES

Seplat Petroleum Development Company Plc (the “**Company**”) will issue the Notes under an indenture (the “**Indenture**”) among, *inter alios*, the Company, the Guarantors, Citibank N.A., London Branch, as trustee (the “**Trustee**”) and Citibank N.A., London Branch, as Paying Agent, Transfer Agent and Registrar in a private transaction that is not subject to the registration requirements of the U.S. Securities Act. The terms of the Notes include those set forth in the Indenture. With limited exceptions, the Indenture will not incorporate or include or be subject to any of the provisions of the U.S. Trust Indenture Act of 1939, as amended.

The following description is a summary of the material provisions of the Indenture and the Notes and refers to certain other agreements relating to the Notes. This description does not restate those agreements in their entirety. We urge you to read the Indenture and the Notes because they, and not this description, define your rights as holders of the Notes. Copies of the Indenture and the form of Note are available as set forth below under “– *Additional information.*”

You can find the definitions of certain terms used in this “*Description of Notes*” under the subheading “– *Certain definitions.*” Certain defined terms used in this “*Description of Notes*” but not defined below under “– *Certain definitions*” or elsewhere in this description have the meanings assigned to them in the Indenture. For purposes of this “*Description of Notes*,” the term “**Company**” refers only to Seplat Petroleum Development Company Plc and not to any of its subsidiaries, and unless the context requires otherwise, references in this “*Description of Notes*” to the Notes include the Notes and any additional Notes that are issued.

The registered holder of a Note will be treated as the owner of it for all purposes. Only registered holders will have rights under the Indenture.

Brief description of the Notes and the Note Guarantees

The Notes

The Notes will be:

- general obligations of the Company;
- *pari passu* in right of payment with all existing and future obligations of the Company that are not expressly contractually subordinated in right of payment to the Notes, including under the Revolving Credit Facility;
- senior in right of payment to all future obligations of the Company that are subordinated in right of payment to the Notes;
- effectively subordinated to all existing and future secured obligations of the Company, including obligations under the Revolving Credit Facility, to the extent of the value of the property and assets securing such obligations, unless such assets also secure the Notes on an equal and ratable or senior basis;
- structurally subordinated to all existing and future obligations of the Company’s Subsidiaries that do not guarantee the Notes, including any trade payables and letters of credit issued by such Subsidiaries; and
- guaranteed on a senior basis by the Guarantors, subject to limitations under applicable law as set forth below under the caption “– *Note Guarantees.*”

The Note Guarantees

The Notes will be guaranteed by the Guarantors. Each Note Guarantee will be:

- a general obligation of that Guarantor;
- *pari passu* in right of payment to all existing and future obligations of that Guarantor that are not subordinated in right of payment to such Note Guarantee, including, where applicable, such Guarantor’s obligations under the Revolving Credit Facility;
- senior in right of payment to any and all of that Guarantor’s existing and future Indebtedness that is subordinated in right of payment to its Note Guarantee;

- effectively subordinated to all existing and future secured obligations of that Guarantor (including under the Revolving Credit Facility), to the extent of the value of the property and assets securing such obligations, unless such assets also secure the Note Guarantees on an equal and ratable or senior basis; and
- subject to a standstill on enforcement as described under “*Description of Notes – Certain Covenants – Standstill Provisions*” in respect of any existing and future Senior Indebtedness of the relevant Guarantor.

Not all of the Company’s Subsidiaries will guarantee the Notes on the Issue Date and the Company will not have any obligation to cause any of its Subsidiaries to guarantee the Notes in the future (except as required under the circumstances described below under the caption “– *Certain covenants – Limitation on guarantees of indebtedness by restricted subsidiaries*”). In the event of a bankruptcy, liquidation or reorganization of any Subsidiary that is not a Guarantor, such Subsidiary will pay the holders of its debt and its trade creditors before it will be able to distribute any of its assets to the Company or a Guarantor. On a *pro forma* basis after giving effect to the Transactions, as of and for the year ended December 31, 2017, the Company and the Guarantors collectively represented 96% of the Company’s revenue and 84% of the Company’s total assets. As of December 31, 2017, the subsidiaries of the Company that are not Guarantors were not obligors on any of the Company’s consolidated third party debt.

As of the Issue Date, all of the Company’s Subsidiaries will be “Restricted Subsidiaries.” However, under the circumstances described below under the caption “– *Certain covenants – Designation of restricted and unrestricted subsidiaries*,” the Company will be permitted to designate certain of its Subsidiaries as “Unrestricted Subsidiaries.” The Company’s Unrestricted Subsidiaries will not be subject to any of the restrictive covenants in the Indenture.

Standstill Provisions Relating to Note Guarantees Provided by Guarantors

Until the payment in full of Senior Indebtedness, the ability of the holders of Notes to take enforcement action pursuant to the Note Guarantees provided by the Guarantors is limited by, and subject to significant restrictions imposed by, the provisions of the Indenture, including a standstill on enforcement provisions. For a description of the restrictions imposed by the Indenture, see “– *Certain Covenants – Standstill Provisions* and “*Risk Factors – Risks relating to the Notes – The terms of the Indenture and Note Guarantees will impose significant limitations on the ability of the Trustee and holders of the Notes to take enforcement action pursuant to the Note Guarantees.*”

Principal, maturity and interest

The Company will issue \$350 million in aggregate principal amount of Notes in this offering. The Company may issue additional Notes (“**Additional Notes**”) under the Indenture from time to time after this offering. Any issuance of Additional Notes will be subject to all of the covenants in the Indenture, including the covenant described below under the caption “– *Certain covenants – Incurrence of indebtedness and issuance of preferred stock.*” The Notes and any Additional Notes subsequently issued under the Indenture will be treated as a single class for all purposes under the Indenture, including, without limitation, waivers, amendments, redemptions and offers to purchase provided, however, if the applicable Additional Notes are not fungible with the applicable Notes for U.S. Federal income tax purposes, such Additional Notes shall have a separate CUSIP number, ISIN or other identifying number from the applicable Notes. The Company will issue Notes in minimum denominations of \$200,000 and integral multiples of \$1,000 in excess thereof. The Notes will mature on April 1, 2023.

Interest on the Notes will accrue at the rate of 9.25% per annum and will be payable semi-annually in arrear on April 1 and October 1, commencing on October 1, 2018. Interest on overdue principal and interest, if any, will accrue at a rate that is 1.0% higher than the then-applicable interest rate on the Notes. The Company will make each interest payment to the holders of record on the immediately preceding March 15 and September 15.

Interest on the Notes will accrue from the date of original issuance or, if interest has already been paid, from the date it was most recently paid. Interest will be computed on the basis of a 360-day year comprised of twelve 30-day months.

Transfer and exchange

Notes sold within the United States to qualified institutional buyers pursuant to Rule 144A (“**Rule 144A**”) under the U.S. Securities Act will initially be represented by one or more global notes in registered form without interest coupons attached (the “**144A Global Note**”). Notes sold outside the United States pursuant to Regulation S under the U.S. Securities Act (“**Regulation S**”) will initially be represented by one or more global notes in registered form without interest coupons attached (the “**Reg S Global Note**” and, together with the 144A Global Note, the “**Global Notes**”).

Ownership of interests in the Global Notes (“**Book-Entry Interests**”) will be limited to persons that have accounts with DTC, Euroclear, Clearstream or persons that may hold interests through such participants. Ownership of interests in the Book-Entry Interests and transfers thereof will be subject to the restrictions on transfer and certification requirements summarized below and described more fully under “*Notice to investors.*” In addition, transfers of Book-Entry Interests between participants in DTC, Euroclear or Clearstream will be effected by DTC, Euroclear or Clearstream pursuant to customary procedures and subject to the applicable rules and procedures established by DTC, Euroclear or Clearstream and their respective participants.

Book-Entry Interests in a 144A Global Note, or the “**144A Book-Entry Interests**,” may be transferred to a person who takes delivery in the form of Book-Entry Interests in a Reg S Global Note, or the “**Reg S Book-Entry Interests**,” only upon delivery by the transferor of a written certification (in the form provided in the Indenture) to the effect that such transfer is being made in accordance with Regulation S under the U.S. Securities Act. During the “40-Day Distribution Compliance Period” (as such term is defined in Rule 902 of Regulation S), Reg S Book-Entry Interests may be transferred to a person who takes delivery in the form of 144A Book-Entry Interests only upon delivery by the transferor of a written certification (in the form provided in the Indenture) to the effect that such transfer is being made to a person who the transferor reasonably believes is a “qualified institutional buyer” within the meaning of Rule 144A in a transaction meeting the requirements of Rule 144A or otherwise in accordance with applicable transfer restrictions and any applicable securities laws of any state of the United States or any other jurisdiction.

Any Book-Entry Interest that is transferred as described in the immediately preceding paragraphs will, upon transfer, cease to be a Book-Entry Interest in the Global Note from which it was transferred and will become a Book-Entry Interest in the Global Note to which it was transferred. Accordingly, from and after such transfer, it will become subject to all transfer restrictions, if any, and other procedures applicable to Book-Entry Interests in the Global Note to which it was transferred.

If definitive Notes in registered form (“**Definitive Registered Notes**”) are issued, they will be issued only in minimum denominations of \$200,000 and integral multiples of \$1,000 in excess thereof upon receipt by the Registrar of instructions relating thereto and any certificates and other documentation required by the Indenture. It is expected that such instructions will be based upon directions received by DTC, Euroclear or Clearstream, as applicable, from the participant which owns the relevant Book-Entry Interest. Definitive Registered Notes issued in exchange for a Book-Entry Interest will, except as set forth in the Indenture or as otherwise determined by the Company in compliance with applicable law, be subject to, and will have a legend with respect to, the restrictions on transfer summarized below and described more fully under “*Notice to investors.*”

Subject to the restrictions on transfer referred to above, Notes issued as Definitive Registered Notes may be transferred or exchanged, in whole or in part, in minimum denominations of \$200,000 and integral multiples of \$1,000 in excess thereof, to persons who take delivery thereof in the form of Definitive Registered Notes. In connection with any such transfer or exchange, the Indenture will require the transferring or exchanging holder to, among other things, furnish appropriate endorsements and transfer documents, to furnish information regarding the account of the transferee at DTC, Euroclear or Clearstream, where appropriate, to furnish certain certificates and opinions, and to pay any taxes, duties and governmental charges in connection with such transfer or exchange. Any such transfer or exchange will be made without charge to the holder of the Notes, other than any transfer taxes or similar governmental charges payable in connection with such transfer or exchange.

Notwithstanding the foregoing, the Company is not required to register the transfer of any Definitive Registered Notes:

- (1) for a period of 15 calendar days prior to any date fixed for the redemption of the Notes;

- (2) for a period of 15 calendar days immediately prior to the date fixed for selection of Notes to be redeemed in part;
- (3) for a period of 15 calendar days prior to the record date with respect to any interest payment date; or
- (4) which the holder of the Notes has tendered (and not withdrawn) for repurchase in connection with a Change of Control Offer or an Asset Sale Offer.

Paying agent and registrar for the Notes

The Company will maintain one or more paying agents (each, a “**Paying Agent**”) for the Notes for so long as the Notes are in registered form. The initial Paying Agent will be Citibank N.A., London Branch.

The Company will also maintain both a registrar (the “**Registrar**”) and a transfer agent (the “**Transfer Agent**”). The initial Registrar will be Citigroup Global Markets Deutschland AG, and the initial Transfer Agent will be Citibank N.A., London Branch. The Registrar will maintain a register reflecting record ownership of the Global Notes and any Definitive Registered Notes outstanding from time to time, and the Transfer Agent will perform the functions of a transfer agent, including facilitating transfers of any Definitive Registered Notes on behalf of the Company.

The Company may change any Paying Agent, the Registrar or the Transfer Agent without prior notice to the holders of the Notes. For so long as the Notes are listed on the Official List of the Luxembourg Stock Exchange and its rules so require, the Company will publish a notice of any change of Paying Agent, Registrar or Transfer Agent in a newspaper having a general circulation in Luxembourg (which is expected to be the *Luxemburger Wort*) or, to the extent and in the manner permitted by such rules, post such notice on the official website of the Luxembourg Stock Exchange.

Note Guarantees

The Notes will be guaranteed by the Guarantors, certain of which are also guarantors under the Revolving Credit Facility. The Note Guarantees will be joint and several obligations of the Guarantors. The obligations under the Note Guarantees will be *pari passu* in right of payment with the Revolving Credit Facility and all future senior obligations of the Guarantors. The obligations of the Guarantors will be subject to a standstill on enforcement and contractually limited under the applicable Note Guarantees to reflect limitations under applicable law with respect to maintenance of share capital, corporate benefit, fraudulent conveyance and other legal restrictions applicable to the Guarantors and their respective shareholders, directors and general partners. For a description of such limitations, see “– *Certain Covenants – Standstill Provisions*,” “*Risk Factors – Risks relating to the Notes – The terms of the Indenture and Note Guarantees will impose significant limitations on the ability of the Trustee and holders of the Notes to take enforcement action pursuant to the Note Guarantees.*”

Note Guarantees release

The Note Guarantee of a Guarantor will be automatically and unconditionally released and discharged without any further action by the Company, the relevant Guarantor or the Trustee, and such Guarantor’s obligations under the Note Guarantee and the Indenture will terminate and be of no further force and effect:

- (1) in connection with any sale or other disposition of all or substantially all of the properties or assets of that Guarantor (including by way of merger, amalgamation or consolidation) to a Person that is not (either before or after giving effect to such transaction) the Company or a Restricted Subsidiary of the Company, if the sale or other disposition does not violate the provisions set forth below under “– *Repurchase at the option of holders – Asset sales*”;
- (2) in connection with any sale or other disposition of the Capital Stock of that Guarantor (whether by direct sale or through a holding company) to a Person that is not (either before or after giving effect to such transaction) the Company or a Restricted Subsidiary of the Company, if the sale or other disposition does not violate the provisions set forth below under “– *Repurchase at the option of holders – Asset sales*” and as a result of such disposition such Guarantor no longer qualifies as a Subsidiary of the Company;
- (3) if the Company designates such Guarantor (or any parent entity thereof) as an Unrestricted Subsidiary in accordance with the applicable provisions of the Indenture;

- (4) upon repayment in full of the Notes or upon Legal Defeasance or Covenant Defeasance as described below under the caption “– *Legal defeasance and covenant defeasance*” or upon satisfaction and discharge of the Indenture as described under the caption “– *Satisfaction and discharge*”;
- (5) upon the liquidation or dissolution of such Guarantor; provided that no Default or Event of Default has occurred or is continuing;
- (6) as described under “– *Amendment, supplement and waiver*”;
- (7) pursuant to certain types of enforcement action taken by holders of Senior Indebtedness as described in “– *Certain Covenants – Standstill Provisions*”;
- (8) upon such Guarantor consolidating or amalgamating with, merging into or transferring all of its properties or assets to the Company or another Guarantor, and as a result of, or in connection with, such transaction such Guarantor dissolving or otherwise ceasing to exist; and
- (9) as described in the second paragraph of the covenant described below under “– *Certain covenants – Limitation on guarantees of indebtedness by restricted subsidiaries.*”

Upon any occurrence giving rise to a release as specified above, the Trustee will execute any documents reasonably requested by the Company in order to evidence the release, discharge and termination in respect of such Note Guarantee. Neither the Company nor any Guarantor will be required to make a notation on the Notes to reflect any such release, termination or discharge.

Additional amounts

All payments made by or on behalf of the Company under or with respect to the Notes or any of the Guarantors with respect to any Note Guarantee will be made free and clear of and without withholding or deduction for, or on account of, any present or future Taxes unless the withholding or deduction for, or on account of, such Taxes is then required by law. If any deduction or withholding for, or on account of, any Taxes imposed or levied by or on behalf of (1) any jurisdiction in which the Company or any Guarantor is then incorporated, organized or resident for tax purposes or any political subdivision thereof or therein or (2) any jurisdiction from or through which payment is made by or on behalf of the Company or any Guarantor (including the jurisdiction of any Paying Agent) or any political subdivision thereof or therein (each, a “**Tax Jurisdiction**”) will at any time be required to be made from any payments made by the Company under or with respect to the Notes or any of the Guarantors with respect to any Note Guarantee, including payments of principal, redemption price, purchase price, interest or premium, the Company or the relevant Guarantor, as applicable, will pay such additional amounts (the “**Additional Amounts**”) as may be necessary in order that the net amounts received in respect of such payments by each holder after such withholding or deduction (including any such withholding or deduction from such Additional Amounts) will equal the respective amounts that would have been received in respect of such payments in the absence of such withholding or deduction; *provided, however*, that no Additional Amounts will be payable with respect to:

- (1) any Taxes, to the extent such Taxes would not have been imposed or withheld but for the existence of any present or former connection between the holder (or between a fiduciary, settler, beneficiary, member or shareholder of, or possessor of a power over, the relevant holder, if the relevant holder is an estate, nominee, trust, partnership, limited liability company or corporation) or the beneficial owner of the Notes and the relevant Tax Jurisdiction (including being citizen or resident or national of, or carrying on a business or maintaining a permanent establishment in, or being physically present in, such jurisdiction for Tax purposes), other than the mere holding of such Note, the enforcement of rights under such Note or under a Note Guarantee or the receipt of any payments in respect of such Note or a Note Guarantee;
- (2) any Taxes, to the extent such Taxes were imposed or withheld as a result of the presentation of a Note for payment (where presentation is required) more than 30 days after the relevant payment is first made available for payment to the holder (except to the extent that the holder would have been entitled to Additional Amounts had the Note been presented on the last day of such 30-day period);
- (3) any estate, inheritance, gift, sales, transfer, personal property or similar Taxes;
- (4) any Taxes payable other than by deduction or withholding from payments under, or with respect to, the Notes or with respect to any Note Guarantee;

- (5) any Taxes, to the extent such Taxes are imposed, withheld or deducted by reason of the failure of the holder or beneficial owner of Notes to comply with any reasonable written request of the Company, a Paying Agent, or other person acting as an agent for the Company or a Paying Agent, addressed to the holder and made at least 30 days before any such withholding or deduction is to be made, to satisfy any certification, identification, information or other reporting requirements, whether required by statute, treaty, regulation or administrative practice of a Tax Jurisdiction, as a precondition to exemption from, or reduction in the rate of deduction or withholding of, Taxes imposed by the Tax Jurisdiction (including, without limitation, a certification that the holder or beneficial owner is not resident in the Tax Jurisdiction), but in each case, only to the extent the holder or beneficial owner is legally entitled to satisfy such requirement provided further that no holder or beneficial owner of a Note shall have any obligation to establish eligibility for a reduced withholding tax rate under any income tax treaty;
- (6) any Taxes imposed, withheld or deducted pursuant to Sections 1471 through 1474 of the United States Internal Revenue Code of 1986, as amended (the “Code”), any current or future regulations or official interpretations thereof, any similar law or regulation adopted pursuant to an intergovernmental agreement between a non-U.S. jurisdiction and the United States with respect to the foregoing or any agreements entered into pursuant to section 1471(b)(1) of the Code;
- (7) any Tax that is imposed or withheld on or with respect to any payment made to any holder who is a fiduciary or partnership or an entity that is not the sole beneficial owner of such payment, to the extent that a beneficiary or settlor (for tax purposes) with respect to such fiduciary, a member of such partnership or the beneficial owner of such payment would not have been entitled to the Additional Amounts had such beneficiary, settlor, member or beneficial owner been the actual holder of the applicable Note; or
- (8) any combination of items (1) through (7) above.

In addition to the foregoing, the Company and the Guarantors will also pay and indemnify the Trustee, Paying Agent and holders for any present or future stamp, issue, registration, court or documentary taxes, or any other excise or property taxes, charges or similar levies (including penalties, interest and any other reasonable expenses related thereto), which are levied by any Tax Jurisdiction on the execution, delivery, issuance, or registration of any of the Notes, the Indenture or any Note Guarantee or any other document referred to therein, except for any such taxes imposed or levied as a result of a transfer after the Issue Date.

If the Company or any Guarantor, as the case may be, becomes aware that it will be obligated to pay Additional Amounts with respect to any payment under or with respect to the Notes or any Note Guarantee, the Company or the relevant Guarantor, as the case may be, will deliver to the Trustee and Paying Agent on a date that is at least 30 days prior to the date of that payment (unless the obligation to pay Additional Amounts arises less than 30 days prior to that payment date, in which case the Company or the relevant Guarantor shall notify the Trustee promptly thereafter) an Officers’ Certificate stating the fact that Additional Amounts will be payable and the amount estimated to be so payable. The Officers’ Certificate must also set forth any other information reasonably necessary to enable any Paying Agent to pay Additional Amounts to holders on the relevant payment date. The Trustee and Paying Agent shall be entitled to rely solely on such Officers’ Certificate as conclusive proof that such payments are necessary.

The Company or the relevant Guarantor will make all withholdings and deductions for, or on account of, Taxes required by law and will remit the full amount deducted or withheld to the relevant Tax authority in accordance with applicable law. The Company or the relevant Guarantor will use its reasonable efforts to obtain Tax receipts from each Tax authority evidencing the payment of any Taxes so deducted or withheld. The Company or the relevant Guarantor will furnish to the Trustee (or to a holder upon written request), within a reasonable time after the date the payment of any Taxes so deducted or withheld is made, certified copies of Tax receipts evidencing payment by the Company or the Guarantor, as the case may be, or if, notwithstanding such entity’s efforts to obtain receipts, receipts are not obtained, other evidence of payments (reasonably satisfactory to the Trustee) by such entity.

Whenever in the Indenture or in this “Description of Notes” there is mentioned, in any context, the payment of amounts based upon the principal amount of the Notes or of principal, interest or any other amount payable under, or with respect to, any of the Notes or any Note Guarantee, such mention shall be deemed to include mention of the payment of Additional Amounts to the extent that, in such context, Additional Amounts are, were or would be payable in respect thereof.

The above obligations will survive any termination, defeasance or discharge of the Indenture or any transfer by a holder or beneficial owner of its Notes, and will apply, *mutatis mutandis*, to any jurisdiction in which

any successor Person to the Company or any Guarantor is incorporated, organized or resident for tax purposes or any political subdivision thereof or therein or any jurisdiction from or through which such successor Person makes any payment on the Notes (or any Note Guarantee) or any political subdivision thereof or therein.

Optional redemption

Except as otherwise described below, the Notes will not be redeemable at the Company's option prior to maturity. The Company and any Restricted Subsidiary may, however, acquire, or cause to be acquired, the Notes by means other than a redemption, whether pursuant to a tender offer, open market purchase or otherwise, so long as the acquisition does not violate the terms of the Indenture.

Prior to April 1, 2020 the Company may, at its option, on any one or more occasions, redeem up to 40% of the aggregate principal amount of the Notes (including any Additional Notes issued after the Issue Date) at a redemption price equal to 109.25% of the principal amount thereof, plus accrued and unpaid interest thereon to the redemption date, subject to the right of the holders on the relevant record date to receive interest due on the relevant interest payment date, with all or a portion of the net proceeds of one or more Equity Offerings; provided that at least 60% of the aggregate principal amount of the Notes issued under the Indenture remains outstanding immediately after the occurrence of such redemption; and *provided, further*, that such redemption shall occur within 180 days of the date of the closing of any such Equity Offering.

In addition, at any time prior to April 1, 2020 the Company may also redeem, in whole or in part, the Notes at a redemption price equal to 100% of the principal amount of Notes to be redeemed, plus the Applicable Premium in respect of, and accrued and unpaid interest to the redemption date, subject to the rights of the holders on the relevant record date to receive interest due on the relevant interest payment date.

Except pursuant to the preceding two paragraphs and except pursuant to “– *Redemption for changes in taxes*,” the Notes will not be redeemable at the Company's option prior to April 1, 2020.

On or after April 1, 2020 the Company may on any one or more occasions redeem all or a part of the Notes at the redemption prices (expressed as percentages of principal amount) set forth below, plus accrued and unpaid interest, if any, on the Notes redeemed, to the applicable date of redemption, if redeemed during the twelve-month period beginning on April 1 of the years indicated below, subject to the rights of holders of Notes on the relevant record date to receive interest on the relevant interest payment date:

Year	Redemption price
2020	104.625%
2021	102.313%
2022 and thereafter	100.000%

All redemptions of the Notes will be made upon not less than 10 days' nor more than 60 days' prior notice, except that a redemption notice may be made more than 60 days prior to a redemption date if the notice is issued in connection with a defeasance of the Notes or a satisfaction and discharge of the Indenture. Unless the Company defaults in the payment of the redemption price, interest will cease to accrue on the Notes or portions thereof called for redemption on the applicable redemption date.

Notice of any redemption including, without limitation, upon an Equity Offering may, at the Company's discretion, be subject to one or more conditions precedent, including, but not limited to, completion of the related Equity Offering. If such redemption is subject to the satisfaction of one or more conditions precedent, the related notice shall describe each such condition and, if applicable, shall state that, in the Company's discretion, the redemption date may be delayed until such time as any or all such conditions shall be satisfied or waived (*provided* that in no event shall such date of redemption be delayed to a date later than 60 days after the date on which such notice of delay was sent), or such redemption may not occur and such notice may be rescinded in the event that any or all such conditions shall not have been satisfied or waived by the redemption date, or by the redemption date so delayed.

Optional redemption upon certain tender offers

In connection with any tender offer or other offer to purchase for all of the Notes, if holders of not less than 90% of the aggregate principal amount of the then outstanding Notes validly tender and do not validly

withdraw such Notes in such tender offer or other offer and the Company, or any third party making such tender offer or other offer in lieu of the Company, purchases all of the Notes validly tendered and not validly withdrawn by such holders, all of the holders of the Notes will be deemed to have consented to such tender or other offer and, accordingly, the Company or such third party will have the right upon not more than 60 days' notice to holders of the Notes following such purchase date, to redeem all Notes that remain outstanding following such purchase at a price equal to the price paid (excluding any early tender premium or similar payment) to each other holder in such tender offer or other offer, plus, to the extent not included in the tender offer payment or other offer payment, accrued and unpaid interest, if any, thereon, to, but excluding, the date of such redemption.

Redemption for changes in taxes

The Company may redeem the Notes, in whole but not in part, at its discretion at any time upon giving not less than 10 nor more than 60 days' prior notice to the holders of the Notes (which notice will be irrevocable and given in accordance with the procedures described in "– *Selection and notice*"), at a redemption price equal to 100% of the aggregate principal amount thereof, together with accrued and unpaid interest, if any, to the date fixed by the Company for redemption (a "**Tax Redemption Date**") and all Additional Amounts (if any) then due and which will become due on the Tax Redemption Date as a result of the redemption or otherwise (subject to the right of holders of the Notes on the relevant record date to receive interest due on an interest payment date that is on or prior to the Tax Redemption Date and Additional Amounts (if any) in respect thereof), if on the next date on which any amount would be payable in respect of the Notes, the Company or a Guarantor is or would be required to pay Additional Amounts, and the Company or Guarantor cannot avoid any such payment obligation by taking reasonable measures available to it, and the requirement arises as a result of:

- (1) any amendment to, or change in, the laws or treaties (or any regulations or rulings promulgated thereunder) of a relevant Tax Jurisdiction which change or amendment becomes effective on or after the Issue Date (or, if the applicable Tax Jurisdiction became a Tax Jurisdiction on a date after the Issue Date, such later date); or
- (2) any amendment to, or change in, an official position, or the introduction of an official position, regarding the interpretation, administration or application of such laws, regulations, treaties or rulings (including by virtue of a holding, judgment or order by a court of competent jurisdiction or a change in published administrative practice) which amendment, change or introduction becomes effective on or after the Issue Date (or, if the applicable Tax Jurisdiction became a Tax Jurisdiction on a date after the Issue Date, such later date (any amendment or change referred to in clauses (1) or (2) above a "**Change in Tax Law**")),

it being understood and agreed that any additional amounts that become payable as a result of the expiration of the exemption contemplated by Income Tax (Exception of Bonds and Short Term Government Securities) Order 2011 (the "**CIT Order**") shall not be treated as a Change in Tax Law.

The Company will not give any such notice of redemption earlier than 60 days prior to the earliest date on which the Company or Guarantor would be obligated to make such payment or withholding if a payment in respect of the Notes or Note Guarantees was then due, and the obligation to pay Additional Amounts must be in effect at the time such notice is given. Prior to the publication or, where relevant, mailing of any notice of redemption of the Notes pursuant to the foregoing, the Company will deliver to the Trustee an opinion of independent tax counsel of recognized standing reasonably acceptable to the Trustee, to the effect that there has been a Change in Tax Law which would entitle the Company to redeem the Notes under this provision of the Indenture. In addition, before the Company publishes or mails notice of redemption of the Notes as described above, it will deliver to the Trustee an Officers' Certificate to the effect that the obligation to pay Additional Amounts cannot be avoided by the Company or Guarantor taking reasonable measures available to it.

The Trustee will accept and shall be entitled to rely on such Officers' Certificate and opinion of counsel as sufficient evidence of the existence and satisfaction of the conditions precedent as described above, in which event it will be conclusive and binding on the holders of the Notes.

Mandatory redemption

The Company is not required to make mandatory redemption or sinking fund payments with respect to the Notes. However, under certain circumstances, the Company may be required to offer to purchase the Notes

as described under the captions “– Repurchase at the option of holders – Change of control” and “– Asset sales.”

Repurchase at the option of holders

Change of control

If a Change of Control occurs, each holder of Notes will have the right to require the Company to repurchase all or any part (equal to \$200,000 or an integral multiple of \$1,000 in excess thereof) of that holder's Notes pursuant to an offer (the “**Change of Control Offer**”) on the terms set forth in the Indenture. In the Change of Control Offer, the Company will offer a payment in cash (the “**Change of Control Payment**”) equal to 101% of the aggregate principal amount of Notes repurchased plus accrued and unpaid interest on the Notes repurchased to the date of purchase (the “**Change of Control Payment Date**”), subject to the rights of holders of Notes on the relevant record date to receive interest due on the relevant interest payment date. Within 30 days following any Change of Control, the Company will mail a notice to each holder (with a copy to the Trustee) or otherwise deliver a notice (with a copy to the Trustee) in accordance with the procedures described under “– Selection and notice,” describing the transaction or transactions that constitute the Change of Control and offering to repurchase Notes on the Change of Control Payment Date specified in the notice, which date will be no earlier than 10 days and no later than 60 days from the date such notice is mailed or delivered, pursuant to the procedures required by the Indenture and described in such notice.

On the Change of Control Payment Date, the Company will, to the extent lawful:

- (1) accept for payment all Notes or portions of Notes properly tendered pursuant to the Change of Control Offer;
- (2) deposit with the Paying Agent an amount equal to the Change of Control Payment in respect of all Notes or portions of Notes properly tendered; and
- (3) deliver or cause to be delivered to the Paying Agent the Notes properly accepted.

The Paying Agent will promptly mail or cause to be delivered to each holder of Notes properly tendered the Change of Control Payment for such Notes, and the Trustee will promptly authenticate and mail (or cause to be transferred by book entry) to each holder a new Note equal in principal amount to any unpurchased portion of the Notes surrendered, if any; *provided* that each such new Note will be in a principal amount of \$200,000 or an integral multiple of \$1,000 in excess thereof. Any Note so accepted for payment will cease to accrue interest on and after the Change of Control Payment Date unless the Company defaults in making the Change of Control Payment. The Company will publicly announce the results of the Change of Control Offer on or as soon as practicable after the Change of Control Payment Date.

The provisions described herein that require the Company to make a Change of Control Offer following a Change of Control will be applicable whether or not any other provisions of the Indenture are applicable. Except as described above with respect to a Change of Control, the Indenture will not contain provisions that permit the holders of the Notes to require that the Company repurchase or redeem the Notes in the event of a takeover, recapitalization or similar transaction.

The Company will not be required to make a Change of Control Offer upon a Change of Control if (1) a third party makes the Change of Control Offer in the manner, at the time and otherwise in compliance with the requirements set forth in the Indenture applicable to a Change of Control Offer made by the Company and purchases all Notes properly tendered and not withdrawn under the Change of Control Offer, or (2) notice of redemption of all outstanding Notes has been given pursuant to the Indenture as described above under the caption “– *Optional redemption*,” unless and until there is a default in payment of the applicable redemption price.

The occurrence of certain events that would constitute a Change of Control could constitute a default under the Revolving Credit Facility or any agreement governing Indebtedness of the Company or any of its Subsidiaries. Future debt of the Company or its Subsidiaries may also contain descriptions of certain change of control events that, if they occurred, would constitute a default under such debt or require such debt to be repurchased. In addition, the exercise by the holders of the Notes of their right to require the Company to purchase the Notes could cause a default under, or require a repurchase of, other debt, even if the Change of Control itself does not, due to the financial effect of the purchase on the Company. If a Change

of Control Offer is made, there can be no assurance that the Company will have sufficient funds or other resources to pay the Change of Control Payment for all the Notes that might be delivered by holders thereof seeking to accept the Change of Control Offer and to repurchase any other debt that may be required to be repaid following a change of control. See “Risk factors – Risks relating to the Notes and our structure – We may not be able to obtain the funds required to repurchase the Notes upon a change of control.”

A Change of Control Offer may be made in advance of a Change of Control, and conditioned upon the occurrence of such Change of Control, if a definitive agreement is in place for the Change of Control at the time of making the Change of Control Offer.

The definition of Change of Control includes a phrase relating to the direct or indirect sale, lease, transfer, conveyance or other disposition of “all or substantially all” of the properties or assets of the Company and its Restricted Subsidiaries taken as a whole. Although there is a limited body of case law interpreting the phrase “substantially all,” there is no precise established definition of the phrase under applicable law. Accordingly, the ability of a holder of the Notes to require the Company to repurchase its Notes as a result of a sale, lease, transfer, conveyance or other disposition of less than all of the properties or assets of the Company and its Restricted Subsidiaries may be uncertain.

The provisions under the Indenture relating to the Company’s obligation to make an offer to repurchase the Notes as a result of a Change of Control may be waived or modified with the consent of the holders of a majority in aggregate principal amount of the Notes.

If and for so long as the Notes are listed on the Official List of the Luxembourg Stock Exchange and admitted for trading on the Euro MTF Market and the rules of the Luxembourg Stock Exchange so require, the Company will publish notices relating to the Change of Control Offer in a leading newspaper of general circulation in Luxembourg (which is expected to be the *Luxemburger Wort*) or, to the extent and in the manner permitted by such rules, post such notices on the official website of the Luxembourg Stock Exchange.

Asset sales

The Company will not, and will not permit any of its Restricted Subsidiaries to, consummate an Asset Sale unless:

- (1) the Company (or a Restricted Subsidiary, as the case may be) receives consideration at the time of the Asset Sale at least equal to the Fair Market Value of the assets or Equity Interests issued or sold or otherwise disposed of; and
- (2) at least 75% of the consideration received in the Asset Sale by the Company or such Restricted Subsidiary is in the form of cash or Cash Equivalents. For purposes of this provision, each of the following will be deemed to be cash:
 - (i) any liabilities, as shown on the most recent consolidated balance sheet, of the Company or any Restricted Subsidiary (other than contingent liabilities and liabilities that are by their terms subordinated to the Notes or any Note Guarantee) that are assumed by the transferee of any such assets pursuant to an agreement that releases the Company or such Restricted Subsidiary from further liability or indemnifies the Company or such Restricted Subsidiary against further liabilities;
 - (ii) any securities, notes or other obligations received by the Company or any Restricted Subsidiary from such transferee that are converted by the Company or such Restricted Subsidiary into cash or Cash Equivalents within 180 days following the closing of the Asset Sale, to the extent of the cash or Cash Equivalents received in that conversion;
 - (iii) any Capital Stock or other assets of the kind referred to in clauses (3) or (4) of the next paragraph of this covenant;
 - (iv) Indebtedness (other than Subordinated Obligations) of any Restricted Subsidiary that is no longer a Restricted Subsidiary as a result of such Asset Sale, to the extent that the Company and each other Restricted Subsidiary are released from any Guarantee of such Indebtedness in connection with such Asset Sale;
 - (v) consideration consisting of Indebtedness of the Company or any Guarantor received from Persons who are not the Company or any Restricted Subsidiary;

- (vi) accounts receivable of a business retained by the Company or any Restricted Subsidiary, as the case may be, following the sale of such business; and
- (vii) any Designated Non-Cash Consideration received by the Company or any Restricted Subsidiary in such Asset Sales having an aggregate Fair Market Value, taken together with all other Designated Non-Cash Consideration received pursuant to this clause (g) that is at that time outstanding, not to exceed the greater of (x) \$30.0 million and (y) 1.20% of Consolidated Total Assets at the time of the receipt of such Designated Non-Cash Consideration (with the Fair Market Value of each item of Designated Non-Cash Consideration being measured at the time received and without giving effect to subsequent changes in value).

Within 365 days after the receipt of any Net Proceeds from an Asset Sale, the Company or one of its Restricted Subsidiaries may apply such Net Proceeds (at the option of the Company or such Restricted Subsidiary):

- (1) to purchase the Notes pursuant to an offer to all holders of Notes at a purchase price equal to at least 100% of the principal amount thereof, plus accrued and unpaid interest to the date of purchase (a **“Notes Offer”**);
- (2) to repurchase, prepay, redeem or repay:
 - (a) Indebtedness of the Company or any of its Restricted Subsidiaries that is secured by a Lien;
 - (b) Indebtedness of a Restricted Subsidiary of the Company that is not a Guarantor (other than Indebtedness owed to the Company or any of its Restricted Subsidiaries) but only using Net Proceeds of an Asset Sale involving assets of a Restricted Subsidiary that is not a Guarantor;
 - (c) Indebtedness of the Company or any of its Restricted Subsidiaries (other than Indebtedness owed to the Company or any of its Restricted Subsidiaries) that is not contractually subordinated in right of payment to the Notes or a Note Guarantee; provided that the Company (or the applicable Restricted Subsidiary of the Company) may repurchase, prepay, redeem or repay Indebtedness that is Public Indebtedness only if the Company (or the applicable Restricted Subsidiary of the Company) makes (at such time or subsequently in compliance with this covenant) an offer to all holders of Notes to purchase their Notes in accordance with the provisions set forth below for an Asset Sale Offer for an aggregate principal amount of Notes at least equal to the proportion that (x) the total aggregate principal amount of Notes outstanding bears to (y) the sum of the total aggregate principal amount of Notes outstanding plus the total aggregate principal amount outstanding of such Public Indebtedness;
- (3) to invest in Additional Assets;
- (4) to make a capital expenditure; or
- (5) to enter into a binding commitment to apply the Net Proceeds pursuant to clause (2), (3) or (4) of this paragraph; *provided* that such binding commitment shall be treated as a permitted application of the Net Proceeds from the date of such commitment until the earlier of (x) the date on which such repayment, investment or expenditure is consummated, and (y) the 180th day following the expiration of the aforementioned 365-day period.

Pending the final application of any Net Proceeds, the Company or any Restricted Subsidiary may temporarily reduce revolving credit borrowings or otherwise invest the Net Proceeds in any manner that is not prohibited by the Indenture. Any Net Proceeds from Asset Sales that are not applied or invested pursuant to the second paragraph of this covenant will constitute **“Excess Proceeds.”**

When the aggregate amount of Excess Proceeds exceeds \$25.0 million, within ten Business Days thereof, the Company will make an offer (an **“Asset Sale Offer”**) to all holders of Notes and may make an offer to all holders of other Indebtedness that is *pari passu* with the Notes or any Note Guarantees to purchase, prepay or redeem with the proceeds of sales of assets the maximum principal amount of Notes and such other *pari passu* Indebtedness (plus all accrued interest on the Indebtedness and the amount of all fees and expenses, including premiums, incurred in connection therewith) that may be purchased, prepaid or redeemed out of the Excess Proceeds. The offer price for the Notes in any Asset Sale Offer will be equal to 100% of the principal amount, plus accrued and unpaid interest, if any, to the date of purchase, prepayment or redemption, subject to the rights of holders of Notes on the relevant record date to receive interest due on the relevant interest payment date, and will be payable in cash. If any Excess Proceeds remain after consummation of an Asset Sale Offer, the Company or any of its Restricted Subsidiaries may

use those Excess Proceeds for any purpose not otherwise prohibited by the Indenture. If the aggregate principal amount of Notes and other *pari passu* Indebtedness tendered into (or to be prepaid or redeemed in connection with) such Asset Sale Offer exceeds the amount of Excess Proceeds or if the aggregate amount of Notes tendered pursuant to a Notes Offer exceeds the amount of the Net Proceeds so applied, the Trustee, a Paying Agent or the Registrar will select the Notes and such other *pari passu* Indebtedness, if applicable, to be purchased on a *pro rata* basis (or, in the case of Notes issued in global form as discussed under “*Book-entry, delivery and form*,” based on a method that most nearly approximates a *pro rata* selection as the Trustee, a Paying Agent or the Registrar deems fair and appropriate) unless otherwise required by applicable law or applicable stock exchange or depository requirements, based on the amounts tendered or required to be prepaid or redeemed. Upon completion of each Asset Sale Offer, the amount of Excess Proceeds will be reset at zero.

The Company will comply with the requirements of Rule 14e-1 under the U.S. Exchange Act and any other applicable securities laws and regulations to the extent those laws and regulations are applicable in connection with each repurchase of Notes pursuant to a Change of Control Offer, an Asset Sale Offer or a Notes Offer. To the extent that the provisions of any securities laws or regulations conflict with the Change of Control, Asset Sale or Notes Offer provisions of the Indenture, the Company will comply with the applicable securities laws and regulations and will not be deemed to have breached its obligations under the Change of Control, Asset Sale or Notes Offer provisions of the Indenture by virtue of such compliance.

Selection and notice

If less than all of the Notes are to be redeemed at any time, the Trustee, a Paying Agent or the Registrar will select Notes for redemption on a *pro rata* basis (or, in the case of Notes issued in global form as discussed under “*Book-Entry, Delivery and Form*,” based on a method that most nearly approximates a *pro rata* selection) unless otherwise required by law or applicable stock exchange or depository requirements.

No Notes of \$200,000 or less can be redeemed in part. Notices of redemption will be mailed by first class mail at least 10 days but not more than 60 days before the redemption date to each holder of Notes to be redeemed at its registered address, except that redemption notices may be mailed more than 60 days prior to a redemption date if the notice is issued in connection with a defeasance of the Notes or a satisfaction and discharge of the Indenture.

If the Company elects to redeem the Notes or portions thereof and requests the Trustee to distribute to the holders any amounts deposited in trust (which, for the avoidance of doubt, will include accrued and unpaid interest to the date fixed for redemption) prior to the date fixed for redemption in accordance with the provisions described below under the caption “– *Satisfaction and discharge*,” the applicable redemption notice will state that holders will receive such amounts deposited in trust prior to the date fixed for redemption and mention the payment date.

If any Note is to be redeemed in part only, the notice of redemption that relates to that Note will state the portion of the principal amount of that Note that is to be redeemed. A new Note in principal amount equal to the unredeemed portion of the original Note will be issued in the name of the holder of Notes upon cancellation of the original Note.

Neither the Trustee, any Paying Agent nor the Registrar shall be liable for any such selections made by it in accordance with the provisions described in the three preceding paragraphs.

For Notes which are represented by global certificates held on behalf of DTC, notices may be given by delivery of the relevant notices to DTC in accordance with its applicable procedures for communication to entitled account holders in substitution for any required mailing. So long as any Notes are listed on the Official List of the Luxembourg Stock Exchange and admitted to trading on the Euro MTF Market and the rules of the Luxembourg Stock Exchange so require, any notice to the holders of the Notes (whether represented by global certificates or held in definitive form) shall also be published in a newspaper having a general circulation in Luxembourg (which is expected to be the *Luxemburger Wort*) or, to the extent and in the manner permitted by such rules, posted on the official website of the Luxembourg Stock Exchange and, in connection with any redemption, the Company will notify the Luxembourg Stock Exchange of any change in the principal amount of Notes outstanding.

Certain covenants

Restricted payments

The Company will not, and will not permit any of its Restricted Subsidiaries to, directly or indirectly:

- (1) declare or pay any dividend or make any other payment or distribution on account of the Company's or any of its Restricted Subsidiaries' Equity Interests (including, without limitation, any such payment or distribution made in connection with any merger, amalgamation or consolidation involving the Company or any of its Restricted Subsidiaries) or to the direct or indirect holders of the Company's or any of its Restricted Subsidiaries' Equity Interests in their capacity as such (other than dividends or distributions payable in Equity Interests (other than Disqualified Stock) of the Company and other than dividends or distributions payable to the Company or a Restricted Subsidiary of the Company);
- (2) repurchase, redeem or otherwise acquire or retire for value (including, without limitation, any such purchase, redemption, acquisition or retirement made in connection with any merger, amalgamation or consolidation involving the Company) any Equity Interests of the Company or any direct or indirect parent of the Company;
- (3) make any principal payment on or with respect to, or repurchase, redeem, defease or otherwise acquire or retire for value, prior to the Stated Maturity thereof, any Indebtedness of the Company or any Guarantor that is expressly contractually subordinated in right of payment to the Notes or to any Note Guarantee (excluding any intercompany Indebtedness between or among the Company and/or any of its Restricted Subsidiaries), except (i) a payment of principal at the Stated Maturity thereof or (ii) the repurchase, redemption or other acquisition of Indebtedness in anticipation of satisfying a sinking fund obligation, principal installment or scheduled maturity, in each case due within one year of the date of such repurchase, redemption or other acquisition; or
- (4) make any Restricted Investment;

(all such payments and other actions set forth in clauses (1) through (4) above being collectively referred to as "**Restricted Payments**"), unless, at the time of and after giving effect to such Restricted Payment:

- (1) no Default or Event of Default has occurred and is continuing or would occur as a consequence of such Restricted Payment;
- (2) the Company would, at the time of such Restricted Payment and after giving *pro forma* effect thereto as if such Restricted Payment had been made at the beginning of the applicable four-quarter reference period, have been permitted to incur at least \$1.00 of additional Indebtedness pursuant to the Fixed Charge Coverage Ratio test set forth in the first paragraph of the covenant described below under the caption "*– Incurrence of indebtedness and issuance of preferred stock*"; and
- (3) such Restricted Payment, together with the aggregate amount of all other Restricted Payments made by the Company and its Restricted Subsidiaries since the Issue Date (including Restricted Payments permitted below by clauses (1), (13), (14) and (15) of the next succeeding paragraph, but excluding all other Restricted Payments permitted by the next succeeding paragraph), is equal to or less than the sum, without duplication, of:
 - (a) 50% of the Consolidated Net Income of the Company for the period (taken as one accounting period) from the beginning of the fiscal quarter commencing immediately prior to the Issue Date to the end of the Company's most recently ended fiscal quarter for which internal financial statements are available at the time of such Restricted Payment (or, if such Consolidated Net Income for such period is a deficit, less 100% of such deficit); *plus*
 - (b) 100% of the aggregate net cash proceeds received, the Fair Market Value of marketable securities received and the Fair Market Value of other property received by the Company since the Issue Date as a contribution to its common capital or from the issue or sale of Equity Interests of the Company (other than Disqualified Stock) or from the issue or sale of convertible or exchangeable Disqualified Stock or convertible or exchangeable debt securities of the Company or a Restricted Subsidiary that have been converted into or exchanged, directly or indirectly, for Equity Interests of the Company (other than Equity Interests (or Disqualified Stock or debt securities) sold to a Subsidiary of the Company); *plus*

(c)

- (i) to the extent that any Restricted Investment that was made after the Issue Date is (x) sold, disposed of or otherwise cancelled, liquidated or repaid, 100% of the aggregate amount received in cash and the Fair Market Value of the marketable securities and other property received by the Company or any Restricted Subsidiary, or (y) made in an entity that subsequently becomes a Restricted Subsidiary, 100% of the Fair Market Value of the Restricted Investment of the Company and its Restricted Subsidiaries as of the date such entity becomes a Restricted Subsidiary; *plus*
- (ii) to the extent that any Unrestricted Subsidiary of the Company designated as such after the Issue Date is redesignated as a Restricted Subsidiary or is merged, amalgamated or consolidated with or into the Company or a Restricted Subsidiary, or all or substantially all of the properties or assets of such Unrestricted Subsidiary are transferred to the Company or a Restricted Subsidiary, the Fair Market Value of the property received by the Company or Restricted Subsidiary or the Company's Restricted Investment in such Subsidiary as of the date of such redesignation, merger, amalgamation, consolidation or transfer of properties or assets, to the extent such Investments reduced the Restricted Payments capacity under this clause (c) and were not previously repaid or otherwise reduced; *plus*
- (d) 100% of any dividends or distributions received in cash by the Company or a Restricted Subsidiary after the Issue Date from an Unrestricted Subsidiary, to the extent that such dividends or distributions were not otherwise included in the Consolidated Net Income of the Company for such period.

The preceding provisions will not prohibit:

- (1) the payment of any dividend or the consummation of any irrevocable redemption within 60 days after the date of declaration of the dividend or giving of the redemption notice, as the case may be, if at the date of declaration or notice, the dividend or redemption payment would have complied with the provisions of the Indenture;
- (2) the making of any Restricted Payment in exchange for, or out of the net cash proceeds of the substantially concurrent sale (other than to a Subsidiary of the Company) of, Equity Interests of the Company (other than Disqualified Stock) or from the substantially concurrent contribution of common equity capital to the Company; *provided* that the amount of any such net cash proceeds that are utilized for any such Restricted Payment will be excluded from clause (3)(b) of the preceding paragraph;
- (3) the repurchase, redemption, defeasance or other acquisition or retirement for value of Indebtedness of the Company or any Guarantor that is contractually subordinated to the Notes or to any Note Guarantee with the net cash proceeds from a substantially concurrent incurrence of Permitted Refinancing Indebtedness for the purpose of such repurchase, redemption, defeasance or other acquisition or retirement for value;
- (4) the payment of any dividend (or, in the case of any partnership or limited liability company, any similar distribution) by a Restricted Subsidiary of the Company to the holders of its Equity Interests (other than the Company or any Restricted Subsidiary) on no more than a *pro rata* basis;
- (5) so long as no Default or Event of Default has occurred and is continuing or would be caused thereby, the defeasance, repurchase, redemption or other acquisition or retirement for value of any Equity Interests of the Company or any Restricted Subsidiary of the Company held by any of the Company's (or any of its Restricted Subsidiaries') current or former officers, directors, employees or consultants pursuant to any equity subscription agreement, stock option agreement, restricted stock grant, shareholders' agreement or similar agreement; *provided* that the aggregate price paid for all such repurchased, redeemed, acquired or retired Equity Interests may not exceed \$5.0 million per year (with unused amounts in any calendar year being permitted to be carried over into the next two succeeding calendar years) and *provided, further*, that such amount in any calendar year may be increased by an amount not to exceed (A) the cash proceeds from the sale of Equity Interests of the Company or a Restricted Subsidiary received by the Company or a Restricted Subsidiary during such calendar year, in each case to members of management, directors or consultants of the Company, any of its Restricted Subsidiaries or any of its direct or indirect parent companies, to the extent the cash proceeds from the sale of Equity Interests have not otherwise been applied to the making of Restricted Payments

pursuant to clause (3)(b) of the preceding paragraph or clause (2) of this paragraph and (B) the cash proceeds of key man life insurance policies;

- (6) the defeasance, repurchase, redemption or other acquisition or retirement for value of any Equity Interests of the Company or any Restricted Subsidiary of the Company held by any of the Company's (or any of its Restricted Subsidiaries') current or former directors or employees in connection with the exercise or vesting of any equity compensation (including, without limitation, stock options, restricted stock and phantom stock) in order to satisfy the Company's or such Restricted Subsidiary's tax withholding obligation with respect to such exercise or vesting;
- (7) repurchases of Subordinated Obligations at a purchase price not greater than (i) 101% of the principal amount of such Subordinated Obligations and accrued and unpaid interest thereon in the event of a Change of Control or (ii) 100% of the principal amount of such Subordinated Obligations and accrued and unpaid interest thereon in the event of an Asset Sale, in each case plus accrued interest, in connection with any change of control offer or asset sale offer required by the terms of such Indebtedness, but only if:
 - (a) in the case of a Change of Control, the Company has first complied with and fully satisfied its obligations under the provisions described under "*– Repurchase at the option of holders – Change of control*"; or
 - (b) in the case of an Asset Sale, the Company has complied with and fully satisfied its obligations in accordance with the covenant under the heading, "*– Repurchase at the option of holders – Asset sales*";
- (8) the repurchase, redemption or other acquisition for value of Capital Stock of the Company representing fractional shares of such Capital Stock in connection with a merger, consolidation, amalgamation or other combination involving the Company or any other transaction permitted by the Indenture;
- (9) the repurchase of Equity Interests deemed to occur upon the exercise of stock options or warrants to the extent such Equity Interests represent a portion of the exercise price of those stock options or warrants;
- (10) so long as no Default or Event of Default has occurred and is continuing or would be caused thereby, the declaration and payment of regularly scheduled or accrued dividends to holders of any class or series of Disqualified Stock of the Company or any Restricted Subsidiary of the Company issued on or after the Issue Date in accordance with the Fixed Charge Coverage Ratio test described below under the caption "*– Incurrence of indebtedness and issuance of preferred stock*";
- (11) payments of cash, dividends, distributions, advances or other Restricted Payments by the Company or any of its Restricted Subsidiaries to allow the payment of cash in lieu of the issuance of fractional shares upon (x) the exercise of options or warrants or (y) the conversion or exchange of Capital Stock of any such Person;
- (12) so long as no Default or Event of Default has occurred and is continuing or would be caused thereby,
 - (a) advances or loans to any future, present or former officer, director, employee or consultant of the Company or a Restricted Subsidiary to pay for the purchase or other acquisition for value of Equity Interests of the Company (other than Disqualified Stock), or any obligation under a forward sale agreement, deferred purchase agreement or deferred payment arrangement pursuant to any management equity plan or stock option plan or any other management or employee benefit or incentive plan or other agreement or arrangement; *provided* that the total aggregate amount of Restricted Payments made under this subclause (a) does not exceed \$4.0 million in any calendar year or
 - (b) advances, grants or loans in relation to any management equity plan or stock option plan or any other management or employee benefit or incentive plan or unit trust, whether made directly to any such plan or trust or to the trustees of any such plan or trust, to pay for the purchase or other acquisition for value of Equity Interests of the Company (other than Disqualified Stock); *provided* that the total aggregate amount of Restricted Payments made under this subclause (b) does not exceed \$5.0 million in any calendar year;
- (13) so long as no Default or Event of Default has occurred and is continuing or would be caused thereby, the declaration and payment of dividends on the Capital Stock of the Company in an amount per annum not to exceed the greater of (a) five cents per share or (b) 7.0% of the Market Capitalization of

the Company; *provided* that, after giving *pro forma* effect to the payment of any such dividends, the Consolidated Net Leverage Ratio of the Company would not exceed 3.0 to 1.0;

- (14) so long as no Default or Event of Default has occurred and is continuing or would be caused thereby, other Restricted Payments in an aggregate amount not to exceed the greater of (a) \$40.0 million and (b) 1.55% of Consolidated Total Assets since the Issue Date; and
- (15) so long as no Default or Event of Default has occurred and is continuing or would be caused thereby, Restricted Payments aggregating up to an amount equivalent to 50% of the net cash proceeds received by the Company or any of its Restricted Subsidiaries from all dispositions (including, without limitation, any farm-out or lease) of oil and gas properties subsequent to the Issue Date (excluding assets of the Company and its Restricted Subsidiaries as of the Issue Date and other assets with material production); *provided* that, after giving *pro forma* effect to any such Restricted Payment (and any related transactions), the Consolidated Net Leverage Ratio of the Company does not exceed 3.0 to 1.0.

The amount of all Restricted Payments (other than cash) will be the Fair Market Value on the date of the Restricted Payment (or, in the case of a dividend, on the date of declaration) of the asset(s) or securities proposed to be transferred or issued by the Company or such Restricted Subsidiary, as the case may be, pursuant to the Restricted Payment. The Fair Market Value of any cash Restricted Payment shall be its face amount. The Company, in its sole discretion, may classify any Investment or other Restricted Payment as being made in part under one of the provisions of this covenant (or, in the case of any Investment, the clauses of Permitted Investments) and in part under one or more other such provisions (or, as applicable, clauses). Unsecured Indebtedness shall not be deemed to be subordinate or junior to secured Indebtedness by virtue of its nature as unsecured Indebtedness.

Incurrence of indebtedness and issuance of preferred stock

The Company will not, and will not permit any of its Restricted Subsidiaries to, directly or indirectly, create, incur, issue, assume, guarantee or otherwise become directly or indirectly liable, contingently or otherwise, with respect to (collectively, “incur”) any Indebtedness (including Acquired Debt), and the Company will not issue any Disqualified Stock and will not permit any of its Restricted Subsidiaries to issue any shares of preferred stock; *provided, however*, that the Company may incur Indebtedness (including Acquired Debt) or issue Disqualified Stock and any Guarantor may incur Indebtedness (including Acquired Debt) or issue preferred stock, if the Fixed Charge Coverage Ratio for the Company’s most recently ended four fiscal quarters for which internal financial statements are available immediately preceding the date on which such additional Indebtedness is incurred or such Disqualified Stock or preferred stock is issued, as the case may be, would have been at least 2.25 to 1.0, determined on a *pro forma* basis (including a *pro forma* application of the net proceeds therefrom), as if the additional Indebtedness had been incurred or the Disqualified Stock or the preferred stock had been issued, as the case may be, at the beginning of such four-quarter reference period.

The first paragraph of this covenant will not prohibit the incurrence of any of the following items of Indebtedness or issuances of Disqualified Stock or preferred stock (collectively, “**Permitted Debt**”):

- (1) the incurrence by the Company and any Restricted Subsidiary of additional Indebtedness under Credit Facilities in an aggregate principal amount at any one time outstanding under this clause (1) not to exceed (a) the greater of (x) \$300.0 million and (y) 11.60% of Consolidated Total Assets determined as of the date of such Incurrence *plus* (b) any amounts permitted to be drawn at such time under all Borrowing Base Facilities of the Company and its Restricted Subsidiaries, *plus* in the case of any refinancing of any Indebtedness permitted under this clause (1) or any portion thereof, the aggregate amount of fees, costs and expenses (including underwriting commissions paid as discounts) incurred in connection with such refinancing;
- (2) the incurrence by the Company and its Restricted Subsidiaries of the Existing Indebtedness;
- (3) the incurrence by the Company of Indebtedness represented by the Notes to be issued on the date of the Indenture and the incurrence by any Guarantor of a Note Guarantee at any time;
- (4) the incurrence by the Company or any of its Restricted Subsidiaries of Indebtedness represented by Capital Lease Obligations, mortgage financings or purchase money obligations or other Indebtedness, in each case, incurred for the purpose of financing all or any part of the purchase price, lease expense, rental payments or cost of design, development, construction, transportation, installation, migration or

improvement of property, plant or equipment or other assets used in the business of the Company or any of its Restricted Subsidiaries (including any reasonably related fees or expenses incurred in connection therewith), in an aggregate principal amount, including all Permitted Refinancing Indebtedness incurred to extend, renew, refund, refinance, replace, exchange, defease or discharge any Indebtedness incurred pursuant to this clause (4), not to exceed the greater of (x) \$30.0 million and (y) 1.20% of Consolidated Total Assets at any time outstanding, in each case, whether such Indebtedness is incurred for the leasing of or direct purchase of or the purchase of the Capital Stock of any Person owning such property, plant or equipment or other assets (including any Indebtedness deemed to be incurred in connection with such purchase) (it being understood that any such Indebtedness may be incurred after the acquisition or purchase or the design, development, construction, transportation, installation, migration or the making of any improvement with respect to any such property, plant or equipment or other assets);

- (5) the incurrence by the Company or any of its Restricted Subsidiaries of Permitted Refinancing Indebtedness in exchange for, or the net proceeds of which are used to extend, renew, refund, refinance, replace, exchange, defease or discharge any Indebtedness (other than intercompany Indebtedness) that was permitted by the Indenture to be incurred under the first paragraph of this covenant or clauses (2), (3) or (15) of this paragraph or this clause (5);
- (6) the incurrence by the Company or any of its Restricted Subsidiaries of intercompany Indebtedness between or among the Company and any of its Restricted Subsidiaries; *provided, however*, that:
 - (a) if the Company or any Guarantor is the obligor on such Indebtedness and the payee is not the Company or a Guarantor, such Indebtedness must be (i) except in respect of the intercompany current liabilities incurred in the ordinary course of business in connection with the cash management operations of the Company and its Restricted Subsidiaries and (ii) only to the extent legally permitted) expressly subordinated to the prior payment in full in cash of all Obligations then due with respect to the Notes, in the case of the Company, or the Note Guarantee, in the case of a Guarantor; and
 - (b) any subsequent issuance or transfer of Equity Interests that results in any such Indebtedness being held by a Person other than the Company or a Restricted Subsidiary of the Company and (ii) any sale or other transfer of any such Indebtedness to a Person that is not either the Company or a Restricted Subsidiary of the Company will be deemed, in each case, to constitute an incurrence of such Indebtedness by the Company or such Restricted Subsidiary, as the case may be, that was not permitted by this clause (6);
- (7) the issuance by any of the Company's Restricted Subsidiaries to the Company or to any of its Restricted Subsidiaries of shares of preferred stock; *provided, however*, that:
 - (a) any subsequent issuance or transfer of Equity Interests that results in any such preferred stock being held by a Person other than the Company or a Restricted Subsidiary of the Company; and
 - (b) any sale or other transfer of any such preferred stock to a Person that is not either the Company or a Restricted Subsidiary of the Company,

will be deemed, in each case, to constitute an issuance of such preferred stock by such Restricted Subsidiary that was not permitted by this clause (7);
- (8) the incurrence by the Company or any of its Restricted Subsidiaries of Hedging Obligations not for speculative purposes (as determined in good faith by a responsible accounting or financial officer of the Company);
- (9) the incurrence by any non-Guarantor Restricted Subsidiary of the Company of Indebtedness that is Project Debt;
- (10) the Guarantee by the Company or any Restricted Subsidiary of Indebtedness of the Company or a Restricted Subsidiary of the Company that was permitted to be incurred by another provision of this covenant; *provided that* if the Indebtedness being Guaranteed is subordinated to or *pari passu* with the Notes or a Note Guarantee, as applicable, then the Guarantee shall be subordinated or *pari passu*, as applicable, to the same extent as the Indebtedness Guaranteed;
- (11) the incurrence by the Company or any of its Restricted Subsidiaries of Indebtedness arising from the honoring by a bank or other financial institution of a check, draft or similar instrument inadvertently drawn against insufficient funds, so long as such Indebtedness is covered within 30 Business Days;

- (12) the incurrence by the Company or any of its Restricted Subsidiaries of Indebtedness in respect of self-insurance obligations or captive insurance companies or consisting of the financing of insurance premiums in the ordinary course of business;
- (13) the incurrence by the Company or any of its Restricted Subsidiaries of Indebtedness arising from agreements of the Company or any of its Restricted Subsidiaries providing for indemnification, obligations in respect of earnouts or other adjustment of purchase price or, in each case, similar obligations, in each case, incurred or assumed in connection with the disposition of any business, assets or Capital Stock of a Subsidiary; *provided* that the maximum aggregate liability in respect of all such Indebtedness shall at no time exceed the gross proceeds, including the Fair Market Value of non-cash proceeds (measured at the time received and without giving effect to any subsequent changes in value), actually received by the Company and its Restricted Subsidiaries in connection with such disposition;
- (14) the incurrence by the Company or any of its Restricted Subsidiaries of Indebtedness in respect of (A) letters of credit, bid, performance, appeal, surety and similar bonds, completion guarantees, judgment, advance payment, customs, VAT or similar instruments issued for the account of the Company and any of its Restricted Subsidiaries in the ordinary course of business (in each case, other than an obligation for money borrowed), including Guarantees and obligations of the Company or any of its Restricted Subsidiaries with respect to letters of credit or similar instruments supporting such obligations or in respect of self-insurance and workers compensation obligations or (B) any customary cash management, cash pooling or netting or setting off arrangements with banks or other financial institutions;
- (15) Indebtedness or preferred stock of a Person outstanding on the date on which such Person becomes a Restricted Subsidiary or is acquired by the Company or any of its Restricted Subsidiaries or merged, consolidated, amalgamated or otherwise combined with (including pursuant to any acquisition of assets and assumption of related liabilities) the Company or any of its Restricted Subsidiaries in accordance with the Indenture and Indebtedness incurred by the Company or any of its Restricted Subsidiaries, in each case, (a) to provide all or any portion of the funds utilized to consummate the transaction or series of related transactions pursuant to which such Person became a Restricted Subsidiary or was otherwise acquired by or was merged into the Company or any of its Restricted Subsidiaries or (b) otherwise in connection with, or in contemplation of, such acquisition; *provided, however*, with respect to this clause (15) that at the time of the acquisition or other transaction pursuant to which such Indebtedness was either deemed to be incurred or was incurred, (x) the Company would have been able to incur \$1.00 of additional Indebtedness pursuant to the first paragraph of this covenant after giving effect to the incurrence of such Indebtedness or issuance of such preferred stock pursuant to this clause (15) or (y) the Fixed Charge Coverage Ratio would not be less than it was immediately prior to giving effect to such acquisition or other transaction;
- (16) Guarantees by the Company or any of its Restricted Subsidiaries of any Management Advances;
- (17) Guarantees by the Company or any Restricted Subsidiary granted to any trustee of any management equity plan or stock option plan or any other management or employee benefit or incentive plan or unit trust scheme approved by the Board of Directors of the Company, so long as the proceeds of the Indebtedness so Guaranteed are used to purchase Equity Interests of the Company (other than Disqualified Stock); *provided* that the amount of any net cash proceeds from the sale of such Equity Interests of the Company will be excluded from clause (3)(b) of the first paragraph of the covenant described above under the caption “– *Certain covenants – Restricted payments*” and will not be considered to be net cash proceeds from an Equity Offering for purposes of the “Optional redemption” provisions of the Indenture;
- (18) Guarantees by the Company or any of its Restricted Subsidiaries of pension fund obligations of the Company or any Restricted Subsidiary required by law or regulation;
- (19) the incurrence by the Company or any of its Restricted Subsidiaries of Indebtedness in connection with one or more standby letters of credit, Guarantees, performance bonds or other reimbursement obligations, in each case, issued in the ordinary course of business and not in connection with the borrowing of money or the obtaining of an advance or credit (other than advances or credit for goods and services in the ordinary course of business and on terms and conditions that are customary in the Oil and Gas Business, and other than the extension of credit represented by such letter of credit, Guarantee or performance bond itself);

- (20) the incurrence by the Company or any of its Restricted Subsidiaries of Indebtedness in the form of customer deposits and advance payments received in the ordinary course of business from customers for purchases in the ordinary course of business;
- (21) the incurrence by the Company of Indebtedness in an aggregate principal amount (or accreted value, as applicable) at any time outstanding, including all Permitted Refinancing Indebtedness incurred to extend, renew, refund, replace, exchange, defease or discharge any Indebtedness incurred pursuant to this clause (21), not to exceed \$200.0 million, *provided* that such Indebtedness shall not benefit from a Guarantee from any Restricted Subsidiary of the Company; and
- (22) the incurrence by the Company or any of its Restricted Subsidiaries of additional Indebtedness or the issuance of Disqualified Stock by the Company or preferred stock by any Restricted Subsidiary in an aggregate principal amount (or accreted value, as applicable) at any time outstanding, including all Permitted Refinancing Indebtedness incurred to extend, renew, refund, replace, exchange, defease or discharge any Indebtedness incurred pursuant to this clause (22), not to exceed the greater of (x) \$50.0 million and (y) 2.00% of Consolidated Total Assets determined as of the date of such incurrence or issuance.

Neither the Company nor any Guarantor will incur any Indebtedness (including Permitted Debt) that is contractually subordinated in right of payment to any other Indebtedness of the Company or such Guarantor unless such Indebtedness is also contractually subordinated in right of payment to the Notes and the applicable Note Guarantee on substantially identical (or more favorable) terms; *provided*, however, that no Indebtedness will be deemed to be contractually subordinated in right of payment to any other Indebtedness of the Company or any Guarantor solely (1) by virtue of being unsecured, (2) by virtue of being secured with different collateral, (3) by virtue of being secured on a junior priority basis, (4) by virtue of not being guaranteed or (5) by virtue of the application of waterfall or other payment ordering provisions affecting different tranches of Indebtedness under Credit Facilities.

For purposes of determining compliance with, and the outstanding principal amount of, any particular Indebtedness incurred pursuant to and in compliance with this covenant:

- (1) in the event that an item or portion of an item of proposed Indebtedness meets the criteria of more than one of the categories of Permitted Debt described in clauses (1) through (22) above, or is entitled to be incurred pursuant to the first paragraph of this covenant, the Company, in its sole discretion, will be permitted to classify such item or portion of an item of Indebtedness on the date of its incurrence and only be required to include the amount and type of such Indebtedness in one of such clauses and from time to time to reclassify all or a portion of such item of Indebtedness, in any manner that complies with this covenant; *provided* that any Indebtedness incurred under clause (1) of the definition of Permitted Debt (including the Revolving Credit Facility) may not be reclassified pursuant to this paragraph. For the avoidance of doubt, any refinancing of Indebtedness incurred under clause (1) of the definition of Permitted Debt shall be deemed to be incurred under clause (1) of the definition of Permitted Debt.
- (2) Guarantees of, or obligations in respect of letters of credit relating to, Indebtedness which is otherwise included in the determination of a particular amount of Indebtedness shall not be included; and
- (3) Indebtedness permitted by this covenant need not be permitted solely by reference to one provision permitting such Indebtedness but may be permitted in part by one such provision and in part by one or more other provisions of this covenant permitting such Indebtedness.

The amount of any Indebtedness outstanding as of any date will be:

- (1) in the case of any Indebtedness issued with original issue discount, the amount of the liability in respect thereof determined in accordance with IFRS;
- (2) in respect of Hedging Obligations, either (a) zero if such Hedging Obligation is incurred pursuant to clause (8) of the second paragraph of this covenant or (b) the notional amount of such Hedging Obligation if not incurred pursuant to such clause;
- (3) the principal amount of the Indebtedness, in the case of any other Indebtedness; and
- (4) in respect of Indebtedness of another Person secured by a Lien on the assets of the specified Person, the lesser of:
 - (i) the Fair Market Value of such assets at the date of determination; and

- (ii) the amount of the Indebtedness of the other Person.

Accrual of interest, accrual of dividends, the accretion or amortization of original issue discount, the payment of interest on any Indebtedness in the form of additional Indebtedness, the reclassification of preferred stock as Indebtedness due to a change in accounting principles and the payment of dividends in the form of additional shares of preferred stock or Disqualified Stock will not be deemed to be an incurrence of Indebtedness or an issuance of preferred stock or Disqualified Stock for purposes of this covenant. The amount of any Indebtedness outstanding as of any date shall be the principal amount or liquidation preference thereof, together with any interest thereon that is more than 30 days past due, in the case of any other Indebtedness.

If at any time an Unrestricted Subsidiary becomes a Restricted Subsidiary, any Indebtedness of such Subsidiary shall be deemed to be incurred by a Restricted Subsidiary of the Company as of such date (and, if such Indebtedness is not permitted to be incurred as of such date under this “– Incurrence of indebtedness and issuance of preferred stock” covenant, the Company shall be in Default of this covenant).

For purposes of determining compliance with any U.S. dollar-denominated restriction on the incurrence of Indebtedness, the U.S. dollar-equivalent principal amount of Indebtedness denominated in a different currency shall be utilized, calculated based on the relevant currency exchange rate in effect on the date such Indebtedness was incurred; *provided, however*, that (i) if such Indebtedness denominated in non-U.S. dollar currency is subject to a Currency Exchange Protection Agreement with respect to U.S. dollars, the amount of such Indebtedness expressed in U.S. dollars will be calculated so as to take account of the effects of such Currency Exchange Protection Agreement; and (ii) the U.S. dollar-equivalent of the principal amount of any such Indebtedness outstanding on the Issue Date shall be calculated based on the relevant currency exchange rate in effect on the Issue Date. The principal amount of any refinancing Indebtedness incurred in the same currency as the Indebtedness being refinanced will be the U.S. dollar-equivalent of the Indebtedness refinanced determined on the date such Indebtedness was originally incurred, except that to the extent that:

- (1) such U.S. dollar-equivalent was determined based on a Currency Exchange Protection Agreement, in which case the refinancing Indebtedness will be determined in accordance with the preceding sentence; and
- (2) the principal amount of the refinancing Indebtedness exceeds the principal amount of the Indebtedness being refinanced, in which case the U.S. dollar-equivalent of such excess will be determined on the date such refinancing Indebtedness is being incurred.

The principal amount of any Indebtedness incurred to refinance other Indebtedness, if incurred in a different currency from the Indebtedness being refinanced, shall be calculated based on the currency exchange rate applicable to the currencies in which such Permitted Refinancing Indebtedness is denominated that is in effect on the date of such refinancing.

Liens

The Company will not, and will not permit any of its Restricted Subsidiaries to, directly or indirectly, create, incur, assume or suffer to exist any Lien of any kind securing Indebtedness upon any of its property or assets (whether now owned or hereafter acquired), except Permitted Liens, unless the Notes or Note Guarantees, as applicable, are secured by a Lien on such property or assets on an equal and ratable basis with the Indebtedness so secured until such time as such Indebtedness is no longer so secured by that Lien.

Any Lien created for the benefit of the holders pursuant to this covenant will provide by its terms that such Lien will be automatically and unconditionally released and discharged upon the release and discharge of the Initial Lien (and any subsequent Lien that would have otherwise constituted an Initial Lien) other than as a consequence of an enforcement action with respect to the assets subject to such Lien.

Dividend and other payment restrictions affecting subsidiaries

The Company will not, and will not permit any of its Restricted Subsidiaries to, directly or indirectly, create or permit to exist or become effective any consensual encumbrance or restriction on the ability of any Restricted Subsidiary to:

- (1) pay dividends or make any other distributions on its Capital Stock to the Company or any of its Restricted Subsidiaries, or with respect to any other interest or participation in, or measured by, its profits, or pay any Indebtedness owed to the Company or any of its Restricted Subsidiaries;
- (2) make loans or advances to the Company or any of its Restricted Subsidiaries; or
- (3) sell, lease or transfer any of its properties or assets to the Company or any of its Restricted Subsidiaries,

provided that (x) the priority of any preferred stock in receiving dividends or liquidating distributions prior to dividends or liquidating distributions being paid on common stock and (y) the subordination of (including the application of any standstill period to) loans or advances made to the Company or any Restricted Subsidiary to other Indebtedness incurred by the Company or any Restricted Subsidiary, shall not be deemed to constitute such an encumbrance or restriction.

However, the preceding restrictions will not apply to encumbrances or restrictions existing under or by reason of:

- (1) (i) agreements governing Existing Indebtedness and the Revolving Credit Facility, in each case as in effect on the Issue Date, and any amendments, restatements, modifications, renewals, supplements, increases, refundings, replacements or refinancings of those agreements; *provided* that the amendments, restatements, modifications, renewals, supplements, increases, refundings, replacements or refinancings are not materially more restrictive, taken as a whole, with respect to such dividend and other payment restrictions than those contained in those agreements on the Issue Date or will not adversely affect in any material respect the Company's ability to make principal or interest payments on the Notes as they become due (in each case, as determined in good faith by a responsible accounting or financial officer of the Company);
- (2) the Indenture, the Notes (including Additional Notes) and the Note Guarantees;
- (3) applicable law, rule, regulation or order or the terms of any license, authorization, approval, concession or permit or similar restriction;
- (4) any instrument governing Indebtedness or Capital Stock of a Person acquired by the Company or any of its Restricted Subsidiaries as in effect at the time of such acquisition (except to the extent such Indebtedness or Capital Stock was incurred in connection with or in contemplation of such acquisition), which encumbrance or restriction is not applicable to any Person, or the properties or assets of any Person, other than the Person, or the property or assets of the Person, so acquired; *provided* that, in the case of Indebtedness, such Indebtedness was permitted by the terms of the Indenture to be incurred;
- (5) customary non-assignment and similar provisions in contracts, leases and licenses (including, without limitation, licenses of intellectual property) entered into in the ordinary course of business;
- (6) purchase money obligations for property (including Capital Stock) acquired in the ordinary course of business, Capital Lease Obligations and mortgage financings that impose restrictions on the property purchased or leased of the nature described in clause (3) of the preceding paragraph;
- (7) any agreement for the sale or other disposition of assets, including without limitation an agreement for the sale or other disposition of the Capital Stock or assets of a Restricted Subsidiary, that restricts distributions by the applicable Restricted Subsidiary pending the sale or other disposition;
- (8) Permitted Refinancing Indebtedness; *provided* that the restrictions contained in the agreements governing such Permitted Refinancing Indebtedness are not materially more restrictive, taken as a whole, than those contained in the agreements governing the Indebtedness being refinanced or will not adversely affect in any material respect the Company's ability to make principal or interest payments on the Notes as they become due (in each case, as determined in good faith by a responsible accounting or financial officer of the Company);
- (9) Liens permitted to be incurred under the provisions of the covenant described above under the caption "– Liens" that limit the right of the debtor to dispose of the assets subject to such Liens;

- (10) provisions limiting the disposition or distribution of assets or property in, or transfer of Capital Stock of, joint venture agreements, asset sale agreements, sale-leaseback agreements, stock sale agreements and other similar agreements (including agreements entered into in connection with a Restricted Investment), which limitations are applicable only to the assets, property or Capital Stock that are the subject of such agreements;
- (11) agreements governing other Indebtedness of the Company or any of its Restricted Subsidiaries permitted to be incurred in accordance with the covenant described under the caption “ – *Incurrence of indebtedness and issuance of preferred stock,*” and any amendments, restatements, modifications, renewals, supplements, increases, refundings, replacements or refinancings of those agreements; *provided* that any such encumbrance or restriction contained in such Indebtedness are not materially more restrictive taken as a whole than customary in comparable financings in such jurisdictions as such Indebtedness is being incurred or will not adversely affect in any material respect the Company’s ability to make principal or interest payments on the Notes as they become due (in each case, as determined in good faith by a responsible accounting or financial officer of the Company);
- (12) supermajority voting requirements existing under corporate charters, bylaws, stockholders agreements, joint venture agreements and similar documents and agreements;
- (13) customary provisions restricting subletting or assignment of any lease governing a leasehold interest;
- (14) encumbrances or restrictions contained in Hedging Obligations permitted from time to time under the Indenture;
- (15) restrictions on cash or other deposits or net worth imposed by customers or suppliers or required by insurance, surety or bonding companies, in each case under contracts entered into in the ordinary course of business; and
- (16) any encumbrance or restriction existing under any agreement that extends, renews, refinances or replaces the agreements containing the encumbrances or restrictions in the foregoing clauses (1) through (15), or in this clause (16); *provided* that the terms and conditions of any such encumbrances or restrictions are not materially more restrictive taken as a whole with respect to such dividend and other payment restrictions than those under or pursuant to the agreement so extended, renewed, refinanced or replaced or will not adversely affect in any material respect the Company’s ability to make principal or interest payments on the Notes as they become due (in each case, as determined in good faith by a responsible accounting or financial officer of the Company).

Merger, consolidation or sale of assets

The Company

The Company will not, directly or indirectly (i) consolidate, amalgamate or merge with or into another Person (whether or not the Company is the surviving corporation) or (ii) sell, assign, transfer, lease, convey or otherwise dispose of all or substantially all of the properties or assets of the Company and its Restricted Subsidiaries, taken as a whole, in one or more related transactions, to another Person, unless:

- (1) either: (a) the Company is the surviving corporation; or (b) the Person formed by or surviving any such consolidation, amalgamation or merger (if other than the Company) or to which such sale, assignment, transfer, lease, conveyance or other disposition has been made is an entity organized or existing under the laws of any member state of the European Union as in effect on December 31, 2003, Switzerland, Norway, Canada, Australia, Japan, any state of the United States or the District of Columbia;
- (2) the Person formed by or surviving any such consolidation, amalgamation or merger (if other than the Company) or the Person to which such sale, assignment, transfer, conveyance, lease or other disposition has been made assumes all the obligations of the Company under the Notes and the Indenture pursuant to a supplemental indenture in a form reasonably acceptable to the Trustee;
- (3) immediately after such transaction or transactions, no Default or Event of Default exists;
- (4) the Company or the Person formed by or surviving any such consolidation, amalgamation or merger (if other than the Company), or to which such sale, assignment, transfer, conveyance, lease or other disposition has been made would, on the date of such transaction after giving *pro forma* effect thereto and any related financing transactions as if the same had occurred at the beginning of the applicable four-quarter reference period (i) be permitted to incur at least \$1.00 of additional Indebtedness

pursuant to the Fixed Charge Coverage Ratio test set forth in the first paragraph of the covenant described above under the caption “ – Incurrence of indebtedness and issuance of preferred stock” or (ii) have a Fixed Charge Coverage Ratio not less than it was immediately prior to giving effect to such transaction;

- (5) each Guarantor (unless it is the other party to the transactions above, in which case clause (2) shall apply) shall have by supplemental indenture confirmed that its Note Guarantee shall apply to such Person’s obligations in respect of the Indenture and the Notes and shall continue to be in effect; and
- (6) the Company shall have delivered to the Trustee an Officers’ Certificate and an opinion of counsel, each stating that such consolidation, amalgamation, merger or disposition and such supplemental indenture (if any) comply with this covenant; *provided* that in giving an opinion of counsel, counsel may rely on an Officers’ Certificate as to any matters of fact.

The surviving entity will succeed to, and be substituted for, and may exercise every right and power of, the Company under the Indenture, but, in the case of a lease of all or substantially all of its properties or assets, the Company will not be released from the obligation to pay the principal of and interest and premium, if any, on the Notes.

The Guarantors

A Guarantor (other than any Guarantor whose Note Guarantee is to be released in accordance with the terms of the Note Guarantee and the Indenture as described under “ – Note Guarantees release”) may not sell or otherwise dispose of all or substantially all of its properties or assets to, or consolidate with or merge with or into (whether or not such Guarantor is the surviving Person), another Person, other than the Company or another Guarantor, unless:

- (1) immediately after giving effect to that transaction, no Default or Event of Default exists; and
- (2) either:
 - (a) such Guarantor is the surviving entity;
 - (b) the Person acquiring the property in any such sale or other disposition or the Person formed by or surviving any such consolidation, amalgamation or merger (if other than the Company or another Guarantor) unconditionally assumes, pursuant to a supplemental indenture substantially in the form specified in the Indenture, all the obligations of such Guarantor under such Indenture and its Note Guarantee on the terms set forth therein; or
 - (c) the Net Proceeds of such sale or other disposition are applied in accordance with the provisions of the Indenture described under the caption “ – Repurchase at the option of holders – Asset sales.”

Although there is a limited body of case law interpreting the phrase “substantially all,” there is no precise established definition of the phrase under applicable law. Accordingly, in certain circumstances there may be a degree of uncertainty as to whether a particular transaction would involve “all or substantially all” of the properties or assets of a Person.

Clauses (3) and (4) of the first paragraph of this covenant will not apply to any merger, consolidation or amalgamation of the Company or any Restricted Subsidiary with or into an Affiliate solely for the purpose of reincorporating the Company or such Restricted Subsidiary in another jurisdiction. Nothing in the Indenture will prevent and this covenant will not apply to (i) any Restricted Subsidiary consolidating or amalgamating with, merging with or into or disposing of all or part of its properties or assets to the Company, (ii) the Company merging with or into a Restricted Subsidiary for the purpose of reincorporating the Company in another jurisdiction, and (iii) any Restricted Subsidiary consolidating or amalgamating with, merging with or into or disposing of all or part of its properties or assets to another Restricted Subsidiary.

Transactions with affiliates

The Company will not, and will not permit any of its Restricted Subsidiaries to, make any payment to, or sell, lease, transfer or otherwise dispose of any of its properties or assets to, or purchase any property or assets from, or enter into or make or amend any transaction, contract, agreement, understanding, loan,

advance or guarantee with, or for the benefit of, any Affiliate of the Company (each, an “**Affiliate Transaction**”) involving aggregate payments or consideration in excess of \$5.0 million, unless:

- (1) the Affiliate Transaction is on terms that are no less favorable to the Company or the relevant Restricted Subsidiary than those that would have been obtained in a comparable transaction by the Company or such Restricted Subsidiary with an unrelated Person (as determined in good faith by a responsible accounting or financial officer of the Company); and
- (2) with respect to any Affiliate Transaction or series of related Affiliate Transactions involving aggregate consideration in excess of \$20.0 million, the Company delivers to the Trustee a resolution of the Board of Directors of the Company set forth in an Officers’ Certificate certifying that such Affiliate Transaction complies with this covenant and that such Affiliate Transaction has been approved by a majority of the disinterested members of the Board of Directors of the Company; and
- (3) at any time when the Company is not listed on a Recognized Stock Exchange, with respect to any Affiliate Transaction or series of related Affiliate Transactions involving aggregate consideration in excess of \$50.0 million, an opinion of an accounting, appraisal or investment banking firm of national standing, or other recognized independent expert of national standing with experience appraising the terms and conditions of the type of transaction or series of related transactions for which an opinion is required, stating that the transaction or series of related transactions is (i) fair to the Company or such Restricted Subsidiary from a financial point of view taking into account all relevant circumstances or (ii) on terms not less favorable than might have been obtained in a comparable transaction at such time on an arm’s length basis from a Person who is not an Affiliate.

The following items will not be deemed to be Affiliate Transactions and, therefore, will not be subject to the provisions of the prior paragraph:

- (1) transactions between or among the Company and/or its Restricted Subsidiaries;
- (2) Restricted Payments not prohibited by the provisions of the Indenture described above under the caption “– *Restricted payments*” and Permitted Investments (other than Permitted Investments described in clauses (3), (10) and (23) of the definition thereof);
- (3) transactions with a Person (other than an Unrestricted Subsidiary of the Company) that is an Affiliate of the Company solely because the Company owns, directly or through a Restricted Subsidiary, an Equity Interest in, or controls, such Person;
- (4) any customary directors’ fees, indemnification and similar arrangements (including the payment of directors’ and officers’ insurance premiums), consultant agreements, employment agreements, collective bargaining agreements, severance agreements, any other compensation or employee benefit plans or arrangements (including stock option, stock appreciation, stock incentive or stock ownership or similar plans) or legal fees (as determined in good faith by a majority of the disinterested members of the Board of Directors of the Company or, so long as the Company remains listed on the London Stock Exchange, otherwise in compliance with the Company’s code of corporate governance) and payments, awards, grants or issuances of securities pursuant thereto;
- (5) any issuance of Equity Interests (other than Disqualified Stock) of the Company to Affiliates of the Company;
- (6) transactions with a joint venture or similar entity which would constitute an Affiliate Transaction solely because the Company owns, directly or through a Restricted Subsidiary, an Equity Interest in, can designate one or more members of the board of, or otherwise controls, such joint venture or similar entity;
- (7) transactions pursuant to, or contemplated by any agreement or arrangement in effect on the Issue Date and as described in this Offering Memorandum under the caption “*Certain relationships and related party transactions*,” and transactions pursuant to any amendment, modification, supplement or extension thereto; provided that any such amendment, modification, supplement or extension to the terms thereof, taken as a whole, is not materially more disadvantageous to the holders of the Notes than the original agreement or arrangement as in effect on the Issue Date;
- (8) (i) transactions with customers, clients, suppliers, or purchasers or sellers of goods or services or providers of employees or other labor, in each case in the ordinary course of business and otherwise in compliance with the terms of the Indenture that are fair to the Company or the Restricted Subsidiaries, in the reasonable determination of the senior management of the Company, or are on terms at least

as favorable as might reasonably have been obtained at such time from an unaffiliated Person and (ii) to the extent constituting Affiliate Transactions, transactions with any governmental agency or entity in connection with the Oil and Gas Business;

- (9) payments or other transactions pursuant to any tax sharing agreement or arrangement among the Company or any of its Restricted Subsidiaries and any other Person with which the Company or any of its Restricted Subsidiaries files or filed a consolidated tax return or with which the Company or any of its Restricted Subsidiaries is or was part of a consolidated group for tax purposes or any tax advantageous group contribution made pursuant to applicable legislation; *provided, however*, that such payments, and the value of such transactions, shall not exceed the amount of tax that the Company or such Restricted Subsidiaries would owe if such Person was not a member of such consolidated or tax advantageous group; and
- (10) transactions between the Company or any Restricted Subsidiary and any Person, a director of which is also a director of the Company or any direct or indirect parent of the Company and such director is the sole cause for such Person to be deemed an Affiliate of the Company or any Restricted Subsidiary; *provided, however*, that such director shall abstain from voting as a director of the Company or such direct or indirect parent company, as the case may be, on any matter involving such other Person;
- (11) the transfer, pledge or other disposition of all or any portion of Equity Interests of Unrestricted Subsidiaries;
- (12) transactions between the Company or any Restricted Subsidiary and any Person, a director of which is also a director of the Company or any Restricted Subsidiary and such director is the sole cause for such Person to be deemed an Affiliate of the Company or any Restricted Subsidiary; *provided, however*, that such director shall abstain from voting as a director of the Company or such Restricted Subsidiary, as the case may be, on any matter involving such other Person;
- (13) any participation in a public tender or exchange offer for securities or debt instruments issued by the Company or any of its Subsidiaries that are conducted on arm's length terms and provide for the same price or exchange ratio, as the case may be, to all holders accepting such tender or exchange offer; and
- (14) any transactions for which the Company or a Restricted Subsidiary delivers a written letter or opinion to the Trustee from an Independent Financial Advisor stating that such transaction is (a) fair to the Company or such Restricted Subsidiary from a financial point of view or (b) on terms not less favorable than might have been obtained in a comparable transaction at such time on an arm's length basis from a Person who is not an Affiliate.

Limitation on lines of business

The Company will not, and will not permit any Restricted Subsidiary to, engage in any business other than the Oil and Gas Business, except to the extent as would not be material to the Company and its Restricted Subsidiaries taken as a whole.

Limitation on guarantees of indebtedness by Restricted Subsidiaries

The Company will not permit any Restricted Subsidiary that is not a Guarantor, directly or indirectly, to Guarantee, assume or in any other manner become liable for the payment of any Public Indebtedness of the Company (other than the Notes) or a Guarantor (other than a Guarantee of the Notes), unless such Restricted Subsidiary simultaneously executes and delivers a supplemental indenture to the Indenture providing for a Guarantee of payment of the Notes by such Restricted Subsidiary which Note Guarantee will be senior in right of payment to or *pari passu* in right of payment with such Restricted Subsidiary's Guarantee of such other Indebtedness (and where the Public Indebtedness being guaranteed by a Restricted Subsidiary constitutes Senior Indebtedness, the Guarantee provided pursuant to this covenant shall be subject to the provisions described under "– Certain Covenants – Standstill Provisions").

The foregoing paragraph will not be applicable to any Guarantees of any Restricted Subsidiary:

- (1) existing on the date of the Indenture;
- (2) that existed at the time such Person became a Restricted Subsidiary if the Guarantee was not incurred in connection with, or in contemplation of, such Person becoming a Restricted Subsidiary;
- (3) arising due to the granting of a Permitted Lien; or

- (4) given to a bank or trust company having combined capital and surplus and undivided profits of not less than \$250.0 million, whose debt has a rating, at the time such Guarantee was given, of at least “A” or the equivalent thereof by S&P and at least “A2” or the equivalent thereof by Moody’s, in connection with the operation of cash management programs established for the Company’s benefit or that of any Restricted Subsidiary.

In addition, notwithstanding anything to the contrary herein:

- (1) no Guarantees shall be required if such Guarantee could reasonably be expected to give rise to or result in (A) personal liability for the officers, directors or shareholders of such Restricted Subsidiary, (B) any violation of applicable law that cannot be avoided or otherwise prevented through measures reasonably available to the Company or such Restricted Subsidiary or (C) any significant cost, expense, liability or obligation (including with respect to any Taxes) other than reasonable out of pocket expenses and other than reasonable expenses incurred in connection with any governmental or regulatory filings required as a result of, or any measures pursuant to clause (B) undertaken in connection with, such Guarantee, which cannot be avoided through measures reasonably available to the Company or the Restricted Subsidiary; and
- (2) each such Guarantee will be limited as necessary to recognize certain defenses generally available to guarantors (including those that relate to fraudulent conveyance or transfer, voidable preference, financial assistance, corporate purpose, capital maintenance or similar laws, regulations or defenses affecting the rights of creditors generally) or other considerations under applicable law.

Future Guarantees granted pursuant to this provision will be released as set forth under “– *Note Guarantees release.*” A Guarantee of a future Guarantor will be deemed to provide by its terms that it shall be automatically and unconditionally released and discharged if at the date of such release either (i) there is no Indebtedness of such Guarantor outstanding which was incurred after the Issue Date and which could not have been incurred in compliance with the Indenture if such Guarantor had not been designated as a Guarantor, or (ii) there is no Indebtedness of such Guarantor outstanding which was incurred after the Issue Date and which could not have been incurred in compliance with the Indenture as at the date of such release if such Guarantor were not designated as a Guarantor as at that date. The Trustee shall take all necessary actions to effectuate any release of a Note Guarantee in accordance with these provisions, subject to customary protections and indemnifications.

Designation of Restricted and Unrestricted Subsidiaries

The Board of Directors of the Company may designate any Restricted Subsidiary to be an Unrestricted Subsidiary if that designation would not cause a Default. If a Restricted Subsidiary is designated as an Unrestricted Subsidiary, the aggregate Fair Market Value of all outstanding Investments owned by the Company and its Restricted Subsidiaries in the Subsidiary designated as an Unrestricted Subsidiary will be deemed to be either (1) a Restricted Investment made as of the time of the designation that will reduce the amount available for Restricted Payments under the covenant described above under the caption “– *Restricted payments*” or (2) a Permitted Investment under one or more clauses of the definition of Permitted Investments, as determined in good faith by a responsible accounting or financial officer of the Company. That designation will only be permitted if the Investment would be permitted at that time and if the Restricted Subsidiary otherwise meets the definition of an Unrestricted Subsidiary.

Any designation of a Subsidiary of the Company as an Unrestricted Subsidiary will be evidenced to the Trustee by filing with the Trustee a copy of a resolution of the Board of Directors of the Company giving effect to such designation and an Officers’ Certificate certifying that such designation complied with the preceding conditions and was permitted by the covenant described above under the caption “– *Restricted payments.*” If, at any time, any Unrestricted Subsidiary would fail to meet the preceding requirements as an Unrestricted Subsidiary, it will thereafter cease to be an Unrestricted Subsidiary for purposes of the Indenture and any Indebtedness of such Subsidiary will be deemed to be incurred by a Restricted Subsidiary of the Company as of such date and, if such Indebtedness is not permitted to be incurred as of such date under the covenant described under the caption “– *Incurrence of indebtedness and issuance of preferred stock,*” the Company will be in default of such covenant.

The Board of Directors of the Company may at any time designate any Unrestricted Subsidiary to be a Restricted Subsidiary of the Company; provided that such designation will be deemed to be an incurrence of Indebtedness by a Restricted Subsidiary of the Company of any outstanding Indebtedness of such Unrestricted Subsidiary, and such designation will only be permitted if (1) such Indebtedness is permitted

under the covenant described under the caption “– *Incurrence of indebtedness and issuance of preferred stock*,” calculated on a *pro forma* basis as if such designation had occurred at the beginning of the four-quarter reference period; and (2) no Default or Event of Default would be in existence following such designation.

Reports

- (1) The Company will make available, upon request, to any holder of Notes or prospective purchaser of Notes in the United States, in connection with any sale thereof, the information specified in Rule 144A(d)(4) under the U.S. Securities Act, unless the Company is subject to Section 13 or 15(d) of the U.S. Exchange Act at or prior to the time of such request.
- (2) So long as any Notes are outstanding, the Company shall furnish to the Trustee (which shall distribute the same to a holder of Notes upon such holder’s written request):
 - (i) within 120 days after the end of each of the Company’s fiscal years beginning with the first fiscal year following the Issue Date, annual reports containing the following information: (a) audited consolidated balance sheet of the Company as of the end of the two most recent fiscal years and audited consolidated income statements and statements of cash flow of the Company for the two most recent fiscal years (and comparative information for the end of the prior fiscal year), including complete notes to such financial statements and the report of the independent auditors on the financial statements; (b) *pro forma* income statement and balance sheet information, together with any explanatory footnotes, for any material acquisitions, dispositions or recapitalizations that have occurred since the beginning of the most recently completed fiscal year as to which such annual report relates, unless the *pro forma* information has been previously provided; *provided that* such *pro forma* financial information will be provided only to the extent required to be disclosed by the U.K. Listing Authority and London Stock Exchange or any other Recognized Stock Exchange on which the Company’s equity securities are publicly listed or, in the event the Company is no longer listed on the London Stock Exchange or another Recognized Stock Exchange, to the extent available without unreasonable expense; (c) an operating and financial review of the audited financial statements, including a discussion of the results of operations including a discussion of financial condition and liquidity and capital resources, and a discussion of material commitments and contingencies and critical accounting policies; (d) a description of the business, all material affiliate transactions, Indebtedness and material financing arrangements and all material debt instruments; and (e) material risk factors and material recent developments; *provided that* (for so long as the U.K. Listing Authority and London Stock Exchange or any other Recognized Stock Exchange on which the Company’s equity securities are publicly listed require annual reports and the Company is subject to such requirements) any item of disclosure that complies in all material respects with the requirements of the U.K. Listing Authority and London Stock Exchange or any other Recognized Stock Exchange on which the Company’s equity securities are publicly listed for annual reports with respect to such item will be deemed to satisfy the Company’s obligations under this clause (i) with respect to such item;
 - (ii) within 60 days after the end of the Company’s first three fiscal quarters of each fiscal year beginning with the first fiscal quarter ending following the Issue Date, quarterly reports, in each case containing the following information: (a) an unaudited condensed consolidated balance sheet as of the end of such year-to-date period and unaudited condensed statements of income and cash flow for the year-to-date period ending on the unaudited condensed balance sheet date, and the comparable prior year period for the Company, together with condensed note disclosure; (b) *pro forma* income statement and balance sheet information of the Company, together with explanatory footnotes, for any material acquisitions, dispositions or recapitalizations that have occurred since the beginning of the period as to which such report relates; *provided that* such *pro forma* financial information will be provided only to the extent required to be disclosed by the U.K. Listing Authority and London Stock Exchange or any other Recognized Stock Exchange on which the Company’s equity securities are publicly listed or, in the event the Company is no longer listed on the London Stock Exchange or another Recognized Stock Exchange, to the extent available without unreasonable expense; (c) an operating and financial review of the unaudited financial statements including a discussion of the consolidated financial condition and results of operations of the Company and any material change between the current year-to-date period and the corresponding period of the prior year; and (d) material recent developments; *provided that* (for so long as the U.K. Listing Authority and London Stock Exchange or any other Recognized

Stock Exchange on which the Company's equity securities are publicly listed require interim reports and the Company is subject to such requirements) any item of disclosure that complies in all material respects with the requirements of the U.K. Listing Authority and London Stock Exchange or other applicable Recognized Stock Exchange for interim reports with respect to such item will be deemed to satisfy the Company's obligations under this clause (ii) with respect to such item; and

- (iii) promptly after the occurrence of any material acquisition, disposition or restructuring of the Company and its Restricted Subsidiaries, taken as a whole, or any senior executive officer changes at the Company or changes in auditors of the Company or other material event that the Company announces publicly, a report containing a description of such event (but only to the extent that such acquisition, disposition, restructuring, change or event has been required to be publicly announced or disclosed by the U.K. Listing Authority and London Stock Exchange for so long as the Company is subject to such requirements);

provided, however, that any reports set out in this paragraph delivered to the Trustee via e-mail or other electronic means shall be deemed to have been "furnished" to the Trustee in accordance with the terms of this paragraph.

All financial statements, other than any *pro forma* financial information provided pursuant to clauses (i) and (ii) of the second paragraph of this covenant, shall be prepared in accordance with IFRS on a consistent basis for the periods presented. Except as provided for above, no report need include separate financial statements for the Company or Subsidiaries of the Company or any disclosure with respect to the results of operations or any other financial or statistical disclosure not of a type included in this Offering Memorandum.

If the Company has designated any of its Subsidiaries as Unrestricted Subsidiaries and such Subsidiaries are Significant Subsidiaries, then the quarterly and annual financial information required pursuant to clauses (i) and (ii) of the second paragraph of this covenant will include a reasonably detailed presentation, either on the face of the financial statements or in the footnotes thereto, of the financial condition and results of operations of the Company and its Restricted Subsidiaries separate from the financial condition and results of operations of the Unrestricted Subsidiaries of the Company.

The Company will also make available copies of all reports required by clauses (i)—(iii) of the second paragraph of this covenant either (i) on the Company's website or (ii) publicly available through substantially comparable means (as determined by an Officer of the Company in good faith) (it being understood that, without limitation, making such reports available on Bloomberg or another private electronic information service will constitute substantially comparable public availability). The Company will also make available copies of all reports required by clauses (i) and (ii) of the second paragraph of this covenant, if and for so long as the Notes are listed on the Official List of the Luxembourg Stock Exchange and the rules of the Luxembourg Stock Exchange so require, at the specified office of the Paying Agent.

Notwithstanding the foregoing, the Company will be deemed to have provided such information to the Trustee, the holders of the Notes and prospective holders of the Notes if such information referenced in clauses (i), (ii) or (iii) of the second paragraph of this covenant has been posted to the Company's website.

In addition, in the case of furnishing the information required pursuant to clauses (i) and (ii) of the second paragraph of this covenant, the Company will promptly thereafter hold a conference call with holders of the Notes hosted by an Officer of the Company to discuss the operations of the Company and its Subsidiaries in respect of the relevant period. So long as the Company's equity securities are publicly listed on the London Stock Exchange or another Recognized Stock Exchange, it shall satisfy this requirement by inviting beneficial owners (including by way of notices disseminated via Bloomberg or other private information system or postings on the Company's website) of the Notes to its half-year investor presentations following the delivery of its annual and quarterly financial reports in compliance with the requirements of such Recognized Stock Exchange.

Suspension of covenants when Notes rated investment grade

If on any date following the Issue Date:

- (1) the Notes have achieved Investment Grade Status; and
- (2) no Default or Event of Default shall have occurred and be continuing on such date,

then, beginning on that day and continuing until such time, if any, at which the Notes cease to have Investment Grade Status (such period, the “**Suspension Period**”), the covenants specifically listed under the following captions in this Offering Memorandum will no longer be applicable to the Notes and any related default provisions of the Indenture will cease to be effective and will not be applicable to the Company and its Restricted Subsidiaries:

- (1) “– *Repurchase at the option of holders – Asset sales*”;
- (2) “– *Certain covenants – Restricted payments*”;
- (3) “– *Certain covenants – Incurrence of indebtedness and issuance of preferred stock*”;
- (4) “– *Certain covenants – Dividend and other payment restrictions affecting subsidiaries*”;
- (5) “– *Certain covenants – Designation of restricted and unrestricted subsidiaries*”;
- (6) “– *Certain covenants – Transactions with affiliates*”;
- (7) “– *Certain covenants – Limitation on guarantees of indebtedness by restricted subsidiaries*”;
- (8) clause (4) of the first paragraph of the covenant described under “– *Certain covenants – Merger, consolidation or sale of assets*”; and
- (9) “– *Certain covenants – Limitation on lines of business.*”

Such covenants will not, however, be of any effect with regard to the actions of the Company and the Restricted Subsidiaries properly taken during the continuance of the Suspension Period; provided that (1) with respect to the Restricted Payments made after any such reinstatement (a “**Reversion Date**”), the amount of Restricted Payments will be calculated as though the covenant described under the caption “– *Restricted payments*” had been in effect prior to, but not during, the Suspension Period and (2) all Indebtedness incurred, or Disqualified Stock or preferred stock issued, during the Suspension Period will be classified to have been incurred or issued pursuant to clause (2) of the second paragraph of the caption “– *Incurrence of indebtedness and issuance of preferred stock.*” Upon the occurrence of a Suspension Period, the amount of Excess Proceeds shall be reset at zero.

The Company and any Subsidiary will be permitted, without causing a Default or Event of Default or breach of any kind under the Indenture, to honor, comply with or otherwise perform any contractual commitments or obligations entered into during a Suspension Period following a Reversion Date and to consummate the transactions contemplated thereby; *provided, however*, that (a) the Company and its Subsidiaries did not Incur or otherwise enter into such contractual commitments or obligations in contemplation of the Reversion Date and (b) the Company reasonably believed that such Incurrence or actions would not cause or result in a Reversion Date. For purposes of clauses (a) and (b) in the preceding sentence, anticipation and reasonable belief may be determined by the Company and shall be conclusively evidenced by a board resolution to such effect adopted in good faith by the Board of Directors of the Company. In reaching its determination, the Board of Directors may, but need not, consult with the Rating Agencies.

The Company shall notify the Trustee and the holders that the two conditions set forth in the first paragraph under this heading have been satisfied, provided that such notification shall not be a condition for the suspension of the covenants set forth above to be effective. The Trustee shall not be obligated to notify holders that the two conditions set forth in the first paragraph under this heading have been satisfied.

There can be no assurance that the Notes will ever achieve or maintain an Investment Grade Status.

Maintenance of listing

The Company will use its commercially reasonable efforts to obtain and maintain the listing of the Notes on the Euro MTF Market for so long as such Notes are outstanding; *provided* that if the Company is unable to obtain admission to listing of the Notes on the Luxembourg Stock Exchange or if at any time the Company determines that it will not so list or maintain such listing, it will use its commercially reasonable efforts to obtain and maintain a listing of such Notes on another recognized stock exchange.

Financial Calculations

When calculating the availability under any basket or ratio under the Indenture, in each case in connection with any acquisition, disposition, merger, joint venture, investment, Incurrence or other similar transaction

where there is a time difference between commitment and closing or Incurrence (including in respect of Incurrence of Indebtedness, Restricted Payments and Permitted Investments), the date of determination of such basket or ratio and of any Default or Event of Default shall, at the option of the Company, be the date the definitive agreements for such acquisition, disposition, merger, joint venture, investment, Incurrence or similar transaction are entered into and such baskets or ratios shall be calculated on a *pro forma* basis after giving effect to such acquisition, disposition, merger, joint venture, investment, Incurrence or similar transaction and the other transactions to be entered into in connection therewith (including any Incurrence of Indebtedness and the use of proceeds thereof) as if they occurred at the beginning of the applicable reference period for purposes of determining the ability to consummate any such transaction (and not for purposes of any subsequent availability of any basket or ratio). For the avoidance of doubt, (1) if any of such baskets or ratios are exceeded as a result of fluctuations in such basket or ratio (including due to fluctuations in Consolidated Total Assets of the Company or the target company) subsequent to such date of determination and at or prior to the consummation of the relevant transaction, such baskets or ratios will not be deemed to have been exceeded as a result of such fluctuations solely for purposes of determining whether the transactions are permitted hereunder and (2) such baskets or ratios shall not be tested at the time of consummation of such transaction or related transactions; provided, further, that if the Company elects to have such determinations occur at the time of entry into such definitive agreement, any such transactions (including any Incurrence of Indebtedness and the use of proceeds thereof) shall be deemed to have occurred on the date the definitive agreements are entered and outstanding thereafter for purposes of calculating any baskets or ratios under the Indenture after the date of such agreement and before the consummation of such transactions.

Payments for consent

The Company will not, and will not permit any Restricted Subsidiary to, directly or indirectly, pay or cause to be paid any consideration to or for the benefit of any holder of Notes for or as an inducement to any consent, waiver or amendment of any of the terms of the provisions of the Indenture or the Notes unless such consideration is offered to be paid and is paid to all holders of the Notes that consent, waive or agree to amend in the time frame set forth in the solicitation documents relating to such consent, waiver or agreement. Notwithstanding the foregoing, the Company and its Restricted Subsidiaries shall be permitted, in any offer or payment of consideration for, or as an inducement to, any consent, waiver or amendment of any of the terms or provisions of the Indenture or the Notes, to exclude holders of Notes in any jurisdiction where the solicitation of such consent, waiver or amendment, including in connection with an offer to purchase for cash, or the payment of the consideration therefor, would require the Company or any Restricted Subsidiary to file a registration statement, prospectus or similar document under any applicable securities laws (including, but not limited to, the United States federal securities laws and the laws of the European Union or its member states), which the Parent in its sole discretion determines (acting in good faith) (x) would be materially burdensome (it being understood that it would not be materially burdensome to file the consent document(s) used in other jurisdictions, any substantially similar documents or any summary thereof with the securities or financial services authorities in such jurisdiction), or (y) such solicitation would otherwise not be permitted under applicable law in such jurisdiction.

Events of default and remedies

Each of the following is an “**Event of Default**”:

- (1) default for 30 days in the payment when due of interest or Additional Amounts, if any, with respect to the Notes;
- (2) default in the payment when due (at final maturity, upon redemption or otherwise) of the principal of, or premium, if any, on, the Notes;
- (3) failure by the Company or any Guarantor to comply with the provisions described under the caption “– *Certain covenants – Merger, consolidation or sale of assets*”;
- (4) failure by the Company for 30 days after written notice to the Company by the Trustee or the holders of at least 25% in aggregate principal amount of the Notes then outstanding to comply with any of the provisions described under the caption “– *Repurchase at the option of holders – Change of control*” above;
- (5) failure by the Company or relevant Guarantor for 60 days after written notice to the Company by the Trustee or the holders of at least 25% in aggregate principal amount of the Notes then outstanding to

comply with any of the other agreements in the Indenture (other than a default in performance, or breach, of a covenant or agreement which is specifically dealt with in clauses (1), (2), (3) or (4);

- (6) default under any mortgage, indenture or instrument under which there may be issued or by which there may be secured or evidenced any Indebtedness for money borrowed by the Company or any of its Restricted Subsidiaries (or the payment of which is Guaranteed by the Company or any of its Restricted Subsidiaries), whether such Indebtedness or Guarantee now exists, or is created, after the Issue Date, if that default:
 - (a) is caused by a failure to pay principal of such Indebtedness at final maturity thereof after giving effect to any applicable grace periods provided in such Indebtedness and such failure to make any payment has not been waived or the maturity of such Indebtedness has not been extended (a **"Payment Default"**); or
 - (b) results in the acceleration of such Indebtedness prior to its express maturity,and, in each case, the principal amount of any such Indebtedness, together with the principal amount of any other such Indebtedness under which there has been a Payment Default or the maturity of which has been so accelerated, aggregates \$30.0 million or more;
- (7) failure by the Company or any Significant Subsidiary or group of Restricted Subsidiaries that, taken together, would constitute a Significant Subsidiary, to pay final and non-appealable judgments entered by a court or courts of competent jurisdiction aggregating in excess of \$30.0 million (net of any amount with respect to which a reputable and solvent insurance company has acknowledged liability in writing), which judgments are not paid, discharged, stayed or fully bonded for a period of 60 days (or, if later, the date when payment is due pursuant to such judgment);
- (8) except as permitted by the Indenture (including with respect to any limitations), any Note Guarantee of a Significant Subsidiary is held in any judicial proceeding to be unenforceable or invalid or ceases for any reason to be in full force and effect, or any Guarantor that is a Significant Subsidiary or any Person acting on behalf of any such Guarantor that is a Significant Subsidiary, denies or disaffirms its obligations under its Note Guarantee; and
- (9) certain events of bankruptcy or insolvency described in the Indenture with respect to the Company or any Significant Subsidiary or any group of Restricted Subsidiaries that, taken together, would constitute a Significant Subsidiary.

In the case of an Event of Default arising from certain events of bankruptcy or insolvency, with respect to the Company, all then outstanding Notes will become due and payable immediately without further action or notice. If any other Event of Default occurs and is continuing, the Trustee or the holders of at least 25% in aggregate principal amount of the then outstanding Notes may declare all of the then outstanding Notes to be due and payable immediately by notice in writing to the Company and, in case of a notice by holders, also to the Trustee specifying the respective Event of Default and that it is a notice of acceleration.

Subject to certain limitations, holders of a majority in aggregate principal amount of the then outstanding Notes may direct the Trustee in its exercise of any trust or power. The Trustee may withhold from holders of the Notes notice of any continuing Default or Event of Default if it determines that withholding notice is in their interest, except a Default or Event of Default relating to the payment of principal, interest or Additional Amounts or premium, if any.

Subject to the provisions of the Indenture relating to the duties of the Trustee in case an Event of Default occurs and is continuing, the Trustee will be under no obligation to exercise any of the rights or powers under the Indenture at the request or direction of any holders of Notes unless such holders have offered to the Trustee indemnity or security satisfactory to it against any loss, liability or expense. Except (subject to the provisions described under "*– Amendment, supplement and waiver*") to enforce the right to receive payment of principal, premium, if any, or interest or Additional Amounts when due, no holder of a Note may pursue any remedy with respect to the Indenture or the Notes unless:

- (1) such holder has previously given the Trustee notice that an Event of Default is continuing;
- (2) holders of at least 25% in aggregate principal amount of the then outstanding Notes have requested the Trustee to pursue the remedy;
- (3) such holders have offered the Trustee security or indemnity satisfactory to it against any loss, liability or expense;

- (4) the Trustee has not complied with such request within 60 days after the receipt of the request and the offer of security or indemnity; and
- (5) holders of a majority in aggregate principal amount of the then outstanding Notes have not given the Trustee a direction inconsistent with such request within such 60-day period.

The holders of a majority in aggregate principal amount of the Notes then outstanding by notice to the Trustee may, on behalf of the holders of all of the Notes, rescind an acceleration or waive any existing Default or Event of Default and its consequences under the Indenture, if the rescission would not conflict with any judgment or decree, except a continuing Default or Event of Default in the payment of interest or Additional Amounts or premium on, or the principal of, the Notes held by a non-consenting holder (which may only be waived with the consent of holders of at least 90% of the aggregate principal amount of the then outstanding Notes).

The Indenture will provide that (i) if a Default occurs for a failure to deliver a report or a certificate in connection with another default (an “**Initial Default**”), then at the time such Initial Default is cured such Default for a failure to deliver a report or required certificate in connection with the Initial Default will also be cured without any further action and (ii) any Default or Event of Default for the failure to comply with the time periods prescribed in the covenant entitled “ – *Certain Covenants – Reports*” or otherwise to deliver any notice or certificate pursuant to any other provision of the Indenture shall be deemed to be cured upon the delivery (prior to acceleration in respect of the relevant breach) of any such report, notice or certificate, even though such delivery is not within the prescribed period specified in the Indenture.

The Company is required to deliver to the Trustee annually a statement regarding compliance with the Indenture.

Standstill Provisions

The Guarantors have and each holder, by accepting a Note, shall be deemed to have agreed, for the benefit of the lenders of Senior Indebtedness, that the Note Guarantees shall be subject to certain limitations and restrictions on the taking of any Enforcement Action.

Until the payment in full of all Senior Indebtedness, except with the prior consent of the relevant representative or entity acting on the instruction of lenders under the relevant Senior Indebtedness as so required thereunder neither the Trustee nor any holder of Notes shall take or require the taking of any Enforcement Action in relation to the Note Guarantees except as follows (each a “**Permitted Securities Enforcement**”):

- (1) An Event of Default (the “**Relevant Securities Default**”) is continuing;
- (2) The holders of the Senior Indebtedness have received a written notice from the Trustee of the Relevant Securities Default specifying the event or circumstance in relation to the Relevant Securities Default;
- (3) a Securities Standstill Period (as defined below) has elapsed or otherwise terminated; and
- (4) the Relevant Securities Default is continuing at the end of the relevant Securities Standstill Period.

Promptly upon becoming aware of an Event of Default, the Trustee may by notice (a “**Securities Enforcement Notice**”) in writing notify the holders of the Senior Indebtedness of the existence of such Event of Default.

In relation to a Relevant Securities Default, a Securities Standstill Period shall mean the period beginning on the date (the “**Securities Standstill Start Date**”) the Trustee serves a Securities Enforcement Notice on the holders of the Senior Indebtedness in respect of such Relevant Securities Default and ending on the earlier to occur of (the “**Securities Standstill Period**”):

- (1) the date falling 179 days after the Securities Standstill Start Date;
- (2) the date of an insolvency event (other than as a result of any action taken by the Trustee or holders of the Senior Notes) in relation to a particular Guarantor against whom Enforcement Action is to be taken;
- (3) the expiry of any other Securities Standstill Period outstanding at the date such first mentioned Securities Standstill Period commenced (unless that expiry occurs as a result of a cure, waiver or other permitted remedy);

- (4) the date on which the Senior Lenders give their consent to the termination of the relevant Securities Standstill Period; and
- (5) a failure to pay the principal amount outstanding on the Notes at the final stated maturity of the Notes.

If a Distressed Disposal is being effected and the asset subject to the Distressed Disposal consists of shares in the capital of a Note Guarantor, the Trustee is irrevocably authorized and required (at the cost of the Company) and without any consent, sanction, authority or further confirmation from any holder of Notes or the relevant Note Guarantor to release that Note Guarantor and any Subsidiary of that Note Guarantor from all or any part of their respective Note Guarantee; *provided* that it is a condition to the release that (i) the proceeds of such sale or disposal received are in cash (or substantially in cash), (ii) all liabilities owed to the holders of the Senior Indebtedness by that Note Guarantor whose shares are sold or disposed of pursuant to such Enforcement Action and each of its direct and indirect Subsidiaries, are unconditionally released and discharged or sold or disposed of concurrently with such sale or disposal (such sale or disposal being a “**Secured Liabilities Disposal**”), and all security interests under the relevant security documents in respect of the shares and assets of such entities that are sold or disposed of are simultaneously and unconditionally released and discharged concurrently with such sale or disposal, *provided* that, in the event of a Secured Liabilities Disposal, the aggregate cash proceeds of such Secured Liabilities Disposal together with the cash proceeds of the relevant share or asset sale or disposal are greater than if the relevant liabilities had been released or discharged (as determined by a majority of the relevant Senior Indebtedness); and (iii) (A) such sale or disposal of the shares of capital of a Note Guarantor (including any Secured Liabilities Disposal) is made pursuant to a public auction; or (B) where a financial adviser selected by the relevant holder of the Senior Indebtedness has delivered an opinion in respect of such sale or disposal that the amount received in connection therewith is fair from a financial point of view taking into account all relevant circumstances including the method of enforcement *provided* that the liability of such financial adviser in giving such opinion may be limited to the amount of its fees in respect of such engagement.

No personal liability of directors, officers, employees and stockholders

No director, officer, employee, incorporator or stockholder of the Company or any Guarantor, as such, will have any liability for any obligations of the Company or the Guarantors under the Notes, the Indenture or the Note Guarantees or for any claim based on, in respect of, or by reason of, such obligations or their creation. Each holder of Notes by accepting a Note waives and releases all such liability. The waiver and release are part of the consideration for the issuance of the Notes. The waiver may not be effective to waive liabilities under U.S. federal or other applicable securities laws.

Legal defeasance and covenant defeasance

The Company may at any time, at its option, elect to have all of its obligations discharged with respect to the outstanding Notes and all obligations of the Guarantors discharged with respect to their Note Guarantees (“**Legal Defeasance**”) except for:

- (1) the rights of holders of outstanding Notes to receive payments in respect of the principal of, or interest (including Additional Amounts) or premium, if any, on, such Notes when such payments are due from the trust referred to below;
- (2) the Company’s obligations with respect to the Notes concerning registration of Notes, mutilated, destroyed, lost or stolen Notes and the maintenance of an office or agency for payment and money for security payments held in trust;
- (3) the rights, powers, trusts, duties and immunities of the Trustee, and the Company’s and the Guarantors’ obligations in connection therewith; and
- (4) the Legal Defeasance and Covenant Defeasance provisions of the Indenture.

In addition, the Company may, at its option and at any time, elect to have the obligations of the Company and the Guarantors released with respect to certain covenants (including the Company’s obligation to make Change of Control Offers and Asset Sale Offers) that are described in the Indenture (“**Covenant Defeasance**”) and thereafter any omission to comply with those covenants will not constitute a Default or Event of Default with respect to the Notes. In the event Covenant Defeasance occurs, certain events (not including non-payment or, solely with respect to the Company, bankruptcy, receivership, rehabilitation and insolvency events) described under “ – *Events of default and remedies*” will no longer constitute an Event of

Default with respect to the Notes. If the Company exercises either its Legal Defeasance or Covenant Defeasance option, each Guarantor will be released and relieved of any obligations under its Note Guarantee.

In order to exercise either Legal Defeasance or Covenant Defeasance:

- (1) the Company must irrevocably deposit with the Trustee (or such other entity designated or appointed as agent by the Trustee for this purpose), in trust, for the benefit of the holders of the Notes, cash in U.S. dollars, non-callable U.S. Government Obligations or a combination of cash in U.S. dollars and non-callable U.S. Government Obligations, in amounts as will be sufficient to pay the principal of, or interest (including Additional Amounts) and premium, if any, on, the outstanding Notes on the stated date for payment thereof or on the applicable redemption date, as the case may be, and the Company must specify whether the Notes are being defeased to such stated date for payment or to a particular redemption date;
- (2) in the case of Legal Defeasance, the Company must deliver to the Trustee an opinion of United States counsel reasonably acceptable to the Trustee confirming that (a) the Company has received from, or there has been published by, the U.S. Internal Revenue Service a ruling or (b) since the Issue Date, there has been a change in the applicable U.S. federal income tax law, in either case to the effect that, and based thereon such opinion of counsel will confirm that, the holders of the outstanding Notes will not recognize income, gain or loss for U.S. federal income tax purposes as a result of such Legal Defeasance and will be subject to U.S. federal income tax on the same amounts, in the same manner and at the same times as would have been the case if such Legal Defeasance had not occurred;
- (3) in the case of Covenant Defeasance, the Company must deliver to the Trustee an opinion of United States counsel reasonably acceptable to the Trustee confirming that the holders of the outstanding Notes will not recognize income, gain or loss for U.S. federal income tax purposes as a result of such Covenant Defeasance and will be subject to U.S. federal income tax on the same amounts, in the same manner and at the same times as would have been the case if such Covenant Defeasance had not occurred;
- (4) such Legal Defeasance or Covenant Defeasance will not result in a breach or violation of, or constitute a default under, any material agreement or instrument (other than the Indenture) to which the Company or any of its Subsidiaries is a party or by which the Company or any of its Subsidiaries is bound;
- (5) the Company must deliver to the Trustee an Officers' Certificate stating that the deposit was not made by the Company with the intent of preferring the holders of Notes over the other creditors of the Company with the intent of defeating, hindering, delaying or defrauding any creditors of the Company or others; and
- (6) the Company must deliver to the Trustee an Officers' Certificate and an opinion of counsel, subject to customary assumptions and qualifications, each stating that all conditions precedent relating to the Legal Defeasance or the Covenant Defeasance have been complied with.

Amendment, supplement and waiver

Except as provided in the next two succeeding paragraphs, the Indenture, the Notes and the Note Guarantees may be amended or supplemented with the consent of the Company and the holders of a majority in aggregate principal amount of the Notes then outstanding (including, without limitation, consents obtained in connection with a purchase of, or tender offer or exchange offer for, Notes), and any existing Default or Event of Default or compliance with any provision of the Indenture, the Notes or the Note Guarantee may be waived with the consent of the holders of a majority in aggregate principal amount of the then outstanding Notes (including, without limitation, consents obtained in connection with a purchase of, or tender offer or exchange offer for, Notes).

Unless consented to by the holders of at least 90% of the aggregate principal amount of then outstanding Notes (including, without limitation, consents obtained in connection with a purchase of, or tender offer or exchange offer for, Notes), without the consent of the Company and each holder of Notes affected, an amendment, supplement or waiver may not (with respect to any Notes held by a non-consenting holder):

- (1) reduce the principal amount of Notes whose holders must consent to an amendment, supplement or waiver;

- (2) reduce the principal of or change the fixed maturity of any Note or alter the provisions with respect to the redemption or repurchase of the Notes (other than provisions relating to the covenants described above under the caption “– *Repurchase at the option of holders*”);
- (3) reduce the rate of or change the time for payment of interest, including default interest, on any Note;
- (4) waive a Default or Event of Default in the payment of principal of, or interest, Additional Amounts or premium, if any, on, the Notes (except a rescission of acceleration of the Notes by the holders of a majority in aggregate principal amount of the then outstanding Notes and a waiver of the payment default that resulted from such acceleration);
- (5) make any Note payable in money other than that stated in the Notes;
- (6) waive a redemption or repurchase payment with respect to any Note (other than a payment required by one of the covenants described above under the caption “– *Repurchase at the option of holders*”);
- (7) modify or release any of the Note Guarantees in any manner adverse to the holders of the Notes, other than in accordance with the terms of the Indenture;
- (8) impair the right of any holder of Notes to institute suit for the enforcement of any payment on or with respect to such holder’s Notes or any Note Guarantee in respect thereof;
- (9) except as permitted by the Indenture, make any change to the ranking of the Notes or Note Guarantees, in each case in a manner that adversely affects the rights of the holders of the Notes; or
- (10) make any change in the preceding amendment, supplement and waiver provisions.

The standstill provisions in the Indenture may not be amended without the consent of the relevant representative or entity acting on the instruction of lenders under the relevant Senior Indebtedness as so required thereunder.

Notwithstanding the preceding, without the consent of any holder of Notes, the Company, the Guarantors and the Trustee may amend or supplement the Indenture, the Notes, the Note Guarantees:

- (1) to cure any ambiguity, defect or inconsistency;
- (2) to provide for uncertificated Notes (that are in registered form for U.S. federal income tax purposes) in addition to or in place of certificated Notes;
- (3) to provide for the assumption of the Company’s or a Guarantor’s obligations to holders of Notes and Note Guarantees in the case of a transaction described under “– *Certain covenants – Merger, consolidation or sale of assets*”;
- (4) to make any change that would provide any additional rights or benefits to the holders of Notes or that does not adversely affect the legal rights under the Indenture of any such holder in any material respect;
- (5) to conform the text of the Indenture, the Notes or the Note Guarantees to any provision of this “*Description of Notes*” to the extent that such provision in this “*Description of Notes*” was intended to be a verbatim recitation of a provision of the Indenture, the Notes or the Note Guarantees;
- (6) to provide for the issuance of Additional Notes in accordance with the limitations set forth in the Indenture as of the Issue Date;
- (7) to allow any Guarantor to Guarantee the Notes or to evidence the release of Note Guarantees pursuant to the terms of the Indenture;
- (8) to the extent necessary to provide for the granting of a security interest for the benefit of any Person; *provided* that the granting of such security interest is not prohibited under the Indenture; or
- (9) to evidence and provide for the acceptance and appointment of a successor trustee under the Indenture.

In formulating its opinion on such matters, the Trustee shall be entitled to rely absolutely on such evidence as it deems appropriate, including opinions of counsel and Officers’ Certificates.

The consent of the holders of Notes is not necessary under the Indenture to approve the particular form of any proposed amendment. It is sufficient if such consent approves the substance of the proposed amendment.

For the avoidance of doubt, no amendment to, or deletion of any of the covenants described under “– *Certain Covenants*,” or action taken in compliance with the covenants in effect at the time of such action, shall be deemed to impair or affect any rights of any holder of Notes to receive payment of principal of, or premium, if any, or interest on, the Notes.

Satisfaction and discharge

The Indenture and the Note Guarantees will be discharged and will cease to be of further effect as to all Notes issued thereunder (except as to surviving rights to transfer or exchange Notes and as otherwise specified in the Indenture), when:

- (1) either:
 - (a) all Notes that have been authenticated, except lost, stolen or destroyed Notes that have been replaced or paid and Notes for whose payment money has been deposited in trust and thereafter repaid to the Company, have been delivered to the Registrar for cancellation; or
 - (b) all Notes that have not been delivered to the Registrar for cancellation have become due and payable by reason of the mailing of a notice of redemption or otherwise or will become due and payable within one year, and the Company or any Guarantor has irrevocably deposited or caused to be deposited with the Trustee (or such other entity designated or appointed as agent by the Trustee for this purpose) as trust funds in trust solely for the benefit of the holders, cash in U.S. dollars, non-callable U.S. Government Obligations or a combination of cash in U.S. dollars and non-callable U.S. Government Obligations, in amounts as will be sufficient, without consideration of any reinvestment of any interest, to pay and discharge the entire Indebtedness on the Notes not delivered to the Registrar for cancellation for principal, premium, Additional Amounts, if any, and accrued interest to the date of final maturity or redemption;
- (2) in the case of clause (1)(b), no Default or Event of Default has occurred and is continuing on the date of the deposit (other than a Default or Event of Default resulting from the borrowing of funds to be applied to such deposit) and the deposit will not result in a breach or violation of, or constitute a default under, any other instrument to which the Company or any Guarantor is a party or by which the Company or any Guarantor is bound;
- (3) the Company or any Guarantor has paid or caused to be paid all sums payable by it under the Indenture; and
- (4) the Company has delivered irrevocable instructions to the Trustee under the Indenture to apply the deposited money toward the payment of the Notes at final maturity or on the redemption date, as the case may be.

In addition, the Company must deliver an Officers’ Certificate and an opinion of counsel to the Trustee stating that all conditions precedent to satisfaction and discharge have been satisfied; *provided* that any such counsel may rely on any Officers’ Certificate as to matters of fact (including as to compliance with the foregoing clauses (1), (2), (3) and (4)).

If requested in writing by the Company to the Trustee and Paying Agent (which request may be included in the applicable notice of redemption or pursuant to the above referenced Officer’s Certificate), the Trustee shall distribute any amounts deposited to the Holders prior to Stated Maturity or the redemption date, as the case may be. For the avoidance of doubt, the distribution and payment to holders prior to the maturity or redemption date as set forth above shall not include any negative interest, present value adjustment, break cost or any additional premium on such amounts. To the extent the Notes are represented by a global note deposited with a depositary for a clearing system, any payment to the beneficial holders holding interests as a participant of such clearing system shall be subject to the then applicable procedures of the clearing system.

Listing

Application has been made to list the Notes on the Official List of the Luxembourg Stock Exchange and for admission and trading on the Euro MTF Market. The listing agent is Banque Internationale à Luxembourg S.A.

Judgment currency

Any payment on account of an amount that is payable in U.S. dollars which is made to or for the account of any holder or the Trustee in lawful currency of any other jurisdiction (the “**Judgment Currency**”), whether as a result of any judgment or order or the enforcement thereof or the liquidation of the Company or any Guarantor, shall constitute a discharge of the Company or the Guarantor’s obligation under the Indenture and the Notes or Note Guarantee, as the case may be, only to the extent of the amount of U.S. dollars with such holder or the Trustee, as the case may be, could purchase in the London foreign exchange markets with the amount of the Judgment Currency in accordance with normal banking procedures at the rate of exchange prevailing on the first Business Day following receipt of the payment in the Judgment Currency. If the amount of U.S. dollars that could be so purchased is less than the amount of U.S. dollars originally due to such holder or the Trustee, as the case may be, the Company and the Guarantors shall indemnify and hold harmless the holder or the Trustee, as the case may be, from and against all loss or damage arising out of, or as a result of, such deficiency. This indemnity shall constitute an obligation separate and independent from the other obligations contained in the Indenture or the Notes, shall give rise to a separate and independent cause of action, shall apply irrespective of any indulgence granted by any holder or the Trustee from time to time and shall continue in full force and effect notwithstanding any judgment or order for a liquidated sum in respect of an amount due hereunder or under any judgment or order.

Concerning the Trustee

The Company shall deliver written notice to the Trustee within 30 days of becoming aware of the occurrence of a Default or an Event of Default. If the Trustee becomes a creditor of the Company or any Guarantor, the Indenture will limit the right of the Trustee to obtain payment of claims in certain cases, or to realize on certain property received in respect of any such claim as security or otherwise. The Trustee will be permitted to engage in other transactions; *however*, if it acquires any conflicting interest, it must eliminate such conflict within 90 days or resign as Trustee.

The holders of a majority in aggregate principal amount of the then outstanding Notes will have the right to direct the time, method and place of conducting any proceeding for exercising any remedy available to the Trustee, subject to certain exceptions. In case an Event of Default occurs and is continuing, the Trustee will be required, in the exercise of its rights or powers, to use the degree of care of a prudent person in the conduct of his or her own affairs. Subject to such provisions, the Trustee will be under no obligation to exercise any of its rights or powers under the Indenture at the request of any holder of Notes, unless such holder has offered to the Trustee security or indemnity satisfactory to it against any loss, liability or expense.

The Company and the Guarantors jointly and severally will indemnify the Trustee for certain claims, liabilities and expenses incurred without gross negligence, fraud, willful misconduct or bad faith on its part, arising out of or in connection with its duties.

Additional information

Anyone who receives this Offering Memorandum may, following the Issue Date, obtain a copy of the Indenture without charge by writing to Seplat Petroleum Development Company Plc, 4th Floor, 50 Pall Mall, London SW1Y 5JH, United Kingdom, care of Investor Relations.

So long as the Notes are listed on the Official List of the Luxembourg Stock Exchange and admitted for trading on the Euro MTF Market and the rules of the Luxembourg Stock Exchange shall so require, copies, current and future, of all of the Company’s annual audited consolidated financial statements and the Company’s unaudited consolidated interim financial statements may be obtained, free of charge, during normal business hours at the office of the Paying Agent in London.

Consent to jurisdiction and service of process

The Indenture will provide that each of the Company and the Guarantors will appoint Corporation Service Company as its agent for service of process in any suit, action or proceeding with respect to the Indenture, the Notes and the Note Guarantees brought in any U.S. federal or New York state court located in the City of New York and will submit to such non-exclusive jurisdiction.

Governing Law

The Indenture and the Notes, and the rights and duties of the parties thereunder, shall be governed by and construed in accordance with the laws of the State of New York.

Enforceability of judgments

Since substantially all of the assets of the Company and the Guarantors are outside the United States, any judgment obtained in the United States against the Company or any Guarantor, including judgments with respect to the payment of principal, premium, interest, Additional Amounts and any redemption price and any purchase price with respect to the Notes or the Note Guarantees, may not be collectable within the United States. See “*Service of process and enforcement of civil liabilities.*”

Prescription

Claims against the Company or any Guarantor for the payment of principal or Additional Amounts, if any, on the Notes will not be permitted ten years after the applicable due date for payment thereof. Claims against the Company or any Guarantor for the payment of interest on the Notes will not be permitted five years after the applicable due date for payment of interest.

Certain definitions

Set forth below are certain defined terms used in the Indenture. Reference is made to the Indenture for a full disclosure of all defined terms used therein, as well as any other capitalized terms used herein for which no definition is provided.

“*Acquired Debt*” means, with respect to any specified Person:

- (1) Indebtedness of any other Person existing at the time such other Person is merged with or into or became a Subsidiary of such specified Person, whether or not such Indebtedness is incurred in connection with, or in contemplation of, such other Person merging with or into, or becoming a Restricted Subsidiary of, such specified Person; and
- (2) Indebtedness secured by a Lien encumbering any asset acquired by such specified Person.

“*Additional Assets*” means:

- (1) any property or assets used or useful in the Oil and Gas Business;
- (2) the Capital Stock of a Person that becomes a Restricted Subsidiary as a result of the acquisition of such Capital Stock by the Company or any of its Restricted Subsidiaries; or
- (3) Capital Stock constituting a Minority Interest in any Person that at such time is a Restricted Subsidiary;

provided, however, that any such Restricted Subsidiary described in clause (2) or (3) is primarily engaged in the Oil and Gas Business.

“*Affiliate*” of any specified Person means any other Person directly or indirectly controlling or controlled by or under direct or indirect common control with such specified Person. For purposes of this definition, “control,” as used with respect to any Person, means the possession, directly or indirectly, of the power to direct or cause the direction of the management or policies of such Person, whether through the ownership of voting securities, by agreement or otherwise. For purposes of this definition, the terms “controlling,” “controlled by” and “under common control with” have correlative meanings.

“*Applicable Premium*” means, with respect to any Note at any time, the greater of (a) 1.0% of the principal amount of such Note and (b) the excess of:

- (1) the present value at such time of (i) the redemption price of the Note on April 1, 2020 (such redemption price being set forth in the table appearing under the caption “– *Optional Redemption*”), plus (ii) all required interest payments due on the Note through April 1, 2020 (excluding accrued but unpaid interest to the redemption date) discounted back to the redemption date on a semi-annual basis (assuming a 360-day year consisting of twelve 30-day months) at a rate equal to the Treasury Rate as of such time plus 50 basis points; over
- (2) the then-outstanding principal amount of the Note.

The Company shall calculate the Applicable Premium and, for the avoidance of doubt, calculation of the Applicable Premium shall not be a duty or obligation of the Trustee, the Registrar, the Transfer Agent or any Paying Agent.

“Asset Sale” means:

- (1) the sale, lease, conveyance or other disposition of any assets or rights (including by way of a Production Payment but excluding an operating lease entered into in the ordinary course of the Oil and Gas Business); *provided* that the sale, lease, conveyance or other disposition of all or substantially all of the properties or assets of the Company and its Restricted Subsidiaries taken as a whole will be governed by the provisions of the Indenture described above under the caption “– Repurchase at the option of holders – Change of control” and/or the provisions described above under the caption “– Certain covenants – Merger, consolidation or sale of assets” and not by the provisions described under the caption “– Repurchase at the option of holders – asset sales”; and
- (2) the issuance of Equity Interests in any of the Company’s Restricted Subsidiaries or the sale by the Company or its Restricted Subsidiaries of Equity Interests in any of the Company’s Subsidiaries.

Notwithstanding the preceding, none of the following items will be deemed to be an Asset Sale:

- (1) any single transaction or series of related transactions that involves assets having a Fair Market Value of less than \$20.0 million;
- (2) a transfer or other disposition of assets or Equity Interests between or among the Company and/or its Restricted Subsidiaries;
- (3) an issuance or sale of Equity Interests by a Restricted Subsidiary of the Company to the Company or to a Restricted Subsidiary of the Company;
- (4) the sale, lease or other disposition of products, services, Hydrocarbons or mineral products inventory or accounts receivable or other assets in the ordinary course of business;
- (5) the abandonment, farm-out, lease or sublease of any oil and gas properties or the forfeiture or other disposition of such properties (including the transfer or disposition of such properties in exchange for carry) in whole or in part (for the avoidance of doubt, whether by direct sale or disposition or through a sale or disposition of shares), in each case in the ordinary course of business;
- (6) the disposition of assets to a Person who is providing services (the provision of which have been or are to be outsourced by the Company or any Restricted Subsidiary to such Person) related to such assets;
- (7) any sale or other disposition of damaged, unserviceable, worn-out or obsolete assets in the ordinary course of business;
- (8) the sale or other disposition of cash or Cash Equivalents or other financial assets in the ordinary course of business;
- (9) for purposes of the covenant described above under the heading “– Repurchase at the option of holders – Asset sales” only, the making of a Permitted Investment or a disposition subject to the covenant described above under the caption “– Certain covenants – Restricted payments”;
- (10) the sale or other disposition (whether or not in the ordinary course of business) of crude oil and natural gas properties in whole or in part (for the avoidance of doubt, whether by direct sale or disposition or through a sale or disposition of shares); *provided* that at the time of such sale or other disposition such properties do not have associated with them any proved and probable reserves;
- (11) any Asset Swap;
- (12) granting of Liens not prohibited by the covenant described under the caption “– Certain covenants – Liens”;
- (13) the licensing or sublicensing of intellectual property, including, without limitation, licenses for seismic data or other general intangibles and licenses, leases or subleases of other property, in the ordinary course of business and which do not materially interfere with the business of the Company and its Restricted Subsidiaries taken as a whole;
- (14) a surrender or waiver of contract rights, oil and gas leases or the settlement, release or surrender of contract, tort or other claims of any kind;

- (15) dispositions of receivables in connection with the compromise, settlement or collection thereof in the ordinary course of business or in bankruptcy or similar proceedings and exclusive of factoring or similar arrangements;
- (16) any sale or other disposition of any oil and gas properties or interests therein to any governmental authority that is (i) a result of a relinquishment to, or a compulsory or involuntary acquisition by, such authority or (ii) made in connection with acquiring, renewing or retaining, as applicable, any other oil and gas properties or interests awarded by such governmental authority; *provided* that any cash or Cash Equivalents received in connection with any such sale or other disposition must be applied in accordance with the covenant described under “ – Repurchase at the option of holders – Asset sales”;
- (17) foreclosure, condemnation or any similar action with respect to any property or other assets; and
- (18) any Production Payments and Reserve Sales; *provided* that any such Production Payments and Reserve Sales, other than incentive compensation programs on terms that are reasonably customary or shall become customary in the Oil and Gas Business for geologists, geophysicists and other providers of technical services to the Company or a Restricted Subsidiary, shall have been created, incurred, issued, assumed or Guaranteed in connection with the financing of, and within 60 days after the acquisition of, the property that is subject thereto.

“*Asset Swap*” means any substantially contemporaneous (and in any event occurring within 180 days of each other) purchase and sale or exchange (including, without limitation, by way of any farm-out, farm-in, lease or sublease) of any assets or properties or interests therein used or useful in the Oil and Gas Business between the Company or any of its Restricted Subsidiaries and another Person; *provided* that the Fair Market Value of the properties or assets or interests therein traded or exchanged by the Company or such Restricted Subsidiary (together with any cash) is reasonably equivalent (as determined in good faith by a responsible accounting or financial officer of the Company) to the Fair Market Value of the properties or assets or interests therein (together with any cash) to be received by the Company or such Restricted Subsidiary, and *provided further* that any net cash received must be applied in accordance with the provisions described above under the caption “ – Repurchase at the option of holders – asset sales” if then in effect.

“*Beneficial Owner*” has the meaning assigned to such term in Rule 13d-3 and Rule 13d-5 under the U.S. Exchange Act, except that in calculating the beneficial ownership of any particular “person” (as that term is used in Section 13(d)(3) of the U.S. Exchange Act), such “person” will be deemed to have beneficial ownership of all securities that such “person” has the right to acquire by conversion or exercise of other securities, whether such right is currently exercisable or is exercisable only after the passage of time. The terms “Beneficial Ownership,” “Beneficially Owns” and “Beneficially Owned” have a corresponding meaning.

“*Board of Directors*” means:

- (1) with respect to a corporation, the board of directors of the corporation or any committee thereof duly authorized to act on behalf of such board;
- (2) with respect to a partnership, the board of directors of the general partner of the partnership;
- (3) with respect to a limited liability company, the managing member or members or any controlling committee of managing members thereof; and
- (4) with respect to any other Person, the board or committee of such Person serving a similar function.

“*Borrowing Base Facilities*” means one or more debt facilities, instruments or arrangements incurred by the Company, any Restricted Subsidiary or any Finance Subsidiary with banks providing for revolving credit loans, term loans or letters of credit, or other Indebtedness, pursuant to a reserves and/or resources-based borrowing base or other asset-backed base and/or calculation based on the present value of estimated future oil and gas revenues and/or development financing, in each case, as amended, restated, modified, renewed, refunded, replaced, restructured, refinanced, repaid, increased or extended in whole or in part from time to time and in each case including all agreements, instruments and documents executed and delivered pursuant to or in connection with the foregoing (including any promissory notes and letters of credit issued pursuant thereto and any Guarantee and collateral agreement and other Guarantees, pledges, agreements, security agreements and collateral documents). Without limiting the generality of the foregoing, the term “Borrowing Base Facilities” shall include any agreement or instrument (1) changing the maturity of any Indebtedness incurred thereunder or contemplated thereby, (2) adding Subsidiaries of the Company as additional borrowers, issuers or guarantors thereunder, (3) increasing the amount of

Indebtedness incurred thereunder or available to be borrowed thereunder or (4) otherwise altering the terms and conditions thereof.

“*Business Day*” means each day that is not a Saturday, Sunday or other day on which banking institutions in London, Luxembourg, Lagos or New York or another place of payment under the Indenture are authorized or required by law to close.

“*Calculation Date*” has the meaning given in the definition of “Fixed Charge Coverage Ratio.”

“*Capital Lease Obligation*” means, at the time any determination is to be made, the amount of the liability in respect of a capital lease that would at that time be required to be capitalized on a balance sheet prepared in accordance with IFRS, and the Stated Maturity thereof shall be the date of the last payment of rent or any other amount due under such lease prior to the first date upon which such lease may be prepaid by the lessee without payment of a penalty.

“*Capital Stock*” means:

- (1) in the case of a corporation, corporate stock;
- (2) in the case of an association or business entity, any and all shares, interests, participations, rights or other equivalents (however designated) of corporate stock;
- (3) in the case of a partnership or limited liability company, partnership interests (whether general or limited) or, membership interests; and
- (4) any other interest or participation that confers on a Person the right to receive a share of the profits and losses of, or distributions of assets of, the issuing Person,

but excluding from all of the foregoing any debt securities convertible into Capital Stock, whether or not such debt securities include any right of participation with Capital Stock.

“*Cash Equivalents*” means:

- (1) securities issued or directly and fully guaranteed or insured by the government of the United States of America, a member state of the European Union on December 31, 2003, Switzerland, Norway, Canada, Australia or Japan (including, in each case, any agency or instrumentality thereof), as the case may be, the payment of which is backed by the full faith and credit of the United States, the relevant member state of the European Union, Switzerland, Norway, Canada, Australia or Japan, as the case may be, having maturities of not more than fifteen months from the date of acquisition, the long-term debt of which is rated at the time of acquisition thereof is at least “BBB” or the equivalent thereof by S&P, or “Baa2” or the equivalent thereof by Moody’s or the equivalent rating category of another internationally recognized rating agency;
- (2) certificates of deposit, time deposits, eurodollar time deposits, money market deposits, overnight bank deposits or bankers’ acceptances (and similar instruments) having maturities of not more than fifteen months from the date of acquisition thereof issued by any commercial bank, the long-term debt of which is rated at the time of acquisition thereof at least “BBB” or the equivalent thereof by S&P, or “Baa2” or the equivalent thereof by Moody’s or the equivalent rating category of another internationally recognized rating agency, and having combined capital and surplus in excess of \$250.0 million;
- (3) repurchase obligations with a term of not more than 30 days for underlying securities of the types described in clauses (1) and (2) entered into with any financial institution meeting the qualifications specified in clause (2) above;
- (4) commercial paper rated at the time of acquisition thereof at least “A-2” or the equivalent thereof by S&P or “P-2” or the equivalent thereof by Moody’s, or carrying an equivalent rating by an internationally recognized rating agency, if both of the two named rating agencies cease publishing ratings of investments, and in any case maturing within one year after the date of acquisition thereof;
- (5) in the case of any Restricted Subsidiary of the Company located outside the United States, Canada and the European Union, any substantially similar investment to the kinds described in clauses (2) and (3) of this definition obtained in the ordinary course of business and (i) with the highest ranking obtainable in the applicable jurisdiction, or (ii) with any bank, trust company or similar entity, which would rank, in terms of combined capital and surplus and undivided profits or the ratings on its long-term debt, among the top five banks in such jurisdiction; and

- (6) interests in any investment company or money market fund which invests 95% or more of its assets in instruments of the type specified in clauses (1) through (4) above.

“*Change of Control*” means the occurrence of any of the following:

- (1) the direct or indirect sale, lease, transfer, conveyance or other disposition (other than by way of merger or consolidation), in one or a series of related transactions, of all or substantially all of the properties or assets of the Company and its Restricted Subsidiaries taken as a whole to any “person” (as that term is used in Section 13(d) of the U.S. Exchange Act);
- (2) the adoption of a plan relating to the liquidation or dissolution of the Company; or
- (3) the consummation of any transaction (including, without limitation, any merger or consolidation), the result of which is that any “person” (as defined above) becomes the Beneficial Owner, directly or indirectly, of more than 50% of the Voting Stock of the Company, measured by voting power rather than number of shares.

Notwithstanding the foregoing, any Voting Stock beneficially owned by any Permitted Holder shall not be included in any Voting Stock of which any other person or group is the beneficial owner so long as such other person or group does not have greater voting power with respect to such Permitted Holder’s Voting Stock.

“*Clearstream*” means Clearstream Banking SA and its successors.

“*Consolidated Cash Flow*” means, with respect to any specified Person for any period, the Consolidated Net Income of such Person for such period plus the following, without duplication:

- (1) an amount equal to any extraordinary loss plus any net loss realized by such Person or any of its Restricted Subsidiaries in connection with a sale of assets (together with any related provision for taxes and any related non-recurring charges relating to any premium or penalty paid, write-off of deferred financing costs or other financial recapitalization charges in connection with redeeming or retiring any Indebtedness prior to its Stated Maturity) to the extent deducted in calculating such Consolidated Net Income; *plus*
- (2) taxes based on income or profits of such Person and its Restricted Subsidiaries for such period to the extent deducted in calculating such Consolidated Net Income; *plus*
- (3) the Fixed Charges of such Person and its Restricted Subsidiaries for such period to the extent deducted in calculating such Consolidated Net Income; *plus*
- (4) depreciation, depletion, amortization (including, without limitation, amortization of intangibles and deferred financing fees but excluding amortization of prepaid cash expenses that were paid in a prior period), impairment and other non-cash charges and expenses (including, without limitation, write downs and impairment of property, plant, equipment and intangible and other long lived assets and the impact of purchase accounting on the Company and its Restricted Subsidiaries for such period), of such Person and its Restricted Subsidiaries (excluding any such non-cash expense to the extent that it represents an accrual of or reserve for cash expenses in any future period or amortization of a prepaid cash expense that was paid in a prior period) for such period to the extent deducted in calculating such Consolidated Net Income; *plus*
- (5) any expenses, charges or other costs related to the issuance of any Capital Stock, or any Permitted Investment, acquisition, disposition, recapitalization or listing or the incurrence of Indebtedness permitted to be incurred under the covenant described above under the caption “– *Certain covenants – Incurrence of indebtedness and issuance of preferred stock*” (including any refinancing thereof) whether or not successful, including (i) such fees, expenses or charges related to any incurrence of Indebtedness issuance and (ii) any amendment or other modification of any incurrence, in each case to the extent deducted in calculating such Consolidated Net Income; *plus*
- (6) any foreign currency translation losses (including losses related to currency remeasurements of Indebtedness); *plus*
- (7) the amount of any minority interest expense consisting of subsidiary income attributable to Minority Interests of third parties in any non-wholly owned Restricted Subsidiary in such period or any prior period, except to the extent of dividends declared or paid on, or other cash payments in respect of, Equity Interests held by such parties; *plus*

- (8) if such Person accounts for its oil and natural gas operations using successful efforts or a similar method of accounting, consolidated exploration and abandonment expense and write-offs of the Company and its Restricted Subsidiaries; *plus*
- (9) the proceeds of any business interruption insurance received or that become receivable during such period to the extent the associated losses arising out of the event that resulted in the payment of such business interruption insurance proceeds were included in computing Consolidated Net Income; *plus*
- (10) payments received or that become receivable with respect to expenses that are covered by the indemnification provisions in any agreement entered into by such Person in connection with an acquisition to the extent such expenses were included in computing Consolidated Net Income; *minus*
- (11) non-cash items increasing such Consolidated Net Income for such period (other than any non-cash items increasing such Consolidated Net Income pursuant to clauses (1) through (10) of the definition of Consolidated Net Income), other than items that were accrued in the ordinary course of business; and *minus*
- (12) the sum of (a) the amount of deferred revenues that are amortized during such period and are attributable to reserves that are subject to Volumetric Production Payments and (b) amounts recorded in accordance with IFRS as repayments of principal and interest pursuant to Dollar-Denominated Production Payments,

in each case, on a consolidated basis and determined in accordance with IFRS.

“*Consolidated Net Income*” means, with respect to any specified Person for any period, the aggregate of the net income (loss) of such Person and its Restricted Subsidiaries for such period, on a consolidated basis (excluding the net income (loss) of any Unrestricted Subsidiaries), determined in accordance with IFRS; *provided that*:

- (1) the net income (but not loss) of any Person that is not a Restricted Subsidiary or that is accounted for by the equity method of accounting will be included only to the extent of the amount of dividends or similar distributions paid in cash to the specified Person or a Restricted Subsidiary of the Person;
- (2) solely for the purpose of determining the amount available for Restricted Payments under clause (c)(i) of the first paragraph under the caption “– *Certain covenants – Restricted payments*,” any net income (but not loss) of any Restricted Subsidiary (other than any Guarantor) will be excluded if such Subsidiary is subject to restrictions, directly or indirectly, on the payment of dividends or the making of distributions by such Restricted Subsidiary, directly or indirectly, to such Person (or any Guarantor that holds the Equity Interests of such Restricted Subsidiary, as applicable) by operation of the terms of such Restricted Subsidiary’s charter or any agreement, instrument, judgment, decree, order, statute or governmental rule or regulation applicable to such Restricted Subsidiary or its shareholders (other than (a) restrictions that have been waived or otherwise released, (b) restrictions pursuant to the Notes or the Indenture, (c) contractual restrictions in effect on the Issue Date with respect to the Restricted Subsidiary and other restrictions with respect to such Restricted Subsidiary that taken as a whole, are not materially less favorable to the holders of the Notes than such restrictions in effect on the Issue Date and (d) any restriction listed under clauses (1), (2), (3), (4) or (11) of the second paragraph of the covenant described above under the caption “– *Certain covenants – Dividend and other payment restrictions affecting subsidiaries*”) except that such Person’s equity in the net income of any such Restricted Subsidiary for such period will be included in such Consolidated Net Income up to the aggregate amount of cash or Cash Equivalents actually distributed or that could have been distributed by such Restricted Subsidiary during such period to such Person or another Restricted Subsidiary as a dividend or other distribution (subject, in the case of a dividend to another Restricted Subsidiary (other than any Guarantor), to the limitation contained in this clause);
- (3) the cumulative effect of a change in accounting principles will be excluded;
- (4) income resulting from transfers of assets (other than cash) between such Person or any of its Restricted Subsidiaries, on the one hand, and an Unrestricted Subsidiary, on the other hand, will be excluded;
- (5) any gain (loss) realized upon the sale or other disposition of any property, plant or equipment of such Person or its consolidated Restricted Subsidiaries (including pursuant to any sale or leaseback transaction) which is not sold or otherwise disposed of in the ordinary course of business (as determined in good faith by a responsible accounting or financial officer of such Person) and any gain (loss) realized upon the sale or other disposition of any Capital Stock of any Person will be excluded;

- (6) any “ceiling limitation” or other asset impairment writedowns on oil and gas properties will be excluded;
- (7) any unrealized non-cash gains or losses in respect of Hedging Obligations or any ineffectiveness recognized in earnings related to qualifying hedge transactions or the fair value or changes therein recognized in earnings for derivatives that do not qualify as hedge transactions, in each case, in respect of Hedging Obligations will be excluded;
- (8) any non-cash compensation charge or expense arising from any grant of stock, stock option or other equity-based award will be excluded;
- (9) to the extent deducted in the calculation of net income, any non-cash or non-recurring charges associated with any premium or penalty paid, write-off of deferred financing costs or other financial recapitalization charges in connection with redeeming or retiring any Indebtedness prior to its Stated Maturity will be excluded; and
- (10) (a) extraordinary, exceptional, unusual or non-recurring gains, losses or charges, (b) any asset impairment charges or the financial impacts of natural disasters (including fire, flood and storm and related events) or (c) any non-cash charges or reserves in respect of any restructurings, redundancy, integration or severance, or other post-employment arrangements, signing, retention or completion bonuses, transaction costs, acquisition costs, business optimization, system establishment, software or information technology implementation or development, costs related to governmental investigations and curtailments or modifications to pension or post-retirement benefits schemes, litigation or any asset impairment charges, in each case will be excluded.

“*Consolidated Net Leverage*” means, as of any date of determination, with respect to any specified Person, the total amount of Indebtedness under Credit Facilities of such Person and its Restricted Subsidiaries on a consolidated basis (excluding Hedging Obligations and excluding letters of credit), *less* the amount of cash and cash equivalents that would be stated on the balance sheet of the Company and its Restricted Subsidiaries as of such date in accordance with IFRS.

“*Consolidated Net Leverage Ratio*” means, as of any date of determination, with respect to any specified Person, the ratio of (a) the Consolidated Net Leverage of such Person on such date to (b) the Consolidated Cash Flow of the Person for the four most recent fiscal quarters ending immediately prior to such date for which internal financial statements are available. For purposes of calculating the Consolidated Cash Flow for such period:

- (1) acquisitions that have been made by the specified Person or any of its Restricted Subsidiaries, including through mergers or consolidations or otherwise (including acquisitions of assets used or useful in the Oil and Gas Business), or any Person or any of its Restricted Subsidiaries acquired by the specified Person or any of its Restricted Subsidiaries, and including all related financing transactions and including increases in ownership of Restricted Subsidiaries, during the four-quarter reference period or subsequent to such reference period, and on or prior to the date of determination, or that are to be made on the date of determination, will be given *pro forma* effect as if they had occurred on the first day of the four-quarter reference period;
- (2) the Consolidated Cash Flow attributable to discontinued operations, as determined in accordance with IFRS, and operations or businesses (and ownership interests therein) disposed of on or prior to the date of determination (including transactions giving rise to the need to calculate such Consolidated Net Leverage Ratio) will be excluded;
- (3) any Person that is a Restricted Subsidiary on the date of determination will be deemed to have been a Restricted Subsidiary at all times during such four-quarter reference period; and
- (4) any Person that is not a Restricted Subsidiary on the date of determination will be deemed not to have been a Restricted Subsidiary at any time during such four-quarter reference period.

For purposes of this definition, whenever *pro forma* effect is to be given to a transaction, the *pro forma* calculation shall be determined in good faith by a responsible accounting or financial officer of the Company and may include anticipated expense and cost reduction synergies. In determining the amount of Indebtedness in respect of borrowed money outstanding on any date of determination, *pro forma* effect will be given to any incurrence, repayment, repurchase, defeasance or other acquisition, retirement or discharge of Indebtedness in respect of borrowed money on such date. Any undrawn amounts under revolving credit Indebtedness shall be deemed not to be outstanding.

“*Consolidated Total Assets*” means the total assets of the Company and its Subsidiaries on a consolidated basis, as shown on the most recent consolidated balance sheet of the Company prepared in accordance with IFRS.

“*Contingent Obligations*” means, with respect to any Person, any obligation of such Person Guaranteeing in any manner, whether directly or indirectly, any operating lease, dividend or other obligation that, in each case, does not constitute Indebtedness (“primary obligations”) of any other Person (the “primary obligor”), including any obligation of such Person, whether or not contingent:

- (1) to purchase any such primary obligation or any property constituting direct or indirect security therefor;
- (2) to advance or supply funds:
 - (a) for the purchase or payment of any such primary obligation; or
 - (b) to maintain the working capital or equity capital of the primary obligor or otherwise to maintain the net worth or solvency of the primary obligor; or
- (3) to purchase property, securities or services primarily for the purpose of assuring the owner of any such primary obligation of the ability of the primary obligor to make payment of such primary obligation against loss in respect thereof; or
- (4) for the avoidance of doubt, any contingent obligations in respect of workers’ compensation claims, early retirement or termination obligations, pension fund obligations or contributions, or similar claims, obligations or contributions or social security or wage taxes.

“*continuing*” means, with respect to any Default or Event of Default, that such Default or Event of Default has not been cured or waived.

“*Credit Facilities*” means, one or more debt facilities, capital markets indentures, instruments or arrangements incurred by the Company, any Restricted Subsidiary or any Finance Subsidiary (including the Revolving Credit Facility or commercial paper facilities and overdraft facilities) with banks, funds or other institutions or investors, providing for revolving credit loans, term loans, receivables financing (including through the sale of receivables to such institutions or to special purpose entities formed to borrow from such institutions against such receivables) or letters of credit, notes or other Indebtedness, in each case, as amended, restated, modified, renewed, refunded, replaced, restructured, refinanced, repaid, increased or extended in whole or in part from time to time (and whether in whole or in part and whether or not with the original administrative agent and lenders or another administrative agent or agents or trustees or other banks, funds, institutions or investors and whether provided under the Revolving Credit Facility or one or more other credit or other agreements, indentures, financing agreements or otherwise) and in each case including all agreements, instruments and documents executed and delivered pursuant to or in connection with the foregoing (including any promissory notes and letters of credit issued pursuant thereto and any Guarantee and collateral agreement, patent and trademark security agreement, mortgages or letter of credit applications and other Guarantees, pledges, agreements, security agreements and collateral documents). Without limiting the generality of the foregoing, the term “Credit Facilities” shall include any agreement or instrument (1) changing the maturity of any Indebtedness incurred thereunder or contemplated thereby, (2) adding Subsidiaries of the Company as additional borrowers, issuers or guarantors thereunder, (3) increasing the amount of Indebtedness incurred thereunder or available to be borrowed thereunder or (4) otherwise altering the terms and conditions thereof.

“*Currency Exchange Protection Agreement*” means, in respect of any Person, any foreign exchange contract, currency swap agreement, currency option, cap, floor, ceiling or collar agreement or other similar agreement or arrangement designed to protect such Person against fluctuations in currency exchange rates as to which such Person is a party.

“*Default*” means any event that is, or with the passage of time or the giving of notice or both would be, an Event of Default.

“*Designated Non-Cash Consideration*” means the Fair Market Value of non-cash consideration received by the Company or one of its Restricted Subsidiaries in connection with an Asset Sale that is so designated as “Designated Non-Cash Consideration” pursuant to an Officers’ Certificate, setting forth the basis of such valuation, less the amount of cash or Cash Equivalents received in connection with a subsequent sale of such Designated Non-Cash Consideration.

“*Disqualified Stock*” means any Capital Stock that, by its terms (or by the terms of any security into which it is convertible, or for which it is exchangeable, in each case, at the option of the holder of the Capital Stock), or upon the happening of any event, matures or is mandatorily redeemable, pursuant to a sinking fund obligation or otherwise, or redeemable at the option of the holder of the Capital Stock, in whole or in part, on or prior to the date that is 91 days after the date on which the Notes mature; *provided* that only the portion of Capital Stock which so matures or is mandatorily redeemable, or is so redeemable at the option of the holder thereof prior to such date, will be deemed to be Disqualified Stock. Notwithstanding the preceding sentence, any Capital Stock that would constitute Disqualified Stock solely because the holders of the Capital Stock have the right to require the Company to repurchase or redeem such Capital Stock upon the occurrence of a change of control or an asset sale will not constitute Disqualified Stock if the terms of such Capital Stock provide that the Company may not repurchase or redeem any such Capital Stock pursuant to such provisions unless such repurchase or redemption complies with the covenant described above under the caption “– *Certain covenants – Restricted payments.*” For purposes hereof, the amount of Disqualified Stock which does not have a fixed repurchase price shall be calculated in accordance with the terms of such Disqualified Stock as if such Disqualified Stock were purchased on any date on which Indebtedness shall be required to be determined pursuant to the Indenture, and if such price is based upon, or measured by, the Fair Market Value of such Disqualified Stock, such Fair Market Value to be determined as set forth herein.

“*Distressed Disposal*” means a disposal of an asset of a Note Guarantor that is subject to a Lien in favor of the creditors under any Senior Indebtedness where such disposal is (i) being effected in circumstances where the security has become enforceable; or (ii) being effected by enforcement of the transaction security under any Senior Indebtedness.

“*Dollar-Denominated Production Payments*” means production payment obligations recorded as liabilities in accordance with IFRS, together with all undertakings and obligations in connection therewith.

“*Enforcement Action*” means: (i) the acceleration of any liabilities under the Notes or any Senior Indebtedness, as the case may be, or the making of any declaration that any such liabilities are prematurely due and payable (other than as a result of it becoming unlawful for a holder of Senior Indebtedness or holder of Notes to perform its obligations under, or of any voluntary or mandatory prepayment arising under the relevant debt); (ii) the making of any declaration that any such liabilities are payable on demand; (iii) the making of a demand for payment in relation to such liability that is payable on demand; (iv) the making of a demand against any Guarantor in relation to its Note Guarantee Indebtedness; or (v) the suing for or commencing of any legal proceedings against any Guarantor to recover any such liabilities; (vi) the suing for or commencing of any legal proceedings against any Guarantor to recover any such liabilities; (vii) the exercise or enforcement of any right under any collateral of a Guarantor; (viii) the entering into of any composition, compromise, assignment or arrangement with any Guarantor which owes any such liabilities, or has given any security, guarantee or indemnity or other assurance against loss in respect of such liabilities; or (ix) the petitioning, applying or voting for, or the taking of any formal steps (including the appointment of any liquidator, receiver, administrator, including, without limitation, judicial or special administrator, or similar officer) in relation to, the winding up, dissolution, administration or reorganization of any Guarantor which owes any such liabilities, or has given any security, guarantee, indemnity or other assurance against loss in respect of any of such liabilities, or any of such Guarantor’s assets or any suspension of payments or moratorium of any indebtedness of any such Guarantor, or any analogous procedure or step in any jurisdiction, except that the taking of any action falling within paragraphs (v) above which is necessary (but only to the extent necessary) to preserve the validity, existence or priority of claims in respect of the aforementioned liabilities, including the registration of such claims before any court or governmental authority and the bringing, supporting or joining of proceedings to prevent any loss of the right to bring, support or join proceedings by reason of applicable limitation periods shall not in each case constitute Enforcement Action.

“*Equity Interests*” means Capital Stock and all warrants, options or other rights to acquire Capital Stock (but excluding any debt security that is convertible into, or exchangeable for, Capital Stock).

“*Equity Investors*” means each of MPI SA, Petrolin Trading, Professional Support Limited, Abtrust Integrated Services Limited, Platform Petroleum Limited, Shebah Petroleum Development Company Limited, Vitol Energy (Bermuda) Limited and their respective Affiliates, and any trust, fund, company, partnership or Person owned, managed or sponsored, directly or indirectly, by MPI SA, Petrolin Trading, Professional Support Limited, Abtrust Integrated Services Limited, Platform Petroleum Limited, Shebah Petroleum Development Company Limited, Vitol Energy (Bermuda) Limited or any of their respective Affiliates or direct or indirect Subsidiaries of any such trust, fund, company, partnership or Person.

“*Equity Offering*” means any public or private sale of Capital Stock (other than Disqualified Stock and other than a Subsidiary of the Company) by the Company after the Issue Date.

“*Euroclear*” means Euroclear Bank SA/NV and its successors, as operator of the Euroclear System.

“*Existing Indebtedness*” means Indebtedness of the Company and its Restricted Subsidiaries (other than Indebtedness under the Revolving Credit Facility) in existence on the date of the Indenture after giving effect to the Transactions.

“*Fair Market Value*” means the value that would be paid by a willing buyer to an unaffiliated willing seller in a transaction not involving distress or necessity of either party, as determined in good faith by a responsible accounting or financial officer of the Company.

“*Finance Subsidiary*” means a wholly owned subsidiary of the Company that is formed for the purpose of borrowing funds or issuing securities and lending the proceeds to the Company or a Guarantor and that conducts no business other than as may be reasonably incidental to, or related to, the foregoing.

“*Fitch*” means Fitch, Inc. or any successor to its ratings business.

“*Fixed Charge Coverage Ratio*” means, with respect to any specified Person for any period, the ratio of the Consolidated Cash Flow of such Person for such period to the Fixed Charges of such Person for such period. In the event that the specified Person or any of its Restricted Subsidiaries incurs, assumes, Guarantees, repays, repurchases, redeems, defeases or otherwise discharges any Indebtedness (other than ordinary course working capital borrowings) or issues, repurchases or redeems preferred stock subsequent to the commencement of the period for which the Fixed Charge Coverage Ratio is being calculated and on or prior to the date on which the event for which the calculation of the Fixed Charge Coverage Ratio is made (the “**Calculation Date**”), then the Fixed Charge Coverage Ratio will be calculated giving *pro forma* effect (as determined in good faith by a responsible accounting or financial officer of the Company) to such incurrence, assumption, Guarantee, repayment, repurchase, redemption, defeasance or other discharge of Indebtedness, or such issuance, repurchase or redemption of preferred stock, and the use of the proceeds therefrom, as if the same had occurred at the beginning of the applicable four-quarter reference period; *provided, however*, that the *pro forma* calculation of Fixed Charges shall not give effect to (i) any Indebtedness incurred on the Calculation Date (and, for the avoidance of doubt, not reclassified on such Calculation Date) pursuant to the provisions described in the second paragraph under “– *Certain covenants – Incurrence of indebtedness and issuance of preferred stock*” or (ii) the discharge on the Calculation Date of any Indebtedness to the extent that such discharge results from the application of the proceeds of any Indebtedness incurred pursuant to the provisions described in the second paragraph under “– *Certain covenants – Incurrence of indebtedness and issuance of preferred stock*.”

In addition, for purposes of calculating the Fixed Charge Coverage Ratio:

- (1) acquisitions that have been made by the specified Person or any of its Restricted Subsidiaries, including through mergers, consolidations or otherwise (including acquisitions of assets used or useful in the Oil and Gas Business), or any Person or any of its Restricted Subsidiaries acquired by the specified Person or any of its Restricted Subsidiaries, and including any related financing transactions and including increases in ownership of Restricted Subsidiaries, during the four-quarter reference period or subsequent to such reference period and on or prior to the Calculation Date or that are to be made on the Calculation Date, will be given *pro forma* effect (including Pro Forma Cost Savings) as if they had occurred on the first day of the four-quarter reference period;
- (2) the Consolidated Cash Flow attributable to discontinued operations, as determined in accordance with IFRS, and operations or businesses (and ownership interests therein) disposed of prior to the Calculation Date, will be excluded;
- (3) the Fixed Charges attributable to discontinued operations, as determined in accordance with IFRS, and operations or businesses (and ownership interests therein) disposed of prior to the Calculation Date, will be excluded, but only to the extent that the obligations giving rise to such Fixed Charges will not be obligations of the specified Person or any of its Restricted Subsidiaries following the Calculation Date;
- (4) any Person that is a Restricted Subsidiary on the Calculation Date will be deemed to have been a Restricted Subsidiary at all times during such four-quarter reference period; and
- (5) any Person that is not a Restricted Subsidiary on the Calculation Date will be deemed not to have been a Restricted Subsidiary at any time during such four-quarter reference period.

“Fixed Charges” means, with respect to any specified Person for any period, the sum, without duplication, of:

- (1) the consolidated interest expense (net of interest income) of such Person and its Restricted Subsidiaries for such period, whether paid or accrued (excluding any interest attributable to Dollar-Denominated Production Payments but including, without limitation, amortization of discount (but not debt issuance costs, commissions, fees and expenses), non-cash interest payments (but excluding any non-cash interest expense attributable to the movement in the mark to market valuation of Hedging Obligations or other derivative instruments, the interest component of any deferred payment obligations, the interest component of all payments associated with Capital Lease Obligations, commissions, discounts and other fees and charges incurred in respect of letter of credit or bankers’ acceptance financings), and net of the effect of all payments made or received pursuant to Hedging Obligations (excluding amortization of fees) in respect of interest rates; *plus*
- (2) the consolidated interest expense of such Person and its Restricted Subsidiaries that was capitalized during such period; *plus*
- (3) any interest on Indebtedness of another Person that is Guaranteed by such Person or one of its Restricted Subsidiaries or secured by a Lien on assets of such Person or one of its Restricted Subsidiaries, to the extent paid in cash by such Person or any of its Restricted Subsidiaries; *plus*
- (4) the product of (a) all dividends, whether paid or accrued and whether or not in cash, on any series of Disqualified Stock of such Person or any series of preferred stock of its Restricted Subsidiaries, other than dividends on Equity Interests payable solely in Equity Interests of such Person (other than Disqualified Stock) or to the Person or a Restricted Subsidiary of such Person, *times* (b) a fraction, the numerator of which is one and the denominator of which is one minus the then current statutory tax rate of such Person, expressed as a decimal.

“Guarantee” means a guarantee other than by endorsement of negotiable instruments for collection in the ordinary course of business, direct or indirect, in any manner including, without limitation, by way of a pledge of assets or through letters of credit or reimbursement agreements in respect thereof, of all or any part of any Indebtedness (whether arising by virtue of partnership arrangements, or by agreements to keep well, to maintain financial statement conditions or otherwise), or entered into for purposes of assuring in any other manner the obligee of such Indebtedness of the payment thereof or to protect such obligee against loss in respect thereof (in whole or in part); *provided, however*, that the term “Guarantee” will not include the endorsements for collection or deposit in the ordinary course of business or any obligation to the extent it is payable only in Capital Stock of the guarantor that is not Disqualified Stock. The term “Guarantee” used as a verb has a corresponding meaning.

“Guarantors” means, collectively, Seplat West Ltd, Newton Energy Ltd and Seplat East Swamp Ltd and any other Person that Guarantees the Notes in accordance with the provisions of the Indenture, and their respective successors and assigns, in each case, until the Note Guarantee of such Person has been released in accordance with the Indenture.

“Hedging Obligations” means, with respect to any specified Person, the obligations of such Person under:

- (1) interest rate swap agreements (whether from fixed to floating or from floating to fixed), interest rate cap agreements and interest rate collar agreements, other agreements or arrangements designed to manage interest rates or interest rate risk;
- (2) any Currency Exchange Protection Agreements;
- (3) any forward contract, commodity futures contract, commodity option agreement, commodity swap agreement, cap, floor, ceiling or collar agreement or other similar agreement or arrangement designed to protect against fluctuations in the price of commodities used, produced, processed or sold by that Person or any of its Restricted Subsidiaries at the time; and
- (4) other agreements or arrangements designed to protect such Person against fluctuations in interest rates, commodity prices or currency exchange rates.

“Hydrocarbons” means oil, gas, casing head gas, drip gasoline, natural gasoline, condensate, distillate, liquid hydrocarbons, gaseous hydrocarbons and all constituents, elements or compounds thereof and products refined or processed therefrom.

“IFRS” means International Financial Reporting Standards issued by the International Accounting Standards Board and its predecessors and in effect on the Issue Date, or, solely with respect to the covenant described under the heading “ – Certain Covenants – Reports,” as in effect from time to time, *provided* that at any date after the Issue Date, the Company may make an irrevocable election to establish that “IFRS” shall mean IFRS as in effect on a date that is on or prior to the date of such election (except with respect to the covenant described under the caption “Reports” which shall mean IFRS as in effect from time to time). For the avoidance of doubt, the impact of IFRS 16 Leases and any successor standard thereto shall be disregarded with respect to all ratios, calculations and determinations based upon IFRS to be calculated or made, as the case may be, pursuant to the Indenture and (without limitation) any lease, concession or license of property that would be considered an operating lease under IFRS as of the Issue Date and any guarantee given by the Company or any Restricted Subsidiary in the ordinary course of business solely in connection with, and in respect of, the obligations of the Company or any Restricted Subsidiary under any such operating lease shall be accounted for in accordance with IFRS as in the effect on the Issue Date.

“Indebtedness” means, with respect to any specified Person, any indebtedness of such Person (excluding accrued expenses and trade payables):

- (1) in respect of borrowed money;
- (2) evidenced by bonds, notes, debentures or similar instruments or letters of credit (or reimbursement agreements in respect thereof);
- (3) in respect of bankers’ acceptances (or reimbursement obligations in respect thereof except to the extent any such reimbursement obligations relate to trade payables and such obligations are satisfied within 30 days of incurrence);
- (4) representing Capital Lease Obligations;
- (5) representing the balance deferred and unpaid of the purchase price of any property due more than one year after such property is acquired;
- (6) representing any Hedging Obligations;
- (7) the principal component of all Indebtedness of other Persons secured by a Lien on any asset of such Person, whether or not such Indebtedness is assumed by such Person; *provided, however*, that the amount of such Indebtedness will be the lesser of (a) the Fair Market Value of such asset at such date of determination and (b) the amount of such Indebtedness of such other Persons; and
- (8) the principal component of Indebtedness of other Persons to the extent Guaranteed by such Person (including, with respect to any Production Payment, any warranties or guarantees of production or payment by such Person with respect to such Production Payment, but excluding other contractual obligations of such Person with respect to such Production Payment);

provided that the foregoing indebtedness (other than letters of credit and Hedging Obligations) shall be included in this definition of Indebtedness only if, and to the extent that, the indebtedness would appear as a liability upon a balance sheet of such Person prepared in accordance with IFRS; *provided* that, notwithstanding any consolidation under IFRS, the preceding items shall not constitute “Indebtedness” for purposes hereof if (i) such Indebtedness is incurred by an orphan vehicle whose shares are not owned by such specified Person or any of its Subsidiaries and (ii) such Indebtedness is neither guaranteed by, nor secured by the assets of, such specified Person or any of its Subsidiaries. Notwithstanding the foregoing, indebtedness shall be included in the definition of Indebtedness after deducting any receivable due from another Person (other than the Company and its Restricted Subsidiaries) who has an interest in an asset financed with such indebtedness to the Company or any Restricted Subsidiary in respect of such other Person’s interest in the relevant asset. Subject to clause (8) of the preceding sentence, neither Dollar-Denominated Production Payments nor Volumetric Production Payments shall be deemed to be Indebtedness.

The term “Indebtedness” shall not include:

- (1) any lease of property which would be considered an operating lease under IFRS;
- (2) for the avoidance of doubt, Contingent Obligations;
- (3) any obligation of a Person in respect of a farm-in agreement or similar arrangement whereby such Person agrees to pay all or a share of the drilling, completion or other expenses of an exploratory or development well (which agreement may be subject to a maximum payment obligation, after which

expenses are shared in accordance with the working or participation interest therein or in accordance with the agreement of the parties) or perform the drilling, completion or other operation on such well in exchange for an ownership interest in an oil or gas property;

- (4) in-kind obligations relating to net oil or natural gas balancing positions arising in the ordinary course of business;
- (5) in connection with the purchase by the Company or any Restricted Subsidiary of any business, any post-closing payment adjustments to which the seller may become entitled to the extent such payment is determined by a final closing balance sheet or such payment depends on the performance of such business after the closing; or
- (6) obligations arising under, or contained in, transport or pipeline agreements entered into in the ordinary course of business.

“*Investment Grade Status*” shall occur when the Notes are rated as follows by two of the following three Rating Agencies: Baa3 or better by Moody’s, BBB—or better by S&P and/or BBB—or better by Fitch (or, if any such entity ceases to rate the Notes, the equivalent investment grade credit rating from any other “nationally recognized statistical rating organization,” as that term is defined for purposes of Section 3(a)(62) of the U.S. Exchange Act, selected by the Company as a replacement agency).

“*Investments*” means, with respect to any Person, all direct or indirect investments by such Person in other Persons (including Affiliates) in the forms of loans (including Guarantees or other obligations, but excluding advances or extensions of credit to customers or suppliers made in the ordinary course of business), advances or capital contributions (excluding endorsements of negotiable instruments and documents in the ordinary course of business, and commission, travel and similar advances to officers, employees and consultants made in the ordinary course of business), purchases or other acquisitions for consideration of Indebtedness, Equity Interests or other securities, together with all items that are or would be classified as investments on a balance sheet prepared in accordance with IFRS. If the Company or any Restricted Subsidiary of the Company sells or otherwise disposes of any Equity Interests of any direct or indirect Subsidiary of the Company such that, after giving effect to any such sale or disposition, such Person is no longer a Restricted Subsidiary of the Company, the Company will be deemed to have made an Investment on the date of any such sale or disposition equal to the Fair Market Value of the Company’s Investments in such Restricted Subsidiary that were not sold or disposed of in an amount determined as provided in the final paragraph of the covenant described above under the caption “— *Certain covenants – Restricted payments.*” The acquisition by the Company or any Subsidiary of the Company of a Person that holds an Investment in a third Person will be deemed to be an Investment by the Company or such Subsidiary in such third Person in an amount equal to the Fair Market Value of the Investments held by the acquired Person in such third Person in an amount determined as provided in the final paragraph of the covenant described above under the caption “— *Certain covenants – Restricted payments.*” Except as otherwise provided in the Indenture, the amount of an Investment will be determined at the time the Investment is made and without giving effect to subsequent changes in value and, to the extent applicable, shall be determined based on the equity value of such Investment.

“*Issue Date*” means March 21, 2018.

“*Lien*” means, with respect to any asset, any mortgage, lien, pledge, charge, security interest or encumbrance of any kind in respect of such asset, whether or not filed, recorded or otherwise perfected under applicable law, including any conditional sale or other title retention agreement, any lease in the nature thereof.

“*Management Advances*” means loans or advances made to, or Guarantees with respect to loans or advances made to, directors, officers or employees of any Company or any Restricted Subsidiary:

- (1) in respect of travel, entertainment or moving related expenses incurred in the ordinary course of business;
- (2) in respect of moving related expenses incurred in connection with any closing or consolidation of any facility or office; or
- (3) in the ordinary course of business and (in the case of this clause (3)) not exceeding \$5.0 million in the aggregate outstanding at any time.

“*Market Capitalization*” means an amount equal to (i) the total number of issued and outstanding shares of common stock or common equity interests of the Company on the date of the declaration of the relevant

dividend multiplied by (ii) the arithmetic mean of the closing prices per share of such common stock or common equity interests for the thirty (30) consecutive trading days immediately preceding the date of declaration of such dividend.

“Minority Interest” means the percentage interest represented by any shares of stock of any class of Capital Stock of a Restricted Subsidiary of the Company that are not owned by the Company or a Restricted Subsidiary of the Company.

“Moody’s” means Moody’s Investors Service, Inc. or any successor to its ratings business.

“Net Proceeds” means the aggregate cash proceeds received by the Company or any of its Restricted Subsidiaries in respect of any Asset Sale (including, without limitation, any cash received upon the sale or other disposition of any non-cash consideration or Cash Equivalents received in any Asset Sale), net of the direct costs relating to such Asset Sale, including, without limitation:

- (1) all legal, accounting, investment banking, commissions and other fees and expenses incurred, title and recording tax expenses, and all Taxes required to be paid or accrued as a liability under IFRS, as a consequence of such Asset Sale;
- (2) all payments made on any Indebtedness which is secured by any assets subject to such Asset Sale, in accordance with the terms of any Lien upon such assets, or which must by its terms, or in order to obtain a necessary consent to such Asset Sale, or by applicable law be repaid out of the proceeds from such Asset Sale;
- (3) all distributions and other payments required to be made to holders of Minority Interests in Subsidiaries or joint ventures as a result of such Asset Sale; and
- (4) the deduction of appropriate amounts to be provided by the seller as a reserve, in accordance with IFRS, or held in escrow, in either case for adjustment in respect of the sale price or for any liabilities associated with the assets disposed of in such Asset Sale and retained by the Company or any Restricted Subsidiary after such Asset Sale.

“Non-Recourse Debt” means Indebtedness:

- (1) as to which neither the Company nor any of its Restricted Subsidiaries (a) provides credit support of any kind (including any undertaking, agreement or instrument that would constitute Indebtedness), (b) is directly or indirectly liable as a guarantor or otherwise, or (c) constitutes the lender;
- (2) no default with respect to which (including any rights that the holders of the Indebtedness may have to take enforcement action against an Unrestricted Subsidiary) would permit upon notice, lapse of time or both any holder of any other Indebtedness of the Company or any of its Restricted Subsidiaries to declare a default on such other Indebtedness or cause the payment of the Indebtedness to be accelerated or payable prior to its Stated Maturity; and
- (3) the explicit terms of which provide there is no recourse to the stock or assets of the Company or any of its Restricted Subsidiaries, except as contemplated by clause (26) of the definition of Permitted Liens.

“Note Guarantee” means the Guarantee by each Guarantor of the Company’s Obligations under the Indenture and the Notes pursuant to the Indenture.

“Note Guarantee Indebtedness” means the Indebtedness of such Guarantor under its Note Guarantee.

“Obligations” means any principal, interest, penalties, fees, indemnifications, reimbursements, damages and other liabilities payable under the documentation governing any Indebtedness.

“Officer” means, with respect to any Person, a member of the Board of Directors, the chief executive officer, the president, the chief financial officer, any vice president, the treasurer, any managing director, any responsible accounting or financial officer, the secretary or the equivalent position of any of the foregoing or any other Person that the Board of Directors of such Person shall designate for such purpose.

“Officers’ Certificate” means a certificate signed on behalf of any Person by one or more Officers.

“Offering Memorandum” means this offering memorandum dated March 12, 2018.

“Oil and Gas Business” means:

- (1) the acquisition, exploration, exploitation, development, production, operation and disposition of interests in oil, natural gas, natural gas liquids, liquefied natural gas and other Hydrocarbon and mineral properties or products produced in association with the foregoing;
- (2) the gathering, marketing, distributing, treating, refining, processing, storing, distribution, selling and transporting of any production from oil, natural gas, natural gas liquids, liquefied natural gas and other Hydrocarbon and mineral properties (whether or not such properties are owned by the Company and/or its Subsidiaries) and products produced in association therewith, the construction or contracting with third parties for the construction of infrastructure in support of the same and the marketing of oil, natural gas, other Hydrocarbons and minerals obtained from unrelated Persons;
- (3) any other related energy business, including power generation and electrical transmission business, from oil, natural gas and other Hydrocarbons and minerals produced substantially from properties in which the Company or its Restricted Subsidiaries, directly or indirectly, participates;
- (4) any business relating to oil and gas field seismic mapping, sales, service and technology development; and
- (5) any business or activity relating to, arising from, or necessary, appropriate or incidental to the activities described in clauses (1), (2), (3) or (4) of this definition.

“Permitted Business Investments” means Investments made in the ordinary course of, and of a nature that is or shall become customary in, the Oil and Gas Business, as a means of actively exploiting, exploring for, acquiring, developing, producing, processing, gathering, marketing, distributing, storing or transporting oil, natural gas or other Hydrocarbons and minerals (including with respect to plugging and abandonment), or in constructing or contracting with third parties for the construction of infrastructure in support of the same, through agreements, transactions, interests or arrangements that permit one to share risks or costs, comply with regulatory requirements regarding local ownership or satisfy other objectives customarily achieved through the conduct of the Oil and Gas Business jointly with third parties, including without limitation:

- (1) direct or indirect ownership of crude oil, natural gas, other restricted Hydrocarbon and minerals properties or any interest therein or gathering, transportation, processing, storage or related systems or ancillary real property interests;
- (2) Investments in the form of or pursuant to operating agreements, joint ventures, processing agreements, working interests, royalty interests, mineral leases, farm-in agreements, farm-out agreements, development agreements, production sharing agreements, area of mutual interest agreements, contracts for the sale, transportation or exchange of crude oil and natural gas and other Hydrocarbons and minerals, participation agreements, unitization agreements, pooling arrangements, joint bidding agreements, service contracts, partnership agreements (whether general or limited), subscription agreements, stock purchase agreements, stockholder agreements and other similar agreement (including for limited liability companies) or other similar or customary agreements, transactions, properties, interests or arrangements and Investments and expenditures in connection therewith or pursuant thereto, in each case made or entered into with third parties (including Unrestricted Subsidiaries); and
- (3) direct or indirect ownership interests in drilling rigs, common processing facilities and related equipment, including, without limitation, transportation equipment.

“Permitted Holders” means, collectively, (1) the Equity Investors; (2) any Related Person of the Equity Investors; and (3) any Person who is acting as an underwriter in connection with any public or private offering of Capital Stock of the Company. Any person or group whose acquisition of beneficial ownership constitutes a Change of Control in respect of which a Change of Control Offer is made in accordance with the requirements of the Indenture, will thereafter, together with its Affiliates, constitute an additional Permitted Holder.

“Permitted Investments” means:

- (1) any Investment in the Company or in a Restricted Subsidiary of the Company;
- (2) any Investment in cash and Cash Equivalents;

- (3) any Investment by the Company or any Restricted Subsidiary of the Company in any Person whose primary business is the Oil and Gas Business, if as a result of such Investment:
 - (a) such Person becomes a Restricted Subsidiary of the Company; or
 - (b) such Person is merged, consolidated or amalgamated with or into, or transfers or conveys substantially all of its properties or assets to, or is liquidated into, the Company or a Restricted Subsidiary of the Company;
- (4) any Investment made as a result of the receipt of non-cash consideration from an Asset Sale that was made pursuant to and in compliance with the covenant described above under the caption “– *Repurchase at the option of holders – Asset sales*”;
- (5) any acquisition of assets or Capital Stock solely in exchange for the issuance of Equity Interests (other than Disqualified Stock) of the Company;
- (6) any Investments received in compromise or resolution of (A) obligations of trade creditors or customers that were incurred in the ordinary course of business of the Company or any of its Restricted Subsidiaries, including pursuant to any plan of reorganization or similar arrangement upon the bankruptcy or insolvency of any trade creditor or customer; or (B) litigation, arbitration or other disputes with Persons who are not Affiliates;
- (7) Investments represented by Hedging Obligations;
- (8) receivables owing to the Company or any Restricted Subsidiary created or acquired in the ordinary course of business and payable or dischargeable in accordance with customary trade terms; *provided, however*, that such trade terms may include such concessionary trade terms as the Company or any such Restricted Subsidiary deems reasonable under the circumstances;
- (9) surety and performance bonds and workers’ compensation, utility, lease, tax, performance and similar deposits and prepaid expenses in the ordinary course of business;
- (10) Guarantees of Indebtedness permitted under the covenant contained under the caption “– *Certain covenants – Incurrence of indebtedness and issuance of preferred stock*”;
- (11) guarantees by the Company or any of its Restricted Subsidiaries of operating leases (other than Capital Lease Obligations) or of other obligations that do not constitute Indebtedness, in each case entered into by any Restricted Subsidiary in the ordinary course of business;
- (12) Investments of a Restricted Subsidiary acquired after the Issue Date or of any entity merged into the Company or merged into or consolidated or amalgamated with a Restricted Subsidiary in accordance with the covenant described under “– *Certain covenants – Merger, consolidation or sale of assets*” to the extent that such Investments were not made in contemplation of or in connection with such acquisition, merger, consolidation or amalgamation and were in existence on the date of such acquisition, merger or consolidation;
- (13) Permitted Business Investments;
- (14) Investments received as a result of a foreclosure by the Company or any of its Restricted Subsidiaries with respect to any secured Investment in default;
- (15) any Investment existing on, or made pursuant to binding commitments existing on, the Issue Date and any Investment consisting of an extension, modification or renewal of any Investment existing on, or made pursuant to a binding commitment existing on, the Issue Date; *provided* that the amount of any such Investment may be increased (a) as required by the terms of such Investment as in existence on the Issue Date or (b) as otherwise permitted under the Indenture;
- (16) Guarantees of performance or other obligations (other than Indebtedness) arising in the ordinary course in the Oil and Gas Business, including obligations under oil and natural gas exploration, development, joint operating, and related agreements and licenses, concessions or operating leases related to the Oil and Gas Business;
- (17) Investments in the Notes and any other Indebtedness of the Company or any Restricted Subsidiary;
- (18) Management Advances;

- (19) payroll, commission, travel, relocation and similar advances to cover matters that are expected at the time of such advances ultimately to be treated as expenses for accounting purposes and that are made in the ordinary course of business, in each case to the extent the same constitutes an Investment;
- (20) any Person to the extent such Investments consist of prepaid expenses, negotiable instruments held for collection and lease, utility and workers' compensation, performance and similar deposits made in the ordinary course of business by the Company or any Restricted Subsidiary;
- (21) receivables or working capital loans or other such similar forms of credit support owing to the Company or any Restricted Subsidiary of the Company and advances to suppliers, contractors or builders, in each case payable or dischargeable in accordance with such trade terms as the Company or such Restricted Subsidiary deems reasonable under the circumstances;
- (22) (a) loans or grants customary or advisable in the Oil and Gas Business in respect of community development projects or economic development activities in Africa, as appropriate for the Company's regions of operation or consistent with past practice or counterparty requirements and (b) Investments made with funds received by the Company and its Restricted Subsidiaries from grants or donations from third parties; and
- (23) other Investments in any Person having an aggregate Fair Market Value (measured on the date each such Investment was made and without giving effect to subsequent changes in value), when taken together with all other Investments made pursuant to this clause (23) that are at the time outstanding, not to exceed the greater of (x) \$25.0 million and (y) 1.00% of Consolidated Total Assets; *provided that* if an Investment is made pursuant to this clause in a Person that is not a Restricted Subsidiary and such Person subsequently becomes a Restricted Subsidiary or is subsequently designated a Restricted Subsidiary pursuant to the covenant described above under the caption "*– Certain covenants – Restricted payments,*" such Investment shall thereafter be deemed to have been made pursuant to clause (1) or (3) of the definition of "Permitted Investments" and not this clause.

"Permitted Liens" means, with respect to any Person:

- (1) Liens securing Indebtedness incurred under Credit Facilities pursuant to clause (1) of the second paragraph of the covenant entitled "*– Certain covenants – Incurrence of indebtedness and issuance of preferred stock*";
- (2) Liens in favor of the Company or any Restricted Subsidiary;
- (3) Liens on property of a Person existing at the time such Person is merged with or into or consolidated or amalgamated with the Company or any Subsidiary of the Company; *provided that* such Liens were in existence prior to the contemplation of such merger, consolidation or amalgamation and do not extend to any assets other than those of the Person merged into or consolidated or amalgamated with the Company or the Subsidiary;
- (4) Liens on property (including Capital Stock) existing at the time of acquisition of the property by the Company or any Subsidiary of the Company; *provided that* such Liens were in existence prior to such acquisition, and not incurred in contemplation of, such acquisition;
- (5) Liens existing on the Issue Date;
- (6) Liens on Capital Stock of and assets of any Restricted Subsidiary that is not a Guarantor that secures Indebtedness of such Restricted Subsidiary or any other Restricted Subsidiary that is not a Guarantor;
- (7) Liens for taxes, assessments or governmental charges or claims that (x) are not yet due and payable or (y) that are being contested in good faith by appropriate proceedings;
- (8) survey exceptions, easements or reservations of, or rights of others for, licenses, rights of way, gas and oil pipelines, sewers, electric lines, telegraph and telephone lines and other similar purposes, or zoning or other restrictions as to the use of real property that were not incurred in connection with Indebtedness and that do not in the aggregate materially adversely affect the value of said properties or materially impair their use in the operation of the business of such Person;
- (9) Liens encumbering property or assets under construction arising from progress or partial payments by a customer of the Company or its Restricted Subsidiaries relating to such property or assets;
- (10) Liens in favor of customs and revenue authorities arising as a matter of law to secure payments of customs duties in connection with the importation of goods;

- (11) any attachment, prejudgment or judgment Lien that does not constitute an Event of Default and notices of *lis pendens* and associated rights related to litigation being contested in good faith by appropriate proceedings and for which adequate reserves have been made;
- (12) Liens created for the benefit of (or to secure) the Notes (or the Note Guarantees);
- (13) Liens to secure any Permitted Refinancing Indebtedness permitted to be incurred under the Indenture; *provided*, however, that:
 - (a) the new Lien shall be limited to all or part of the same property and assets that secured or, under the written agreements pursuant to which the original Lien arose, could secure the original Lien (plus improvements and accessions to, such property or proceeds or distributions thereof); and
 - (b) the Indebtedness secured by the new Lien is not increased to any amount greater than the sum of (x) the outstanding principal amount, or, if greater, committed amount, of the Indebtedness extended, renewed, refunded, refinanced, replaced, exchanged, defeased or discharged with such Permitted Refinancing Indebtedness and (y) an amount necessary to pay any fees and expenses, including premiums, related to such extension, renewal, refunding, refinancing, replacement, exchange, defeasance or discharge;
- (14) Liens for the purpose of securing the payment of all or a part of the purchase price of, or Capital Lease Obligations with respect to, or the repair, improvement or construction cost of, assets or property acquired or repaired, improved or constructed in the ordinary course of business;
- (15) Liens arising solely by virtue of any statutory or common law provisions relating to banker's Liens, rights of set-off or similar rights and remedies as to deposit accounts or other funds maintained or deposited with a depository institution;
- (16) Liens on cash, Cash Equivalents or other property arising in connection with the defeasance, discharge or redemption of Indebtedness;
- (17) Liens in respect of Production Payments and Reserve Sales, *provided* such Liens are limited to the property that is the subject of such Production Payment and Reserve Sale;
- (18) Liens on pipelines and pipeline facilities that arise by operation of law;
- (19) Liens arising under oil and gas leases or subleases, assignments, farm-out agreements, farm-in agreements, division orders, contracts for the sale, purchase, exchange, transportation, gathering or processing of Hydrocarbons, unitizations and pooling designations, declarations, orders and agreements, development agreements, partnership agreements, operating agreements, royalties, royalty trusts, working interests, carried working interests, net profit interests, joint interest billing arrangements, joint venture agreements, participation agreements, production sales contracts, area of mutual interest agreements, gas balancing or deferred production agreements, injection, repressuring and recycling agreements, salt water or other disposal agreements, seismic or geophysical permits or agreements, licenses, sublicenses and other agreements which are customary in the Oil and Gas Business; *provided, however*, in all instances that such Liens are limited to the assets that are subject to the relevant agreement, program, order or contract;
- (20) any (a) interest or title of a lessor or sublessor under any lease, Liens reserved in oil, gas or other Hydrocarbons, mineral leases for bonus, royalty or rental payments and for compliance with the terms of such leases; (b) restriction or encumbrance that the interest or title of such lessor or sublessor may be subject to (including without limitation, ground leases or other prior leases of the demised premises, mortgages, mechanics' liens, tax liens, and easements); or (c) subordination of the interest of the lessee or sublessee under such lease to any restrictions or encumbrance referred to in the preceding subclause (b);
- (21) Liens arising under the Indenture in favor of the Trustee for its own benefit and similar Liens in favor of other trustees, agents and representatives arising under instruments governing Indebtedness permitted to be incurred under the Indenture, *provided, however*, that such Liens are solely for the benefit of the trustees, agents or representatives in their capacities as such and not for the benefit of the holders of the Indebtedness;
- (22) Liens securing Hedging Obligations, which obligations are permitted by clause (8) of the second paragraph of the covenant described under “– *Certain covenants – Incurrence of indebtedness and issuance of preferred stock*”;

- (23) Liens upon specific items of inventory, receivables or other goods (or the proceeds thereof) of any Person securing such Person's obligations in respect of bankers' acceptances or receivables securitizations issued or created for the account of such Person to facilitate the purchase, shipment or storage of such inventory, receivables or other goods (or the proceeds thereof);
- (24) Liens arising out of conditional sale, title retention, consignment or similar arrangements for the sale of assets entered into in the ordinary course of business;
- (25) (i) mortgages, liens, security interests, restrictions, encumbrances or any other matters of record that have been placed by any developer, landlord, contractor or other third party on property over which the Company or any Restricted Subsidiary has easement rights or on any real property leased by the Company or any Restricted Subsidiary (including those arising from progress or partial payments by a third party relating to such property or assets) and subordination or similar agreements relating thereto and (ii) any condemnation or eminent domain proceedings or compulsory purchase order affecting real property;
- (26) Liens (including put and call arrangements) on Capital Stock or other securities of any Unrestricted Subsidiary or joint venture that is not a Restricted Subsidiary that secure Indebtedness of such Unrestricted Subsidiary or joint venture (but only to the extent that such Indebtedness is not Indebtedness of the Issuer or a Guarantor);
- (27) pledges of goods, the related documents of title and/or other related documents arising or created in the ordinary course of the Company or any Restricted Subsidiary's business or operations as Liens only for Indebtedness to a bank or financial institution directly relating to the goods or documents on or over which the pledge exists;
- (28) limited recourse Liens in respect of the ownership interests in, or assets owned by, any joint ventures which are not Restricted Subsidiaries securing obligations of such joint ventures;
- (29) Liens on any proceeds loan made by the Company or any Restricted Subsidiary in connection with any future incurrence of Indebtedness permitted under the Indenture and securing that Indebtedness;
- (30) Liens created on any asset of the Company or a Restricted Subsidiary established to hold assets of any stock option plan or any other management or employee benefit or incentive plan or unit trust of the Company or a Restricted Subsidiary securing any loan to finance the acquisition of such assets;
- (31) Liens over treasury stock of the Company or a Restricted Subsidiary purchased or otherwise acquired for value by the Company or such Restricted Subsidiary pursuant to a stock buy-back scheme or other similar plan or arrangement;
- (32) Liens with respect to Indebtedness of the Company or any Subsidiary of the Company with respect to Indebtedness at any one time outstanding that does not exceed the greater of (x) \$25.0 million and (y) 1.00% of Consolidated Total Assets as determined on the date of incurrence of such Indebtedness after giving *pro forma* effect to such incurrence and the application of the proceeds therefrom;
- (33) the following ordinary course items:
 - (a) leases or subleases granted to others that do not materially interfere with the ordinary course of business of the Company and its Restricted Subsidiaries, taken as a whole;
 - (b) landlords', carriers', warehousemen's, mechanics', materialmen's, repairmen's or the like Liens arising by contract or statute in the ordinary course of business;
 - (c) pledges or deposits made in the ordinary course of business (A) in connection with leases, tenders, bids, statutory obligations, surety or appeal bonds, government contracts, performance bonds and similar obligations, (B) in connection with workers' compensation, unemployment insurance and other social security legislation (including, in each case, Liens to secure letters of credit issued to assure payment of such obligations) or (C) to secure plugging and abandonment obligations;
 - (d) Liens arising from Uniform Commercial Code financing statement filings under U.S. state law (or similar filings under applicable jurisdictions) regarding operating leases entered into by the Company and its Restricted Subsidiaries in the ordinary course of business;
 - (e) Liens on insurance policies and proceeds thereof, or other deposits, to secure insurance premium financings in the ordinary course of business;
 - (f) leases, licenses, subleases and sublicenses of assets in the ordinary course of business; and

- (g) Liens securing or arising by reason of any netting or set-off arrangement entered into in the ordinary course of banking or other trading activities; and
- (34) any extension, renewal, refinancing or replacement, in whole or in part, of any Lien described in the foregoing clauses (2) through (33) (but excluding clauses (14) and (32)); *provided* that any such Lien is limited to all or part of the same property or assets (plus improvements, accessions, proceeds or dividends or distributions in respect thereof) that secured (or, under the written arrangements under which the original Lien arose, could secure) the Indebtedness being refinanced.

“Permitted Refinancing Indebtedness” means any Indebtedness of the Company or any of its Restricted Subsidiaries issued in exchange for, or the net proceeds of which are used to extend, renew, refund, refinance, replace, exchange, defease or discharge other Indebtedness of the Company or any of its Restricted Subsidiaries (other than intercompany Indebtedness); *provided* that:

- (1) the aggregate principal amount (or accreted value, if applicable, or if issued with original issue discount, aggregate issue price) of such Permitted Refinancing Indebtedness does not exceed the principal amount (or accreted value, if applicable, or if issued with original issue discount, aggregate issue price) of the Indebtedness being extended, renewed, refunded, refinanced, replaced, exchanged, defeased or discharged (plus all accrued interest on the Indebtedness and the amount of all fees and expenses, including premiums, incurred in connection therewith);
- (2) such Permitted Refinancing Indebtedness has (a) a final maturity date that is either (i) no earlier than the final maturity date of the Indebtedness being extended, renewed, refunded, refinanced, replaced, exchanged, defeased or discharged or (ii) after the final maturity date of the Notes and (b) has a Weighted Average Life to Maturity that is equal to or greater than the Weighted Average Life to Maturity of the Indebtedness being extended, renewed, refunded, refinanced, replaced, defeased or discharged;
- (3) if the Indebtedness being extended, renewed, refunded, refinanced, replaced, defeased or discharged is expressly contractually subordinated in right of payment to the Notes or the Note Guarantees, as the case may be, such Permitted Refinancing Indebtedness is subordinated in right of payment to the Notes or the Note Guarantees, as the case may be, on terms at least as favorable to the holders of Notes or the Note Guarantees, as the case may be, as those contained in the documentation governing the Indebtedness being extended, renewed, refunded, refinanced, replaced, exchanged, defeased or discharged; and
- (4) if the Company or any Guarantor was the obligor on the Indebtedness being extended, renewed, refunded, refinanced, replaced, defeased or discharged, such Indebtedness is incurred either by the Company, a Finance Subsidiary or by a Guarantor.

“Person” means any individual, corporation, partnership, joint venture, association, joint-stock company, trust, unincorporated organization, limited liability company or government or other entity.

“Pro Forma Cost Savings” means, without duplication, with respect to any period, reductions in costs and related adjustments that have been actually realized or are projected in good faith by a responsible accounting or financial officer of the Company to result from reasonably identifiable and factually supportable actions or events, but only if such reductions in costs and related adjustments are so projected by the Company to be realized during the consecutive four-quarter period commencing after the transaction giving rise to such calculation.

“Production Payments” means, collectively, Dollar-Denominated Production Payments and Volumetric Production Payments.

“Production Payments and Reserve Sales” means the grant or transfer by the Company or a Restricted Subsidiary of the Company to any Person of a royalty, overriding royalty, net profits interest, Production Payment, partnership or other interest in oil and gas properties, reserves or the right to receive all or a portion of the production or the proceeds from the sale of production attributable to such properties where the holder of such interest has recourse solely to such production or proceeds of production, subject to the obligation of the grantor or transferor to operate and maintain, or cause the subject interests to be operated and maintained, in a reasonably prudent manner or other customary standard or subject to the obligation of the grantor or transferor to indemnify for environmental, title or other matters customary in the Oil and Gas Business, including any such grants or transfers pursuant to incentive compensation programs on terms that are reasonably customary in the Oil and Gas Business for geologists, geophysicists and other providers of technical services to the Company or a Subsidiary of the Company.

“*Project Debt*” means Indebtedness of a non-Guarantor Restricted Subsidiary as to which neither the Company nor any Guarantor provides a guarantee or security interest and with respect to which creditors have no recourse to any assets of the Company or any Guarantor (other than a security interest over the shares such entity may own in the non-Guarantor Restricted Subsidiary).

“*Public Indebtedness*” means any Indebtedness consisting of bonds, debentures, notes or other similar debt securities issued in (x) a public offering or (y) a private placement to institutional investors that is underwritten for resale in accordance with Rule 144A under the U.S. Securities Act (or Rule 144A and Regulation S under the U.S. Securities Act) whether or not it includes registration rights entitling the holders of such debt securities to registration thereof with the SEC for public resale. For the avoidance of doubt, the term “Public Indebtedness” shall not be construed to include any Indebtedness issued to institutional investors in a direct placement of such Indebtedness that is not underwritten by an intermediary (it being understood that, without limiting the foregoing, a financing that is distributed to not more than fifteen Persons (*provided* that multiple managed accounts and affiliates of any such Persons shall be treated as one Person for the purposes of this definition) shall be deemed not underwritten), or any commercial bank or similar Indebtedness, receivables financing, Capital Lease Obligation or recourse transfer of any financial asset or any other type of Indebtedness incurred in a manner not customarily viewed as a “securities offering.”

“*Rating Agencies*” means (1) S&P, (2) Moody’s, (3) Fitch and (4) if S&P, Moody’s, Fitch or any of these shall not make a rating of the Notes available, an internationally recognized securities rating agency or agencies, as the case may be, selected by the Company, which shall be substituted for S&P, Moody’s, Fitch or any of these, as the case may be.

“*Recognized Stock Exchange*” means a “recognised stock exchange” as defined in Section 1005 of the Income Tax Act of 2007 of the United Kingdom.

“*Related Person*” with respect to any Permitted Holder means:

- (1) any controlling equityholder or majority (or more) Subsidiary of such Person;
- (2) in the case of an individual, any spouse, civil union or similar partner, family member or relative of such individual, any trust or partnership for the benefit of one or more of such individual and any such spouse, civil union or similar partner, family member or relative, or the estate, executor, administrator, committee or beneficiaries of any thereof;
- (3) any trust, corporation, partnership or other Person for which one or more of the Permitted Holders and other Related Persons of any thereof constitute the beneficiaries, stockholders, partners or owners thereof, or Persons beneficially holding in the aggregate a majority (or more) controlling interest therein; or
- (4) any investment fund or vehicle managed, sponsored or advised by such Person or any successor thereto, or by any Affiliate of such Person or any such successor.

“*Restricted Investment*” means an Investment other than a Permitted Investment.

“*Restricted Subsidiary*” of a Person means any Subsidiary of the referent Person that is not an Unrestricted Subsidiary. Unless the context requires otherwise, each reference to a Restricted Subsidiary herein is to a Restricted Subsidiary of the Company.

“*Revolving Credit Facility*” means the \$300,000,000 corporate senior secured revolving credit facility originally dated December 30, 2014 between, *inter alios*, the Company, as borrower, the Corporate Facility Agent and the lenders party thereto, as amended by an amendment and restatement agreement expected to be entered into on or about the Issue date.

“*S&P*” means Standard & Poor’s Ratings Services and any successor to its ratings business.

“*SEC*” means the U.S. Securities and Exchange Commission.

“*Senior Indebtedness*” means any Indebtedness incurred by the Company or its Restricted Subsidiaries (other than the Notes and the Note Guarantees) that is secured by a Lien (or any other arrangement, including sale and lease-back transactions and other transactions having the effect of security interests). Obligations of each Guarantor under its Note Guarantee will be subject to the provisions set forth under “– *Standstill Provisions*” in respect of any existing and future Senior Indebtedness of the relevant Guarantor. For the avoidance of doubt, the Company’s obligations under the Notes constitute Senior Indebtedness not subject to the provisions set forth under “– *Standstill Provisions*.”

“*Senior Lenders*” means each of the creditors, lenders, lessors or holders in respect of all outstanding Senior Indebtedness in existence from time to time.

“*Significant Subsidiary*” means, at the date of determination, any Restricted Subsidiary that, together with its Subsidiaries which are Restricted Subsidiaries, (i) for the most recent fiscal year, accounted for more than 10% of the consolidated revenues of the Company or (ii) as of the end of the most recent fiscal year, was the owner of more than 10% of the consolidated assets of the Company.

“*Stated Maturity*” means, with respect to any installment of interest or principal on any series of Indebtedness, the date on which the payment of interest or principal was scheduled to be paid in the original documentation governing such Indebtedness, and will not include any contingent obligations to repay, redeem or repurchase any such interest or principal prior to the date originally scheduled for the payment thereof;

“*Subordinated Obligation*” means any Indebtedness of the Company (whether outstanding on the Issue Date or thereafter incurred) which is subordinate or junior in right of payment to the Notes pursuant to a written agreement or any Indebtedness of a Guarantor (whether outstanding on the Issue Date or thereafter incurred) which is subordinate or junior in right of payment to the Note Guarantee pursuant to a written agreement, as the case may be.

“*Subsidiary*” means, with respect to any specified Person:

- (1) any corporation, association or other business entity (other than a partnership, joint venture, limited liability company or similar entity) of which more than 50% of the total ordinary voting power of its Voting Stock is at the time owned or controlled, directly or indirectly, by that Person or one or more of the other Subsidiaries of that Person (or a combination thereof);
- (2) any corporation, association or other business entity of which that Person or one or more of the other Subsidiaries of that Person (or any combination thereof), directly or indirectly, has the right to appoint a majority of the directors, managers or trustees, as applicable, or has the operational control of the corporation, association or other business entity and the financial results of such corporation, association or other business entity are consolidated with the financial results of such Person or one or more of the other Subsidiaries of that Person (or any combination thereof); and
- (3) any partnership, joint venture, limited liability company or similar entity of which (a) more than 50% of the capital accounts, distribution rights, total equity and voting interests or general and limited partnership interests, as applicable, are owned or controlled, directly or indirectly, by such Person or one or more of the other Subsidiaries of that Person or a combination thereof, whether in the form of membership, general, special or limited partnership interests or otherwise, and (b) such Person or any Subsidiary of such Person is a controlling general partner or otherwise controls such entity.

“*Tax*” means any tax, duty, levy, impost, assessment or other governmental charge of whatever nature (including penalties, interest and any other additions thereto). “*Taxes*” and “*Taxation*” shall be construed to have corresponding meanings.

“*Treasury Rate*” means, in respect of any redemption date, the yield to maturity as of the time of computation of United States Treasury securities with a constant maturity (as compiled and published in the most recent Federal Reserve Statistical Release H.15 (519) that has become publicly available at least two Business Days prior to the redemption date (or, if such statistical release is no longer published, any publicly available source of similar market data)) most nearly equal to the period from the redemption date to April 1, 2020; *provided, however*, that if the period from the redemption date to April 1, 2020 is less than one year, the weekly average yield on actually traded United States Treasury securities adjusted to a constant maturity of one year will be used. The Company will calculate the Treasury Rate no later than the second (and no earlier than the fourth) Business Day preceding the applicable redemption date.

“*U.S. dollars*” or “*\$*” means the lawful currency of the United States of America.

“*U.S. Government Obligations*” means direct obligations of, or obligations guaranteed by, the United States of America, and the payment for which the United States pledges its full faith and credit.

“*Unrestricted Subsidiary*” means any Subsidiary of the Company that is designated by the Board of Directors of the Company as an Unrestricted Subsidiary pursuant to a resolution of the Board of Directors, but only to the extent that such Subsidiary:

- (1) has no Indebtedness other than Non-Recourse Debt;

- (2) except as permitted by the covenant described above under the caption “– *Certain covenants – Transactions with affiliates*,” is not party to any agreement, contract, arrangement or understanding with the Company or any Restricted Subsidiary of the Company unless the terms of any such agreement, contract, arrangement or understanding are no less favorable to the Company or such Restricted Subsidiary than those that might be obtained at the time from Persons who are not Affiliates of the Company; and
- (3) is a Person with respect to which neither the Company nor any of its Restricted Subsidiaries has any direct or indirect obligation (a) to subscribe for additional Equity Interests or (b) to maintain or preserve such Person’s financial condition or to cause such Person to achieve any specified levels of operating results.

All Subsidiaries of an Unrestricted Subsidiary shall also be Unrestricted Subsidiaries.

“*U.S. Exchange Act*” means the United States Securities Exchange Act of 1934, as amended, and the rules and regulations of the SEC promulgated thereunder.

“*U.S. Securities Act*” means the United States Securities Act of 1933, as amended, and the rules and regulations of the SEC promulgated thereunder.

“*Volumetric Production Payments*” means production payment obligations recorded as deferred revenue in accordance with IFRS, together with all related undertakings and obligations.

“*Voting Stock*” of any specified Person as of any date means the Capital Stock of such Person that is at the time entitled to vote in the election of the Board of Directors of such Person.

“*Weighted Average Life to Maturity*” means, when applied to any Indebtedness at any date, the number of years obtained by dividing:

- (1) the sum of the products obtained by multiplying (a) the amount of each then remaining installment, sinking fund, serial maturity or other required payments of principal, including payment at final maturity, in respect of the Indebtedness, by (b) the number of years (calculated to the nearest one-twelfth) that will elapse between such date and the making of such payment; by
- (2) the then outstanding principal amount of such Indebtedness.

BOOK-ENTRY, DELIVERY AND FORM

The Notes will initially be issued in the form of several global notes in registered form without interest coupons attached. Each series of the Notes offered and sold in the United States to qualified institutional buyers in reliance upon Rule 144A will be represented by beneficial interests in one or more permanent global notes in fully registered form without interest coupons attached (the “**Rule 144A Global Notes**”). Each series of the Notes offered and sold outside the United States pursuant to Regulation S will be represented by beneficial interests in one or more permanent global notes in fully registered form without interest coupons attached (the “**Regulation S Global Notes**” and, together with the Rule 144A Global Notes, the “**Global Notes**”).

The Rule 144A Global Notes will be deposited with a custodian for DTC, and registered in the name of Cede & Co. as nominee of DTC. The Regulation S Global Notes will be deposited with, and registered in the name of, a nominee of a common depository for Euroclear and Clearstream. The Notes will be issued in minimum denominations of \$200,000 and integral multiples of \$1,000 in excess thereof.

Ownership of interests in the Global Notes will be limited to persons that have accounts with DTC, Euroclear and/or Clearstream, as applicable, or persons that may hold interests through such participants. Ownership of interests in the Book-Entry Interests and transfers thereof will be subject to the restrictions on transfer and certification requirements summarized below and described more fully under “*Notice to Investors*.” Book-Entry Interests will be shown on, and transfers thereof will be effected only through, records maintained in book-entry form by DTC, Euroclear and Clearstream and their participants, as applicable, pursuant to customary procedures and subject to the applicable rules and procedures established by Euroclear, Clearstream or DTC, as applicable, and their respective participants.

The Book-Entry Interests will not be held in definitive form. Instead, DTC, Euroclear and/or Clearstream will credit on their respective book-entry registration and transfer systems a participant’s account with the interest beneficially owned by such participant. Except as set forth below, the Global Notes may be transferred, in whole and not in part, only to another nominee of DTC, Euroclear or Clearstream as applicable, or to a successor of DTC, Euroclear or Clearstream as applicable, or their nominees. Book-Entry Interests in the Global Notes may not be exchanged for definitive notes in registered certificated form (“**Certificated Notes**”) except in the limited circumstances described below. Please see “– *Exchange of Global Notes for Certificated Notes*.” The laws of some jurisdictions may require that certain purchasers of securities take physical delivery of such securities in definitive form. The foregoing limitations may impair the ability to own, transfer or pledge Book-Entry Interests.

In addition, while the Notes are in global form, “holders” of Book-Entry Interests will not be considered the owners or “Holders” of Notes for any purpose. As long as the Notes are held in global form, DTC, Euroclear and/or Clearstream, as applicable (or their respective nominees), will be considered the Holders of Global Notes for all purposes under the Indenture. As such, participants must rely on the procedures of DTC, Euroclear and/or Clearstream and indirect participants must rely on the procedures of DTC, Euroclear and/or Clearstream and the participants through which they own Book-Entry Interests in order to exercise any rights of Holders under the Indenture. Neither we nor the Trustee nor any of our respective agents will have any responsibility or be liable for any aspect of the records relating to the Book-Entry Interests.

Payments on Global Notes

Payments of amounts owing in respect of the Global Notes (including principal, interest and premium, if any) will be made by us to the paying agents. The paying agents will, in turn, make such payments to DTC or its nominee (in the case of the Rule 144A Global Notes) and to the common depository for Euroclear and Clearstream (in the case of the Regulation S Global Notes), which will distribute such payments to participants in accordance with their respective procedures.

Under the terms of the Indenture, we, the Paying Agent, Registrar and the Trustee will treat the registered holder of the Global Notes (i.e., DTC, Euroclear or Clearstream (or their respective nominees)) as the owner thereof for the purpose of receiving payments and for all other purposes. Consequently, neither we nor the Paying Agents, Registrar and Trustee or any of our respective agents has or will have any responsibility or liability for:

- any aspects of the records of DTC, Euroclear, Clearstream or any participant or indirect participant relating to, or payments made on account of, a Book-Entry Interest, for any such payments made by DTC, Euroclear, Clearstream or any participant or indirect participants, or for maintaining supervising

or reviewing the records of DTC, Euroclear, Clearstream or any participant or indirect participant relating to, or payments made on account of, a Book-Entry Interest; or

- any other matter relating to the actions and practices of DTC, Euroclear or Clearstream or any participant or indirect participant.

Payments by participants to owners of Book-Entry Interests held through participants are the responsibility of such participants, as is now the case with securities held for the accounts of customers registered in “street name.”

Action by owners of book-entry interests

DTC, Euroclear and Clearstream have advised us that they will take any action permitted to be taken by a Holder of Notes only at the direction of one or more participants to whose account the Book-Entry Interests in the Global Notes are credited and only in respect of such portion of the aggregate principal amount of Notes of any series as to which such participant or participants has or have given such direction. DTC, Euroclear and Clearstream will not exercise any discretion in the granting of consents, waivers or the taking of any other action in respect of the Global Notes. However, if there is an event of default under the Notes, each of DTC, Euroclear and Clearstream reserves the right to exchange the Global Notes for definitive registered Notes in certificated form, and to distribute such definitive registered Notes to their respective participants.

Exchanges between the global notes

The Global Notes will bear a legend to the effect set forth in “*Notice to Investors*.” Book-Entry Interests in the Global Notes will be subject to the restrictions on transfer discussed in “*Notice to Investors*.” Book-Entry Interests in any Rule 144A Global Note may be transferred to a person who takes delivery in the form of Book-Entry Interests in the Regulation S Global Notes of the same series only upon delivery by the transferor of a written certification (in the form provided in the Indenture) to the effect that such transfer is being made in accordance with Regulation S under the Securities Act. Regulation S Book-Entry Interests may be transferred to a person who takes delivery in the form of Rule 144A Book-Entry Interests only upon delivery by the transferor of a written certification (in the form provided in the Indenture) to the effect that such transfer is being made to a person who the transferor reasonably believes is a “qualified institutional buyer” within the meaning of Rule 144A in a transaction meeting the requirements of Rule 144A or otherwise in accordance with the transfer restrictions described under “*Notice to Investors*” and in accordance with any applicable securities law of any other jurisdiction.

Any Book-Entry Interest that is transferred as described in the immediately preceding paragraphs will, upon transfer, cease to be a Book-Entry Interest in the Global Note from which it was transferred and will become a Book-Entry Interest in the Global Note of such series to which it was transferred. Accordingly, from and after such transfer, it will become subject to all transfer restrictions, if any, and other procedures applicable to Book-Entry Interests in the Global Note to which it was transferred.

If definitive registered notes are issued, they will be issued only in minimum denominations of \$200,000 principal amount and integral multiples of \$1,000, respectively, in excess thereof, as the case may be, upon receipt by the registrar of instructions relating thereto and any certificates, opinions and other documentation required by the Indenture. It is expected that such instructions will be based upon directions received by Euroclear, Clearstream or DTC, as applicable, from the participant who owns the relevant Book-Entry Interests. Definitive registered Notes issued in exchange for a Book-Entry Interest will, except as set forth in the Indenture or as otherwise determined by the Issuer to be in compliance with applicable law, be subject to, and will have a legend with respect to, the restrictions on transfer summarized below and described more fully under “*Notice to Investors*.” In connection with any such transfer or exchange, the Indenture will require the transferring or exchanging Holder to, among other things, furnish appropriate endorsements and transfer documents, to furnish information regarding the account of the transferee at Euroclear, Clearstream or DTC, where appropriate, to furnish certain certificates and opinions, and to pay any taxes, duties and governmental charges in connection with such transfer or exchange. Any such transfer or exchange will be made without charge to the Holder, other than any taxes, duties and governmental charges payable in connection with such transfer.

Exchange of global notes for certificated notes

A Global Note is exchangeable for Certificated Notes if:

- (1) in the case of a Rule 144A Global Note, if DTC (a) notifies us that it is unwilling or unable to continue as depository for such Global Notes or (b) has ceased to be a clearing agency registered under the Exchange Act and, in either case, we fail to appoint a successor depository;
- (2) in the case of a Regulation S Global Note, if Euroclear or Clearstream notifies us that it is unwilling or unable to continue as depository for such Global Notes, and we have failed to appoint a qualified successor; or
- (3) there has occurred and is continuing a default or event of default with respect to the Notes.

In addition, Book-Entry Interests in a Global Note may be exchanged for Certificated Notes upon prior written notice given to the Trustee by or on behalf of DTC, Euroclear or Clearstream, as applicable, in accordance with the Indenture. In all cases, Certificated Notes delivered in exchange for any Global Note or beneficial interests in Global Notes will be registered in the names, and issued in any approved denominations, requested by or on behalf of the depository (in accordance with its customary procedures) and will bear the restrictive legend referred to in “*Notice to Investors*,” unless that legend is not required by applicable law.

Information concerning DTC, Euroclear and Clearstream

All Book-Entry Interests will be subject to the operations and procedures of DTC, Euroclear and Clearstream, as applicable. We provide the following summaries of those operations and procedures solely for the convenience of investors. The operations and procedures of each settlement system are controlled by that settlement system and may be changed at any time. Neither we nor the Initial Purchasers are responsible for those operations or procedures. The Issuer and the Guarantors understand as follows with respect to DTC and Euroclear and Clearstream:

DTC. DTC is:

- a limited purpose trust company organized under New York Banking Law;
- a “banking organization” under New York Banking Law;
- a member of the Federal Reserve System;
- a “clearing corporation” within the meaning of the New York Uniform Commercial Code; and
- a “clearing agency” registered under Section 17A of the Exchange Act.

DTC was created to hold securities for its participants and to facilitate the clearance and settlement of transactions among its participants. It does this through electronic book-entry changes in the accounts of securities participants, eliminating the need for physical movement of securities certificates. DTC participants include securities brokers and dealers, banks, trust companies, clearing corporations and certain other organizations. DTC’s owners are the NYSE Euronext and the National Association of Securities Dealers, Inc. and a number of its direct participants. Other parties, such as banks, brokers and dealers and trust companies, who clear through or maintain a custodial relationship with a direct participant also have access to the DTC system and are known as indirect participants.

Euroclear and Clearstream. Like DTC, Euroclear and Clearstream hold securities for participating organizations. They also facilitate the clearance and settlement of securities transactions between their respective participants through electronic book-entry changes in the accounts of such participants. Euroclear and Clearstream provide various services to their participants, including the safekeeping, administration, clearance, settlement, lending and borrowing of internationally traded securities. Euroclear and Clearstream interface with domestic securities markets. Euroclear and Clearstream participants are financial institutions such as underwriters, securities brokers and dealers, banks, trust companies and certain other organizations. Indirect access to Euroclear and Clearstream is also available to others such as banks, brokers, dealers and trust companies that clear through or maintain a custodial relationship with a Euroclear and Clearstream participant, either directly or indirectly.

Global clearance and settlement under the book-entry system

The notes represented by the Global Notes are to be listed on the Euro MTF market of the Luxembourg Stock Exchange. The Global Notes are expected to trade in DTC's Same-Day Funds Settlement System, and any permitted secondary market trading activity in the Notes will, therefore, be required by DTC to be settled in immediately available funds. Subject to compliance with the transfer restrictions applicable to the Global Notes, cross-market transfers between participants in DTC, on the one hand, and Euroclear or Clearstream participants, on the other hand, will be done through DTC in accordance with DTC's rules on behalf of each of Euroclear or Clearstream by the common depositary; however, such cross-market transactions will require delivery of instructions to Euroclear or Clearstream by the counterparty in such system in accordance with the rules and regulations and within the established deadlines of such system (Brussels time). Euroclear or Clearstream will, if the transaction meets its settlement requirements, deliver instructions to the common depositary to take action to effect final settlement on its behalf by delivering or receiving interests in the Global Notes from DTC, and making and receiving payment in accordance with normal procedures for same-day funds settlement applicable to DTC. Euroclear participants and Clearstream participants may not deliver instructions directly to the common depositary.

Because of time zone differences, the securities account of a Euroclear or Clearstream participant purchasing an interest in a Global Note from a participant in DTC will be credited, and any such crediting will be reported to the relevant Euroclear or Clearstream participant, during the securities settlement processing day (which must be a business day for Euroclear and Clearstream) immediately following the settlement date of DTC. Cash received by Euroclear and Clearstream as a result of a sale of an interest in a Global Note by or through a Euroclear or Clearstream participant to a participant in DTC will be received with value on the settlement date of DTC but will be available in the relevant Euroclear or Clearstream cash account only as of the business day for Euroclear or Clearstream following DTC's settlement date.

The Book-Entry Interests will trade through participants of DTC, Euroclear or Clearstream will settle in same-day funds. Since the purchase determines the place of delivery, it is important to establish at the time of trading of any Book-Entry Interests where both the purchaser's and the seller's accounts are located to ensure that settlement can be made on the desired value date.

Although DTC, Euroclear and Clearstream currently follow the foregoing procedures in order to facilitate transfers of interests in the Global Notes among participants in DTC, Euroclear or Clearstream, as the case may be, they are under no obligation to perform or continue to perform such procedures, and such procedures may be discontinued or modified at any time. None of the Issuer, the Trustee or the Paying Agent will have any responsibility for the performance by DTC, Euroclear or Clearstream or their respective participants or indirect participants, of their respective obligations under the rules and procedures governing their operations.

TAXATION

Nigeria

General

The following is a general summary of Nigerian tax consequences as of the date hereof. This summary does not purport to describe all possible tax considerations or consequences that may be relevant to a holder or prospective holder of Notes. In view of its general nature, it should be treated with corresponding caution. It is not exhaustive and purchasers are urged to consult their professional advisers as to the tax consequences to them of acquiring, holding or transferring the Notes. Except as otherwise indicated, this summary only addresses Nigerian tax legislation, as in effect and in force at the date hereof, as interpreted and applied by the courts or tax authorities in Nigeria, without prejudice to any amendments introduced at a later date and implemented with or without retroactive effect.

Taxation of Noteholders

Under Nigerian law, income accruing in, derived from, brought into, or received in Nigeria in respect of dividends, interest, royalties, discounts, charges or annuities is subject to tax. Interest shall be deemed to be derived from Nigeria if (a) there is a liability to payment of the interest by a Nigerian company or a company in Nigeria regardless of where or in what form the payment is made, or (b) the interest accrues to a foreign company or person from a Nigerian company or a company in Nigeria regardless of whichever way the interest may have accrued. Consequently, interest payments on the Notes derived from Nigeria and accruing to both Nigerian and non-Nigerian Noteholders would ordinarily be subject to withholding tax in Nigeria at the applicable rate of 10% or 7.5% if the foreign company or person to whom the interest accrues is resident in a country with which Nigeria has a double taxation treaty (which has been ratified by the Nigerian National Assembly) and the Company would be required to withhold tax on such payments and remit to the Nigerian Federal Inland Revenue Service.

However, the Government has approved a waiver of capital gains tax and income tax on all forms of debt instruments and the legislative and administrative processes required to give legal effect to the waivers save for the waiver on capital gains tax have been implemented. In furtherance of the waiver, the Government has issued the Companies Income Tax (Exemption of Bonds and Short Term Government Securities) Order 2011 (the “**CIT Order**”), which exempts bonds issued by corporate bodies from tax imposed under the Companies’ Income Tax Act for a period of ten years from the date of the CIT Order being 2 January 2012. Therefore, interest payments made by the Company to the Noteholders will not be subject to withholding tax under Nigerian law where the tenor of the Notes does not exceed the duration of the CIT Order (2 January 2022). The exemption would be applicable to both Nigerian and Non-Nigerian Noteholders of the Notes (corporate entities) as the CIT Order is in relation to bonds issued by corporate bodies, including the Company. Upon expiration of the exemption period on 2 January 2022, where the Notes remain outstanding, the interest accruing to both Nigerian and Non-Nigerian Noteholders would be subject to withholding tax and the Company may be required by law to withhold tax on interest payment on such Notes.

The Personal Income Tax Act 2004 Cap P8 Laws of the Federation of Nigeria 2004, as amended by the Personal Income Tax (Amendment) Act No. 20 of 2011 (“**PITA**”) also exempts from taxation any income earned by an individual from bonds issued by corporate bodies, such as the Company. There is no limitation period for the exemption granted in the PITA. Thus, except as otherwise provided by any subsequent amendments to the PITA, interest payments by the Company to individual Noteholders subject to the PITA will not be subject to withholding tax even after January 1, 2022.

In relation to capital gains tax, whilst there is no capital gains tax payable upon the disposal of any Nigerian government securities in Nigeria, under the provisions of the Capital Gains Tax Act, Cap C1 Laws of the Federation of Nigeria 2004 (“**CGT Act**”), capital gains tax is chargeable on gains derived from the sale of bonds and debt instruments other than Nigerian government securities (i.e. federal, state and local government bonds). The CGT Act provides that any gain paid, used or enjoyed in or in any manner or form transmitted or brought to Nigeria shall be treated as being derived from Nigeria for the purposes of the CGT Act. In the case of an individual who is in Nigeria for a temporary purpose only and does not have any view or intent to establish his residence in Nigeria, such gain will be subject to tax if the period or sum of the periods for which he is present in Nigeria in that year of assessment exceeds 182 days. However, capital gains tax may, in future, not be charged on gains realized from a disposal of corporate bonds or other non-governmental debt instruments. This is so because the Federal Government of Nigeria has approved a

waiver of capital gains tax on gains from disposal of corporate bonds, but the legislative and administrative processes required to give legal effect to the waiver have not yet been implemented.

The proceeds from the disposal of corporate bonds issued by Nigerian corporate entities would ordinarily be subject to value added tax ("VAT") in Nigeria under the Value Added Tax Act Chapter V1 Laws of the Federation of Nigeria 2004, as amended by the Value Added Tax (Amendment) Act No. 12 2007. However, such proceeds are also exempt from VAT in accordance with the Value Added Tax (Exemption of Proceeds of the Disposal of Government and Corporate Securities) Order 2011 (the "VAT Exemption Order"). This exemption applies for a period of ten years from the date of the VAT Exemption Order, (i.e. the exemption expires on 2 January 2022 (where the same is not extended)). Thus, VAT will not be payable upon a disposal of the Notes during the subsistence of the VAT Exemption Order. However, upon termination of the exemption period on 2 January 2022, where the Notes remain outstanding, and the exemption period has not been extended, the proceeds of the disposal of the Notes by Nigerian Noteholders would be subject to VAT.

Accordingly, where any Notes continue to be outstanding beyond January 1, 2022, interest payments on such Notes may be subject to withholding tax (if held by corporate Noteholders), and to VAT.

Stamp duties

The Purchase Agreement and Indenture would be subject to stamp duty on an *ad valorem* basis. Based on current practice in Nigeria, where several instruments relating to the same transaction are addressed on an *ad valorem* basis, only one of such instruments will be stamped *ad valorem*, while others will be stamped at a nominal rate.

The documents for the issue of any series of Notes are intended to be executed and held outside of Nigeria and are therefore not required to be stamped in Nigeria under the Stamp Duties Act. However, if it becomes necessary to bring any such documentation into Nigeria and for the purpose of admission in evidence before a Nigerian court and enforcement by such courts, the documents will be required to be stamped and will be subject to the payment of the relevant rate of stamp duty, assessed by the Nigerian Commissioner for Stamp Duties, as prescribed by the Stamp Duties Act. Arrangements will need to be made for the payment of stamp duty within 30 days from when the documents are "brought into" Nigeria. The term "brought into" is derived from the provision of the Stamp Duties Act which stipulates that instruments chargeable with *ad valorem* duty, such as bonds, would be required to be stamped before the expiration of 30 days after it is first executed, or after it has been first received in Nigeria, if it was first executed at any place outside Nigeria. Consequently, in the case of the Notes, the term "brought into" refers to the first receipt of the Notes in Nigeria.

Stamp duty is payable in Nigeria either on a flat rate or an *ad valorem* basis. Based on current practice in Nigeria, it is unclear whether stamp duty will be assessed on the Indenture at a flat rate or on an *ad valorem* basis.

Pursuant to the Stamp Duties Act and only in the case the Notes are first received in Nigeria, the stamp duty payable on the issuance of the Notes transferable by delivery is 2.25%. However, with respect to marketable securities that are not transferable by delivery, and again only in the case the Notes are brought into Nigeria, the applicable rate of stamp duties is 0.375%. Other taxes and duties.

In addition, the Stamp Duties Act requires a statement of the amount to be secured by an issue of loan capital by a company in Nigeria to be delivered to the CAC and charged with *ad valorem* duty of 0.125%. However, this duty will not apply where it is shown to the satisfaction of the CAC that the duty in respect of a marketable security has been paid on any indenture or trust deed. Whilst section 102 of the Stamp Duties Act hitherto applied to only secured loans, the Nigerian Federal Inland Revenue Service has recently indicated that the section may now also apply to unsecured loan capital.

Save as set out above, no registration fees, or any other similar documentary tax, charge or duty will be payable in Nigeria by the Noteholders in respect of, or in connection with the issue of the Notes or with respect to the payment of interest or principal by the Company under the Notes.

Certain U.S. federal income tax considerations

The following is a discussion of certain U.S. federal income tax considerations of the purchase, ownership and disposition of the Notes, but does not purport to be a complete analysis of all potential tax effects. This discussion is based upon the United States Internal Revenue Code of 1986, as amended (the "**Code**"),

Treasury regulations issued thereunder (the “**Treasury Regulations**”), and judicial and administrative interpretations thereof, each as in effect on the date hereof, and all of which are subject to change, possibly with retroactive effect. This discussion is limited to consequences relevant to a U.S. holder (as defined below), except for the discussion of Additional Notes (as defined below) and FATCA (as defined under “– *Foreign Account Tax Compliance Act*”). This discussion does not address the impact of the U.S. federal Medicare tax on net investment income or the effects of any U.S. federal tax laws other than U.S. federal income tax laws (such as estate and gift tax laws) or any state, local or non-U.S. tax laws. No rulings from the U.S. Internal Revenue Service (the “**IRS**”) have been or are expected to be sought with respect to the matters discussed below. There can be no assurance that the IRS will not take a different position concerning the tax consequences of the purchase, ownership or disposition of the Notes or that any such position would not be sustained.

This discussion does not address all of the U.S. federal income tax consequences that may be relevant to a holder in light of such holder’s particular circumstances or to holders subject to special rules, such as financial institutions, U.S. expatriates, insurance companies, dealers in securities or currencies, traders in securities, U.S. holders whose functional currency is not the U.S. dollar, tax-exempt entities, regulated investment companies, real estate investment trusts, partnerships or other pass-through entities (or investors in such entities), persons liable for alternative minimum tax, persons subject to special tax accounting rules as a result of any item of gross income with respect to the Notes being taken into account in an applicable financial statement and persons holding the Notes as part of a “straddle,” “hedge,” “conversion transaction” or other integrated transaction. In addition, this discussion is limited to persons who purchase the Notes for cash at original issue and at their “issue price” (i.e., the first price at which a substantial amount of the Notes is sold for money, not including sales to bond houses, brokers or similar persons or organizations acting in the capacity of underwriters, placement agents or wholesalers) and who hold the Notes as capital assets within the meaning of Section 1221 of the Code.

For purposes of this discussion, a “**U.S. holder**” is a beneficial owner of a Note that is, for U.S. federal income tax purposes, (i) an individual who is a citizen or resident of the United States; (ii) a corporation or any entity taxable as a corporation created or organized in or under the laws of the United States, any state thereof or the District of Columbia; (iii) an estate the income of which is subject to U.S. federal income taxation regardless of its source; or (iv) a trust if a court within the United States is able to exercise primary supervision over the administration of the trust and one or more U.S. persons have the authority to control all substantial decisions of the trust, or if a valid election is in place to treat the trust as a U.S. person.

If any entity or arrangement treated as a partnership for U.S. federal income tax purposes holds the Notes, the tax treatment of a partner in the partnership will generally depend upon the status of the partner and the activities of the partnership. A holder that is a partnership, and partners in such partnerships, should consult their tax advisors regarding the U.S. federal income tax consequences of the purchase, ownership and disposition of the Notes.

Prospective purchasers of the Notes should consult their tax advisors concerning the tax consequences of holding Notes in light of their particular circumstances, including the application of the U.S. federal income tax considerations discussed below, as well as the application of U.S. federal estate and gift tax laws, the U.S. federal Medicare tax on net investment income, and state, local, non-U.S. or other tax laws.

Characterization of the Notes

In certain circumstances (see, e.g., “Description of Notes—Optional redemption” and “Description of Notes—Additional amounts”) we may be obligated to make payments on the Notes in excess of stated principal and interest. We intend to take the position that the foregoing contingencies should not cause the Notes to be treated as contingent payment debt instruments. Our position is binding on a holder, unless the holder discloses in the proper manner to the IRS that it is taking a different position. If the IRS successfully challenged this position, and the Notes were treated as contingent payment debt instruments, U.S. holders could be required to accrue interest income at a rate higher than their yield to maturity and to treat as ordinary income, rather than capital gain, any gain recognized on a sale, exchange, retirement or redemption of a Note. This disclosure assumes that the Notes will not be considered contingent payment debt instruments. U.S. holders are urged to consult their tax advisors regarding the potential application to the Notes of the contingent payment debt instrument rules and the consequences thereof.

Payments of stated interest

Payments of stated interest on a Note (without reduction for any amounts withheld and, subject to the discussion below, including additional amounts paid in respect of withholding taxes) generally will be includible in the gross income of a U.S. holder as ordinary interest income at the time the interest is received or accrued, in accordance with the U.S. holder's method of accounting for U.S. federal income tax purposes. Any non-U.S. withholding tax paid by a U.S. holder at the rate applicable to such holder may be eligible for foreign tax credits (or deduction in lieu of such credits) for U.S. federal income tax purposes, subject to applicable limitations. Interest on the notes generally will be income from sources outside the United States and, for purposes of the U.S. foreign tax credit, generally will be considered passive category income. The calculation of foreign tax credits involves the application of complex rules that depend on a U.S. holder's particular circumstances. U.S. holders should consult their tax advisors regarding the availability of foreign tax credits.

Original issue discount

The Notes may be issued with original issue discount ("**OID**") for U.S. federal income tax purposes. In such event, U.S. holders generally will be required to include such OID in gross income (as ordinary income) on an annual basis under a constant yield accrual method regardless of their regular method of accounting for U.S. federal income tax purposes. As a result, U.S. holders will generally include any OID in income in advance of the receipt of cash attributable to such income.

The Notes will be treated as issued with OID if the stated redemption price at maturity exceeds the issue price (as defined above) by an amount equal to or more than a statutorily defined *de minimis* amount (generally, 0.0025 multiplied by the stated principal amount and the number of complete years to maturity from the issue date). The stated redemption price at maturity of the Notes generally is equal to all payments on the Notes (including additional amounts) other than stated interest. While not entirely clear, we believe, and the discussion herein assumes, that the "maturity date" for this purpose should be determined based on the option rule, further described below.

The Company has options to redeem the Notes at varying prices over the term of the Notes. In determining the amount and accrual of OID, the applicable Treasury Regulations provide that the Company is assumed to exercise or not exercise its options in a manner that minimizes the yield on the Notes. Under such rule and taking into account the scheduled expiration of the Nigerian withholding tax exemption and the resulting obligation of the Company to pay additional amounts with respect thereto, the Company will be assumed to redeem the Notes on the date prior to the scheduled expiration of the Nigerian withholding tax exemption if doing so would minimize the yield of the Notes (taking into account additional amounts to be paid following such expiration) which determination will depend on the issue price of the Notes for U.S. federal income tax purposes. We believe that such assumption should also be used in determining the stated redemption price at maturity of the Notes. This assumption is made solely for such U.S. federal income tax purposes and does not constitute a representation regarding the elections the Company will make. If the Notes were assumed to have been redeemed but in fact are not, then solely for the purposes of determining the amount and accrual of OID, the Notes will be treated as retired and reissued on the date of the change in circumstances for an amount equal to their adjusted issue price and the yield to maturity on the Notes will be redetermined taking into account such change in circumstances.

In the event that the Notes are issued with OID, the amount of OID includible in income by a U.S. holder is the sum of the "daily portions" of OID with respect to the Note for each day during the taxable year or portion thereof in which such U.S. holder holds the Note. A daily portion is determined by allocating to each day in any "accrual period" a pro rata portion of the OID that accrued in such period. The accrual period of a Note may be of any length and may vary in length over the term of the Note, provided that each accrual period is no longer than one year and each scheduled payment of principal or interest occurs either on the first or last day of an accrual period. The amount of OID that accrues with respect to any accrual period is the excess of (i) the product of the Note's "adjusted issue price" at the beginning of such accrual period and its "yield to maturity," determined on the basis of compounding at the close of each accrual period and properly adjusted for the length of such period, over (ii) the amount of stated interest allocable to such accrual period. The adjusted issue price of a Note at the start of any accrual period generally is equal to its issue price, increased by the accrued OID for each prior accrual period. The yield to maturity of a Note is the discount rate that, when used in computing the present value of all principal and interest payments to be made under the Note, produces an amount equal to the issue price of the Note.

OID generally will be income from sources outside the United States and, for purposes of the U.S. foreign tax credit, generally will be considered passive category income.

Sale, exchange, retirement or other taxable disposition of Notes

Upon the sale, exchange, retirement or other taxable disposition of a Note, a U.S. holder generally will recognize gain or loss in an amount equal to the difference between the amount realized upon such disposition (other than amounts attributable to accrued and unpaid stated interest, which will be taxable as ordinary interest income as described above) and the U.S. holder's adjusted tax basis in the Note. A U.S. holder's adjusted tax basis in a Note generally will equal the cost of the Note to the U.S. holder, increased by any OID previously accrued by such U.S. holder with respect to such Note.

Any gain or loss recognized by a U.S. holder on the sale, exchange, retirement or other taxable disposition of a Note will generally be U.S. source capital gain or loss and will be long-term capital gain or loss if the U.S. holder has held the Note for more than one year at the time of the sale, exchange, retirement or other taxable disposition. In the case of an individual U.S. holder, any such gain may be eligible for preferential U.S. federal income tax rates if the U.S. holder satisfies certain prescribed minimum holding periods. The deductibility of capital losses is subject to limitations.

Information reporting and backup withholding

In general, payments of interest (including the accrual of OID, if any) and the proceeds from sales or other dispositions (including retirements or redemptions) of Notes held by a U.S. holder may be required to be reported to the IRS unless the U.S. holder is an exempt recipient and, when required, demonstrates this fact. In addition, a U.S. holder that is not an exempt recipient may be subject to backup withholding unless it provides a taxpayer identification number and otherwise complies with applicable certification requirements.

Backup withholding is not an additional tax. Amounts withheld as backup withholding may be credited against a U.S. holder's U.S. federal income tax liability and may entitle the holder to a refund, provided that the appropriate information is timely furnished to the IRS.

Information with respect to foreign financial assets

Certain U.S. holders who are individuals and who hold an interest in "specified foreign financial assets" (as defined in section 6038D of the Code) are required to report information relating to an interest in the Notes, subject to certain exceptions (including an exception for Notes held in accounts maintained by certain financial institutions). Under certain circumstances, an entity may be treated as an individual for purposes of the foregoing rules. U.S. holders should consult their tax advisors regarding the effect, if any, of this requirement on their ownership and disposition of the Notes.

Foreign Account Tax Compliance Act

Pursuant to Sections 1471 through 1474 of the Code (provisions commonly known as "FATCA"), a "foreign financial institution" may be required to withhold U.S. tax on certain "passthru" payments made after December 31, 2018 to the extent such payments are treated as attributable to certain U.S. source payments. Obligations issued on or prior to the date that is six months after the date on which applicable final regulations defining foreign passthru payments are filed generally would be "grandfathered", and thus not subject to the rules regarding foreign passthru payments, unless materially modified after such date. Accordingly, if the Company is treated as a foreign financial institution, FATCA would apply to payments on the Notes only if there is a significant modification of the Notes for U.S. federal income tax purposes after the expiration of this grandfathering period. Non-U.S. governments have entered into agreements with the United States to implement FATCA in a manner that alters the rules described herein. Holders should consult their own tax advisors on how these rules may apply to their investment in the Notes. In the event any withholding under FATCA is imposed with respect to any payments on the Notes, there will be no additional amounts payable to compensate for the withheld amount.

PLAN OF DISTRIBUTION

Subject to the terms and conditions set forth in a purchase agreement (the “**Purchase Agreement**”), by and among the Company, the Guarantors and the Initial Purchasers, we have agreed to sell to each Initial Purchaser, and each Initial Purchaser has agreed, severally and not jointly, to purchase from us, together with all other Initial Purchasers, the entire principal amount of the Notes.

The Purchase Agreement provides that the obligations of the Initial Purchasers to pay for and accept delivery of the Notes are subject to, among other conditions, the delivery of certain legal opinions by their counsel.

The Initial Purchasers propose to offer the Notes initially at the price indicated on the cover page hereof. After the initial offering of the Notes, the offering price and other selling terms of the Notes may from time to time be varied by the Initial Purchasers without notice. Sales in the United States may be made through certain affiliates (as defined under Rule 501(b) of Regulation D of the U.S. Securities Act) of the Initial Purchasers.

If a jurisdiction requires that the offering of Notes be made by a licensed broker or dealer and an Initial Purchaser or any affiliate (as defined in Rule 501(b) of Regulation D of the U.S. Securities Act) of the applicable Initial Purchaser is a licensed broker or dealer in that jurisdiction, the offering shall be deemed to be made by the Initial Purchasers or such affiliate on behalf of the Issuer in such jurisdiction.

To the extent that the Initial Purchasers intend to effect any sales of the Notes in the United States, they will do so through their respective selling agents, or through one or more U.S. registered broker-dealers or as otherwise permitted by applicable U.S. law.

Persons who purchase Notes from the Initial Purchasers may be required to pay stamp duty, taxes and other charges in accordance with the laws and practice of the country of purchase in addition to the offering price set forth on the cover page hereof.

The Purchase Agreement provides that we will indemnify and hold harmless the Initial Purchasers against certain liabilities, including liabilities under the U.S. Securities Act, and will contribute to payments that the Initial Purchasers may be required to make in respect thereof. We have agreed, subject to certain limited exceptions, that during the period from the date hereof through and including the date that is 90 days after the date hereof, we will not, and the Guarantors will not, without the prior written consent provided for in the Purchase Agreement, offer, sell, contract to sell or otherwise dispose of any debt securities issued or guaranteed by the Company or any of the Guarantors and having a tenor of more than one year (other than the Notes and Guarantees).

The Notes and the Note Guarantees have not been and will not be registered under the U.S. Securities Act and may not be offered or sold within the United States except to qualified institutional buyers in reliance on Rule 144A under the U.S. Securities Act and to certain persons in offshore transactions in reliance on Regulation S under the U.S. Securities Act. Terms used in this paragraph have the meanings given to them by Regulation S under the U.S. Securities Act. Resales of the Notes are restricted as described under “*Notice to investors.*”

Each Initial Purchaser represents warrants and agrees that it:

- has only communicated or caused to be communicated and will only communicate or cause to be communicated any invitation or inducement to engage in investment activity (within the meaning of Section 21 of the FSMA) received by it in connection with the issue or sale of any Notes in circumstances in which section 21(1) of the FSMA does not apply to us or the Guarantors; and
- has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to the Notes in, from or otherwise involving the United Kingdom.

No action has been taken in any jurisdiction, including the United States and the United Kingdom, by us or the Initial Purchaser that would permit a public offering of the Notes or the possession, circulation or distribution of this Offering Memorandum or any other material relating to us or the Notes in any jurisdiction where action for this purpose is required. Accordingly, the Notes may not be offered or sold, directly or indirectly, and neither this Offering Memorandum nor any other offering material or advertisements in connection with the Notes may be distributed or published, in or from any country or jurisdiction, except in compliance with any applicable rules and regulations of any such country or jurisdiction. This Offering Memorandum does not constitute an offer to sell or a solicitation of an offer to purchase in any jurisdiction where such offer or solicitation would be unlawful. Persons into whose

possession this Offering Memorandum comes are advised to inform themselves about and to observe any restrictions relating to the offering of the Notes, the distribution of this Offering Memorandum and resale of the Notes. See *“Notice to investors.”*

We and the Guarantors have also agreed that we will not at any time offer, sell, contract to sell, pledge or otherwise dispose of, directly or indirectly, any securities under circumstances in which such offer, sale, pledge, contract or disposition would cause the exemption afforded by Section 4(a)(2) of the U.S. Securities Act or the safe harbor of Rule 144A and Regulation S under the U.S. Securities Act to cease to be applicable to the offer and sale of the Notes.

The Notes are a new issue of securities for which there currently is no market. We have applied, through our listing agent, to list the Notes on the Luxembourg Stock Exchange and to trade the Notes on the Euro MTF Market, however, we cannot assure you that the Notes will be approved for listing or that such listing will be maintained.

The Initial Purchasers have advised us that they intend to make a market in the Notes as permitted by applicable law. The Initial Purchasers are not obligated, however, to make a market in the Notes, and any market-making activity may be discontinued at any time at the sole discretion of the Initial Purchaser without notice. In addition, any such market-making activity will be subject to the limits imposed by the U.S. Exchange Act. Accordingly, we cannot assure you that any market for the Notes will develop, that it will be liquid if it does develop, or that you will be able to sell any Notes at a particular time or at a price which will be favorable to you. See *“Risk factors – Risks relating to the Notes and our structure – There may not be an active trading market for the Notes, in which case your ability to sell the Notes may be limited.”*

We expect that delivery of the Notes will be made against payment on the Notes on or about the date specified on the cover page of this Offering Memorandum, which will be 7 business days (as such term is used for purposes of Rule 15c6-1 of the U.S. Exchange Act) following the date of pricing of the Notes. Under Rule 15c6-1 of the U.S. Exchange Act, trades in the secondary market generally are required to settle in two business days, unless the parties to any such trade expressly agree otherwise. Accordingly, purchasers who wish to trade Notes on the date of pricing or the next 4 succeeding business days will be required, by virtue of the fact that the Notes initially will settle in T + 7, to specify an alternate settlement cycle at the time of any such trade to prevent a failed settlement. Purchasers of the Notes who wish to make such trades should consult their own legal advisor.

In connection with the Offering, the Stabilizing Manager, or a person acting on its behalf, may engage in transactions that stabilize, maintain or otherwise affect the price of the Notes. Specifically, the Stabilizing Manager, or persons acting on its behalf, may bid for and purchase Notes in the open markets in connection with over-allotment, stabilizing transactions, covering transactions and penalty bids in accordance with Regulation M under the Exchange Act. Over-allotment involves sales in excess of the Offering size, which creates a short position for the Stabilizing Manager. Stabilizing transactions permit bidders to purchase the underlying security so long as the stabilizing bids do not exceed a specified maximum. Covering transactions involve purchases of the Notes in the open market after the distribution has been completed in order to cover short positions. Penalty bids permit the Stabilizing Manager to reclaim a selling concession from a broker or dealer when the Notes originally sold by that broker or dealer are purchased in a stabilizing or covering transaction to cover short positions. In addition, the Stabilizing Manager may bid for and purchase Notes in market-making transactions as permitted by applicable laws and regulations. These activities may stabilize or maintain the market price of the Notes above market levels that may otherwise prevail. The Stabilizing Manager is not required to engage in these activities. Such stabilizing, if commenced, may be discontinued at any time, and must be brought to an end after a limited period. Accordingly, no assurances can be given as to the liquidity of, or trading markets for, the Notes. See *“Risk Factors – Risks Relating to Our Financing Arrangements and the Notes – There may not be an active trading market for the Notes, in which case your ability to sell the Notes may be limited.”*

These stabilizing transactions and covering transactions may cause the price of the Notes to be higher than it would otherwise be in the absence of these transactions. These transactions may begin on or after the date on which adequate public disclosure of the terms of the Offering is made and, if commenced, may be discontinued at any time at the sole discretion of the Stabilizing Manager. If these activities are commenced, they must end no later than the earlier of 30 days after the Issue Date of the Notes and 60 days after the date of the allotment of the Notes. These transactions may be effected in the over-the-counter market or otherwise.

These stabilizing transactions, covering transactions and penalty bids may cause the price of the Notes to be higher than it would otherwise be in the absence of these transactions. These transactions, if commenced, may be discontinued at any time.

The Initial Purchasers or their respective affiliates from time to time have provided in the past and may provide in the future investment banking, financial advisory, mergers and acquisitions and commercial banking services to us and our affiliates in the ordinary course of business for which they have received or may receive customary fees and commissions. In addition, Citigroup Global Markets Limited, The Standard Bank of South Africa Limited, Standard Chartered Bank, Natixis, Nomura International plc, Nedbank Limited, London Branch, Rand Merchant Bank a division of FirstRand Bank Limited (London Branch) and/or affiliates of each of them are also lenders under the Existing Term Loan and/or the Existing Revolving Credit Facility which will be repaid in connection with the offering. Further, Basil Omiyi, an independent, non-executive director of the Company is also the Chairman of the Board of Stanbic IBTC Holdings Plc, an affiliate of The Standard Bank of South Africa Limited. Citigroup Global Markets Limited and Standard Chartered Bank have provided ratings advisory services to us in connection with this offering. Certain of the Initial Purchasers and/or their respective affiliates have entered and may from time to time enter into hedging arrangements with us and our affiliates or act as our equity brokers. “Affiliates” as used above is defined as under Rule 501(b) of Regulation D of the U.S. Securities Act. One or more of the Initial Purchasers may purchase Notes offered hereby for their own account.

NOTICE TO INVESTORS

You are advised to consult legal counsel prior to making any offer, resale, pledge or other transfer of any of the Notes offered hereby.

The Notes and the Note Guarantees have not been and will not be registered under the U.S. Securities Act, or any state securities laws, and, unless so registered, may not be offered or sold except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the U.S. Securities Act and applicable state securities laws. Accordingly, the Notes offered hereby are being offered and sold only to qualified institutional buyers (as defined in Rule 144A under the U.S. Securities Act) in reliance on Rule 144A under the U.S. Securities Act and in offshore transactions in reliance on Regulation S under the U.S. Securities Act.

We have not registered and will not register the Notes or the Note Guarantees under the U.S. Securities Act and, therefore, the Notes may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the U.S. Securities Act. Accordingly, we are offering and selling the Notes to the Initial Purchasers for re-offer and resale only:

- in the United States to “qualified institutional buyers,” commonly referred to as “QIBs,” as defined in Rule 144A in compliance with Rule 144A; and
- outside the United States in an offshore transaction in accordance with Regulation S.

We use the terms “offshore transaction,” “U.S. person” and “United States” with the meanings given to them in Regulation S.

Each purchaser of Notes, by its acceptance thereof, will be deemed to have acknowledged, represented to and agreed with us and the Initial Purchasers as follows:

- (1) You understand and acknowledge that the Notes and the Note Guarantees have not been registered under the U.S. Securities Act or any other applicable securities laws and that the Notes are being offered for resale in transactions not requiring registration under the U.S. Securities Act or any other securities laws, including sales pursuant to Rule 144A under the U.S. Securities Act, and, unless so registered, may not be offered, sold or otherwise transferred except in compliance with the registration requirements of the U.S. Securities Act or any other applicable securities laws, pursuant to an exemption therefrom or in any transaction not subject thereto and in each case in compliance with the conditions for transfer set forth in paragraphs (4) and (5) below.
- (2) You are not our “affiliate” (as defined in Rule 144 under the U.S. Securities Act) or acting on our behalf and you are either:
 - (a) a QIB, within the meaning of Rule 144A under the U.S. Securities Act and are aware that any sale of these Notes to you will be made in reliance on Rule 144A under the U.S. Securities Act, and such acquisition will be for your own account or for the account of another QIB; or
 - (b) you are not a U.S. person and purchasing the Notes in an offshore transaction in accordance with Regulation S under the U.S. Securities Act.
- (3) You acknowledge that none of us, the Guarantors, or the Initial Purchasers, nor any person representing any of them, has made any representation to you with respect to us or the offer or sale of any of the Notes, other than the information contained in this Offering Memorandum, which Offering Memorandum has been delivered to you and upon which you are relying in making your investment decision with respect to the Notes. You acknowledge that neither the Initial Purchasers nor any person representing the Initial Purchasers make any representation or warranty as to the accuracy or completeness of this Offering Memorandum. You have had access to such financial and other information concerning us and the Notes as you have deemed necessary in connection with your decision to purchase any of the Notes, including an opportunity to ask questions of, and request information from, us and the Initial Purchasers.
- (4) You are purchasing the Notes for your own account, or for one or more investor accounts for which you are acting as a fiduciary or agent, in each case for investment, and not with a view to, or for offer or sale in connection with, any distribution thereof in violation of the U.S. Securities Act or any state securities laws, subject to any requirement of law that the disposition of your property or the property of such investor account or accounts be at all times within your or their control and subject to your or

their ability to resell such Notes pursuant to Rule 144A, Regulation S or any other exemption from registration available under the U.S. Securities Act.

- (5) You agree on your own behalf and on behalf of any investor account or accounts for which you are purchasing the Notes, and each subsequent holder of the Notes by its acceptance thereof will be deemed to agree, to offer, sell or otherwise transfer such Notes prior to the date (the “**Resale Restriction Termination Date**”) that is one year (in the case of Rule 144A Notes) or 40 days (in the case of Regulation S Notes) after the later of the date of the original issue and the last date on which we or any of our affiliates (as defined under Rule 501(b) of Regulation D of the U.S. Securities Act) were the owner of such Notes (or any predecessor thereto) only (i) to us, (ii) pursuant to a registration statement that has been declared effective under the U.S. Securities Act, (iii) for so long as the Notes are eligible pursuant to Rule 144A under the U.S. Securities Act, to a person you reasonably believe is a QIB that purchases for its own account or for the account of a QIB to whom notice is given that the transfer is being made in reliance on Rule 144A under the U.S. Securities Act, (iv) pursuant to offers and sales that occur outside the United States in compliance with Regulation S under the U.S. Securities Act or (v) pursuant to any other available exemption from the registration requirements of the U.S. Securities Act, subject in each of the foregoing cases to any requirement of law that the disposition of your property or the property of such investor account or accounts be at all times within your or their control and to compliance with any applicable state securities laws, and any applicable local laws and regulations, and further subject to our and the trustee’s rights prior to any such offer, sale or transfer (I) pursuant to clause (v) to require the delivery of an opinion of counsel, certification and/or other information satisfactory to each of them and (II) in each of the foregoing cases, to require that a certificate of transfer in the form appearing in the Indenture is completed and delivered by the transferor to the Trustee. The foregoing restrictions on resale will not apply subsequent to the Resale Restriction Termination Date.

Each purchaser acknowledges that each Note will contain a legend substantially to the following effect:

THIS SECURITY HAS NOT BEEN AND WILL NOT BE REGISTERED UNDER THE U.S. SECURITIES ACT OF 1933, AS AMENDED (THE “**U.S. SECURITIES ACT**”), OR THE SECURITIES LAWS OF ANY STATE OR OTHER JURISDICTION. NEITHER THIS SECURITY NOR ANY INTEREST OR PARTICIPATION HEREIN MAY BE OFFERED, SOLD, ASSIGNED, TRANSFERRED, PLEDGED, ENCUMBERED OR OTHERWISE DISPOSED OF IN THE ABSENCE OF SUCH REGISTRATION OR UNLESS SUCH TRANSACTION IS EXEMPT FROM, OR NOT SUBJECT TO, THE REGISTRATION REQUIREMENTS OF THE U.S. SECURITIES ACT.

THE HOLDER OF THIS SECURITY BY ITS ACCEPTANCE HEREOF (1) REPRESENTS THAT (A) IT IS A “QUALIFIED INSTITUTIONAL BUYER” (“**QIB**”) (AS DEFINED IN RULE 144A UNDER THE U.S. SECURITIES ACT) (“**RULE 144A**”) OR (B) IT IS ACQUIRING THIS SECURITY IN AN “OFFSHORE TRANSACTION” PURSUANT TO RULE 904 OF REGULATION S UNDER THE U.S. SECURITIES ACT, (2) AGREES ON ITS OWN BEHALF AND ON BEHALF OF ANY INVESTOR FOR WHICH IT HAS PURCHASED SECURITIES TO OFFER, SELL OR OTHERWISE TRANSFER SUCH SECURITY, PRIOR TO THE DATE (THE “**RESALE RESTRICTION TERMINATION DATE**”) WHICH IS [IN THE CASE OF RULE 144A NOTES: ONE YEAR AFTER THE LATER OF THE ORIGINAL ISSUE DATE HEREOF AND THE LAST DATE ON WHICH THE ISSUER OR ANY AFFILIATE OF THE ISSUER WAS THE OWNER OF THIS SECURITY (OR ANY PREDECESSOR OF THIS SECURITY)] [IN THE CASE OF REGULATION S NOTES: 40 DAYS AFTER THE LATER OF THE ORIGINAL ISSUE DATE HEREOF AND THE DATE ON WHICH THIS SECURITY WAS FIRST OFFERED TO PERSONS OTHER THAN DISTRIBUTORS (AS DEFINED IN RULE 902 OF REGULATION S)], ONLY (A) TO THE ISSUER, (B) PURSUANT TO A REGISTRATION STATEMENT WHICH HAS BEEN DECLARED EFFECTIVE UNDER THE U.S. SECURITIES ACT, (C) FOR SO LONG AS THE SECURITIES ARE ELIGIBLE FOR RESALE PURSUANT TO RULE 144A, TO A PERSON IT REASONABLY BELIEVES IS A QIB AS DEFINED IN RULE 144A THAT PURCHASES FOR ITS OWN ACCOUNT OR FOR THE ACCOUNT OF A QIB TO WHOM NOTICE IS GIVEN THAT THE TRANSFER IS BEING MADE IN RELIANCE ON RULE 144A, (D) PURSUANT TO OFFERS AND SALES THAT OCCUR OUTSIDE THE UNITED STATES IN COMPLIANCE WITH REGULATION S UNDER THE U.S. SECURITIES ACT OR (E) PURSUANT TO ANY OTHER AVAILABLE EXEMPTION FROM THE REGISTRATION REQUIREMENTS OF THE U.S. SECURITIES ACT, SUBJECT IN EACH OF THE FOREGOING CASES TO ANY REQUIREMENT OF LAW THAT THE DISPOSITION OF ITS PROPERTY OR THE PROPERTY OF SUCH INVESTOR ACCOUNT OR ACCOUNTS BE AT ALL TIMES WITHIN ITS OR THEIR

CONTROL AND TO COMPLIANCE WITH ANY APPLICABLE STATE SECURITIES LAWS, AND ANY APPLICABLE LOCAL LAWS AND REGULATIONS AND FURTHER SUBJECT TO THE ISSUER'S AND THE TRUSTEE'S RIGHTS PRIOR TO ANY SUCH OFFER, SALE OR TRANSFER (I) PURSUANT TO CLAUSE (E) TO REQUIRE THE DELIVERY OF AN OPINION OF COUNSEL, CERTIFICATION AND/OR OTHER INFORMATION SATISFACTORY TO EACH OF THEM AND (II) IN EACH OF THE FOREGOING CASES, TO REQUIRE THAT A CERTIFICATE OF TRANSFER IN THE FORM APPEARING IN THE INDENTURE IS COMPLETED AND DELIVERED BY THE TRANSFEROR TO THE TRUSTEE AND (3) AGREES THAT IT WILL GIVE TO EACH PERSON TO WHOM THIS SECURITY IS TRANSFERRED A NOTICE SUBSTANTIALLY TO THE EFFECT OF THIS LEGEND.

If applicable, each Note will include the following legend:

THE FOLLOWING INFORMATION IS SUPPLIED SOLELY FOR U.S. FEDERAL INCOME TAX PURPOSES. THIS NOTE WAS ISSUED WITH ORIGINAL ISSUE DISCOUNT ("OID") WITHIN THE MEANING OF SECTION 1273 OF THE INTERNAL REVENUE CODE OF 1986, AS AMENDED (THE "**CODE**"), AND THIS LEGEND IS REQUIRED BY SECTION 1275(c) OF THE CODE. HOLDERS MAY OBTAIN INFORMATION REGARDING THE AMOUNT OF OID, THE ISSUE PRICE, THE ISSUE DATE AND THE YIELD TO MATURITY RELATING TO THE NOTES BY CONTACTING THE ISSUER AT 4TH FLOOR, PALL MALL, LONDON SW1 5JH, UNITED KINGDOM ATTENTION: INVESTOR RELATIONS.

If you purchase Notes, you will also be deemed to acknowledge that the foregoing restrictions apply to holders of beneficial interests in these Notes as well as to holders of these Notes.

- (6) You agree that you will give to each person to whom you transfer the Notes notice of any restrictions on the transfer of such Notes.
- (7) You acknowledge that until 40 days after the commencement of the offering, any offer or sale of the Notes within the United States by a dealer (whether or not participating in the offering) may violate the registration requirements of the U.S. Securities Act if such offer or sale is made otherwise than in accordance with Rule 144A under the U.S. Securities Act.
- (8) You acknowledge that the Registrar will not be required to accept for registration or transfer any Notes acquired by you except upon presentation of evidence satisfactory to us and the Registrar that the restrictions set forth therein have been complied with.
- (9) You acknowledge that we, the Initial Purchasers and others will rely upon the truth and accuracy of your acknowledgements, representations, warranties and agreements and agrees that if any of the acknowledgements, representations, warranties and agreements deemed to have been made by your purchase of the Notes is no longer accurate, it shall promptly notify the initial purchasers. If you are acquiring any Notes as a fiduciary or agent for one or more investor accounts, you represent that you have sole investment discretion with respect to each such investor account and that you have full power to make the foregoing acknowledgements, representations and agreements on behalf of each such investor account.
- (10) You understand that no action has been taken in any jurisdiction (including the United States) by us or the Initial Purchasers that would result in a public offering of the Notes or the possession, circulation or distribution of this Offering Memorandum or any other material relating to us or the Notes in any jurisdiction where action for such purpose is required. Consequently, any transfer of the Notes will be subject to the selling restrictions set forth under "*Plan of distribution.*"

LEGAL MATTERS

The validity of the Notes, the Note Guarantees and certain other legal matters are being passed upon for us by Latham & Watkins (London) LLP with respect to matters of U.S. federal and New York state law. Certain legal matters will be passed upon for the Initial Purchasers by White & Case LLP with respect to matters of U.S. federal and New York state law.

INDEPENDENT ACCOUNTANTS

Our consolidated financial statements as at and for the years ended December 31, 2015, 2016 and 2017 included in this Offering Memorandum have been audited by Ernst and Young, independent auditors, as stated in their report appearing herein.

INDEPENDENT PETROLEUM ENGINEERS

Estimates of our gas and oil commercial reserves and contingent resources as at January 1, 2018, included in this Offering Memorandum were based in part upon a reserve report prepared by independent petroleum engineers, Ryder Scott Company, L.P. We have included these estimates in reliance on the authority of such firm as experts in such matters.

AVAILABLE INFORMATION

Each purchaser of Notes from an Initial Purchaser will be furnished a copy of this Offering Memorandum and any related amendments or supplements to this Offering Memorandum. Each person receiving this Offering Memorandum and any related amendments or supplements to the Offering Memorandum acknowledges that:

- (1) such person has been afforded an opportunity to request from us and to review and has received, all additional information considered by it to be necessary to verify the accuracy and completeness of the information herein;
- (2) such person has not relied on the Initial Purchasers or any person affiliated with the Initial Purchasers in connection with its investigation of the accuracy of such information or its investment decision; and
- (3) except as provided pursuant to clause (1) above, no person has been authorized to give any information or to make any representation concerning the Notes or each Note Guarantee offered hereby other than those contained herein and, if given or made, such other information or representation should not be relied upon as having been authorized by either us or the Initial Purchasers.

For so long as any of the Notes remain outstanding and are “restricted securities” within the meaning of Rule 144(a)(3) under the U.S. Securities Act, we will, unless we are then subject to Section 13 or 15(d) under the U.S. Exchange Act, make available to any holder or beneficial holder of a Note, or to any prospective purchaser of a Note designated by such holder or beneficial holder, the information specified in, and meeting the requirements of, Rule 144A(d)(4) under the U.S. Securities Act upon the written request of any such holder or beneficial owner. Any such request should be directed to Seplat Petroleum Development Company Plc, 4th Floor, 50 Pall Mall, London SW1Y 5JH, care of Roger Brown and Andy Dymond, ir@seplatpetroleum.com.

We are not subject to the periodic reporting and other information requirements of the U.S. Exchange Act. We are a listed company on the Official List of the LSE and while we remain listed on the Official List of the LSE, we must comply with the reporting requirements established by the Companies Act 2006, as amended, and the Disclosure & Transparency Rules of the United Kingdom Listing Authority. In addition to our ongoing reporting obligations under these regulations, we must send the United Kingdom Listing Authority our preliminary annual results and our annual financial report. We must also send our semi-annual financial reports, along with interim management statements. Pursuant to the Indenture, we will agree to furnish periodic information to the holders of the Notes. See “*Description of Notes – Certain covenants – Reports.*”

An application has been made for the Notes to be listed on the Luxembourg Stock Exchange and to be traded on the Euro MTF Market. So long as the Notes are admitted to trading on the Euro MTF Market and to listing on the Luxembourg Stock Exchange, and the rules and regulations of such stock exchange so require, copies of such information will also be available for review during the normal business hours on any business day at the specified office of the Listing Agent.

LIMITATIONS ON ENFORCEABILITY AND CERTAIN INSOLVENCY LAW CONSIDERATIONS

Limitations of enforceability

We and each of the Guarantors are incorporated under the laws of Nigeria.

Most of our directors, officers and other executives are neither residents nor citizens of the United States. Furthermore, most of our assets are located outside the United States. As a result, it may not be possible for investors to effect service of process within the United States upon such persons, us or the Guarantors or to enforce against them, us or the Guarantors judgments of U.S. courts predicated upon the civil liability provisions of U.S. federal or state securities laws despite the fact that, pursuant to the terms of the Indenture, we and the Guarantors have appointed, or will appoint, an agent for the service of process in New York. It may be possible for investors to effect service of process within Nigeria upon those persons, us or the Guarantors provided that the relevant rules of court applicable in Nigeria are complied with.

There is no guarantee that a lawsuit based upon U.S. federal or state securities laws could be brought in an original action in Nigeria.

We are incorporated under the laws of Nigeria and a majority of our assets are located in Nigeria. As a result, it may be required to enforce the judgments of United States courts or of jurisdictions other than Nigeria, including judgments predicated upon civil liabilities under the securities laws of the United States or any state or territory within the United States in Nigeria.

With respect to enforcement of foreign judgments, there are two regimes for the enforcement of foreign judgments in Nigeria: the Reciprocal Enforcement of Judgment Ordinance Chapter 175, Laws of the Federation of Nigeria and Lagos, 1958 (the “**Reciprocal Enforcement Ordinance**”) and the Foreign Judgments (Reciprocal Enforcement) Act, Cap F35 Laws of the Federation of Nigeria 2004 (the “**Reciprocal Enforcement Act**”).

Judgments enforceable under the Reciprocal Enforcement Ordinance: United Kingdom and Irish Court Judgments

The Reciprocal Enforcement Ordinance applies to judgments obtained in (a) the High Court in England or Ireland, or in the Court Session in Scotland or in any territory under Her Majesty’s protection to which the Reciprocal Enforcement Ordinance is extended by proclamation or (b) in the superior court of any of the countries covered by the Reciprocal Enforcement Ordinance. Subject to certain exceptions, judgments obtained in these jurisdictions are enforceable by registration under the Reciprocal Enforcement Ordinance. To be enforceable, such judgments must be registered within 12 months after the date of the judgment or such longer period as may be allowed by a superior court in Nigeria. The judgment must (i) derive from civil proceedings; (ii) be final and capable of execution in the country of delivery; (iii) must not have been wholly satisfied; (iv) must be a monetary judgment for a certain sum; and (v) must not suffer from want of jurisdiction, lack of fair hearing or fraud, be contrary to public policy or have been discontinued because the issue had already been decided by another competent court before its determination by the foreign court. **Provided that** the foreign judgement satisfies these requirements, it will be recognised, registered and enforced in Nigeria in the currency of that judgement.

Accordingly, under the Reciprocal Enforcement Ordinance, foreign judgments relating to the Notes are registrable and enforceable in Nigeria if such judgments are obtained in the High Courts of England or Ireland or in the Court of Session in Scotland or in other parts of Her Majesty’s control to which the Reciprocal Enforcement Ordinance is extended by proclamation. However, notwithstanding that a judgment emanates from a jurisdiction to which the Reciprocal Enforcement Ordinance applies, such judgments obtained are not registrable or enforceable in Nigeria, or where already registered, such registration may be set aside, where (i) the foreign court acted without jurisdiction; (ii) the judgment debtor, being a person who was neither carrying on business nor ordinarily resident within the jurisdiction of the foreign court, did not voluntarily appear or otherwise submit or agree to submit to the jurisdiction of that court; (iii) the judgment debtor was not duly served with the process of the foreign court; (iv) the judgment was obtained by fraud; (v) the judgment debtor satisfies the registering court that an appeal is pending against the judgment or that he is entitled to and intends to appeal against the judgment; (vi) the judgment was in respect of a cause of action which could not have been entertained by the registering court for reasons of public policy or for some other similar reason or (vii) such judgment is not registered within 12 months after the date of the judgment or such longer period as may be allowed by a superior court in Nigeria. In this regard, notwithstanding that a judgment emanates from a jurisdiction to which the

Reciprocal Enforcement Ordinance applies, such judgment will not be registrable or enforceable in Nigeria if the judgment falls within any of the exceptions set out in (i) to (vi) above.

Judgments enforceable under the Reciprocal Enforcement Act: United States and Judgments from other Foreign Courts

Part 1 of the Reciprocal Enforcement Act, applies to judgments obtained in the superior courts of any country (other than Nigeria). For the Reciprocal Enforcement Act to apply to any foreign judgment, the Nigerian Minister of Justice (the “**Minister of Justice**”) must have made an order extending the applicability of part 1 of the Reciprocal Enforcement Act to the judgments obtained from the superior courts of the relevant foreign jurisdiction from where the judgement emanated **provided that** the Minister of Justice is satisfied that Nigerian judgments will be accorded substantial reciprocal treatment in the courts of the relevant foreign jurisdiction. Upon the issuance of the order of the Minister of Justice, to benefit from the order and the Reciprocal Enforcement Act, the relevant foreign judgments must be registered with a superior court of record in Nigeria within six years after the date of the judgment, or where there have been proceedings by way of appeal, within six years after the date of the last judgment given in those proceedings. Such judgments are only registrable where the judgment would have been enforceable by execution in the jurisdiction of the original court.

However, since the promulgation of the Reciprocal Enforcement Act, no Order has been issued extending Part 1 of the Reciprocal Enforcement Act to any foreign jurisdiction. Section 10(a) of the Reciprocal Enforcement Act, however, provides that a judgment issued before the commencement of the Minister of Justice’s order extending Part 1 of the Reciprocal Enforcement Act to the foreign country where the judgment was given may be registered within a period of 12 months from the date of the judgment or such longer period as may be allowed by a superior court in Nigeria. The judgment must (i) derive from civil proceedings; (ii) be final and capable of execution in the country of delivery; (iii) not have been wholly satisfied; and (iv) not suffer from want of jurisdiction, lack of fair hearing or fraud, be contrary to public policy or have been discontinued because the issue had already been decided by another competent court before its determination by the foreign court.

In addition, judgments from such jurisdictions are only registrable: (i) where the judgments have not been wholly satisfied; (ii) where the judgments are final and conclusive as between the parties thereto; (iii) where there is payable under such judgments, a sum of money, not being a sum payable in respect of taxes or other charges of a like nature or in respect of a fine or other penalty; and (iv) where the judgments would have been enforceable by execution in the jurisdiction of the original court (the “**Additional Requirements**”). Despite the registration of a judgment by a superior court in Nigeria, the registering court may upon the filing of an application by any party against whom a registered judgment may be enforced, set aside the registration of such judgment where the court is satisfied that: (i) the judgment is not a judgment to which part 1 of the Reciprocal Enforcement Act applies or was registered in contravention of the provisions of the Reciprocal Enforcement Act; (ii) the courts of the country of the original court had no jurisdiction in the circumstances of the case; (iii) the judgment debtor, being the defendant in the proceedings in the original court, did not (notwithstanding that process may have been duly served on him in accordance with the law of the country of the original court) receive notice of those proceedings in sufficient time to enable him to defend the proceedings and did not appear; (iv) the judgment was obtained by fraud; (v) the enforcement of the judgment would be contrary to public policy in Nigeria; or (vi) the rights under the judgment are not vested in the person by whom the application for registration was made. The registering court may also set aside the registration if it is satisfied that the matter in dispute in the proceedings in the original court had, previously on the date of the judgment, been the subject of a final and conclusive judgment by a court having jurisdiction in the matter.

Notwithstanding the above, Nigerian courts are permitted by virtue of section 10(a) of the Reciprocal Enforcement Act to register judgments obtained prior to the commencement of the order of the Minister of Justice extending part 1 of the Reciprocal Enforcement Act, provided that the registration application is brought within 12 months after the date of such judgments or such longer period extended by the court. The relevant foreign judgment must however satisfy the Additional Requirements. With particular reference to judgments of the United States, there is currently no treaty between the United States and Nigeria providing for reciprocal enforcement of judgments (except with respect to criminal matters and arbitral awards) and the Minister of Justice has not directed the application of the Reciprocal Enforcement Act to judgments derived from United States Courts. Thus, judgments from courts of the United States can only be enforced in Nigeria if the person seeking to enforce them is able to bring a successful new action on the judgment in Nigerian courts or by registration under Section 10(a) of the Reciprocal Enforcement Act if

such judgments are registered within 12 months after the date of the judgment or such longer period as may be allowed by a superior court in Nigeria and they satisfy the Additional Requirements.

Common law action on foreign judgment

Judgments not covered by the Reciprocal Enforcement Ordinance or the Reciprocal Enforcement Act (whether because they are delivered in countries to which the Reciprocal Enforcement Ordinance does not apply or because the two conditions stated in the preceding paragraph are not satisfied) may only be enforced under residual common law powers, which allow such judgments obtained in foreign courts to be used as evidence in a new suit. A person seeking to enforce a judgment in this way would be required to commence a civil action before a competent Nigerian court, with the foreign judgment as the cause of action. An action brought in this way may also be heard and determined summarily in accordance with the relevant rules of the relevant Nigerian court. However, there is case law in Nigeria which suggests that subject to the exceptions already discussed above, judgments of both Commonwealth and Non-Commonwealth jurisdictions are now enforceable by registration in Nigeria by virtue of Section 10(a) of the Reciprocal Enforcement Act.

Currency of judgment

Based on the provisions of the Reciprocal Enforcement Ordinance and case law in Nigeria, foreign judgments can be enforced and recovered in foreign currency. In contrast, part 1 of the Reciprocal Enforcement Act provides that a foreign judgment to which the part 1 of the Reciprocal Enforcement Act applies may only be enforced in Nigeria in Naira. However, the relevant provision of the Reciprocal Enforcement Act will only become effective if the Minister of Justice declares that the Reciprocal Enforcement Act shall apply to judgments of superior courts of a particular country that accords reciprocal treatment to judgments of superior courts of Nigeria. In that event, upon the making and commencement of the order by the Minister of Justice, judgments of superior courts of that country (whether or not previously covered by the Reciprocal Enforcement Ordinance), when registered and enforced in Nigeria, will be enforced only in Naira. One potential challenge presented by this regime of enforcement only in Naira is that the judgment creditor may be faced with significant exchange rate losses given that the judgment sum will be converted into Naira on the basis of the rate of exchange on the date the judgment sought to be enforced is obtained. Given that the Minister of Justice has not issued any order extending the application of the Reciprocal Enforcement Act to judgments of superior courts of any country and, until such order is made, there is no restriction on Nigerian courts to allow foreign judgments to be registered, enforced and recovered foreign currency based on the Reciprocal Enforcement Ordinance and/or Section 10(a) of the Reciprocal Enforcement Act in foreign currency (as the case may be).

Effect of registration of foreign judgments in Nigeria

The legal effect of registration of any foreign judgment under the Reciprocal Enforcement Ordinance or the Reciprocal Enforcement Act is that the foreign judgment becomes the judgment of the registering court. By virtue of the Constitution of the Federal Republic of Nigeria, 1999 (as amended), judgments of superior courts of Nigeria are enforceable in all parts of Nigeria.

Enforcement of guarantee under Nigerian law

In Nigeria, it is not unusual for repayment obligations in loans and debt instruments to be backed by guarantees. The enforcement of the guarantee will typically be triggered by a notice from the creditor (to the principal debtor) of non-payment by the principal debtor, followed by an action for recovery against such guarantor.

Where the guarantees are enforced, any interest payable by the Nigerian guarantors may be subject to a 10% withholding tax charge.

Action for recovery

Under Nigerian law, outstanding debts owed to a creditor by a debtor are recoverable by way of court action against the debtor. An action for recovery is the only available remedy for unsecured creditors. In circumstances where a debt is guaranteed, the liability of the debtor remains outstanding even though the creditor may have already made a claim against the guarantors which has not been fully satisfied. Where a judgment is obtained in favor of a creditor and a debtor fails to comply, the creditor may attach the debtor's

assets in enforcement proceedings. A court action for recovery of a debt or enforcement of guarantee can generally be concluded within a period of six to eighteen months. Where a debtor or guarantor fails to comply with a judgment, a further period of three to six months is generally required for attachment of assets.

Guarantee limitations under Nigerian law

The Guarantors, incorporated under the laws of the Federal Republic of Nigeria, shall guarantee the repayment of the Notes on a senior basis. Any guarantee, indemnity, obligation and/or liability granted, incurred, undertaken, assumed or otherwise agreed by a Nigerian company must be premised on the powers under the company's memorandum and articles of association.

However, certain limitations under Nigerian law, may render the obligations under the Note Guarantees unenforceable against the Guarantors. Thus, a court may void any guarantee and, where payment has already been made under the relevant guarantee, require that the recipient return the payment to the relevant guarantor, if the court finds that:

- the Note Guarantees or a payment has been made pursuant to the Note Guarantees within three (3) months prior to the filing of an insolvency petition (the Hardening Period), with a view to conferring a preference on such creditor over other creditors. Accordingly, any payment which takes place within the Hardening Period will be deemed fraudulent and voided unless it is shown that the transfer was made in good faith and was not made with a view to prefer a particular creditor over other creditors; or
- the Note Guarantees have been adversely affected by specific or general defences available under Nigerian law in respect of the validity, bindingness and enforceability of such guarantees. These may include general contractual defences such as mistake, misrepresentation and illegality which may vitiate the terms of the Guarantee.

In addition, the amount recoverable by the Noteholders may be limited on the insolvency and winding up of the Guarantor in which case the Noteholders would have to prove their claim against the Guarantors upon winding up and will be subjected to repayment from the pool of assets on a pro-rata basis. Under Nigerian law, an entity may be considered insolvent if (a) after a demand for the debt has been made, the Guarantor fails to pay the sum due; or (b) it is unable to satisfy a judgment or order of any court against it in favor of one of its creditors in whole or in part; or (c) after taking into account any contingent liabilities or prospective liability of the Guarantor, the Federal High court of Nigeria is satisfied that the Guarantor cannot pay its debts as they become due.

Also, under Nigerian law, a liquidator is empowered, with leave of court, to disclaim, within twelve months after the commencement of a winding-up, unprofitable contracts or any other property that is unsaleable or not readily saleable by reason of its binding the company to the performance of any onerous act or to the payment of any sum of money. The effect of a disclaimer is to determine, as from the date of the disclaimer, the rights, interests and liabilities of the company in, or in respect of, the property disclaimed. In determining the question of whether to grant leave to the liquidator, the court is under a duty to ensure that justice is done in the matter coming before it and is required to properly balance the advantages and disadvantages of a disclaimer, with due regard to the liquidation of the insolvent company and the effect of the liquidation on interested parties.

Thus, where the Note Guarantees are called upon by the Noteholders after the commencement of a winding up against the Guarantors, the liquidator may exercise its powers to apply for the leave of the court to disclaim the Note Guarantees on account that the performance of the Guarantors' obligations under the Note Guarantees will be onerous to the Guarantors being wound up.

However, the power to disclaim onerous property is only available in respect of rights and liabilities arising from the date of the disclaimer and cannot be used to disclaim accrued rights and liabilities. Thus, where the rights under the Note Guarantees are found to have arisen prior to the date of the disclaimer, then the right to disclaim would not be exercisable. Furthermore, a liquidator is not generally entitled to disclaim a contract merely because it is financially disadvantageous. In applying for leave of the court, the liquidator must demonstrate that further performance under the Note Guarantees would be detrimental to the other creditors of the Guarantors.

If one or more of the above-mentioned limitations and defences are applicable, a Guarantor may have no liability or decreased liability under the Note Guarantees depending on the amounts of its other obligations

and applicable law. Based on the foregoing, there is a possibility that the entire Note Guarantees may be set aside by a court, in which case the entire liability of the relevant Guarantor may be extinguished. In such circumstances, the Noteholders may cease to have any claim in respect of a relevant Guarantor and would be creditors solely of the Issuer and the remaining Guarantors under the relevant Note Guarantees which have not been declared void.

Certain insolvency law considerations

The following is a brief description of certain insolvency law considerations in the jurisdictions in which Note Guarantees are initially being provided. The descriptions below do not purport to be complete or discuss all of the limitations or considerations that may affect the Notes or the Note Guarantees. Proceedings of bankruptcy, insolvency or a similar event could be initiated in any of these jurisdictions and in the jurisdiction of organization of a future Guarantor of the Notes. The application of these various laws in multiple jurisdictions could trigger disputes over which jurisdiction's law should apply and could adversely affect your ability to enforce your rights and to collect payment in full under the Notes and the Note Guarantees. Prospective investors in the Notes should consult their own legal advisors with respect to such limitations and considerations. See *“Risk factors – Risks relating to the Notes and our structure – The terms of the Indenture and the Note Guarantees will impose significant limitations on the ability of the Trustee and holders of the Notes to take enforcement action pursuant to the Note Guarantees.”*

Nigeria

We are incorporated under the laws of Nigeria and as such are subject to Nigerian insolvency law. The Guarantors, also incorporated in Nigeria, are similarly subject to Nigerian insolvency law. Companies' insolvency in Nigeria is primarily governed by the Companies and Allied Matters Act, Chapter C20, Laws of the Federation of Nigeria, 2004 (“**CAMA**”) and in small part by the Bankruptcy Act, Chapter B2 Laws of the Federation of Nigeria 2004. The winding up of a company may be effected voluntarily by its members, by the court, or subject to the supervision of the court.

A company may be wound up by the court if the members so resolve, if, in the case of a public company, there is a default in delivering a statutory report to the Corporate Affairs Commission (the “**CAC**”) or in holding the statutory meeting, if the number of members is reduced below two, if the company is unable to pay its debts or if a court thinks it is just and equitable to wind up the company. A company is deemed unable to pay its debts: (i) if it is unable to pay any debt exceeding Naira 2,000 (approximately \$5) after three weeks of statutory demand by a creditor; (ii) if a judgment debt against the company remains unsatisfied in whole or in part; or (iii) if a court comes to that conclusion after taking into account the contingent or proposed liability of the company. The key insolvency procedures under Nigerian company law are creditors' winding up, receiverships and winding up by the court. The insolvency court is the Federal High Court within whose area of jurisdiction the registered office or head office of the company is situated.

Winding Up

Where the winding up is a voluntary winding up, a liquidator is appointed by the creditors (in a creditors' voluntary winding up) or members of the company (in a members voluntary winding up). If the company passes a resolution for voluntary winding up after its directors have made a declaration of solvency as required by law for a members' voluntary winding up, it shall within fourteen (14) days after the passing of the resolution, give notice of the resolution by advertisement in the Gazette or two daily newspapers and to the Commission. When appointed, the liquidator acts in the place of the directors of the company. The liquidator must publish his appointment in the Federal Gazette and two daily newspapers and give notice to the CAC. A liquidator has power to (i) pay any classes of creditors of the company in full; (ii) carry on the business of the company to the extent necessary for its winding up; (iii) prosecute any action on behalf of the company and (iv) make any compromise or arrangements with creditors of the company.

When a company is being wound up, all debts of and claims against the company must be proved. Taxes and charges due from the company and payments to and on behalf of employees have priority and rank above other debt obligations of the company. To the extent that the funds are available, these debts must be paid even if the company's general assets are insufficient to meet all debts. Costs and expenses incurred by the company in the course of liquidation must also be paid off before payment to the holders of a floating charge. Holders of fixed charges will rank according to the order of creation of their security interests so far as they registered the security interest at the CAC within the statutorily allowed period.

When the affairs of a company have been fully wound up, the company is dissolved and its name is struck off the companies' register at the CAC. The holders of the Notes may initiate winding up proceedings against the Company in the event that it defaults on the Notes.

Receivership

A creditor may seek to enforce his security by appointing a receiver. The CAMA prohibits certain persons from being appointed as a receiver (such as a body corporate, a director or auditor of the company or an undischarged bankrupt). The receivership is not a collective insolvency procedure but is aimed at satisfying debts owed to a secured creditor. Where (a) the principal sum or interest payment owed to a creditor is in arrears; (b) the company cannot fulfill its obligations under the security; (c) the secured creditor becomes entitled to enforce the security; (d) the company ceases to carry on business or (e) any creditor issues a process of execution against any of the company's assets, a receiver may be appointed by a secured creditor for the company. The powers of the receiver are set out in the instrument creating the security and in the CAMA. A receiver may be appointed by the creditors or the court. A receiver may (i) apply to court to enforce the security; (ii) bring a foreclosure action, or (iii) commence winding up proceedings against the company. A receiver is the agent of his appointer and has a fiduciary duty to act in a faithful, diligent and skillful manner in order to preserve the company's assets.

Voidable Transactions

Where a company is being wound up, certain transactions by the company may be declared void at the instance of the liquidator. Thus, any transfers or conveyances or other act relating to property made by a company within a "twilight period" (i.e., three months prior to commencement of winding up) if made with the intention to prefer a certain creditor or particular creditors to the detriment of others, may be taken to be a fraudulent preference of one creditor over another and would be void and unenforceable under Nigerian law. Thus, any security interest created by the Company to secure the Notes at a time it is deemed to be insolvent or in its "twilight period" may be declared void at the suit of the liquidator. In addition, any disposition of the property of a company, transfer of shares or alteration in the status of members after the commencement of winding up shall be void unless the court by order otherwise directs. Additionally, the liquidator, subject to certain limitations, has the power under the CAMA to disclaim any contracts it considers onerous in the liquidation process.

LISTING AND GENERAL INFORMATION

1. Application has been made for the Notes to be listed on the Luxembourg Stock Exchange and to be traded on the Euro MTF Market.
2. So long as the Notes are listed on the Luxembourg Stock Exchange and are traded on the Euro MTF Market and the rules of such exchange shall so require, (i) copies of our articles of association and those of the Guarantors and the Indenture will be available free of charge at the specified office of the Paying Agent in referred to in paragraph 5 below and (ii) copies of all of our annual and interim consolidated financial statements and those for all subsequent fiscal periods will be available free of charge during normal business hours on any weekday at the offices of our Listing Agent.
4. Neither we nor any of our subsidiaries is a party to any litigation that, in our judgment, is material in the context of the issue of the Notes, except as disclosed herein.
5. We have appointed Citibank, N.A., London Branch, as our Principal Paying Agent and Transfer Agent. We reserve the right to vary such appointment and shall publish notice of such change of appointment in a newspaper having general circulation in Luxembourg or the Luxembourg Stock Exchange website. Information on Luxembourg Stock Exchange website does not form part of this Offering Memorandum. The Paying Agent in New York will act as intermediary between the holders of the Notes and us.
6. The Notes sold pursuant to Regulation S in this Offering have been accepted for clearance through the facilities of Euroclear and Clearstream under common code 178919024. The Notes sold pursuant to Rule 144A in this Offering have been accepted for clearance through the facilities of DTC and have been assigned CUSIP number 81733L AA5 and common code 178920570. The ISIN for the Notes sold pursuant to Regulation S is XS1789190243 and the ISIN for the Notes sold pursuant to Rule 144A is US81733LAA52.
7. The Issuer and the Guarantors have obtained all consents, approvals and authorizations in connection with the issuance and performance of the Notes and the Guarantees respectively as are necessary to render the issuance and performance of the Notes and the Guarantees not invalid, ineffectual or unenforceable.
8. The Company is incorporated as a public limited liability company under the laws of Nigeria with registered number RC No. 824838. Both its registered office and its principal place of business are located at 25A, Lugard Avenue, Ikoyi, Lagos, Nigeria and its telephone number is +234 1277 0400.

Seplat West Limited, a private company limited by shares, was incorporated on January 16, 2018. Seplat West Limited's primary business activity is oil and gas exploration and production.

Newton Energy Limited, a private company limited by shares, was incorporated on November 8, 2010. Newton Energy Limited's primary business activity is oil and gas exploration and production.

Seplat East Swamp Limited, a private company limited by shares, was incorporated on December 12, 2013. Seplat East Swamp Limited's primary business activity is oil and gas exploration and production.
9. The following is a brief description of the Guarantors that will guarantee the Notes from the date on which the Notes are issued:

Company -----	Country of incorporation and place of business -----	Registered Address -----
Seplat West Limited	Nigeria	25 Lugard Avenue, Ikoyi, Lagos, Nigeria
Newton Energy Limited	Nigeria	25 Lugard Avenue, Ikoyi, Lagos, Nigeria
Seplat East Swamp	Nigeria	25 Lugard Avenue, Ikoyi, Lagos, Nigeria

10. Except as disclosed elsewhere in this Offering Memorandum, there has been no material adverse change in our consolidated financial position since the date of our last published financial statements.

GLOSSARY

“2C”	best estimate scenario of contingent resources. Pursuant to the classifications and definitions provided by the PRMS, 2C resources is that quantity of estimated contingent resources that in the “best estimate” scenario has a probability of at least 50% of equaling or exceeding the amounts actually recovered
“2P”	proved reserves plus probable reserves. Pursuant to the classifications and definitions provided by the PRMS, “proved reserves” is defined as those quantities of oil and gas, which, by analysis of geoscience and engineering data, can be estimated with reasonable certainty to be commercially recoverable, from a given date forward, from known reservoirs and under defined economic conditions, operating methods, and government regulations and “probable reserves” is defined as those additional reserves which analysis of geoscience and engineering data indicate are less likely to be recovered than proved reserves but more certain to be recovered than possible reserves
“3C”	high estimate scenario of contingent resources. Pursuant to the classifications and definitions provided by the PRMS, 3C resources is that quantity of estimated contingent resources that in the “high estimate” scenario has a probability of at least 10% of equaling or exceeding the amounts actually recovered
“3P”	proved reserves plus probable reserves plus possible reserves. Pursuant to the classifications and definitions provided by the PRMS, “proved reserves” is defined as those quantities of oil and gas, which, by analysis of geoscience and engineering data, can be estimated with reasonable certainty to be commercially recoverable, from a given date forward, from known reservoirs and under defined economic conditions, operating methods, and government regulations; “probable reserves” is defined as those additional reserves which analysis of geoscience and engineering data indicate are less likely to be recovered than proved reserves but more certain to be recovered than possible reserves; “possible reserves” is defined as those additional reserves which analysis of geoscience and engineering data indicate are less likely to be recovered than probable reserves
“3D seismic”	geophysical data that depicts the subsurface strata in three dimensions
“4D seismic”	geophysical data that involves comparing the results of 3D seismic surveys at different times in the life of an oil and/or gas field
“accumulation”	an individual body of moveable petroleum. A known accumulation (one determined to contain Reserves or Contingent Resources) must have been penetrated by a well
“API”	American Petroleum Institute
“appraisal well”	well drilled to assess characteristics (such as flow rate or volume) of a proven hydrocarbon accumulation
“Atlantic Margins”	a passive margin which lies within a plate at the boundary between continental and oceanic crust
“barrel” or “b” or “bbl”	a stock tank barrel, a standard measure of volume for oil, condensate and natural gas liquids, which equals 42 US gallons
“back-in rights”	a reversionary interest in a lease which allows a party to a specified share of the working interest when the assignee has recovered specified costs from production

“Bscf”	billions of cubic feet
“bcpd”	barrels of condensate per day
“Block”	an area of licensed territory comprising one or more licenses
“boe”	barrels of oil equivalent
“boepd”	barrels of oil equivalent per day
“bopd”	barrels of oil per day
“Brent”	a particular type of crude oil that is a light, sweet oil produced in the North Sea with most of it being refined in Northwest Europe. Brent is a benchmark oil
“bwpd”	barrels of water per day
“burner tip”	the physical point at which natural gas is consumed
“CALM Buoy”	a Catenary Anchor Leg Mooring (CALM) buoy is a description of how the buoyed platform is anchored to the seabed. CALM Buoys can be used offshore in deep water to allow ships to offload or load liquid cargo (e.g., crude oil) without the need for a jetty extension into the deeper water
“crude oil”	unrefined oil
“commercial reserves”	those quantities of oil and gas anticipated to be commercially recoverable by application of development projects to known accumulations from a given date forward under defined conditions
“contingent resources”	those quantities of oil and gas estimated, as at a given date, to be potentially recoverable from known accumulations by application of development projects, but which are not currently considered to be commercially recoverable due to one or more contingencies
“Dated Brent”	a cargo of Brent that has been assigned a date when it will be loaded onto a tanker
“exploration well”	a well drilled to find hydrocarbons in an unproved area or to extend significantly a known oil or natural gas reservoir
“financial interest”	refers to a right to the revenues associated with produced oil and gas
“farm-in”	to acquire an interest in a license from another party
“farm-down” or “farm-out”	to assign an interest in a license to another party
“field”	an area consisting of either a single reservoir or multiple reservoirs, all grouped on or related to the same individual geological structural feature and/or stratigraphic condition
“formation”	a body of rock that is sufficiently distinctive and continuous that it can be mapped
“FPSO”	a floating production, storage and offloading vessel used by the offshore oil and gas industry for the processing of hydrocarbons and for storage of oil
“FSO”	a floating storage and offloading vessel used only to store and offload oil (and not process it)
“FTG survey”	full tensor gradiometry gravity survey
“Full Tensor Gradiometry”	a method of measuring the density of the subsurface to detect subsurface anomalies, which can then be used to more accurately locate oil, gas and mineral deposits

“hub-class commercial discovery” ..	smaller oil and gas field discoveries within a region that, individually, would not be economically feasible to develop, but when aggregated reach a commercial development threshold
“hydrocarbons”	compounds formed primarily from the elements hydrogen and carbon and existing in solid, liquid or gaseous forms
“ICE Brent”	a futures contract for Brent based on delivery with an option to cash settle
“lifting”	the process of loading a tanker with oil
“MMbbls”	million barrels of oil
“MMboe”	million barrels of oil equivalent
“MMscf”	millions of cubic feet
“overlift”	oil lifted at a field by a commercial partner at the balance sheet date that exceeds such partner’s working interest in such field
“play”	a project associated with a prospective trend of potential prospects, but which requires more data acquisition and/or evaluation in an effort to define specific leads or prospects
“Petroleum Resources Management System” or “PRMS”	definitions for the assessment, classification and categorization of hydrocarbon resources jointly set out by the Society of Petroleum Engineers (SPE), the World Petroleum Council, the American Association of Petroleum Geologists, and the Society of Petroleum Evaluation Engineers (SPEE) in March 2007
“possible reserves”	those additional reserves which analysis of geoscience and engineering data indicate are less likely to be recoverable than probable reserves
“probable reserves”	those additional reserves which analysis of geoscience and engineering data indicate are less likely to be recovered than proved reserves but more certain to be recovered than possible reserves
“production”	the cumulative quantity of oil and gas that has been recovered at a given date
“production sharing (contract) (agreement)” or “PSC”	contract by which the host government takes a share of production determined by the relevant cost recovery mechanism in the contract
“production well”	a well drilled to obtain production from a proven oil or gas field. Production wells may be used either to extract hydrocarbons from a field or to inject water or gas into a reservoir to improve production
“prospect”	a project associated with a potential accumulation that is sufficiently well defined to represent a viable drilling target
“proved reserves”	are those quantities of oil and gas, which by analysis of geoscience and engineering data, can be estimated with reasonable certainty to be commercially recoverable, from a given date forward, from known reservoirs and under defined economic conditions, operating methods, and government regulations

“reservoir”	a subsurface body of rock having sufficient porosity and permeability to store and transmit fluids. A reservoir is a critical component of a complete oil and gas system
“seal”	a relatively impermeable rock, commonly shale, anhydrite or salt, that forms a barrier or cap above and around reservoir rock such that fluids cannot migrate beyond the reservoir. A seal is a critical component of a complete oil and gas system
“seismic survey”	a method by which an image of the earth’s subsurface is created through the generation of shockwaves and analysis of their reflection from rock strata. Such surveys can be done in two or three dimensional form. See “3D seismic” and “4D seismic”
“single point mooring”	a loading buoy anchored offshore that serves as a mooring point and interconnect for tankers loading or offloading gas or liquid products
“subsea manifold”	a large metal piece of equipment, made up of pipes and valves and designed to transfer oil or gas from wellheads into a pipeline
“underlift”	oil lifted at a field by a commercial partner at the balance sheet date that is less than its working interest in such field
“upstream”	activities related to the exploration, appraisal, development and extraction of crude oil, condensate and gas
“VLCCs”	very large crude carriers
“wellhead”	all connections, valves, nozzles, pressure gauges, thermometers, installed at the exits from a production well
“wildcat”	wells drilled outside of and not in the vicinity of known oil or gas fields
“working interest”	refers to a percentage of ownership in an oil and gas lease granting the right to explore, drill and produce oil and gas from a tract of property
“workover”	refers to any kind of oil well intervention involving invasive techniques, such as repairing lines and casing or removing sand build up

INDEX TO FINANCIAL STATEMENTS

Seplat Petroleum Development Company Plc:

Audited Consolidated Financial Statements as at and for the year ended December 31, 2017

Independent auditor's report to the members of Seplat Petroleum Development Company Plc ..	F-3
Statement of profit or loss and other comprehensive income	F-8
Statement of financial position	F-9
Statement of changes in equity	F-11
Statement of cash flows	F-12
Notes to the consolidated financial statements	F-13

Audited Consolidated Financial Statements as at and for the year ended December 31, 2016

Independent auditor's report to the members of Seplat Petroleum Development Company Plc ..	F-76
Statement of profit or loss and other comprehensive income	F-81
Statement of financial position	F-82
Statement of changes in equity	F-84
Statement of cash flows	F-86
Notes to the financial statements	F-87

Audited Consolidated Financial Statements as at and for the year ended December 31, 2015

Independent auditor's report to the members of Seplat Petroleum Development Company Plc ..	F-153
Statement of profit or loss and other comprehensive income	F-155
Statement of financial position	F-156
Statement of changes in equity	F-158
Statement of cash flows	F-159
Notes to the consolidated financial statements	F-160

Company financial statements

F-217

Note: The audited consolidated financial statements as at and for the years ended December 31, 2015, 2016 and 2017 have been extracted from our annual reports in such years. Certain page references in the financial statements are to the annual reports of that year and not to this Offering Memorandum. For the avoidance of doubt, our annual reports are not incorporated by reference into this Offering Memorandum or these financial statements.

GROUP ACCOUNTS
For the year ended December 31, 2017
(Expressed in Naira and US Dollars)

	PAGES
Independent auditor's report	F-3
Statement of profit or loss and other comprehensive income	F-8
Statement of financial position	F-9
Statement of changes in equity	F-11
Statement of cash flows	F-12
Notes to the financial statements	F-13
Other national disclosures	
Statement of value added	F-71
Five year financial summary	F-72
Supplementary financial information (unaudited)	F-73

Independent auditor's report to the members of Seplat Petroleum Development Company Plc

Opinion

We have audited the consolidated and separate financial statements of Seplat Petroleum Development Company Plc ("the Company") and its subsidiaries (together "the Group") which comprise:

Group	Company
Consolidated statement of profit or loss and other comprehensive income for the year ended 31 December 2017	Company statement of profit or loss and other comprehensive income for the year ended 31 December 2017
Consolidated statement of financial position as at 31 December 2017	Company statement of financial position as at 31 December 2017
Consolidated statement of changes in equity for the year ended 31 December 2017	Company statement of changes in equity for the year ended 31 December 2017
Consolidated statement of cash flows for the year ended 31 December 2017	Company statement of cash flows for the year ended 31 December 2017
Related notes to the consolidated financial statements	Related notes to the company financial statements

In our opinion:

- the financial statements give a true and fair view of the financial position of the Group and of the Company as at 31 December 2017, and of the Group and Company financial performance and cash flows for the year then ended;
- the financial statements of the Group and Company have been properly prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB); and
- the financial statements of the Group and Company have been prepared in accordance with the requirements of the Companies and Allied Matters Act, CAP C20, Laws of the Federation of Nigeria 2004 and in compliance with the Financial Reporting Council of Nigeria Act, No. 6, 2011.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the audit of the financial Statements section of our report. We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) and other independence requirements applicable to performing audits of Seplat Petroleum Development Company Plc. We have fulfilled our other ethical responsibilities in accordance with the IESBA Code, and in accordance with other ethical requirements applicable to performing the audit of Seplat Petroleum Development Company Plc. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current year. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the auditor's responsibilities for the audit of the financial statements section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying financial statements.

Key audit matter	How the matter was addressed in the audit
Impact of the estimation of the quantity of oil and gas reserves on impairment testing, depreciation, depletion and amortisation (DD&A), decommissioning provisions and the going concern assessment As at 31 December 2017, Group reported 477.3 MMboe (Company: 288.3 MMboe) of proved plus probable reserves. The estimation and measurement of oil and gas reserves impacts a number of material elements of the financial statements including DD&A, decommissioning provisions and impairments. There is technical uncertainty in assessing reserve quantities, as this reserve is an indicator of the future potential of the Group and Company performance. Due to the significant impact on the financial statements of these provisions, we have considered this as a key audit matter.	We focused on management's estimation process, including whether bias exists in the determination of reserves and resources. We carried out the following procedures: - ensured that significant movements in reserves are compliant with guidelines and policies; - ensured that additions to oil assets during the year were properly recognised and accounted for; - confirmed that the reserve information at year end is supported by underlying documentation and data; - performed procedures to assess the competence and objectivity of the experts involved in the estimation process; and - reviewed disclosures in the Annual Report to ensure consistency with the reserves data that we have reviewed.
Assessment of the recoverable amount of exploration and production assets As at 31 December 2017, Seplat recognised ₦393.377 billion/US\$1.3 billion/(₦393.377 billion) of oil and gas properties. A sustained low oil and gas price environment could have a significant impact on the recoverable amounts of Seplat's oil and gas properties. In view of the generally long-lived nature of Seplat's assets, the most critical assumption in forecasting future cash flows is management's view on the long term oil and gas price outlook beyond the next three to four years. Other key inputs used in assessing recoverable amounts are the discount rate used, future expected production volumes and capital and operating expenditures. Given the complexity of impairment testing methodologies and the judgmental nature of management assumptions in the estimation of cash flows forecasts, we have considered this as a key audit matter.	Accounting standards require management to assess at each reporting date whether indicators of impairment exist. Seplat carried out an impairment test. Our audit procedures on the impairment test included: - assessed whether or not reserve movements represented an impairment trigger; - considered oil and gas forward curves and long term commodity price assumptions and whether these are indicators of impairment; - discussed with management the operational status of key assets; - separately from management, we assessed whether or not indicators of impairment exist; - challenged management's assumptions and methodologies used in estimating future cash flows from assets.

Key audit matter**Assessment of recoverability of the Nigerian Petroleum Development Company (NPDC) receivables**

As at 31 December 2017, the value of the Group NPDC receivable balance was ₦34 billion/ US\$113 million (Company: ₦34 billion/US\$113 million).

Management has made certain assumptions about the recoverability of financial assets exposed to credit risk from NPDC. These are based on management's recent experiences and current discussions with NPDC and financial capacity of NPDC.

Given the significant nature of this account, we focused on the recoverability of this amount and has thus considered it as a key audit matter.

How the matter was addressed in the audit

We carried out the following procedures:

- validated the receipts during the year and post year-end;
- obtained confirmation from NNPC of amounts owed to Seplat;
- recalculated the US dollar equivalent of amounts owed in Nigerian naira;
- obtain and challenged management assessment of the recoverability of the receivables;
- discussed and challenged management's expectations in relation to the in-flow of funds.

Assessment of recoverability of deferred tax assets

In determining if deferred tax asset should be recognised, Management assessed the recoverability of the balance. Assumptions and judgements were used to determine the probability that deferred tax assets recognised in the financial statements will be recovered from taxable income in future years.

The Group total computed deferred tax assets amounted to ₦85 billion/US\$279 million (Company: ₦68 billion/US\$224 million. However, the Group has recognised only ₦68 billion/US\$224 million (Company: ₦68 billion/US\$224 million) of the total deferred tax assets, being the amount management assessed as realisable from future taxable profits.

The Group has not recognised deferred tax assets of ₦17 billion/US\$55 million (Company: Nil), being the taxable timing differences arising from losses and capital allowances carried forward which recoverability, in management's assessment could not be quantified with reasonable certainty as at 31 December 2017.

Given the materiality of the deferred tax asset value and the judgmental nature of management assumptions in the estimation of profit forecasts based on which the asset is recognised, we have considered this as a key audit matter.

- We evaluated the five-year financial forecasts (years ended 31 December 2018 to 31 December 2022), the reliability of the financial forecast preparation process and the reasonableness of the five-year forecasts at the level of individual entities as well as at Group level.
- challenged management assumptions used by comparing the projected inputs (Revenue, Royalty and OPEX) to actuals in the year ended 31 December 2017 and challenged the inputs in the light of increasing prices in 2018.
- compared the inputs and assumptions for appropriateness and consistency with the oil assets impairment assessment.
- assessed the current loss positions and challenged the profit projections of the applicable subsidiaries and concluded that the future taxable profits of the applicable subsidiaries could not be quantified with reasonable certainty and hence not to be recognised but only disclosed in notes to the financial statements.
- assessed the adequacy of the disclosures in notes 11 and 12 of the financial statements.

Other Information

The directors are responsible for the other information. The other information comprises of the Report of the Directors, Audit Committee's Report, Statement of Directors' Responsibilities and Other National Disclosures, which we obtained prior to the date of this report, and the Annual Report, which is expected to be made available to us after that date. Other information does not include the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and we do not express an audit opinion or any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed on the other information obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

When we read the Annual Report, if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance.

Responsibilities of the directors for the financial statements

The directors are responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards, the requirements of the Companies and Allied Matters Act, CAP C20, Laws of the Federation of Nigeria 2004 and in compliance with the Financial Reporting Council of Nigeria Act, No. 6, 2011, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting processes.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our

auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

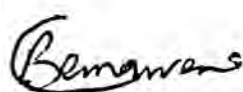
We also provide the directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the directors, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on other legal and regulatory requirements

In accordance with the requirement of Schedule 6 of the Companies and Allied Matters Act, CAP C20, Laws of the Federation of Nigeria 2004, we confirm that:

- i) we have obtained all the information and explanations which to the best of our knowledge and belief were necessary for the purpose of our audit;
- ii) in our opinion, proper books of account have been kept by the Company, so far as appears from our examination of those books;
- iii) the statement of financial position and profit or loss and other comprehensive income are in agreement with the books of account; and
- iv) in our opinion, the financial statements have been prepared in accordance with the provisions of the Companies and Allied Matters Act, CAP C20, Laws of the Federation of Nigeria 2004 so as to give a true and fair view of the state of affairs and financial performance.



Bernard Carrena, FCA

FRC/2013/ICAN/00000000670

Partner
For: Ernst & Young
Lagos, Nigeria

28 February 2018



CONSOLIDATED FINANCIAL STATEMENTS
STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
For the year ended 31 December 2017

	Notes	31 Dec 2017	31 Dec 2016
		US\$ '000	US\$ '000
Revenue	5	452,179	254,217
Cost of sales	6	(240,059)	(182,424)
Gross profit		212,120	71,793
General and administrative expenses	7	(81,870)	(113,832)
Gains/(losses) on foreign exchange (net)	8	682	(101,455)
Gain on deconsolidation of subsidiary	15a	—	680
Fair value loss	9	(18,518)	(15,069)
Operating profit/(loss)		112,414	(157,883)
Finance income	10	4,335	59,017
Finance costs	10	(72,752)	(73,900)
Profit/(loss) before taxation		43,997	(172,766)
Taxation	11	221,233	6,672
Profit/(loss) for the year		265,230	(166,094)
Other comprehensive income:			
Items that may be reclassified to profit or loss:			
Foreign currency translation difference		(1,778)	3,350
Items that will not be reclassified to profit or loss:			
Remeasurement of post-employment benefit obligations	27b	(294)	563
Deferred tax assets on remeasurement losses	12a	250	—
		(44)	563
Other comprehensive income for the year(net of tax)		(1,822)	3,913
Total comprehensive income/(loss) for the year(net of tax)		263,408	(162,181)
Profit/(loss) attributable to equity holders of parent		265,230	(164,590)
Loss attributable to non-controlling interest		—	(1,504)
		265,230	(166,094)
Total comprehensive income/(loss) attributable to equity holders of parent		263,408	(160,677)
Total comprehensive loss attributable to non-controlling interest		—	(1,504)
		263,408	(162,181)
Earnings/(Loss) per share for profit/(loss) attributable to the ordinary equity holders of the Group:			
Basic earnings/(loss) per share (US\$)/(¥)	29	0.47	(0.29)
Diluted earnings/(loss) per share (US\$)/(¥)	29	0.46	(0.29)

Notes 1 to 34 on pages 39 to 103 are an integral part of the financial statements.

STATEMENT OF FINANCIAL POSITION

As at 31 December 2017

	Notes	31 Dec 2017 US\$ '000	31 Dec 2016 US\$ '000
ASSETS			
Non-current assets			
Oil & gas properties	14a	1,286,387	1,224,400
Other property, plant and equipment	14b	5,078	7,967
Other asset	15	217,031	250,090
Prepayments	16	32,562	33,616
Deferred tax assets	12	223,731	—
Total non-current assets		1,764,789	1,516,073
Current assets			
Inventories	18	100,336	106,213
Trade and other receivables	19	310,345	390,694
Prepayments	16	1,948	6,672
Cash and cash equivalents	20	437,212	159,621
Total current assets		849,841	663,200
Total assets		2,614,630	2,179,273
EQUITY AND LIABILITIES			
Equity			
Issued share capital	21	1,826	1,826
Share premium	21c	497,457	497,457
Share based payment reserve	21b	17,809	12,135
Capital contribution	22	40,000	40,000
Retained earnings		944,108	678,922
Foreign currency translation reserve		1,077	3,675
Total shareholders' equity		1,503,097	1,234,015
Non-current liabilities			
Interest bearing loans and borrowings	24	304,677	446,098
Contingent consideration	25	13,900	12,040
Provision for decommissioning obligation	26	106,312	597
Defined benefit plan	27	6,518	5,112
Total non-current liabilities		431,407	463,847
Current liabilities			
Interest bearing loans and borrowings	24	265,400	217,998
Trade and other payables	28	410,593	261,528
Current taxation	11	4,133	1,885
Total current liabilities		680,126	481,411
Total liabilities		1,111,533	945,258
Total shareholders' equity and liabilities		2,614,630	2,179,273

Notes 1 to 34 on pages 39 to 103 are an integral part of the financial statements.

STATEMENT OF FINANCIAL POSITION (Continued)

As at 31 December 2017

The Group's financial statements of Seplat Development Company Plc and its subsidiaries for the year ended 31 December 2017 were authorised for issue in accordance with a resolution of the Directors on 28 February 2018 and were signed on its behalf by



A. B. C. Orjiako
FRC/2013/IODN/00000003161
Chairman
28 February 2018



A. O. Avuru
FRC/2013/IODN/00000003100
Chief Executive Officer
28 February 2018



R. T. Brown
FRC/2014/IODN/00000007983
Chief Financial Officer
28 February 2018

STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2017

	Notes	Issued Share Capital	Share Premium	Capital Contribution	Share Based Payment Reserve	Retained Earnings	Foreign Currency Translation Reserve	Total	Non- Controlling Interest	Total Equity
		US\$ '000	US\$ '000	US\$ '000	US\$ '000	US\$ '000	US\$ '000	US\$ '000	US\$ '000	US\$ '000
At 1 January 2016		1,821	497,457	40,000	8,734	865,483	325	1,413,820	(745)	1,413,075
Loss for the year		—	—	—	—	(164,590)	—	(164,590)	(1,504)	(166,094)
Other comprehensive income		—	—	—	—	563	3,350	3,913	—	3,913
Total comprehensive (loss)/income for the year		—	—	—	—	(164,027)	3,350	(160,677)	(1,504)	(162,181)
Transactions with owners in their capacity as owners:										
Dividends	30	—	—	—	—	(22,534)	—	(22,534)	—	(22,534)
Share based payments...	21b	—	—	—	3,406	—	—	3,406	—	3,406
Loss of control		—	—	—	—	—	—	—	2,249	2,249
Issue of shares		5	—	—	(5)	—	—	—	—	—
Total		5	—	—	3,401	(22,534)	—	(19,128)	2,249	(16,879)
At 31 December 2016....		1,826	497,457	40,000	12,135	678,922	3,675	1,234,015	—	1,234,015
At 1 January 2017		1,826	497,457	40,000	12,135	678,922	3,675	1,234,015	—	1,234,015
Profit for the year		—	—	—	—	265,230	—	265,230	—	265,230
Other comprehensive loss		—	—	—	—	(44)	(1,778)	(1,822)	—	(1,822)
Total comprehensive income/(loss) for the year		—	—	—	—	265,186	(1,778)	263,408	—	263,408
Transactions with owners in their capacity as owners:										
Share based payments...	21b	—	—	—	5,674	—	—	5,674	—	5,674
Total		—	—	—	5,674	—	—	5,674	—	5,674
At 31 December 2017....		1,826	497,457	40,000	17,809	944,108	1,897	1,503,097	—	1,503,097

Notes 1 to 34 on pages 39 to 103 are an integral part of the financial statements.

STATEMENT OF CASH FLOWS
For the year ended 31 December 2017

	Notes	31 Dec 2017 US\$ '000	31 Dec 2016 US\$ '000
Cash flows from operating activities			
Cash generated from operations	13	447,574	161,098
Receipts from derivatives		—	10,739
Defined benefits paid		(532)	(242)
Net cash inflows from operating activities		447,042	171,595
Cash flows from investing activities			
Investment in oil and gas properties		(31,970)	(51,834)
Investment in other property, plant and equipment		(1,500)	(2,349)
Proceeds from disposal of other property plant and equipment		162	385
Proceeds from sale of other asset		35,794	
Interest received		4,335	1,664
Net cash inflows/(outflows) from investing activities		6,821	(52,134)
Cash flows from financing activities			
Repayments of bank financing		(98,000)	(187,000)
Dividends paid	30	—	(22,534)
Interest paid on bank financing		(69,366)	(73,420)
Interest paid on advance payments for crude oil sales		(5,789)	—
Net cash (outflows) from financing activities		(173,155)	(282,954)
Net increase/(decrease) in cash and cash equivalents		280,708	(163,493)
Cash and cash equivalents at beginning of year		159,621	326,029
Effects of exchange rate changes on cash and cash equivalents		(3,117)	(2,915)
Cash and cash equivalents at end of year	20	437,212	159,621

Notes 1 to 34 on pages 39 to 103 are an integral part of the financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. Corporate information and business

Seplat Petroleum Development Company Plc ('Seplat' or the 'Company'), the parent of the Group, was incorporated on 17 June 2009 as a private limited liability company and re-registered as a public company on 3 October 2014, under the Companies and Allied Matters Act, CAP C20, Laws of the Federation of Nigeria 2004. The Company commenced operations on 1 August 2010. The Company is principally engaged in oil and gas exploration and production.

The Company's registered address is: 25a Lugard Avenue, Ikoyi, Lagos, Nigeria.

The Company acquired, pursuant to an agreement for assignment dated 31 January 2010 between the Company, SPDC, TOTAL and AGIP, a 45% participating interest in the following producing assets:

OML 4, OML 38 and OML 41 located in Nigeria. The total purchase price for these assets was US\$340 million (₦ 104 billion) paid at the completion of the acquisition on 31 July 2010 and a contingent payment of US\$33 million (₦ 10 billion) payable 30 days after the second anniversary, 31 July 2012, if the average price per barrel of Brent Crude oil over the period from acquisition up to 31 July 2012 exceeds US\$80 (₦ 24,464) per barrel. US\$358.6 million (₦ 110 billion) was allocated to the producing assets including US\$18.6 million (₦ 5.7 billion) as the fair value of the contingent consideration as calculated on acquisition date. The contingent consideration of US\$33 million (₦ 10 billion) was paid on 22 October 2012.

In 2013, Newton Energy Limited ('Newton Energy'), an entity previously beneficially owned by the same shareholders as Seplat, became a subsidiary of the Company. On 1 June 2013, Newton Energy acquired from Pillar Oil Limited ('Pillar Oil') a 40% Participant interest in producing assets: the Umuseti/Igbuku marginal field area located within OPL 283 (the 'Umuseti/Igbuku Fields').

On 12 December 2014, Seplat Gas Company Limited ('Seplat Gas') was incorporated as a private limited liability company to engage in oil and gas exploration and production.

In 2015, the Group purchased a 40% participating interest in OML 53, onshore north eastern Niger Delta, from Chevron Nigeria Ltd for US\$259.4 million (₦ 79 billion).

In 2017, the Group incorporated a new subsidiary, ANOH Gas Processing Company Limited. The principal activities of the Company is the processing of gas from OML 53.

The Company together with its six wholly owned subsidiaries namely, Newton Energy, which was incorporated on 1 June 2013, Seplat Petroleum Development Company UK Limited ('Seplat UK'), which was incorporated on 21 August 2014, Seplat East Onshore Limited ('Seplat East'), which was incorporated on 12 December 2014, Seplat East Swamp Company Limited ('Seplat Swamp'), which was incorporated on 12 December 2014, Seplat Gas Company Limited ('Seplat GAS'), which was incorporated on 12 December 2014 and ANOH Gas Processing Company Limited which was incorporated on 18 January 2017 are collectively referred to as the Group.

Subsidiary	Country of incorporation and place of business	Shareholding %	Principal activities
Newton Energy Limited	Nigeria	100%	Oil & gas exploration and production
Seplat Petroleum Development UK	United Kingdom	100%	Oil & gas exploration and production
Seplat East Onshore Limited	Nigeria	100%	Oil & gas exploration and production
Seplat East Swamp Company Limited	Nigeria	100%	Oil & gas exploration and production
Seplat Gas Company	Nigeria	100%	Oil & gas exploration and production
ANOH Gas Processing Company Limited	Nigeria	100%	Gas processing

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

2. Summary of significant accounting policies

2.1 Introduction to summary of significant accounting policies

During the reporting period ended 31 December 2017, the Group renegotiated its lending arrangements resulting in a twelve month extension of its revolving credit facility till 31 December 2018. Force majeure was also lifted in the period and as a result the Group significantly increased its production volumes. The Group continued its efforts towards securing alternative evacuation routes to ensure sustained growth in production volumes.

Resumption of exports via the Forcados terminal, has strengthened the Group's financial performance and position during the period ended 31 December 2017.

2.2 Basis of preparation

i) *Compliance with IFRS*

The consolidated financial statements for the year ended 31 December 2017 have been prepared in accordance with International Financial Reporting Standards ("IFRS") and interpretations issued by the IFRS Interpretations Committee (IFRS IC) applicable to companies reporting under IFRS. The financial statements comply with IFRS as issued by the International Accounting Standards Board (IASB). Additional information required by National regulations is included where appropriate.

The financial statements comprise the statement of profit or loss and other comprehensive income, the statement of financial position, the statement of changes in equity, the statement of cash flows and the notes to the financial statements.

ii) *Historical cost convention*

The financial information has been prepared under the going concern assumption and historical cost convention, except for contingent consideration, other assets, plan assets and financial instruments on initial recognition measured at fair value. The financial statements are presented in US Dollars and Nigerian Naira and all values are rounded to the nearest thousand (₦ 'million and US\$'000), except when otherwise indicated.

iii) *Going concern*

Nothing has come to the attention of the directors to indicate that the Group will not remain a going concern for at least twelve months from the date of this statement.

iv) *New and amended standards adopted by the Group*

There were a number of new standards and amendments to standards that are effective for annual periods beginning after 1 January 2017; the Group has adopted these new or amended standards in consolidated financial statements. The nature and impact of the new standards and amendments to the standards are described below.

Other than the changes described below, the accounting policies adopted are consistent with those of the previous financial year.

a) *Disclosure initiative – Amendments to IAS 7*

The Group is now required to explain changes in their liabilities arising from financing activities. This includes changes arising from cash flows (e.g. drawdowns and repayments of borrowings) and non-cash changes such as acquisitions, disposals, accretion of interest and unrealised exchange differences.

Changes in financial assets are included in this disclosure if the cash flows were, or are, included in cash flows from financing activities. This is the case, for example, for assets that hedge liabilities arising from financing liabilities.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

2. Summary of significant accounting policies (Continued)

The Group may include changes in other items as part of this disclosure, for example by providing a 'net debt' reconciliation. However, in this case the changes in the other items are disclosed separately from the changes in liabilities arising from financing activities.

The Group discloses this information in tabular format as a reconciliation from opening and closing balances. There were no other standards adopted that has a material impact on the financial statements.

The Group discloses this information in Note 24.

v) *New standards and interpretations not yet adopted*

Certain new accounting standards and interpretations have been published that are not mandatory for 31 December 2017 reporting periods and have not been early adopted by the Group. The Group's assessment of the impact of these new standards and interpretations is set out below.

Title of standard	IFRS 9 Financial Instruments
Nature of change	IFRS 9 Financial instruments addresses the classification, measurement and de-recognition of financial assets and financial liabilities, and introduces new rules for hedge accounting and a new impairment model for financial assets. It replaces the guidance in IAS 39 that relates to the classification and measurement of financial instruments.
Impact	The Group has reviewed its financial assets and liabilities and is expecting the following impact from the adoption of the new standard on 1 January 2018:

Classification and measurement: From the results, the Group does not expect the new guidance to have a significant impact on the classification and measurement of its financial assets which are all currently classified as loans and receivables and are measured at amortised cost. IFRS 9 retains but simplifies the mixed measurement model and establishes three (3) primary measurement categories for financial assets: amortised cost, fair value through other comprehensive income and fair value through profit or loss. The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset. The financial assets currently classified as loans and receivables in the financial statement will satisfy the conditions for classification at amortised cost under IFRS 9.

There will be no impact on the Group's accounting for financial liabilities, as the new requirements only affect financial liabilities that are designated at fair value through profit or loss and the Group does not have such liabilities. The de-recognition rules have been transferred from IAS 39 Financial Instruments: Recognition and Measurement and have not been changed.

Impairment of financial assets: The new impairment model requires the recognition of impairment provisions based on expected credit losses (ECL) which considers more forward looking information in establishing a provision for impairment. It applies to financial assets classified at amortised cost and contract assets under IFRS 15: Revenue from Contracts with Customers. Based on assessments undertaken on the Group's portfolio of impaired NPDC receivables, it estimates that on adoption of the new principles on 1 January 2018, loss allowance for NPDC receivables would increase by approximately US\$1.6 million (₦489 million) at that date and retained earnings would decrease by the same amount. The loss allowance is an estimated value which is subject to change in the 2018 financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

2. Summary of significant accounting policies (Continued)

Hedge Accounting: The new hedge accounting rules will align the accounting for hedging instruments more closely with the Group's risk management practices. As a general rule, more hedge relationships might be eligible for hedge accounting, as the standard introduces a more principles-based approach. The Group does not expect a significant impact on the accounting for its hedging relationships as a result of the adoption of IFRS 9, as they have not formally elected to apply hedge accounting.

Disclosures: The new standard also introduces expanded disclosure requirements and changes in presentation. These are expected to change the nature and extent of the Group's disclosures about its financial instruments particularly in the year of the adoption of the new standard.

Date of adoption The Group will apply the new rules retrospectively from 1 January 2018. Comparatives for 2017 will not be restated.

Title of standard **IFRS 15 Revenue from contracts with customers**

Nature of change The IASB has issued a new standard for the recognition of revenue. This will replace IAS 18 which covers contracts for goods and services and IAS 11 which covers construction contracts.

The new standard introduces a five step model approach which is based on the principle that revenue is recognised when control of a good or service transfers to a customer. The Group will recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which it expects to be entitled in exchange for those goods or services.

Impact Management has assessed the effects of applying the new standard on the Group's financial statements and has identified the following areas that will be affected:

Accounting for under lifts and over lifts: IFRS 15 is applicable only if the counterparty to the contract is a customer. The standard defines a customer as a party that has contracts with an entity to obtain goods or services that are an output of the entity's ordinary activities.

IFRS 15 makes a distinction between customers and partners or collaborators who share in the risks and benefits that result from the activity or process. Since the Joint Venture (JV) partners do not meet the definition of a customer, over lifts and under lifts should not be recognised as revenue from contracts with customers. In addition, even if the partner meets the definition of a customer, the transaction would still be outside the scope of the standard since the transaction is a non-monetary exchange (exchange of crude oil for crude oil).

The Group estimates that on adoption of the new principles as at 1 January 2018, revenue would increase by ₦11 billion (US\$38 million) and cost of sales would increase by the same amount, as a result of the difference in accounting for overlifts and underlifts.

Accounting for consideration payable to the customer: The standard requires that an entity accounts for consideration payable to a customer as a reduction of the transaction price and, therefore, net of revenue unless the payment to the customer is in exchange for a distinct good or service that the customer transfers to the entity. If the amount of consideration payable to the customer exceeds the fair value of the distinct good or service that the entity receives from the customer, then the entity accounts for such an excess as a reduction of the transaction price. If the entity cannot reasonably

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

2. Summary of significant accounting policies (Continued)

estimate the fair value of the good or service received from the customer, it accounts for all of the consideration payable to the customer as a reduction of the transaction price.

The Group incurs barging costs in the course of the satisfaction of its performance obligations i.e. delivery of crude oil and gas. These costs do not transfer any distinct good or service and as such represent consideration payable to customer and will be accounted for as a direct deduction from revenue when the Group recognises revenue for the delivery of crude oil and gas. The Group estimates that on adoption of the new principles as at 1 January 2018, revenue would reduce by an additional ₦2.7 billion (US\$9 million) as a result of barging costs reclassified from general and administrative expenses.

Presentation of contract assets and contract liabilities on the balance sheet: IFRS 15 requires the separate presentation of contract assets and contract liabilities on the balance sheet. On adoption of the new principles as at 1 January 2018, it would result in a reclassification of advances for future oil sales amounting to ₦41 billion (US\$136 million) which are currently included in deferred revenue to contract liabilities.

The estimated impact in revenue on adoption of the new principles of IFRS 15 is subject to change in the 2018 financial statements.

Date of adoption The Group will adopt the new standard on 1 January 2018 using the modified retrospective approach.

Title of standard **IFRS 16 Leases**

Nature of change IFRS 16 was issued in January 2016. It will result in almost all leases being recognised on the balance sheet, as the distinction between operating and finance leases is removed. Under the new standard, an asset (the right to use the leased item) and a financial liability to pay rentals are recognised. The only exceptions are short-term and low-value leases. The accounting for lessors will not significantly change.

Impact **Operating leases:** The standard will affect primarily the accounting for the Group's operating leases which include leases of buildings, boats, storage facilities, rigs, land and motor vehicles. As at the reporting date, the Group has non-cancellable operating lease commitments of ₦1.3 billion (US\$4.2 million). A Right of use asset and lease liability will be recognised for these commitments. As at the reporting period, the full extent of the impact is yet to be quantified for the affected leases.

As at the reporting period, the full extent of the impact is yet to be quantified for the affected leases.

Impact **Short term leases & Low value leases:** The Group's one-year contracts with no planned extension commitments mostly applicable to leased staff flats will be covered by the exception for short-term leases, while none of the Group's leases will be covered by the exception for low value leases.

Service contracts: Some commitments such as contracts for the provision of drilling, cleaning and community services were identified as service contracts as they did not contain an identifiable asset which the Group had a right to control. It therefore did not qualify as leases under IFRS 16.

Date of adoption The standard for leases is mandatory for financial years commencing on or after 1 January 2019. The Group does not intend to adopt the standard before its effective date.

There are no other standards that are not yet effective and that would be expected to have a material impact on the Group.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

2. Summary of significant accounting policies (Continued)

2.3 Basis of consolidation

i) Subsidiaries

Subsidiaries are all entities (including structured entities) over which the Group has control.

The consolidated financial information comprises the financial statements of the Group and its subsidiaries as at 31 December 2017. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the Group controls an investee if and only if the Group has:

- Power over the investee (i.e. existing rights that give it the current ability to direct the relevant activities of the investee);
- Exposure, or rights, to variable returns from its involvement with the investee; and
- The ability to use its power over the investee to affect its returns.

Subsidiaries are consolidated from the date on which control is obtained by the Group and are deconsolidated from the date control ceases.

Generally, there is a presumption that a majority of voting rights results in control. To support this presumption and when the Group has less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- The contractual arrangement(s) with the other vote holders of the investee
- Rights arising from other contractual arrangements
- The Group's voting rights and potential voting rights

ii) Change in the ownership interest of subsidiary

The Group re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in the profit or loss and other comprehensive income from the date the Group gains control until the date the Group ceases to control the subsidiary.

Profit or loss and each component of OCI are attributed to the equity holders of the parent of the Group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

The financial statements of the subsidiaries are prepared for the same reporting periods as the parent company using consistent accounting policies.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

iii) Disposal of subsidiary

If the Group loses control over a subsidiary, it:

- Derecognises the assets (including goodwill) and liabilities of the subsidiary;
- Derecognises the carrying amount of any non-controlling interests;
- Derecognises the cumulative translation differences recorded in equity;
- Recognises the fair value of the consideration received;

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

2. Summary of significant accounting policies (Continued)

- Recognises the fair value of any investment retained;
- Recognises any surplus or deficit in profit or loss; and
- Reclassifies the parent's share of components previously recognised in OCI to profit or loss or retained earnings, as appropriate, as would be required if the Group had directly disposed of the related assets or liabilities.

iv) Joint arrangements

Under IFRS 11 Joint Arrangements investments in joint arrangements are classified as either joint operations or joint ventures. The classification depends on the contractual rights and obligations of each investor, rather than the legal structure of the joint arrangement. As at the reporting date, the Group has only joint operations.

Joint operations

The Group recognises its direct right to the assets, liabilities, revenues and expenses of joint operations and its share of any jointly held or incurred assets, liabilities, revenues and expenses. These have been incorporated in the financial statements under the appropriate headings.

The Group recognises in its own accounting records as follows:

- a) Its share of the mineral properties is shown within property, plant and equipment.
- b) Any liabilities that it has incurred including those incurred to finance its share of the asset.
- c) Its share of any liabilities incurred jointly with other venturers, including the decommissioning liability of production and field facilities.
- d) Any income from its sale or use of its share of the output.
- e) Any expenses that it has incurred in respect of its interest in the venture, together with its share of any expenses incurred by the joint operation.

In addition to joint costs, the Group also incurs exclusive costs, which are fully borne by the Group.

2.4 Functional and presentation currency

Items included in the financial statements of each of the Group's subsidiaries are measured using the currency of the primary economic environment in which the subsidiaries operate ('the functional currency'), which is the US dollar except the UK subsidiary which is the Great Britain Pound. The consolidated financial statements are presented in Nigerian Naira and the US Dollars.

The Group has chosen to show both presentation currencies side by side and this allowable by the regulator.

i) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies at year end exchange rates are generally recognised in profit or loss.

Foreign exchange gains and losses that relate to borrowings are presented in the statement of profit or loss, within finance costs. All other foreign exchange gains and losses are presented in the statement of profit or loss on a net basis within other income or other expenses.

Non-monetary items that are measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined. Translation differences on assets and liabilities carried at fair value are reported as part of the fair value gain or loss in profit or loss or other comprehensive income depending on where fair value gain or loss is reported.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

2. Summary of significant accounting policies (Continued)

ii) *Group companies*

The results and financial position of foreign operations that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- assets and liabilities for each statement of financial position presented are translated at the closing rate at the date of the reporting date.
- income and expenses for each statement of profit or loss and other comprehensive income are translated at average exchange rates (unless this is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions), and
- all resulting exchange differences are recognised in other comprehensive income.

On disposal of a foreign operation, the component of other comprehensive income relating to that particular foreign operation is recognised in profit or loss.

2.5 Oil and gas accounting

i) *Pre-license costs*

Pre-license costs are expensed in the period in which they are incurred.

ii) *Exploration license cost*

Exploration license costs are capitalised within oil and gas properties. License costs paid in connection with a right to explore in an existing exploration area are capitalised and amortised on a straight-line basis over the life of the permit.

License costs are reviewed at each reporting date to confirm that there is no indication that the carrying amount exceeds the recoverable amount. This review includes confirming that exploration drilling is still under way or firmly planned, or that it has been determined, or work is under way to determine that the discovery is economically viable based on a range of technical and commercial considerations and sufficient progress is being made on establishing development plans and timing. If no future activity is planned or the license has been relinquished or has expired, the carrying value of the license is written off through profit or loss.

iii) *Acquisition of producing assets*

Upon acquisition of producing assets which do not constitute a business combination, the Group identifies and recognises the individual identifiable assets acquired (including those assets that meet the definition of, and recognition criteria for, intangible assets in IAS 38 Intangible Assets) and liabilities assumed. The purchase price paid for the Group of assets is allocated to the individual identifiable assets and liabilities on the basis of their relative fair values at the date of purchase.

iv) *Exploration and evaluation expenditures*

Geological and geophysical exploration costs are charged to profit or loss as incurred.

Exploration and evaluation expenditures incurred by the entity are accumulated separately for each area of interest. Such expenditures comprise net direct costs and an appropriate portion of related overhead expenditure, but do not include general overheads or administrative expenditure that is not directly related to a particular area of interest. Each area of interest is limited to a size related to a known or probable hydrocarbon resource capable of supporting an oil operation.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

2. Summary of significant accounting policies (Continued)

Costs directly associated with an exploration well, exploratory stratigraphic test well and delineation wells are temporarily suspended (capitalised) until the drilling of the well is complete and the results have been evaluated. These costs include employee remuneration, materials and fuel used, rig costs, delay rentals and payments made to contractors. If hydrocarbons ('proved reserves') are not found, the exploration expenditure is written off as a dry hole and charged to profit or loss. If hydrocarbons are found, the costs continue to be capitalised.

Suspended exploration and evaluation expenditure in relation to each area of interest is carried forward as an asset provided that one of the following conditions is met:

- the costs are expected to be recouped through successful development and exploitation of the area of interest or alternatively, by its sale;
- exploration and/or evaluation activities in the area of interest have not, at the reporting date, reached a stage which permits a reasonable assessment of the existence or otherwise of economically; and
- recoverable reserves, and active and significant operations in, or in relation to, the area of interest are continuing.

Exploration and/or evaluation expenditures which fail to meet at least one of the conditions outlined above are written off. In the event that an area is subsequently abandoned or exploration activities do not lead to the discovery of proved or probable reserves, or if the Directors consider the expenditure to be of no value, any accumulated costs carried forward relating to the specified areas of interest are written off in the year in which the decision is made. While an area of interest is in the development phase, amortisation of development costs is not charged pending the commencement of production. Exploration and evaluation costs are transferred from the exploration and/or evaluation phase to the development phase upon commitment to a commercial development.

v) *Development expenditures*

Development expenditure incurred by the entity is accumulated separately for each area of interest in which economically recoverable reserves have been identified to the satisfaction of the Directors. Such expenditure comprises net direct costs and, in the same manner as for exploration and evaluation expenditure, an appropriate portion of related overhead expenditure directly related to the development property. All expenditure incurred prior to the commencement of commercial levels of production from each development property is carried forward to the extent to which recoupment is expected to be derived from the sale of production from the relevant development property.

2.6 Revenue recognition

Revenue arises from the sale of crude oil and gas. Revenue comprises the realised value of crude oil lifted by customers. Revenue is recognised when crude products are lifted by a third party (buyer) Free on Board ('FOB') at the Group's designated loading facility or lifting terminals. At the point of lifting, all risks and rewards are transferred to the buyer. Gas revenue is recognised when gas passes through the custody transfer point.

Overlift and underlift

The excess of the product sold during the period over the Group's ownership share of production is termed as an overlift and is accrued for as a liability and not as revenue. Conversely, an underlift is recognised as an asset and the corresponding revenue is also reported.

Overlifts and underlifts are initially measured at the market price of oil at the date of lifting, consistent with the measurement of the sale and purchase.

Subsequently, they are remeasured at the current market value. The change arising from this remeasurement is included in the profit or loss as revenue or cost of sales.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

2. Summary of significant accounting policies (Continued)

2.7 Property, plant and equipment

Oil and gas properties and other plant and equipment are stated at cost, less accumulated depreciation and accumulated impairment losses.

The initial cost of an asset comprises its purchase price or construction cost, any costs directly attributable to bringing the asset into operation, the initial estimate of any decommissioning obligation and, for qualifying assets, borrowing costs. The purchase price or construction cost is the aggregate amount paid and the fair value of any other consideration given to acquire the asset. Where parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items of property, plant and equipment.

Expenditure on major maintenance refits or repairs comprises the cost of replacement assets or parts of assets, inspection costs and overhaul costs. Where an asset or part of an asset that was separately depreciated and is now written off is replaced and it is probable that future economic benefits associated with the item will flow to the entity, the expenditure is capitalised. Inspection costs associated with major maintenance programmes are capitalised and amortised over the period to the next inspection. Overhaul costs for major maintenance programmes are capitalised as incurred as long as these costs increase the efficiency of the unit or extend the useful life of the asset. All other maintenance costs are expensed as incurred.

Depreciation

Production and field facilities are depreciated on a unit-of-production basis over the estimated proved developed reserves. Assets under construction are not depreciated. Other property, plant and equipment is depreciated on a straight-line basis over their estimated useful lives. Depreciation commences when an asset is available for use. The depreciation rate for each class is as follows:

Leasehold improvements	Over the unexpired portion of the lease
-----	-----
Plant and machinery	20%
Motor vehicles	25%
Office furniture and IT equipment	33.33%

The expected useful lives and residual values of property, plant and equipment are reviewed on an annual basis and, if necessary, changes in useful lives are accounted for prospectively.

2.8 Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

Borrowing costs consist of interest and other costs incurred in connection with the borrowing of funds. These costs may arise from; specific borrowings used for the purpose of financing the construction of a qualifying asset, and those that arise from general borrowings that would have been avoided if the expenditure on the qualifying asset had not been made. The general borrowing costs attributable to an asset's construction is calculated by reference to the weighted average cost of general borrowings that are outstanding during the period.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on the qualifying assets is deducted from the borrowing costs eligible for capitalisation. All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

2. Summary of significant accounting policies (Continued)

2.9 Impairment of non-financial assets

Goodwill and intangible assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment, or more frequently. Other non-financial assets are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Individual assets are grouped for impairment assessment purposes at the lowest level at which there are identifiable cash flows that are largely independent of the cash flows of other groups of assets. This should be at a level not higher than an operating segment.

If any such indication of impairment exists or when annual impairment testing for an asset group is required, the entity makes an estimate of its recoverable amount. Such indicators include changes in the Group's business plans, changes in commodity prices, evidence of physical damage and, for oil and gas properties, significant downward revisions of estimated recoverable volumes or increases in estimated future development expenditure.

The recoverable amount is the higher of an asset's fair value less costs of disposal ('FVLCD') and value in use ('VIU'). The recoverable amount is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or group of assets, in which case, the asset is tested as part of a larger cash generating unit to it belongs. Where the carrying amount of an asset group exceeds its recoverable amount, the asset group is considered impaired and is written down to its recoverable amount.

Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at the end of each reporting period.

In calculating VIU, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset/CGU. In determining FVLCD, recent market transactions are taken into account. If no such transactions can be identified, an appropriate valuation model is used. These calculations are corroborated by valuation multiples, quoted share prices for publicly traded companies or other available fair value indicators.

Impairment – exploration and evaluation assets

Exploration and evaluation assets are tested for impairment once commercial reserves are found before they are transferred to oil and gas assets, or whenever facts and circumstances indicate impairment. An impairment loss is recognised for the amount by which the exploration and evaluation assets' carrying amount exceeds their recoverable amount. The recoverable amount is the higher of the exploration and evaluation assets' fair value less costs to sell and their value in use.

Impairment – proved oil and gas production properties

Proven oil and gas properties are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs of disposal and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows.

2.10 Cash and cash equivalents

Cash and cash equivalents in the statement of cash flows comprise cash at banks and at hand and short-term deposits with an original maturity of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of change in value.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

2. Summary of significant accounting policies (Continued)

2.11 Inventories

Inventories represent the value of tubulars, casing and wellheads. These are stated at the lower of cost and net realisable value. Cost is determined using the invoice value and all other directly attributable costs to bringing the inventory to the point of use determined on a first in first out basis. Net realisable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated cost necessary to make the sale.

2.12 Other asset

The Group's interest in the oil and gas reserves of OML 55 has been classified as other asset. On initial recognition, it is measured at the fair value of future recoverable oil and gas reserves.

Subsequently, the other asset is carried at fair value through profit or loss.

2.13 Segment reporting

Segment reporting has not been prepared as the Group operates one segment, being the exploration, development and production of oil and gas related products located in Nigeria. Operations in the different OMLs are integrated due to geographic proximity, the use of shared infrastructure and common operational management.

2.14 Financial instruments

2.14.1 Financial assets

i) Financial assets initial recognition and measurement

The Group determines the classification of its financial assets at initial recognition.

All financial assets are recognised initially at fair value plus transaction costs, except in the case of financial assets recorded at fair value through profit or loss which do not include transaction costs. The Group's financial assets include cash and short-term deposits, trade and other receivables, favourable derivatives and loan and other receivables.

ii) Subsequent measurement

The subsequent measurement of financial assets depends on their classification, as follows:

Trade receivables, loans and other receivables

Trade receivables, loans and other receivables, which are non-derivative financial assets that have fixed or determinable payments that are not quoted in an active market, are classified as loans and receivables. They are included in the current assets, except for maturities greater than 12 months after the reporting date. The Group's loan and receivables comprise trade and other receivables in the consolidated historical financial information.

Loans and receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest rate method net of any impairment.

A provision for impairment of trade receivables is established when there is objective evidence that the Group will not be able to collect all the amounts due according to the original terms of the receivable.

Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation and default or delinquency in payments are considered as indicators that the trade receivable is impaired. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate.

The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the loss is recognised in profit or loss. When a trade is uncollectable, it is written off against the allowance account for trade receivables.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

2. Summary of significant accounting policies (Continued)

iii) *Impairment of financial assets*

The Group assesses at each reporting date whether there is objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if there is objective evidence of impairment as a result of one or more events that has occurred since the initial recognition of the asset (an incurred loss event) and that loss event has an impact on the estimated future cash flows of the financial asset or the Group of financial assets that can be reliably estimated. Evidence of impairment may include indications that the debtor or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and observable data indicating that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

iv) *Derecognition of financial assets*

A financial asset is derecognised when the contractual rights to the cash flows from the financial asset expire. When an existing financial asset is transferred, the transfer qualifies for derecognition if the Group transfers the contractual rights to receive the cash flows of the financial asset or retains the contractual rights to receive the cash flows of the financial asset, but assumes a contractual obligation to pay the cash flows to one or more recipients in an arrangement.

2.14.2 *Financial liabilities*

Financial liabilities in the scope of IAS 39 are classified as financial liabilities at fair value through profit or loss, and financial liabilities at amortised cost as appropriate. The Group determines the classification of its financial liabilities at initial recognition.

i) *Financial liabilities initial recognition and measurement*

All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings, net of directly attributable transaction costs.

The Group's financial liabilities include trade and other payables, bank overdrafts and loans and borrowings.

ii) *Subsequent measurement*

The measurement of financial liabilities depends on their classification as described below:

Trade payables

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Trade payables are classified as current liabilities if payment is due within one year or less. If not, they are presented as non-current liabilities.

Trade payables are recognised initially at fair value and subsequently measured at amortised cost using effective interest method.

Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently carried at amortised cost while any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the statement of profit or loss over the period of borrowings using the effective interest method.

Fees paid on establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw down occurs. To the extent that there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalised as a pre-payment for liquidity services and amortised over the period of the facility to which it relates.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

2. Summary of significant accounting policies (Continued)

iii) Derecognition of financial liabilities

A financial liability is derecognised when the associated obligation is discharged or cancelled or expired. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognised in the statement of profit or loss.

2.14.3 Derivative financial instruments

The Group uses derivative financial instruments, such as forward exchange contracts, to hedge its foreign exchange risks as well as put options to hedge against its oil price risk. However, such contracts are not accounted for as designated hedges. Derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently re-measured at fair value. Derivatives are carried as financial assets when the fair value is positive and as financial liabilities when the fair value is negative. Any gains or losses arising from changes in the fair value of derivatives are taken directly to profit or loss and presented within operating profit.

Commodity contracts that were entered into and continue to be held for the purpose of the receipt or delivery of a non-financial item in accordance with the Group's expected purchase, sale or usage requirements fall within the exemption from IAS 32 and IAS 39, which is known as the 'normal purchase or sale exemption'. For these contracts and the host part of the contracts containing embedded derivatives, they are accounted for as executory contracts. The Group recognises such contracts in its statement of financial position only when one of the parties meets its obligation under the contract to deliver either cash or a non-financial asset. An analysis of fair values of financial instruments and further details as to how they are measured are provided in Note 4 financial risk management.

2.14.4 Fair value of financial instruments

The Group measures all financial instruments at initial recognition at fair value and financial instruments carried at fair value through profit and loss such as derivatives at fair value at each reporting date. From time to time, the fair values of non-financial assets and liabilities are required to be determined, e.g., when the entity acquires a business, or where an entity measures the recoverable amount of an asset or cash-generating unit ('CGU') at FVLCD.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs. From time to time external valuers are used to assess FVLCD of the Group's non-financial assets. Involvement of external valuers is decided upon by the valuation committee after discussion with and approval by the Group's Audit Committee. Selection criteria include market knowledge, reputation, independence and whether professional standards are maintained. Valuers are normally rotated every three years. The valuation committee decides, after discussions with the Group's external valuers, which valuation techniques and inputs to use for each case.

Changes in estimates and assumptions about these inputs could affect the reported fair value. The fair value of financial instruments that are traded in active markets at each reporting date is determined by reference to quoted market prices or dealer price quotations (bid price for long positions and ask price for short positions), without any deduction for transaction costs.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

2. Summary of significant accounting policies (Continued)

2.15 Share capital

Issued share capital has been translated at the exchange rate prevailing at the date of the transaction and is not retranslated subsequent to initial recognition.

2.16 Earnings and dividends per share

Basic EPS

Basic earnings per share is calculated on the Group's profit or loss after taxation attributable to the parent entity and on the basis of weighted average of issued and fully paid ordinary shares at the end of the year.

Diluted EPS

Diluted EPS is calculated by dividing the profit or loss attributable to ordinary equity holders of the parent (after adjusting for outstanding share options arising from the share based payment scheme) by the weighted average number of ordinary shares outstanding during the year plus the weighted average number of ordinary shares that would be issued on conversion of all the dilutive potential ordinary shares into ordinary shares.

Dividends on ordinary shares are recognised as a liability in the period in which they are approved.

2.17 Post-employment benefits

Defined contribution scheme

The Group contributes to a defined contribution scheme for its employees in compliance with the provisions of the Pension Reform Act 2014. The scheme is fully funded and is managed by licensed Pension Fund Administrators. Membership of the scheme is automatic upon commencement of duties at the Group. The Group's contributions to the defined contribution scheme are charged to the profit and loss account in the year to which they relate.

Employee benefits are all forms of consideration given by an entity in exchange for service rendered by employees or for the termination of employment. The Group operates a defined contribution plan and it is accounted for based on IAS 19 Employee benefits.

Defined contribution plans are post-employment benefit plans under which an entity pays fixed contributions into a separate entity (a fund) and will have no legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay all employee benefits relating to employee service in the current and prior periods. Under defined contribution plans the entity's legal or constructive obligation is limited to the amount that it agrees to contribute to the fund.

Thus, the amount of the post-employment benefits received by the employee is determined by the amount of contributions paid by an entity (and perhaps also the employee) to a post-employment benefit plan or to an insurance company, together with investment returns arising from the contributions. In consequence, actuarial risk (that benefits will be less than expected) and investment risk (that assets invested will be insufficient to meet expected benefits) fall, in substance, on the employee.

Defined benefit scheme

The Group operates a defined benefit gratuity plan, which requires contributions to be made to a separately administered fund. The Group also provides certain additional post-employment benefits to employees. These benefits are unfunded.

The cost of providing benefits under the defined benefit plan is determined using the projected unit credit method.

2. Summary of significant accounting policies (Continued)

Remeasurements, comprising actuarial gains and losses, are recognised immediately in the statement of financial position with a corresponding debit or credit to retained earnings through OCI in the period in which they occur.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

2. Summary of significant accounting policies (Continued)

Remeasurements are not reclassified to profit or loss in subsequent periods.

Past service costs are recognised in profit or loss on the earlier of:

- The date of the plan amendment or curtailment; and
- The date that the Group recognises related restructuring costs.

Net interest is calculated by applying the discount rate to the net defined benefit obligation and fair value of plan assets.

The Group recognises the following changes in the net defined benefit obligation under employee benefit expenses in general and administrative expenses.

- Service costs comprises current service costs, past-service costs, gains and losses on curtailments and non-routine settlements.
- Net interest cost

2.18 Provisions

Provisions are recognised when (i) the Group has a present legal or constructive obligation as a result of past events; (ii) it is probable that an outflow of economic resources will be required to settle the obligation as a whole; and (iii) the amount can be reliably estimated. Provisions are not recognised for future operating losses.

In measuring the provision:

- risks and uncertainties are taken into account;
- the provisions are discounted where the effects of the time value of money is considered to be material;
- when discounting is used, the increase of the provision over time is recognised as interest expense;
- future events such as changes in law and technology, are taken into account where there is subjective audit evidence that they will occur; and
- gains from expected disposal of assets are not taken into account, even if the expected disposal is closely linked to the event giving rise to the provision.

Decommissioning

Liabilities for decommissioning costs are recognised as a result of the constructive obligation of past practice in the oil and gas industry, when it is probable that an outflow of economic resources will be required to settle the liability and a reliable estimate can be made. The estimated costs, based on current requirements, technology and price levels, prevailing at the reporting date, are computed based on the latest assumptions as to the scope and method of abandonment.

Provisions are measured at the present value of management's best estimates of the expenditure required to settle the present obligation at the end of the reporting period. The discount rate used to determine the present value is a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The increase in the provision due to the passage of time is recognised as interest expense. The corresponding amount is capitalised as part of the oil and gas properties and is amortised on a unit-of-production basis as part of the depreciation, depletion and amortisation charge. Any adjustment arising from the estimated cost of the restoration and abandonment cost is capitalised, while the charge arising from the accretion of the discount applied to the expected expenditure is treated as a component of finance charges.

If the change in estimate results in an increase in the decommissioning provision and, therefore, an addition to the carrying value of the asset, the Group considers whether this is an indication of impairment of the asset as a whole, and if so, tests for impairment in accordance with IAS 36. If, for mature fields, the revised oil and gas assets net of decommissioning provisions exceed the recoverable value, that portion of the increase is charged directly to expense.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

2. Summary of significant accounting policies (Continued)

2.19 Contingencies

A contingent asset or contingent liability is a possible asset or obligation that arises from past events and whose existence will be confirmed by the occurrence or non-occurrence of uncertain future events. The assessment of the existence of the contingencies will involve management judgement regarding the outcome of future events.

2.20 Income taxation

i) *Current income tax*

The tax expense for the period comprises current and deferred tax. Tax is recognised in the statement of profit or loss and other comprehensive income, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the country where Group operates and generates taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulations are subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Taxation on crude oil activities is provided in accordance with the Petroleum Profits Tax Act ('PPTA') CAP. P13 Vol. 13 LFN 2004 and on gas operations in accordance with the Companies Income Tax Act ('CITA') CAP. C21 Vol. 3 LFN 2004. Education tax is assessed at 2% of the assessable profits.

ii) *Deferred tax*

Deferred tax is recognised, using the liability method, on temporary differences arising between the carrying amounts of assets and liabilities in the consolidated historical financial information and the corresponding tax bases used in the computation of taxable profit.

A deferred income tax charge is determined using tax rates (and laws) that have been enacted or substantively enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such deferred tax assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income tax assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

2. Summary of significant accounting policies (Continued)

iii) *New Tax Regime*

Effective 1 January 2013, the Company was granted the inter tax status incentive by the Nigerian Investment Promotion Commission for an initial three-year period and a further two-year period on approval. For the period the incentive applies, the Company is exempt from petroleum profits tax on crude oil profits (which would be otherwise taxed at 65.75%, to increase to 85% in 2017), corporate income tax on natural gas profits (currently taxed at 30%) and education tax of 2%. Newton Energy was also granted pioneer tax status on the same basis. The Company has completed its first three years of the pioneer tax period and is no longer exempted from paying petroleum profits tax on crude oil profits, corporate income tax on natural gas profits and education tax of 2%.

Tax incentives do not apply to Seplat East Onshore Limited (OML 53) and Seplat East Swamp Company Limited (OML 55), hence all taxes have been included in full for these entities in the financial statements.

2.21 **Leases**

The determination of whether an arrangement is, or contains, a lease is based on the substance of the arrangement at the inception date. The arrangement is assessed for whether fulfilment of the arrangement is dependent on the use of a specific asset or assets or the arrangement conveys a right to use the asset or assets, even if that right is not explicitly specified in an arrangement.

Leases in which a significant portion of the risks and rewards of ownership are not transferred to the Group as lessee are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to profit or loss on a straight-line basis over the period of the lease.

2.22 **Share based payments**

Employees (including senior executives) of the Group receive remuneration in the form of share-based payments, whereby employees render services as consideration for equity instruments (equity-settled transactions).

i) *Equity-settled transactions*

The cost of equity-settled transactions is determined by the fair value at the date when the grant is made using an appropriate valuation model.

That cost is recognised in employee benefits expense together with a corresponding increase in equity (other capital reserves), over the period in which the service and, where applicable, the performance conditions are fulfilled (the vesting period). The cumulative expense recognised for equity-settled transactions at each reporting date until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest. The expense or credit in profit or loss for a period represents the movement in cumulative expense recognised as at the beginning and end of that period.

Service and non-market performance conditions are not taken into account when determining the grant date and for fair value of awards, but the likelihood of the conditions being met is assessed as part of the Group's best estimate of the number of equity instruments that will ultimately vest. Market performance conditions are reflected within the grant date fair value. Any other conditions attached to an award, but without an associated service requirement, are considered to be non-vesting conditions. Non-vesting conditions are reflected in the fair value of an award and lead to an immediate expensing of an award unless there are also service and/or performance conditions.

No expense is recognised for awards that do not ultimately vest because non-market performance and/or service conditions have not been met. Where awards include a market or non-vesting condition, the transactions are treated as vested irrespective of whether the market or non-vesting condition is satisfied, provided that all other performance and/or service conditions are satisfied. When the terms of an equity-settled award are modified, the minimum expense recognised is the grant date fair value of the unmodified award, provided the original terms of the award are met. An additional expense, measured as at the date of modification, is recognised for any modification that increases the total fair value of the share-based payment transaction, or is otherwise beneficial to the employee. Where an award is cancelled by the entity

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

2. Summary of significant accounting policies (Continued)

or by the counterparty, any remaining element of the fair value of the award is expensed immediately through profit or loss. The dilutive effect of outstanding awards is reflected as additional share dilution in the computation of diluted earnings per share.

3. Significant accounting judgements, estimates and assumptions

The preparation of the Group's consolidated historical financial information requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the accompanying disclosures, and the disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of assets or liabilities affected in future periods.

3.1 Judgements

In the process of applying the Group's accounting policies, management has made the following judgements, which have the most significant effect on the amounts recognised in the consolidated historical financial information:

i) *OMLs 4, 38 and 41*

OMLs 4, 38, 41 are grouped together as a cash generating unit for the purpose of impairment testing. These three OMLs are grouped together because they each cannot independently generate cash flows. They currently operate as a single block sharing resources for the purpose of generating cash flows. Crude oil and gas sold to third parties from these OMLs are invoiced together.

ii) *Advances on investment*

The Group considers that the advances on investment of ₦20 billion (US\$65.7 million) in relation to the acquisition of additional assets is fully recoverable in accordance with the terms of the deposit.

iii) *New tax regime*

As at the end of the year, the Nigerian Investment Promotion Commission is yet to approve the tax incentives for the additional two years of the tax holidays for the Company. The financial statements have been prepared on the assumption that the tax incentives may not be renewed and hence this forms the basis of the Group's current and deferred taxation in the financial statements. Deferred tax assets have been recognised during the year. Deferred tax liabilities were not recognised in current and prior reporting periods as the Group was not liable to make future income taxes payment in respect of taxable temporary differences.

iv) *Unrecognised deferred tax asset*

Deferred income tax assets are recognised for tax losses carried forward to the extent that the realisation of the related tax benefit through future taxable profits is probable.

The Group did not recognise deferred income tax assets of ₦17 billion, 2016: ₦58 billion (US\$55 million, 2016: US\$192 million) in respect of temporary differences amounting to ₦29 billion, 2016: ₦89 billion (US\$96 million, 2016: US\$292 million) for its subsidiaries as management does not believe that future taxable profits would be available against which the deferred tax assets would be utilised. Out of this, deferred tax asset of ₦8.8 billion, 2016: ₦14 billion (US\$29 million, 2016: US\$47 million) relates tax losses of ₦14 billion, 2016: ₦21 billion (US\$47 million, 2016: US\$71 million). There are no expiration dates for the tax losses.

v) *Foreign currency translation reserve*

The Group has used the CBN rule to translate its Dollar currency to its Naira presentation currency. Management has determined that this rate is available for immediate delivery. If the rate used was 10% higher or lower, revenue in Naira would have increased/decreased by ₦13.8 billion (2016: ₦6.3 billion).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

3. Significant accounting judgements, estimates and assumptions (Continued)

3.2 Estimates and assumptions

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are described below. The Group based its assumptions and estimates on parameters available when the consolidated financial statements were prepared. Existing circumstances and assumptions about future developments may change due to market changes or circumstances arising that are beyond the control of the Group. Such changes are reflected in the assumptions when they occur.

i) *Other asset*

Seplat has recorded its rights to receive the discharge sum of ₦89.9 billion, 2016: ₦100 billion (US\$294 million, 2016: US\$330 million) from the crude oil reserves of OML 55 as other asset. The fair value is determined using the income approach in line with IFRS 13 (Discounted cashflow). The fair value of the other asset is disclosed in Note 15.

ii) *NPDC receivables*

In 2016, an impairment assessment was carried out on NPDC receivables using the future estimated cash flow expected to be recoverable from NPDC over the next eighteen months. The estimated future cash payments and receipts recoverable over the expected life of the receivable was discounted using Seplat's average borrowing cost of 8%. The resulting adjustment was recognised under general and administrative expenses in the statement of comprehensive income.

As at December 2017, management's reassessment of these receivables showed that the full value is deemed to be fully recoverable. As a result, the previously recognised impairment loss was reversed. The total amount owed by NPDC as at 31 December 2017 is ₦34 billion, 2016: ₦72 billion (US\$113 million, 2016: US\$239 million).

iii) *Contingent consideration*

During the year the Group continued to recognise the contingent consideration of ₦5.6 billion (US\$18.5 million) for OML 53 at the fair value of ₦4.2 billion, 2016: ₦3.6 billion (US\$13.9 million, 2016: US\$12 million). It is contingent on oil price rising above US\$90 (₦27,522)/bbl over the next three years. See Note 4.2.1 for further details.

iv) *Defined benefit plans (pension benefits)*

The cost of the defined benefit retirement plan and the present value of the retirement obligation are determined using actuarial valuations. An actuarial valuation involves making various assumptions that may differ from actual developments in the future. These include the determination of the discount rate, future salary increases, mortality rates and changes in inflation rates. Due to the complexities involved in the valuation and its long-term nature, a defined benefit obligation is highly sensitive to changes in these assumptions. All assumptions are reviewed at each reporting date. The parameter most subject to change is the discount rate. In determining the appropriate discount rate, management considers market yield on federal government bond in currencies consistent with the currencies of the post-employment benefit obligation and extrapolated as needed along the yield curve to correspond with the expected term of the defined benefit obligation. The rates of mortality assumed for employees are the rates published in 67/70 ultimate tables, published jointly by the Institute and Faculty of Actuaries in the UK.

v) *Oil and gas reserves*

Proved oil and gas reserves are used in the units of production calculation for depletion as well as the determination of the timing of well closure for estimating decommissioning liabilities and impairment analysis. There are numerous uncertainties inherent in estimating oil and gas reserves. Assumptions that are valid at the time of estimation may change significantly when new information becomes available. Changes in the forecast prices of commodities, exchange rates, production costs or recovery rates may change the economic status of reserves and may ultimately result in the reserves being restated.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

3. Significant accounting judgements, estimates and assumptions (Continued)

vi) *Share-based payment reserve*

Estimating fair value for share-based payment transactions requires determination of the most appropriate valuation model, which depends on the terms and conditions of the grant. This estimate also requires determination of the most appropriate inputs to the valuation model including the expected life of the share award or appreciation right, volatility and dividend yield and making assumptions about them. The Group measures the fair value of equity-settled transactions with employees at the grant date. The assumptions and models used for estimating fair value for share-based payment transactions are disclosed in Note 21b.

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. Such estimates and assumptions are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

vii) *Provision for decommissioning obligations*

Provisions for environmental clean-up and remediation costs associated with the Group's drilling operations are based on current constructions, technology, price levels and expected plans for remediation. Actual costs and cash outflows can differ from estimates because of changes in public expectations, prices, discovery and analysis of site conditions and changes in clean-up technology.

During the year, the Group undertook a detailed review of the assumptions used in calculating the provision for decommissioning liabilities and has revised its estimates at the end of the reporting period. This resulted in a change in inflation rate, risk-free discount rate and reserves estimates which increased the oil and gas properties and provision for decommissioning liabilities. See Note 26 for further details.

viii) *Property, plant and equipment*

The Group assesses its property, plant and equipment, including exploration and evaluation assets, for possible impairment if there are events or changes in circumstances that indicate that carrying values of the assets may not be recoverable, or at least at every reporting date.

If there are low oil prices or natural gas prices during an extended period the Group may need to recognise significant impairment charges. The assessment for impairment entails comparing the carrying value of the cash-generating unit with its recoverable amount, that is, value in use. Value in use is usually determined on the basis of discounted estimated future net cash flows. Determination as to whether and how much an asset is impaired involves management estimates on highly uncertain matters such as future commodity prices, the effects of inflation on operating expenses, discount rates, production profiles and the outlook for regional market supply-and-demand conditions for crude oil and natural gas.

During the year, the Group carried out an impairment assessment on OML 4, 38 and 48, OML 56 and OML 53. The Group used the value in use in determining the recoverable amount of the cash-generating unit. In determining the value, the Group used a recent forward curve for five years, reverting to the Group's long-term price assumption for impairment testing which is US\$45 (₦ 13,725) in 2018, US\$50 (₦ 15,250) in 2019 and US\$55 (₦ 16,775) from 2020 point forward. The Group used a post-tax discount rate of 10% based on the Group weighted average cost of capital. The impairment test did not result in an impairment charge for both 2017 and 2016 reporting periods.

In 2016 however, the impairment assessment was as a result of the force majeure on OML 4, 38 and 48. The Group calculated the value in use of the assets using a recent forward curve for five years, reverting to the Group's long-term price assumption for impairment testing which is US\$55 (₦ 16,775) in 2017, US\$60 (₦ 18,300) in 2018 and US\$70 (₦ 21,350) per barrel from 2019 point forward. The Group used a post-tax discount rate of 10% based on the Group weighted average cost of capital. The assessment did not result in an impairment charge.

Management has considered whether a reasonable possible change in one of the main assumptions will cause an impairment and believes otherwise. See Note 14 for further details.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

3. Significant accounting judgements, estimates and assumptions (Continued)

ix) *Useful life of other property, plant and equipment*

The Group recognises depreciation on other property, plant and equipment on a straight line basis in order to write-off the cost of the asset over its expected useful life. The economic life of an asset is determined based on existing wear and tear, economic and technical ageing, legal and other limits on the use of the asset, and obsolescence. If some of these factors were to deteriorate materially, impairing the ability of the asset to generate future cash flow, the Group may accelerate depreciation charges to reflect the remaining useful life of the asset or record an impairment loss.

x) *Contingencies*

By their nature, contingencies will only be resolved when one or more uncertain future events occur or fail to occur. The assessment of the existence, and potential quantum, of contingencies inherently involves the exercise of significant judgement and the use of estimates regarding the outcome of future events. See Note 33 for further details.

xi) *Income taxes*

The Group is subject to income taxes by the Nigerian tax authority, which does not require significant judgement in terms of provision for income taxes, but a certain level of judgement is required for recognition of deferred tax assets. Management is required to assess the ability of the Group to generate future taxable economic earnings that will be used to recover all deferred tax assets. Assumptions about the generation of future taxable profits depend on management's estimates of future cash flows. The estimates are based on the future cash flow from operations taking into consideration the oil and gas prices, volumes produced, operational and capital expenditure. See Note 11 for further details.

4. Financial risk management

4.1 Financial risk factors

The Group's activities expose it to a variety of financial risks such as market risk (including foreign exchange risk, interest rate risk and commodity price risk), credit risk and liquidity risk. The Group's risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

4. Financial risk management (Continued)

Risk management is carried out by the treasury department under policies approved by the Board of Directors. The Board provides written principles for overall risk management, as well as written policies covering specific areas, such as foreign exchange risk, interest rate risk, credit risk and investment of excess liquidity.

Risk	Exposure arising from	Measurement	Management
Market risk – foreign exchange . . .	Future commercial transactions Recognised financial assets and liabilities not denominated in US dollars.	Cash flow forecasting Sensitivity analysis	Match and settle foreign denominated cash inflows with foreign denominated cash outflows.
Market risk – interest rate	Long term borrowings at variable rate	Sensitivity analysis	Review refinancing opportunities
Market risk – commodity prices . .	Future sales transactions	Sensitivity analysis	Oil price hedges
Credit risk	Cash and cash equivalents, trade receivables and derivative financial instruments.	Aging analysis Credit ratings	Diversification of bank deposits.
Liquidity risk	Borrowings and other liabilities	Rolling cash flow forecasts	Availability of committed credit lines and borrowing facilities

4.1.1 Market Risk

Market risk is the risk of loss that may arise from changes in market factors such as commodity prices, interest rates and foreign exchange rates.

i) Commodity price risk

The Group is exposed to the risk of fluctuations on crude oil prices. The Group economically hedges against this risk and sells the oil that it produces to Shell Trading and Mercuria at market prices calculated in accordance with the terms of the Off-take Agreement.

The following table summarises the impact on the Group's profit/(loss) before tax of a 10 % change in crude oil prices, with all other variables held constant:

Increase/decrease in Commodity Price	Effect on profit/(loss) before tax 2017	Effect on other components of equity before tax 2017	Effect on (loss)/profit before tax 2016	Effect on other components of equity before tax 2016
	US\$ '000	US\$ '000	US\$ '000	US\$ '000
+10%	32,821	—	14,876	—
– 10%	(32,821)	—	(14,876)	—

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

4. Financial risk management (Continued)

The following table summarises the impact on the Group's profit/(loss) before tax of a 10% change in gas prices, with all other variables held constant:

Increase/decrease in Commodity Price	Effect on profit/(loss) before tax 2017	Effect on other components of equity before tax 2017	Effect on (loss)/profit before tax 2016	Effect on other components of equity before tax 2016
-----	US\$ '000	US\$ '000	US\$ '000	US\$ '000
+10%	12,397	—	10,546	—
- 10%	(12,397)	—	(10,546)	—
-----	-----	-----	-----	-----

ii) Cash flow and fair value interest rate risk

The Group's exposure to interest rate risk relates primarily to long-term borrowings. Borrowings issued at variable rates expose the Group to cash flow interest rate risk which is partially offset by cash and fixed deposit held at variable rates. At the end of the reporting date, the Group had no borrowings at fixed rates. The Group's borrowings are denominated in US dollars and the Nigerian Naira.

The Group is exposed to cash flow interest rate risk on short-term deposits to the extent that the significant reductions in market interest rates would result in a decrease in the interest earned by the Group.

The following table demonstrates the sensitivity of the Group's profit/(loss) before tax to changes in LIBOR rate, with all other variables held constant.

Increase/decrease in interest rate	Effect on profit/(loss) before tax 2017	Effect on other components of equity before tax 2017	Effect on (loss)/profit before tax 2016	Effect on other components of equity before tax 2016
-----	US\$ '000	US\$ '000	US\$ '000	US\$ '000
+1%	(5,701)	—	(6,641)	—
- 1%	5,701	—	6,641	—
-----	-----	-----	-----	-----

iii) Foreign exchange risk

The Group has transactional currency exposures that arise from sales or purchases in currencies other than the respective functional currency. The Group is exposed to exchange rate risk to the extent that balances and transactions are denominated in a currency other than the US dollar.

The Group holds the majority of its cash and cash equivalents in US dollar. However, the Group does maintain deposits in Naira in order to fund ongoing general and administrative activities and other expenditure incurred in this currency. Other monetary assets and liabilities which give rise to foreign exchange risk include trade and other receivables and trade and other payables.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

4. Financial risk management (Continued)

The following table demonstrates the sensitivity to a reasonably possible change in the foreign exchange rate, with all other variables held constant, of the Group's profit/(loss) before tax due to changes in the carrying value of monetary assets and liabilities at the reporting date:

	2017	2016
	US\$ '000	US\$ '000
Financial assets		
Cash and cash equivalents	89,504	32,695
Trade and other receivables	74,229	67,555
.....	163,733	100,250
Financial liabilities		
Trade and other payables	(83,144)	(9,406)
Net exposure to foreign exchange risk	80,589	90,844

Sensitivity to foreign exchange risk is based on the Group's net exposure to foreign exchange risk due to Naira denominated balances. If the Naira strengthen or weakens by the following thresholds, the impact is as shown in the table below:

	Effect on profit/(loss) before tax 2017	Effect on other components of equity before tax 2017	Effect on (loss)/profit before tax 2016	Effect on other components of equity before tax 2016
	US\$ '000	US\$ '000	US\$ '000	US\$ '000
Increase/decrease in foreign exchange risk				
+5%	(3,838)	—	(4,326)	—
- 5%	4,242	—	4,781	—

4.1.2 Credit risk

Credit risk refers to the risk of a counterparty defaulting on its contractual obligations resulting in financial loss to the Group. Credit risk arises from cash and cash equivalents, favourable derivative financial instruments, deposits with banks and financial institutions as well as credit exposures to customers and Joint venture partners, i.e. NPDC receivables and NGC receivables.

i) Risk management

The Group is exposed to credit risk from its sale of crude oil to Shell Western Supply and Trading Limited and Mecuria. The Group's trade with Shell Western Supply and Trading Limited is as specified within the terms of the crude off-take agreement and runs for five years until 31 December 2017 with a 30 day payment term. The off-take agreement with Mercuria also runs for five years until 31 July 2020 with a 30 day payment term.

In addition, the Group is exposed to credit risk in relation to its sale of gas to Nigerian Gas Company (NGC) Limited, a subsidiary of NNPC, its sole gas customer during the year.

The Group monitors receivable balances on an ongoing basis and there has been no significant history of impairment losses except for the NPDC receivables which are now deemed to be fully recoverable during the reporting period.

The credit risk on cash is limited because the majority of deposits are with banks that have an acceptable credit rating assigned by an international credit agency. The Group's maximum exposure to credit risk due to default of the counterparty is equal to the carrying value of its financial assets.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

4. Financial risk management (Continued)

The accounts receivable balance includes the following related party receivables:

		Percentage of total receivables	
		2017	2016
Cardinal Drilling Services Limited	Receivables relate to deposits that are expected to be utilised or refunded	2%	2%

The maximum exposure to credit risk as at the reporting date is:

	2017	2016
	US\$ '000	US\$ '000
Trade and other receivables (Gross)	299,584	391,579
Cash and cash equivalents	437,212	159,621
Gross amount	2736,796	551,200
Impairment of NPDC receivables	—	(10,260)
Net amount	736,796	540,940

Trade and other payables (excludes non financial liabilities such as provisions, accruals, taxes, pension and other non contractual payables), trade and other receivables (excluding prepayments) and cash and cash equivalents are financial instruments whose carrying amounts as the financial statements approximate their fair values.

	Trade receivables	NPDC/ NAPIMS receivables	Other receivables	Cash & bank balances	Total
31 Dec 2017	US\$ '000	US\$ '000	US\$ '000	US\$ '000	US\$ '000
Neither past due nor impaired	30,960	—	25	437,212	468,197
Past due but not impaired	77,725	125,169	65,705	—	268,599
Gross amount	108,685	125,169	65,730	437,212	736,796
Impairment loss	—	—	—	—	—
Net amount	108,685	125,169	65,730	437,212	736,796
31 Dec 2017					
Neither past due nor impaired	1,096	—	5,180	159,621	165,897
due but not impaired	72,331	8,233	65,705	—	146,269
Impaired	—	239,034	—	—	239,034
Gross amount	73,427	247,267	70,885	159,621	551,200
Impairment loss	—	(10,260)	—	—	(10,260)
Net amount	73,427	237,007	70,885	159,621	540,940

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

4. Financial risk management (Continued)

ii) Credit quality of financial assets that are neither past due nor impaired

The credit quality of financial assets that are neither past due nor impaired can be assessed by reference to external credit ratings (if available) or to historical information about counterparty default rates.

Counterparties with external credit rating (Fitch's)	2017	2016
	US\$'000	US\$'000
Cash and cash equivalents		
Non rated	205,811	86,669
B -	81,681	1,924
B	54,247	25,527
B +	14,090	9,388
A +	79,564	36,113
A A-	1,819	—
	437,212	159,621

	The Group	
Counterparties without external credit rating	2017	2016
	US\$'000	US\$'000
Trade and other receivables *		
Group 1	—	—
Group 2	30,985	6,276
Group 3	—	—
	30,985	6,276

* Includes trade receivables, intercompany receivables, NPDC receivables and other receivables.

Group 1 – new customers (less than 1 year).

Group 2 – existing customers (more than 1 year) with some defaults in the past. All defaults are recoverable.

Group 3 – Government entities.

iii) Ageing analysis for financial assets that are past due but not impaired

The ageing analysis of the trade receivables and amounts due from NPDC/NAPIMS is as follows:

	Total	Past due but not impaired				
		<30 days	30-60 days	60-90 days	90-120 days	>120 days
	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000
Trade receivables						
31 December 2017	77,725	17,951	10,884	16,899	19,957	12,034
31 December 2016	72,331	45,656	—	4,961	—	21,714
NPDC/NAPIMS receivables						
31 December 2017	125,169	4,273	37,179	—	—	83,717
31 December 2016	8,233	—	588	3,526	600	3,519

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

4. Financial risk management (Continued)

iv) Impaired receivables

Individual receivables which are known to be uncollectible are written off by reducing the carrying amount directly. The other receivables are assessed collectively to determine whether there is objective evidence that an impairment has been incurred but not yet identified. For these receivables the estimated impairment losses are recognised in a separate allowance for impairment. The Group considers that there is evidence of impairment if any of the following indicators are present:

- significant financial difficulties of the debtor
- probability that the debtor will enter bankruptcy or financial reorganisation, and
- default or delinquency in payments (more than 30 days overdue)

Receivables for which an impairment allowance was recognised are written off against the allowance when there is no expectation of recovering additional cash.

Impairment losses are recognised in profit or loss within general and administrative expenses. Subsequent recoveries of amounts previously written off are credited against general and administrative expenses. See Note 2.14.1(iii) for information about how impairment losses are calculated.

Individually impaired trade receivables relate to NPDC receivables that were outstanding in 2016 (¥2.27 billion, US\$10.26 million) which are now deemed to be fully recoverable. The Group expects to recover the receivables, however due to the timing of the receipts the future cash flows have been discounted to reflect the time value of money.

Movements in the provision for impairment of trade receivables that are assessed for impairment are as follows:

	2017	2016
	US\$ '000	US\$ '000
At 1 January	10,260	—
Allowance for impairment recognised during the year	—	10,260
Reversal of previously recognised impairment losses	(10,260)	—
Exchange rate differences	—	—
At 31 December	—	10,260

4.1.3 Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due.

The Group manages liquidity risk by ensuring that sufficient funds are available to meet its commitments as they fall due.

The Group uses both long-term and short-term cash flow projections to monitor funding requirements for activities and to ensure there are sufficient cash resources to meet operational needs. Cash flow projections take into consideration the Group's debt financing plans and covenant compliance. Surplus cash held is transferred to the treasury department which invests in deposit bearing current accounts, time deposits and money market deposits.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

4. Financial risk management (Continued)

The following table details the Group's remaining contractual maturity for its non-derivative financial liabilities with agreed maturity periods. The table has been drawn based on the undiscounted cash flows of the financial liabilities based on the earliest date on which the Group can be required to pay.

31 December 2017	Effective interest rate	Less than 1 year	1 – 2 year	2 – 3 years	3 – 5 years	After 5 years	Total
-----	-----	-----	-----	-----	-----	-----	-----
	%	US\$ '000	US\$ '000	US\$ '000	US\$ '000	US\$ '000	US\$ '000
Non-derivatives							
Variable interest rate borrowings							
(bank loans):							
Allan Gray	8.5% + LIBOR	5,546	5,116	3,676	1,759	—	16,097
Zenith Bank Plc	8.5% + LIBOR	76,006	70,109	50,373	24,104	—	220,592
First Bank of Nigeria Limited	8.5% + LIBOR	41,957	38,702	27,807	13,306	—	121,772
United Bank for Africa Plc	8.5% + LIBOR	47,504	43,818	31,483	15,065	—	137,870
Stanbic IBTC Bank Plc	8.5% + LIBOR	7,119	6,567	4,718	2,258	—	20,662
The Standard Bank of South Africa Limited	8.5% + LIBOR	7,119	6,567	4,718	2,258	—	20,662
Standard Chartered Bank	6.0% + LIBOR	18,794	—	—	—	—	18,794
Natixis	6.0% + LIBOR	18,794	—	—	—	—	18,794
Citibank Nigeria Ltd and Citibank NA	6.0% + LIBOR	14,617	—	—	—	—	14,617
The Mauritius Commercial Bank Plc*	6.0% + LIBOR	12,529	—	—	—	—	12,529
FirstRand Bank Ltd (Rand Merchant Bank Division)	6.0% + LIBOR	12,529	—	—	—	—	12,529
Nomura Bank Plc*	6.0% + LIBOR	12,529	—	—	—	—	12,529
NedBank Ltd, London Branch	6.0% + LIBOR	12,529	—	—	—	—	12,529
Stanbic IBTC Bank Plc	6.0% + LIBOR	9,399	—	—	—	—	9,399
The Standard Bank of South Africa Ltd	6.0% + LIBOR	13,576	—	—	—	—	13,576
Other non-derivatives							
Trade and other payables**	—	127,128	—	—	—	—	127,128
Contingent consideration	—	—	—	18,500	—	—	18,500
		437,675	170,879	141,275	58,750	—	808,579
		=====	=====	=====	=====	=====	=====

* Nomura and The Mauritius Commercial Bank replace JP Morgan and Bank of America.

** Trade and other payables (excludes non-financial liabilities such as provisions, accruals, taxes, pension and other non-contractual payables).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

4. Financial risk management (Continued)

31 December 2016	Effective interest rate	Less than 1 year	1 – 2 year	2 – 3 years	3 – 5 years	After 5 years	Total
	%	US\$ '000	US\$ '000	US\$ '000	US\$ '000	US\$ '000	US\$ '000
Non-derivatives							
Variable interest rate borrowings (bank loans):							
Zenith Bank Plc	8.5% + LIBOR	37,406	76,006	70,109	74,477	—	257,998
First Bank of Nigeria Limited.	8.5% + LIBOR	23,379	47,504	43,818	46,548	—	161,249
United Bank for Africa Plc	8.5% + LIBOR	23,379	47,504	43,818	46,548	—	161,249
Stanbic IBTC Bank Plc	8.5% + LIBOR	3,504	7,119	6,567	6,976	—	24,166
The Standard Bank of South Africa Limited.	8.5% + LIBOR	3,504	7,119	6,567	6,976	—	24,166
Standard Chartered Bank	6.0% + LIBOR	27,711	—	—	—	—	27,711
Natixis	6.0% + LIBOR	27,711	—	—	—	—	27,711
Citibank Nigeria Ltd and Citibank NA	6.0% + LIBOR	27,711	—	—	—	—	27,711
Bank of America Merrill Lynch Int'l Ltd	6.0% + LIBOR	18,474	—	—	—	—	18,474
FirstRand Bank Ltd (Rand Merchant Bank Division)	6.0% + LIBOR	18,474	—	—	—	—	18,474
JP Morgan Chase Bank NA, London Branch.	6.0% + LIBOR	18,474	—	—	—	—	18,474
NedBank Ltd, London Branch.	6.0% + LIBOR	18,474	—	—	—	—	18,474
Stanbic IBTC Bank Plc	6.0% + LIBOR	13,856	—	—	—	—	13,856
The Standard Bank of South Africa Ltd	6.0% + LIBOR	13,856	—	—	—	—	13,856
Other non-derivatives							
Trade and other payables**.	—	161,773	—	—	—	—	161,773
Contingent consideration	—	—	—	—	18,500	—	18,500
		437,686	185,252	170,879	200,025	—	993,842
		=====	=====	=====	=====	=====	=====

** Trade and other payables (excludes non-financial liabilities such as provisions, accruals, taxes, pension and other non-contractual payables).

4.2 Fair value

Set out below is a comparison by category of carrying amounts and fair value of all financial instruments:

	Carrying amount		Fair value	
	2017	2016	2017	2016
	US\$ '000	US\$ '000	US\$ '000	US\$ '000
Financial assets				
Trade and other receivables	299,584	381,319	299,584	381,319
Cash and cash equivalents	437,212	159,621	437,212	159,621
	736,796	540,940	736,796	540,940
Financial liabilities				
Borrowings – Bank loans	570,077	664,096	570,077	664,096
Contingent consideration	13,900	12,040	13,900	12,040
Trade and other payables	127,128	161,773	127,128	161,773
	711,105	837,909	711,105	837,909
	=====	=====	=====	=====

In determining the fair value of the borrowings, non-performance risks of the Group as at year-end were assessed to be insignificant.

Trade and other payables (excludes non-financial liabilities such as provisions, accruals, taxes, pension and other non-contractual payables), trade and other receivables (excluding prepayments) and cash and cash equivalents are financial instruments whose carrying amounts as per the financial statements approximate their fair values. This is mainly due to their short term nature. Contingent consideration are being measured and recognised at fair value.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

4. Financial risk management (Continued)

4.2.1 Fair Value Hierarchy

The Group has classified its financial instruments into the three levels prescribed under the accounting standards. An explanation of each level follows underneath the table. These are all recurring fair value measurements.

	Level 1	Level 2	Level 3
	US\$ '000	US\$ '000	US\$ '000
31 Dec 2017			
Financial liabilities:			
Borrowings – Bank loans	—	570,077	—
Contingent consideration	—	—	13,900
	-----	-----	-----
	—	570,077	13,900
	-----	-----	-----
31 Dec 2016			
Financial liabilities:			
Borrowings – Bank loans	—	664,096	—
Contingent consideration	—	—	12,040
	-----	-----	-----
	—	664,096	12,040
	-----	-----	-----

- Level 1 – Quoted (unadjusted) market prices in active markets for identical assets or liabilities.
- Level 2 – Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable.
- Level 3 – Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

There were no transfers between fair value levels during the year.

The fair value of the financial instruments is included at the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

The following methods and assumptions were used to estimate the fair values:

- Fair values of the Group's interest-bearing loans and borrowings are determined by using discounted cash flow models that use effective interest rates that reflect the borrowing rate as at the end of the year
- The fair value of the Group's contingent consideration is determined using the discounted cash flow model. The cash flow were determined based on probable future oil prices. The estimated future cash flow was discounted to present value using a discount rate of 15.45% which are based on the applicable FGN Bond rates.

The Valuation process

The finance & planning team of the Group performs the valuations of financial and non financial assets required for financial reporting purposes, including level 3 fair values. This team reports directly to the Finance Manager (FM) who reports to the Chief Financial Officer (CFO) and the Audit Committee (AC). Discussions of valuation processes and results are held between the FM and the valuation team at least once every quarter, in line with the Group's quarterly reporting periods.

The main level 3 inputs used by the Group are derived and evaluated as follows:

- Discount rates for financial assets and financial liabilities are determined using a government risk free rate to calculate a pre-tax rate that reflects current market assessments of the time value of money and the risk specific to the asset.
- Contingent consideration – expected cash inflows are determined based on the terms of the contract (see Note 25) and the entity's knowledge of the business and how the current economic environment is likely to impact it.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

4. Financial risk management (Continued)

- Changes in level 3 fair values are analysed and the reason for the change explained at the end of each reporting period during the quarterly discussion between the FM and the valuation team and eventually the CFO and Audit Committee.

4.2.2 Reconciliation of fair value measurements of Level 3 financial instruments

Contingent consideration	US\$ '000
At 1 January 2016	21,900
Fair value movement	2,614
Deconsolidation of subsidiary	(12,474)
Exchange differences	—
At 31 December 2016	12,040
At 1 January 2017	12,040
Fair value movement	1,860
Exchange difference	—
At 31 December 2017	13,900

4.2.3 Contingent consideration sensitivity

The following table demonstrates the sensitivity to changes in the discount rate of the contingent consideration, with all other variables held constant, of the Group's profit/(loss) before tax.

Increase/decrease in discount rate - The Group	Effect on profit/(loss) before tax 2017	Effect on other components of equity before tax 2017	Effect on (loss)/profit before tax 2016	Effect on other components of equity before tax 2016
	US\$ '000	US\$ '000	US\$ '000	US\$ '000
+10%	2,209	—	5,868	—
- 10%	(2,888)	—	(8,535)	—

There were no quantitative unobservable inputs used in determining the fair value of the contingent consideration.

4.3 Capital management

4.3.1 Risk management

The Group's objective when managing capital is to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders, to maintain optimal capital structure and reduce cost of capital. Consistent with others in the industry, the Group monitors capital on the basis of the following gearing ratio, net debt divided by total capital. Net debt is calculated as total borrowings less cash and cash equivalents.

	2017	2016
	US\$ '000	US\$ '000
Borrowings:	570,077	664,096
Less: cash and cash equivalents	(437,212)	(159,621)
Net debt	132,865	504,475
Total equity	1,503,097	1,234,015
Total capital	1,635,962	1,738,490
Net debt (net debt/total capital) ratio	8%	29%

During 2017, the Group's strategy which was unchanged from 2016, was to maintain a gearing ratio of 20% to 40%. Capital includes share capital, share premium, capital contribution and all other equity reserves attributable to the equity holders of the parent.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

4. Financial risk management (Continued)

4.3.2 Loan covenant

Under the terms of the major borrowing facilities, the Group is required to comply with the following financial covenants every 6 months:

- Total net financial indebtedness to annualised EBITDA is not to be greater than 3:1;
- 6-month Debt Service Reserve Account (DSCRa) not to be lower than 1.25x on a forward looking basis,
- Satisfactory 12-months Group liquidity test.

The Group has complied with these covenants throughout the reporting period (2016: The Group complied with the applicable covenants) with the exception of the financial indebtedness/EBITDA covenant which was waived by a majority lender consent.

5. Revenue

	2017	2016
	US\$ '000	US\$ '000
Crude oil sale.	366,386	132,975
(Overlift)/Underlift	(38,180)	15,782
.....	328,206	148,757
Gas sales.	123,973	105,460
.....	452,179	254,217

The major off-takers for crude oil is Mercuria (₦96 billion, 2016: ₦26.1 billion) (US\$316 million, 2016: US\$104 million). The major off-taker of gas is the Nigerian Gas Company (₦22 billion, 2016: ₦27 billion), (2017: US\$72 million, 2016: US\$105 million).

6. Cost of Sales

	2017	2016
	US\$ '000	US\$ '000
Royalties.	73,289	44,796
Depletion, depreciation and amortisation (Note 14a)	82,082	54,326
Crude handling fees	32,148	7,804
Nigeria Export Supervision Scheme (NESS) fee.	404	142
Barging costs	9,113	17,885
Niger Delta Development Commission Levy	3,924	—
Rig related costs	3,220	9,067
Operational & maintenance expenses	35,879	48,404
	240,059	182,424

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

7. General and administrative expenses

	2017	2016
	US\$ '000	US\$ '000
Depreciation (Note 14b)	4,195	5,544
Auditor's remuneration	746	505
Professional and consulting fees	21,094	28,424
Directors' emoluments (executive)	3,509	2,758
Directors' emoluments (non-executive)	3,193	4,309
Donations.	344	184
Employee benefits (Note 7a)	25,917	20,869
Business development expenses	—	11,023
Flights and other travel costs	7,366	6,176
Rentals	1,680	4,855
Loss on disposal of plant & equipment	32	1,509
Other general expenses	13,794	17,416
Impairment losses (Note 19)	—	10,260
	81,870	113,832

Directors' emoluments have been split between executive & non-executive directors' share based payment expenses are included in employee benefits expense.

There were no non-audit services rendered by the Group's auditors during the year.

Other general expenses relate to costs such as office maintenance costs, rentals, telecommunication costs, logistics costs and others. It also includes reversal of impairment loss of ₦ 3.14 billion (US\$ 10 million). Impairment loss relates to the impairment of receivables due from Nigerian Petroleum Development Company (NPDC) in Note 19. This provision is no longer required and the reversal of ₦2.27 billion (US\$10 million) is included in general and administrative expenses.

7a. Salaries and employee related costs include the following:

	2017	2016
	US\$ '000	US\$ '000
Short term employee benefits:		
Basic salary.	312,047	8,194
Housing allowances.	1,582	3,190
Other allowances.	3,484	3,468
Post employment benefits:		
Defined contribution expenses	1,489	1,673
Defined benefit expenses (Note 27)	1,641	938
Share based payment benefits (Note 21b)	5,674	3,406
Total salaries and employee related costs	25,917	20,869

8. Gains/(losses) on foreign exchange(net)

	2017	2016
	US\$ '000	US\$ '000
Exchange gains/(losses)	682	(101,455)
Total	682	(101,455)

This is principally as a result of translation of naira denominated monetary assets and liabilities. In the current reporting period, the Naira which is the Group's major foreign currency was relatively stable all year round (2016: Foreign exchange losses resulted from the Naira devaluation of approximately 53% as announced by the Central Bank of Nigeria).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

9. Fairvalue loss

	2017	2016
	US\$ '000	US\$ '000
Realised fair value losses on crude oil hedges	(19,393)	—
Unrealised fair value losses on crude oil hedges	—	(12,455)
Fair value (loss)/gain on contingent consideration (Note 25)	(1,860)	(2,614)
Fair value gain on other assets.	2,735	—
Total	(18,518)	(15,069)

Realised fair value losses on crude oil hedges represent the payments for crude oil price options. These options expired on 31 December 2017. Fair value loss on contingent consideration arises in relation to remeasurement of contingent consideration on the Group's acquisition of participating interest in its OML 53. The contingency criteria are the achievement of certain production milestones. Fair value gain on other assets arises from the fair value remeasurement of the Group's rights to receive the discharge sum on OML 55. See Note 15 for further details.

10. Finance (cost)/income

	2017	2016
	US\$ '000	US\$ '000
Finance income		
Interest income	4,335	59,017
Finance cost		
Interest on advance payments for crude oil sales	5,789	—
Interest on bank loans	73,347	73,420
Unwinding of discount on provision for decommissioning (Note 26)	96	480
Interest capitalised (Note 14a)	(6,480)	—
	72,752	73,900
Finance (cost)/income (net)	(68,417)	(14,883)

Finance income represents interest on fixed deposits for the Group.

The capitalisation rate used to determine the amount of borrowing costs to be capitalised is the weighted average interest rate applicable to the Group's general borrowings denominated in dollars during the year, in this case 9.41% (2016 – Nil).

11. Taxation

The major components of income tax expense for the years ended 31 December 2017 and 2016 are:

11a. Income tax expense

	2017	2016
	US\$ '000	US\$ '000
Current tax:		
Current tax on profit for the year	—	—
Education tax	2,248	1,885
Prior period over provision	—	(126)
Total current tax	2,248	1,759
Deferred tax:		
Deferred tax credit in profit or loss	(223,481)	(8,431)
Total tax credit in statement of profit or loss	(221,233)	(6,672)
Deferred tax recognised in other comprehensive income	(250)	—
Total tax credit for the period	(221,483)	(6,672)
Effective tax rate	(503%)	4%

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

11. Taxation (Continued)

11b. Reconciliation of effective tax rate

The applicable tax rate for 2017 for the Group was 85%, 65.75% and 30% (2016: 65.75%).

During 2013, applications were made by Seplat and its wholly owned subsidiary, Newton Energy, for the tax incentives available under the provisions of the Industrial Development (Income Tax Relief) Act. In February 2014, Seplat was granted the incentives in respect of the tax treatment of OMLs 4, 38 and 41. Newton Energy was also granted similar incentives in respect of the tax treatment of OPL 283/OML 56.

Under these incentives, the companies' profits are subject to a tax rate of 0% with effect from 1 January 2013 to 31 December 2015 in the first instance and then for an additional two years for the Company, and 1 June 2013 to 31 May 2015 in the first instance and then for an additional two years for Newton Energy if both companies meet certain conditions included in the Nigerian Investment Promotion Commission (NIPC) pioneer status award document.

Seplat East onshore and Seplat Swamp are exempt from the tax incentives as they had no activities at the time the incentives were granted to Seplat and Newton.

As at the end of the reporting period, the NIPC is yet to approve the tax incentives for the additional two years of the tax holidays. The financial statements have been prepared on the assumption that the tax incentives may not be renewed and this forms the basis of the Group's current and deferred taxation in the financial statements. The current tax for the period has been utilised against tax losses brought forward.

A reconciliation between income tax expense and accounting profit before income tax multiplied by the applicable statutory tax rate is as follows

	2017	2016
	US\$ '000	US\$ '000
Profit/(loss) before taxation	43,997	(172,766)
Tax rate of 85%, 65.75% and 30% (2016 65.75%)	37,397	(113,594)
Tax effect of amounts which are not deductible (taxable) in calculating taxable income:		
Income not subject to tax	(83,644)	—
Expenses not deductible for tax purposes	102,179	33,856
Recognition of previously unrecognised deductible temporary difference	(210,380)	—
Impact of unutilised tax losses	10,996	71,307
Effect of differences in tax rates	518,666	—
Impact of tax incentive	(95,577)	—
Education tax	2,248	1,885
Prior period over provision	—	(126)
Tax loss utilised	(3,118)	—
Total tax credit in statement of profit or loss	(221,233)	(6,672)

The movement in the current tax liability is as follows:

	2017	2016
	US\$ '000	US\$ '000
As at 1 January	1,885	239
Tax charge	62,248	1,885
Deconsolidation of subsidiary	—	(113)
Prior period over provision	—	(126)
Exchange difference	—	—
As 31 December	4,133	1,885

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

12. Deferred income tax

The analysis of deferred tax assets and deferred tax liabilities is as follows:

	2017	2016
	US\$ '000	US\$ '000
Deferred tax assets		
Deferred tax asset to be recovered in less than 12 months	—	—
Deferred tax asset to be recovered after more than 12 months	223,731	—
	<u>223,731</u>	<u>—</u>
	2017	2016
	US\$ '000	US\$ '000
Deferred tax liabilities		
Deferred tax liabilities to be recovered in less than 12 months	—	—
Deferred tax liability to be recovered after more than 12 months	—	—
	<u>—</u>	<u>—</u>
Net deferred tax asset/(liability)	223,731	—

Deferred income tax assets are recognised for tax losses carried forward to the extent that the realisation of the related tax benefit through future taxable profits is probable.

Following a significant improvement in the financial position of the Company in 2017, the Group conducted an assessment of its assessable profit based on a five (5) year business plan in order to determine the possibility of future profit making prospects for 2018 to 2022. As a result, the Group reviewed previously unrecognised tax losses and determined that it was now probable that taxable profits will be available against which the tax losses can be utilised. As a result, deferred tax assets of ₦68 billion, 2016: nil (US\$224 million, 2016: nil) was recognised for those losses.

The Group did not recognise deferred income tax assets of ₦17 billion, 2016: ₦58 billion (US\$55 million, 2016: US\$192 million) in respect of temporary differences amounting to ₦29 billion, 2016: ₦89 billion (US\$96 million, 2016: US\$292 million) for its subsidiaries as management does not believe that future taxable profits would be available against which the deferred tax assets would be utilised. Out of this, deferred tax asset of ₦8.8 billion, 2016: ₦14 billion (US\$29 million, 2016: US\$47 million) relates tax losses of ₦14 billion, 2016: ₦21 billion (US\$47 million, 2016: US\$71 million). There are no expiration dates for the tax losses.

There were no temporary differences associated with investments in the Group's subsidiaries for which a deferred tax liability would have been recognized in the periods presented.

12a. Deferred tax asset/(liability)

	Property, plant and equipment	Decom- missioning provision	Defined benefit expenses	Underlift/ overlift	Unrealised foreign exchange (gain)/loss	Tax losses	Other provisions	Contingent liability	Total
	US\$ '000	US\$ '000	US\$ '000	US\$ '000	US\$ '000	US\$ '000	US\$ '000	US\$ '000	US\$ '000
At 1 January 2016	(10,448)	2,544	4,554	(17,794)	(89)	—	—	—	(21,233)
Deconsolidation of subsidiary	(1,659)	(125)	—	29,443	—	(7,315)	—	(7,542)	12,802
Deferred tax credit	12,107	(2,419)	(4,554)	(11,649)	89	7,315	—	7,542	8,431
At 31 December 2016	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>
At 1 January 2017	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>
Deferred tax credit:									
Credited to profit or loss	122,742	334	3,837	21,219	13,765	40,523	21,061	—	223,481
Credited to other comprehensive income	—	—	250	—	—	—	—	—	250
At 31 December 2017	<u>122,742</u>	<u>334</u>	<u>4,087</u>	<u>21,219</u>	<u>13,765</u>	<u>40,523</u>	<u>21,061</u>	<u>—</u>	<u>223,731</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

13. Computation of cash generated from operations

	Notes	2017	2016
		US\$ '000	US\$ '000
Profit/(loss) before tax		43,997	(172,766)
Adjusted for:			
Depletion, depreciation and amortisation	14	86,277	59,870
Impairment loss		(10,260)	10,260
Finance income	10	(4,335)	(59,017)
Interest on advance payments for crude oil sales	10	5,789	—
Interest on bank loans and other bank charges	10	73,347	73,420
Interest capitalised	10	(6,480)	—
Unwinding of discount on provision for decommissioning liabilities	10	96	480
Fair value loss on contingent consideration	9	1,860	2,614
Unrealised fair value loss on crude oil hedges	9	—	12,455
Fair value gain on other assets	9	(2,735)	—
Unrealised foreign exchange (gain)/loss	8	(682)	101,455
Share based payment expenses	21	5,674	3,406
Defined benefit expenses		1,641	(1,467)
Gain on deconsolidation	15a	—	(680)
Loss on disposal of other property, plant and equipment	7	32	1,509
Changes in working capital (excluding the effects of exchange differences and deconsolidation):			
Trade and other receivables		95,335	244,102
Prepayments		1,054	16,035
Trade and other payables		151,087	(106,831)
Inventories		5,877	(23,747)
Net cash from operating activities		447,574	161,098

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

14. Property, plant and equipment

14a. Oil and gas properties

	Production and field facilities	Assets under construction	Total
	US\$ '000	US\$ '000	US\$ '000
Cost			
At 1 January 2016	1,365,752	318,820	1,684,572
Additions.....	—	82,893	82,893
Changes in decommissioning.....	(3,720)	—	(3,720)
Transfer from asset under construction.....	248,324	(248,324)	—
Deconsolidation of subsidiary.....	(244,062)	—	(244,062)
Disposal.....	—	(1,509)	(1,509)
Exchange differences.....	—	—	—
At 31 December 2016	<u>1,366,294</u>	<u>151,880</u>	<u>1,518,174</u>
Depreciation			
At 1 January 2016	247,622	—	247,622
Charged for the year.....	54,326	—	54,326
Deconsolidation of subsidiary.....	(8,174)	—	(8,174)
Exchange differences.....	—	—	—
At 31 December 2016	<u>293,774</u>	<u>—</u>	<u>293,774</u>
NBV			
At 31 December 2016	<u>31,072,520</u>	<u>151,880</u>	<u>1,224,400</u>
Cost			
At 1 January 2017	1,366,294	151,880	1,518,174
Additions.....	12,784	19,186	31,970
Changes in decommissioning.....	105,619	—	105,619
Transfer from asset under construction.....	35,938	(35,938)	—
Interest capitalised.....	—	6,480	6,480
Exchange differences.....	—	—	—
At 31 December 2017	<u>1,520,635</u>	<u>141,608</u>	<u>1,662,243</u>
Depreciation			
At 1 January 2017	293,774	—	293,774
Charged for the year.....	82,082	—	82,082
Exchange difference.....	—	—	—
At 31 December 2017	<u>375,856</u>	<u>—</u>	<u>375,856</u>
NBV			
At 31 December 2017	<u>1,144,779</u>	<u>141,608</u>	<u>1,286,387</u>

The Group's present and future assets (except jointly owned with NNPC/NPDC) along with all equipment, machinery and immovable property situated on the property to which the oil mining leases relate are pledged as security for the syndicate loan (Note 24).

Assets under construction represent costs capitalised in connection with the development of the Group's oil fields and other property, plant and equipment not yet ready for their intended use. Some of which are qualifying assets which takes a substantial period of time to get ready for its intended use. A capitalisation rate has been determined and used to capitalise borrowing cost from the Group's general borrowings. Borrowing costs capitalised during the year amounted to ₦1.98 billion, 2016: Nil (US\$6.48 million, 2016: Nil).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

14. Property, plant and equipment (Continued)

14b. Other property, plant and equipment

	Plant & machinery	Motor vehicles	Office furniture & IT equipment	Leasehold improvements	Total
	US\$ '000	US\$ '000	US\$ '000	US\$ '000	US\$ '000
Cost					
At 1 January 2016	4,007	6,773	13,615	3,150	27,545
Additions	785	508	1,056	—	2,349
Disposals	—	(136)	—	(317)	(453)
Transfer	12	173	(205)	20	—
Exchange differences	—	—	(206)	—	(206)
At 31 December 2016	4,804	7,318	14,260	2,853	29,235
Depreciation					
At 1 January 2016	1,710	3,510	9,309	1,413	15,942
Disposals	—	(68)	—	—	(68)
Charged for the year	842	1,316	2,819	567	5,544
Exchange differences	—	—	(150)	—	(150)
At 31 December 2016	2,552	4,758	11,978	1,980	21,268
NBV					
At 31 December 2016	2,252	2,560	2,282	873	7,967

	Plant & machinery	Motor vehicles	Office furniture & IT equipment	Leasehold improvements	Total
	US\$ '000	US\$ '000	US\$ '000	US\$ '000	US\$ '000
Cost					
At 1 January 2017	4,804	7,318	14,260	2,853	29,235
Addition	408	555	462	75	1,500
Disposals	—	(462)	—	—	(462)
Transfer	—	—	—	—	—
Exchange differences	—	—	(150)	—	(150)
At 31 December 2017	5,212	7,411	14,572	2,928	30,123
Depreciation					
At 1 January 2017	2,552	4,758	11,978	1,980	21,268
Disposal	—	(268)	—	—	(268)
Charge for the year	880	1,224	1,693	398	4,195
Exchange differences	—	—	(150)	—	(150)
At 31 December 2017	3,432	5,714	13,521	2,378	25,045
NBV					
At 31 December 2017	1,780	1,697	1,051	550	5,078

15. Other assets

	2017	2016
	US\$ '000	US\$ '000
Initial fair value of investment in OML 55 at acquisition date	250,090	250,090
Receipts from crude oil lifted	(35,794)	—
Fair value adjustment as at 31 December 2017	2,735	—
Exchange differences	—	—
Fair value as at 31 December 2017	217,031	250,090

Other asset represents the Group's rights to receive the discharge sum of ₦89.9 billion, 2016: ₦100 billion (US\$294 million, 2016: US\$330 million) from the crude oil reserves of OML 55. The asset is measured at fair value through profit or loss (FVTPL) and receipts from crude oil lifted reduce the value of the asset.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

15. Other assets (Continued)

At each reporting date, the fair value of the discharge sum is determined using the income approach in line with IFRS 13: Fair Value Measurement (discounted cash flow). The asset is categorized within level 3 of the fair value hierarchy. As at 31 December 2017, the fair value of the discharge sum is ₦66 billion, 2016: ₦76 billion (US\$217 million, 2016: US\$250 million).

15a. Gain on deconsolidation of subsidiary

	2017	2016
	US\$ '000	US\$ '000
Summary of assets and liabilities derecognised	—	(249,410)
Summary of assets and liabilities recognised	—	250,090
Gain on deconsolidation of BelemaOil	—	680

16. Prepayments

	2017	2016
	US\$ '000	US\$ '000
Non-Current		
Tax paid in advance	31,623	31,623
Rent	939	1,993
	32,562	33,616
Current		
Rent	691	2,632
Others	1,257	4,040
	1,948	6,672
Total prepayments	34,510	40,288

Included in non-current prepayments are the following:

16a. Tax paid in advance

In 2013 and 2014 Petroleum Profit Tax payments (2013: ₦8.6 billion and 2014: ₦0.88 billion) (2013: US\$28.7 million and 2014: US\$2.9 million) were made by the Group prior to obtaining a pioneer status. This was accounted for as a tax credit under non-current prepayments until a future date when the Group will be expected to offset it against its tax liability. The current tax liability for the year has been utilised against tax losses brought forward.

16b Rent

In 2014, the Group entered into three new commercial leases in relation to three buildings that it occupies two in Lagos and one in Delta state. Two of the non-cancellable leases which relate to buildings in Lagos expire in 2018 and 2019 respectively. The rent on the building in Delta state has been renewed and now expires in 2021. The Group has prepaid these rents. The long-term portion as at 31 December 2017 is ₦0.2 billion, 2016: ₦0.6 billion (US\$0.9 million, 2016: US\$1.9 million).

17. Interest in other entities

i) Material subsidiaries

The Group's principal subsidiaries as at 31 December 2017 are set in Note 1. Unless otherwise stated, they have share capital consisting solely of ordinary shares that are held directly by the Group, and the proportion of ownership interests held equals the voting rights held by the Group. The country of incorporation or registration is also their principal place of business.

There were no significant judgements made in consolidating these entities. Also, there were no significant restrictions on any of the entities.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

18. Inventories

	2017	2016
	US\$ '000	US\$ '000
Tubular, casing and wellheads	100,336	106,213

Inventory represents the value of tubulars, casings and wellheads. The inventory is carried at the lower of cost and net realisable value. Included in cost of sales is ₦1.3 billion, 2016: ₦30.6 million (US\$4.3 million, 2016: US\$0.1 million) representing inventory charged to profit or loss during the year. There was no inventory written down for the year ended 31 December 2017.

19. Trade and other receivables

	2017	2016
	US\$ '000	US\$ '000
Trade receivables	108,685	73,427
Nigerian Petroleum Development Company (NPDC) receivables	112,664	228,774
National Petroleum Investment Management Services	12,506	8,233
Advances on investments	65,705	65,705
Underlift	—	4,498
Advances to suppliers	27,861	8,921
Other receivables	2,924	1,136
	310,345	390,694

19a. Trade receivables

Included in trade receivables is an amount due from Nigerian Gas Company (NGC) and Central Bank of Nigeria (CBN) totaling ₦22 billion, 2016: ₦20 billion (US\$72 million, 2016: US\$67 million) with respect to the sale of gas for the Group.

19b. NPDC receivables

NPDC receivables represent the outstanding cash calls due to Seplat from its JV partner, Nigerian Petroleum Development Company. In this reporting period, impairment loss on NPDC receivables were reversed (2016: ₦2.27 billion, US\$10.3 million impairment loss recognised). As at 31 December 2017, the undiscounted value of this receivable is ₦34 billion, 2016: ₦72 billion (US\$113 million, 2016: US\$239 million).

19c. Advances on investment

This comprises an advance of ₦13.7 billion (US\$45 million) on a potential investment in OML 25 and ₦6 billion (US\$20.5 million) currently held in an escrow account. Proceedings commenced against Newton Energy Limited, a wholly owned subsidiary of Seplat Petroleum Development Company Plc by Crestar Natural resources relating to the ₦6 billion (US\$20.5 million) currently held in an escrow account. The escrow monies relate to the potential acquisition of OML 25 by Crestar which Newton Energy has an option to invest into. These monies were put in escrow in July 2015 pursuant to an agreement reached with Crestar and the vendor on final terms of the transaction.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

20. Cash and cash equivalents

Cash and cash equivalents in the statement of financial position comprise cash at banks and on hand, short-term deposits with a maturity of three months or less and restricted cash balances.

	2017	2016
	US\$ '000	US\$ '000
Cash on hand	11	7
Restricted cash	62,674	65,203
Cash at bank	374,527	94,411
Cash and cash equivalents	437,212	159,621

At 31 December 2017, cash at bank includes the debt service reserve of ₦19 billion, 2016: ₦19.9 billion (US\$62 million, 2016: US\$65 million) deposited pursuant to the covenant in relation to the bank syndicated loan. The debt service reserve account balance is the amount equal to at least the aggregate of the amounts of principal and interest projected to fall due on the next successive principal repayment dates and dates for the payment of interest.

21. Share capital

	2017	2016
	US\$ '000	US\$ '000
Authorised ordinary share capital		
1,000,000,000 ordinary shares denominated in Naira of 50 kobo per share	3,335	3,335
Issued and fully paid		
563,444,561 (2016: 563,444,561) issued shares denominated in Naira of 50 kobo per share	1,826	1,826

21a. Employee share based payment scheme

In 2017, the Company gave share awards of 33,697,792 shares (2016: 25,448,071 shares) to certain employees and senior executives in line with its share based incentive scheme. During the year ended 31 December 2017, no shares were vested. In 2016, 2,868,460 shares had vested resulting in an increase in number of issued and fully paid ordinary shares of 50k each from 561 million to 563 million.

Fully paid ordinary shares carry one vote per share and carry the right to dividends. During 2013, the Company sub-divided its shares from 1 to 0.50 per share resulting in an increase in the number of shares issued from 100 million to 200 million ordinary shares. On 31 July 2013, the number of ordinary shares was increased to 400 million by way of a bonus issue to existing shareholders; these were issued from the revenue reserve. In August 2013 the authorised share capital was increased from 400 million to 1 billion denominated in 0.50 per share.

21b. Share based payment reserve

The Group has made a number of share-based awards under incentive plans since its IPO in 2014: IPO-related grants to Executive and Non-Executive Directors, 2014/2015/2016 deferred bonus awards and 2014/2015/2016/2017 Long-term Incentive plan ("LTIP") awards. Shares under these incentive plans were awarded at the IPO in April 2014, 2015, 2016 and 2017 conditional on the Nigerian Stock Exchange ("NSE") approving the share delivery mechanism proposed by the Group.

Description of the awards valued

Seplat Deferred Bonus Award

25% of each Executive Director's 2014, 2015 and 2016 bonus (paid in 2015, 2016 and 2017 respectively) has been deferred into shares and is released on 1 June 2017, 1 June 2018 and 20 April 2019 respectively subject to continued employment. No performance criteria are attached to this award. As a result the fair value of these awards is the share price at the actual date of grant.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

21. Share capital (Continued)

Long Term Incentive Plan (LTIP) awards

Under the LTIP Plan, shares are granted to management staff of the organisation at the end of every year. The shares were granted to the employees at no cost. The shares vest (after 3 years) based on the following conditions.

- 50% award vesting where the reserves growth was more than a 10% decrease.
- Straight line basis between 50% and 100% where reserves growth was between a 10% decrease and a 10% increase.
- 100% award vesting where the reserves growth is equal to or greater than a 10% increase.
- If the Group outperforms the median TSR performance level with the LTIP exploration and production comparator group.

The LTIP awards have been approved by the NSE.

The expense recognised for employee services received during the year is shown in the following table:

	2017	2016
	US\$ '000	US\$ '000
Expense arising from equity-settled share-based payment transactions	5,674	3,406

There were no cancellations or modifications to the awards in 2017 or 2016. The share awards granted to Executive Directors and confirmed employees are summarised below.

Scheme	Deemed grant date	Start of Service Period	End of service period	Number of awards
Global Bonus Offer	4 November 2015	9 April 2014	9 April 2015	6,472,138
Non-Executive Shares	4 November 2015	9 April 2014	9 April 2015	793,650
2014 Deferred Bonus	14 December 2015	14 December 2015	21 April 2017	212,701
2014 Long term incentive Plan	14 December 2015	14 December 2015	09 April 2017	2,173,259
2015 Long term incentive Plan	31 December 2015	14 December 2015	21 April 2018	5,287,354
2015 Deferred Bonus	21 April 2016	21 April 2016	20 April 2018	247,610
2016 Long term incentive Plan	22 December 2016	22 December 2016	21 December 2019	10,294,300
2016 Deferred Bonus	24 November 2017	24 November 2017	20 April 2019	278,191
2017 Long term incentive Plan	24 November 2017	24 November 2017	20 April 2020	7,938,589
				33,697,792

Share awards used in the calculation of diluted earnings per shares are based on the outstanding shares as at 31 December 2017.

Share award scheme (all awards)	2017	2017	2016	2016
	Number	WAEP ₦	Number	WAEP ₦
Outstanding at 1 January	1,540,024	205.87	4,249,000	298.26
Granted during the year	6,665,749	262.45	159,484	356.35
Forfeited during the year	—	—	—	—
Exercised during the year	—	—	(2,868,460)	15.23
Outstanding at 31 December	8,205,773	251.64	1,540,024	205.87
Exercisable at 31 December	—	—	—	—

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

21. Share capital (Continued)

Share award scheme(all awards)	2017	2017	2016	2016
	Number	WAEP US\$	Number	WAEP US\$
Outstanding at 1 January	1,540,024	0.67	4,249,000	1.50
Granted during the year	6,665,749	0.86	159,484	1.17
Forfeited during the year	—	—	—	—
Exercised during the year	—	—	(2,868,460)	0.05
Outstanding at 31 December	8,205,773	0.82	1,540,024	0.67
Exercisable at 31 December	—	—	—	—

Movements during the year

The following table illustrates the number and weighted average exercise prices ('WAEP') of and movements in deferred bonus scheme and long term incentive plan during the year for each available scheme.

Deferred Bonus Scheme	2017	2017	2016	2016
	Number	WAEP US\$	Number	WAEP US\$
Outstanding at 1 January	427,370	1.31	212,701	1.13
Granted during the year	311,132	1.40	214,669	1.49
Forfeited during the year	—	—	—	—
Exercised during the year	—	—	—	—
Outstanding at 31 December	738,502	1.35	427,370	1.31
Exercisable at 31 December	—	—	—	—

In 2017, the Group increased the number of shares attributable to the 2015 Deferred Bonus scheme by 32,914 shares following a revaluation of the total number of share awards applicable to the scheme. The fair value per share of the additional shares at the date of the modification were determined to be ₦380.04 (US\$ 1.49). There were no incremental changes in the fair value per share and the vesting period did not change as the additional shares were assumed to have been issued in the same period and with the same terms as the original shares granted.

The increase in share based payment expense of ₦12.7 million (US\$ 41,513) was calculated using the portion of the additional number of shares issued and the fair value per share at the original grant date. The amount is recognised as an expense in the current period until the end of the vesting period. The expense for the original scheme will continue to be recognised as if the terms had not been modified.

The fair value of the modified options was determined using the same models and principles as described in the table below on the inputs to the models used for the scheme.

Long term incentive Plan (LTIP)	2017	2017	2016	2016
	Number	WAEP US\$	Number	WAEP US\$
Outstanding at 1 January	14,886,453	0.83	7,460,613	0.76
Granted during the year	7,938,589	1.20	10,294,300	0.89
Forfeited during the year	—	—	—	—
Exercised during the year	—	—	(2,868,460)	0.05
Outstanding at 31 December	22,825,042	0.96	14,886,453	0.83
Exercisable at 31 December	—	—	—	—

The shares are granted to the employees at no cost.

The weighted average remaining contractual life for the share awards outstanding as at 31 December 2017 range from 0.3 to 2.3 years.

The weighted average fair value of awards granted during the year range from ₦366.9 to ₦428.1 (US\$1.20 to US\$1.40).

The exercise prices for options outstanding at the end of the year range from ₦293.5 to ₦412.8 (US\$0.96 to US\$1.35).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

21. Share capital (Continued)

The fair value at grant date is independently determined using the Monte Carlo Model which takes into account the exercise price, the term of the option, the share price at grant date and expected price volatility of the underlying share, the expected dividend yield, the risk free interest rate for the term of the option and the correlations and volatilities of peer group companies.

The expected price volatility is based on the historic volatility (based on the remaining life of the options), adjusted for any expected changes to future volatility due to publicly available information.

The following table lists the inputs to the models used for the two plans for the year ended 31 December 2017:

	2016 Deferred bonus	2016 LTIP	2017 LTIP
Weighted average fair values at the measurement date			
Dividend yield (%)	0.00%	0.00%	0.00%
Expected volatility (%)	n/a	56%	43%
Risk-free interest rate (%)	n/a	0.63%	0.44%
Expected life of share options	1.40	2.35	2.40
Weighted average share price (\$)	1.4	1.497	1.4
Model used	n/a	Monte Carlo	Monte Carlo

21c. Share Premium

	2017	2016
	US\$ '000	US\$ '000
Share premium	497,457	497,457

Section 120.2 of Companies and Allied Matters Act, CAP C20, Laws of the Federation of Nigeria 2004 requires that where a Company issues shares at premium (i.e. above the par value), the value of the premium should be transferred to share premium.

22. Capital contribution

This represents M&P additional cash contribution to the Group. In accordance with the Shareholders' Agreement, the amount was used by the Group for working capital as was required at the commencement of operations.

	2017	2016
	US\$ '000	US\$ '000
Capital contribution	40,000	40,000

23. Foreign currency translation reserve

Cumulative foreign exchange differences arising from translation of the Group's results and financial position into the presentation currency and from the translation of foreign subsidiary is recognised in foreign currency translation reserve.

24. Interest bearing loans and borrowings

	2017	2016
	US\$ '000	US\$ '000
Non-Current		
Bank borrowings	304,677	446,098
Current		
Bank borrowings	265,400	217,998
Total borrowings	570,077	664,096

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

24. Interest bearing loans and borrowings (Continued)

Bank loan

Syndicate credit facility

On 31 December 2014, Seplat signed a ₦518 billion (US\$1.7 billion) debt refinancing package, made up of the following facilities:

- ₦214 billion (US\$700 million) seven year term loan with an ability to stretch it to ₦427 billion (US\$1.4 billion) contingent on a qualifying acquisition with a consortium of five local banks. This facility has a seven year maturity period.
- ₦91 billion (US\$300 million) three year corporate revolving loan primarily to manage working capital requirements with a consortium of eight international banks. This facility has a three year maturity period.

As at 31 December 2017, there were no further draw downs (2016: Nil) of this facility. Interest accrues monthly on the principal amount outstanding at the LIBOR rate plus a margin ranging from 6.5% to 8.5%. Principal and interest repayments in 2017 were made, the outstanding balance as at 31 December 2017 is ₦176 billion, 2016: ₦206 billion (US\$578 million, 2016: US\$676 million).

The following is the analysis of the principal outstanding showing the lenders of the facility as at the year end

31 December 2017 Term Loan	Interest	Current	Non-Current	Total
		US\$ '000	US\$ '000	US\$ '000
SBSA	8.5% + LIBOR	5,588	12,012	17,600
Stanbic	8.5% + LIBOR	5,588	12,012	17,600
FBN	8.5% + LIBOR	32,931	70,800	103,731
UBA	8.5% + LIBOR	37,285	80,160	117,445
Zenith Bank	8.5% + LIBOR	59,656	128,256	187,912
Allan Gray	8.5% + LIBOR	4,353	9,359	13,712
		145,401	312,599	458,000

The following is the analysis of the principal outstanding showing the lenders of the facility as at the year end.

31 December 2017 Corporate loan	Interest	Current	Non-Current	Total
		US\$ '000	US\$ '000	US\$ '000
Citibank Nigeria Limited	6% + LIBOR	14,000	—	14,000
Firststrand Bank Limited Acting	6% + LIBOR	12,000	—	12,000
JPMorgan Chase Bank N A London	6% + LIBOR	12,000	—	12,000
Nedbank Limited, London Branch	6% + LIBOR	12,000	—	12,000
The Mauritius Commercial Bank Plc	6% + LIBOR	12,000	—	12,000
Standard Chartered Bank	6% + LIBOR	18,000	—	18,000
Natixis	6% + LIBOR	18,000	—	18,000
Stanbic Ibt Bank Plc	6% + LIBOR	9,000	—	9,000
The Standard Bank Of South Africa	6% + LIBOR	13,000	—	13,000
		120,000	—	120,000

31 December 2016 Term Loan	Interest	Current	Non-Current	Total
		US\$ '000	US\$ '000	US\$ '000
SBSA	8.5% + LIBOR	1,652	17,601	19,253
Stanbic	8.5% + LIBOR	1,652	17,601	19,253
FBN	8.5% + LIBOR	11,026	117,445	128,471
UBA	8.5% + LIBOR	11,026	117,445	128,471
Zenith Bank	8.5% + LIBOR	17,642	187,910	205,552
		42,998	458,002	501,000

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

24. Interest bearing loans and borrowings (Continued)

31 December 2016 Corporate loan	Interest	Current	Non-Current	Total
		US\$ '000	US\$ '000	US\$ '000
Citibank Nigeria Limited	6% + LIBOR	26,250	—	26,250
Firststrand Bank Limited Acting	6% + LIBOR	17,500	—	17,500
JPMorgan Chase Bank N A London	6% + LIBOR	17,500	—	17,500
Nedbank Limited, London Branch	6% + LIBOR	17,500	—	17,500
Bank Of America Merrill Lynch	6% + LIBOR	17,500	—	17,500
Standard Chartered Bank	6% + LIBOR	26,250	—	26,250
Natixis	6% + LIBOR	26,250	—	26,250
Stanbic Ibtc Bank Plc	6% + LIBOR	13,125	—	13,125
The Standard Bank Of South Africa	6% + LIBOR	13,125	—	13,125
		175,000	—	175,000

Loans	2017	2016
	US\$ '000	US\$ '000
Term loan	458,000	501,000
Corporate loan	120,000	175,000
Less: Capitalised loan transaction costs	(7,923)	(11,904)
	570,077	664,096

Below is the net debt reconciliation on interest bearing loans and borrowings.

	Borrowings due within 1 year	Borrowings due above 1 year	Total
	US\$ '000	US\$ '000	US\$ '000
Balance as at 1 January 2017	217,998	446,098	664,096
Effective interest	73,347	—	73,347
Effect of loan restructuring	(28,798)	28,798	—
Reclassification	170,219	(170,219)	—
Principal repayment	(98,000)	—	(98,000)
Interest repayment	(69,366)	—	(69,366)
Exchange differences	—	—	—
Balance as at 31 December 2017	265,400	304,677	570,077

25. Contingent consideration

	US\$ '000
At 1 January 2016	21,900
Fair value loss	2,614
Additions	—
Deconsolidation of subsidiary	(12,474)
Exchange differences	—
At 31 December 2016	12,040
At 1 January 2017	12,040
Fair value loss	1,860
Additions	—
Exchange differences	—
At 31 December 2017	13,900

In 2016, the Group derecognised the contingent consideration on OML 55 as a result of the deconsolidation of its subsidiary BelemaOil. The contingent consideration of ₦5.6 billion (US\$18.5 million) for OML 53 is being recognised at the fair value of ₦4.3 billion, 2016: ₦3.6 billion (US\$ 13.9 million, 2016: US\$12 million). This is contingent on oil price rising above US\$90 (N 27,522)/bbl. over the next three years.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

26. Provision for decommissioning obligation

	US\$ '000
At 1 January 2016	3,869
Unwinding of discount due to passage of time.	480
Deconsolidation of subsidiary	(32)
Change in estimate	(3,720)
Exchange differences.	-----
At 31 December 2016.	597
At 1 January 2017	597
Unwinding of discount due to passage of time.	96
Change in estimate	105,619
At 31 December 2017.	106,312

The Group makes full provision for the future cost of decommissioning oil production facilities on a discounted basis at the commencement of production. This relates to the removal of assets as well as their associated restoration costs. This obligation is recorded in the period in which the liability meets the definition of a "probable future sacrifice of economic benefits arising from a present obligation", and in which it can be reasonably measured.

The provision represents the present value of estimated future expenditure to be incurred from 2027 to 2047 which is the current expectation as to when the producing facilities are expected to cease operations. Management engaged a third party to assist with an estimate of the expenditure to be incurred from 2027 to 2047. These provisions were based on estimations carried out by DeGolyer and MacNaughton based on current assumptions on the economic environment which management believes to be a reasonable basis upon which to estimate the future liability. These estimates are reviewed regularly to take into account any material changes to the assumptions. However, actual decommissioning costs will ultimately depend upon future market prices for necessary decommissioning works required that will reflect market conditions at the relevant time. Furthermore, the timing of decommissioning is likely to depend on when the fields cease to produce at economically viable rates.

Following the review of the current assumptions for the year ended 31 December 2017, the risk-free discount rate and inflation rate were adjusted to reflect economic reality in the primary economic environment in which the Group operates.

As a result the change in estimate in the current year for the Group amounted to ₦32.3 billion, 2016: ₦1.1 billion (US\$105.6 million, 2016: US\$3.7 million)

	Current estimated life span of reserves	
	2017 In years	2016 In years
Seplat Petroleum Development Company:	2027	2045
OML 4	2034	2056
OML 38	2027 - 2034	2052
OML 41	2034	2066
Newton Energy Limited (OPL 283)	2027 - 2047	2045
Seplat East Onshore Ltd (OML 53)	2041 - 2043	2054

27. Employee benefit obligation

27a. Defined contribution plan

The Group contributes to a funded defined contribution retirement benefit scheme for its employees in compliance with the provisions of the Pension Reform Act 2014. A defined contribution plan is a pension plan under which the Group pays fixed contributions to an approved Pension Fund Administrator ('PFA') – a separate entity. The assets of the scheme are managed by various Pension Fund Administrators patronised by employees of the Group. The Group's contributions are charged to the profit and loss account in the year to which they relate. The amount payable as at 31 December 2017 was ₦ 55 million, 2016: ₦127 million (US\$180,462 2016: US\$419,005).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

27. Employee benefit obligation (Continued)

27b. Defined benefit plan

The Group commenced its unfunded defined benefit plan (gratuity) in July 2015. The Group makes provisions for gratuity for employees from day one of employment in the Group. The employee qualifies to receive the gratuity after five years of continuous service. The employee's entitlement to the accrued benefits occurs on retirement from the Group. The level of benefits provided depends on the member's length of service and salary at retirement age. The gratuity liability is adjusted for inflation, interest rate risks, changes in salary and changes in the life expectancy for the beneficiaries. The provision for gratuity was based on an independent actuarial valuation performed by Logic Professional Services (LPS) using the projected unit credit method.

The Group does not maintain any assets for the gratuity plan but ensures that it has sufficient funds for the obligations as they crystallise.

The following tables summarise the components of net benefit expense recognised in the statement of profit or loss and other comprehensive income and in the statement of financial position for the respective plans:

i) *Liability recognised in the financial position*

	2017	2016
	US\$ '000	US\$ '000
Defined benefit obligation	6,518	5,112

ii) *Amount recognised in profit or loss*

	2017	2016
	US\$ '000	US\$ '000
Present value of obligation		
Current service cost	1,451	1,554
Past service cost due to curtailment	(589)	—
Interest cost on benefit obligation.	779	530
Total amount recognised in profit or loss.	1,641	2,084
Fair value of plan assets		
Interest income on plan assets.	—	—
Total amount recognised in profit or loss.	—	—
	1,641	2,084

The Group recognises a part of its defined benefit expenses in profit or loss and recharges the other part to its joint operations partners, this is recognised as a receivable from the partners. Below is the breakdown:

	2017	2016
	US\$ '000	US\$ '000
Charged to receivables	—	1,146
Charged to profit or loss	1,641	938
	1,641	2,084

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

27. Employee benefit obligation (Continued)

iii) *Re-measurement (gains)/losses in other comprehensive income*

	2017	2016
	US\$ '000	US\$ '000
Remeasurement losses/(gains) due to changes in financial and demographic assumptions	561	(1,829)
Remeasurement (gains)/losses due to experience adjustment	(267)	578
	294	(1,251)

The Group recognises a part of the remeasurement gains/losses in other comprehensive income and recharges/credits the other part to its joint operations partners, this is recognised as a receivable from the partners. Below is the breakdown:

	2017	2016
	US\$ '000	US\$ '000
Credited to receivables	—	(688)
Credited to other comprehensive income	294	(563)
	294	(1,251)

iv) *Changes in the present value of the defined benefit obligation are as follows:*

	2017	2016
	US\$ '000	US\$ '000
Defined benefit obligation as at 1 January	5,112	6,926
Current service cost	1,451	1,554
Past service cost due to curtailment	(589)	—
Interest cost	779	530
Remeasurement losses/(gains)	294	(1,251)
Benefits paid by the employer	(532)	(242)
Exchange differences	3	(2,405)
Defined benefit obligation at 31 December	6,518	5,112
Changes in the fair value of plan assets are as follows:		
Defined benefit obligation as at 1 January	—	—
Employer contributions	(1,709)	—
Balance as at 31 December	(1,709)	—
Net position as at 31 December	4,809	5,112

v) *The principal assumptions used in determining defined benefit obligations for the Group's plans are shown below:*

	2017	2016
	%	%
Discount rate	14	16
Average future pay increase	12	13
Average future rate of inflation	12	12

a) *Mortality in service*

	Number of deaths in year out of 10,000 lives	
Sample age	2017	2016
25	7	7
30	7	7
35	9	9
40	14	14
45	26	26

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

27. Employee benefit obligation (Continued)

b) Withdrawal from service

Age band	Rates	
	2017	2016
Less than or equal to 30	1.0%	1.0%
31 – 39	1.5%	1.5%
40 – 44	1.5%	1.5%
45 – 55	1.0%	1.0%
56 – 60	0.0%	0.0%

c) A quantitative sensitivity analysis for significant assumption as at 31 December 2017 is as shown below:

Assumptions	Base	Discount rate		Salary increases		Mortality	
		1% increase	1% decrease	1% increase	1% decrease	1% increase	1% decrease
		US\$ '000	US\$ '000	US\$ '000	US\$ '000	US\$ '000	US\$ '000
Sensitivity Level: Impact on the net defined benefit obligation							
31 December 2017	6,518	(704)	828	869	(749)	88	(91)
31 December 2016	5,112	(476)	556	591	(511)	31	(30)

The sensitivity analyses above have been determined based on a method that extrapolates the impact on net defined benefit obligation as a result of reasonable changes in key assumptions occurring at the end of the reporting period. The methods and assumptions used in preparing the sensitivity analysis did not change compared to prior period.

The following payments are expected contributions to be made in the future years out of the defined benefit plan obligation:

	2017	2016
	US\$ '000	US\$ '000
Within the next 12 months (next annual reporting period)	228	364
Between 2 and 5 years	3,028	2,909
Between 5 and 10 years	12,412	7,912
	15,668	11,185

The weighted average liability duration for the Plan is 11.96 years. The longest weighted duration for Nigerian Government bond as at 31 December 2017 was about 6.37 years with a gross redemption yield of about 14.12%.

d) Risk exposure

Through its defined benefit pension plans and post-employment medical plans, the Group is exposed to a number of risks. The most significant of which are detailed below:

i) Liquidity risk

The plan liabilities are unfunded and as a result, there is a risk of the Group not having the required cash flow to fund future defined benefit obligations as they fall due.

ii) Inflation risk

This is the risk of an unexpected significant rise/fall of market interest rates. A rise leads to a fall in long term asset values and a rise in liability values.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

27. Employee benefit obligation (Continued)

iii) Life expectancy

The majority of the plans' obligations are to provide benefits for the life of the member, so increases in life expectancy will result in an increase in the plans' liabilities. This is particularly significant, where inflationary increases result in higher sensitivity to changes in life expectancy.

28. Trade and other payables

	2017	2016
	US\$ '000	US\$ '000
Trade payable.	62,758	108,140
Accruals and other payables	149,020	83,430
Pension payable.	180	419
NDDC levy	8,383	19
Deferred revenue	137,248	35,171
Royalties.	53,004	34,349
	410,593	261,528

Included in accruals and other payables are field-related accruals of ₦17.1 billion, 2016: ₦10.7 billion (US\$56 million, 2016: US\$35 million) and other vendor payables of ₦28.7 billion, 2016: ₦14.9 billion (US\$94 million, 2016: US\$49 million). Deferred revenue includes advance payments for crude oil sales of ₦41 billion, 2016: ₦10 billion (US\$136 million, 2016: US\$34 million) and royalties include accruals in respect of gas sales for which payment is outstanding at the end of the year.

29. Earnings/(loss) per share (EPS/LPS)

Basic

Basic EPS/LPS is calculated on the Group's profit or loss after taxation attributable to the parent entity and on the basis of weighted average of issued and fully paid ordinary shares at the end of the year.

Diluted

Diluted EPS/LPS is calculated by dividing the profit or loss attributable to ordinary equity holders of the parent by the weighted average number of ordinary shares outstanding during the year plus the weighted average number of ordinary shares that would be issued on conversion of all the dilutive potential ordinary shares (arising from outstanding share awards in the share based payment scheme) into ordinary shares.

	2017	2016
	US\$ '000	US\$ '000
Profit/(loss) for the year attributable to equity holders of the parent	265,230	(164,590)
	Shares '000	Shares '000
Weighted average number of ordinary shares in issue	563,445	563,445
Share awards	8,206	1,540
Weighted average number of ordinary shares adjusted for the effect of dilution	571,651	564,985
	US\$	US\$
Basic earnings/(loss) per share	0.47	(0.29)
Diluted earnings/(loss) per share	0.46	(0.29)
	US\$ '000	US\$ '000
Profit/(loss) attributable to equity holders of the parent	265,230	(164,590)
Profit/(loss) used in determining diluted earnings/(loss) per share	265,230	(164,590)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

30. Dividends paid and proposed

As at 31 December 2017, final dividend proposed was nil for the Group (2016: Nil).

	2017 US\$ '000	2016 US\$ '000
Cash dividends on ordinary shares declared and paid:		
Interim dividend for 2017: US\$ Nil per share, 563,444,561 shares in issue		
(2016: ₦9.13, US\$ 0.04 per share, 563,444,561 shares in issue)	—	22,534
Final dividend for 2017: US\$ Nil per share, 563,444,561 shares in issue		
(2016: ₦Nil, US\$ Nil per share, 563,444,561 shares in issue)	—	—
Total	—	22,534
Proposed dividends on ordinary shares:		
Total cash dividend for 2017: ₦ Nil (US\$ Nil) per share		
(2016: ₦ Nil, US\$ 0.04 per share)	—	22,423

31. Related party relationships and transactions

The Group is controlled by Seplat Petroleum Development Company Plc (the parent Company). The parent Company is owned 8.39% either directly or by entities controlled by A.B.C Orjiako (SPDCL(BVI)) and members of his family and 13.23% either directly or by entities controlled by Austin Avuru (Professional Support Limited and Platform Petroleum Limited). The remaining shares in the parent Company are widely held.

31a. Related party relationships

The services provided by the related parties:

Abbeycourt Trading Company Limited: the Chairman of Seplat is a director and shareholder. The company provides diesel supplies to Seplat in respect of Seplat's rig operations.

Berwick Nigeria Limited: The chairman of Seplat is a shareholder and director. The company provides construction services to Seplat in relation to a field base station in Sapele.

Cardinal Drilling Services Limited (formerly Caroil Drilling Nigeria Limited): Is owned by common shareholders with the parent Company. The company provides drilling rigs and drilling services to Seplat.

Charismond Nigeria Limited: The sister to the CEO works as a General Manager. The company provides administrative services including stationary and other general supplies to the field locations.

Helko Nigeria Limited: The chairman of Seplat is shareholder and director. The company owns the lease to Seplat's main office at 25A Lugard Avenue, Lagos, Nigeria.

Keco Nigeria Enterprises: The Chief Executive Officer's sister is shareholder and director. The company provides diesel supplies to Seplat in respect of its rig operations.

Montego Upstream Services Limited: The chairman's nephew is shareholder and director. The company provides drilling and engineering services to Seplat.

Nabila Resources & Investment Ltd: The chairman's in-law is a shareholder and director. The company provides lubricant to Seplat.

Stage leasing (Ndosumili Ventures Limited): is a subsidiary of Platform Petroleum Limited. The company provides transportation services to Seplat.

Neimeth International Pharmaceutical Plc: The chairman of Seplat is also the chairman of this company. The company provides medical supplies and drugs to Seplat, which are used in connection with Seplat's corporate social responsibility and community healthcare programmes.

Nerine Support Services Limited: Is owned by common shareholders with the parent company. Seplat leases a warehouse from Nerine and the company provides agency and contract workers to Seplat.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

31. Related party relationships and transactions (Continued)

Oriental Catering Services Limited: The Chief Executive Officer of Seplat's spouse is shareholder and director. The company provides catering services to Seplat at the staff canteen.

ResourcePro Inter Solutions Limited: The Chief Executive Officer of Seplat's in-law is its UK representative. The company supplies furniture to Seplat.

Shebah Petroleum Development Company Limited ('BVI'): The Chairman of Seplat is a director and shareholder of SPDCL(BVI). The company provided consulting services to Seplat.

The following transactions were carried by Seplat with related parties:

31b. Related party transactions

Year-end balances arising from related party transactions

i) Purchases of goods and services

	2017	2016
	US\$ '000	US\$ '000
Shareholders of the parent company		
SPDCL (BVI)	1,350	1,364
Total	1,350	1,364
Entities controlled by key management personnel:		
Contracts > \$1 million in 2017		
Nerine Support Services Limited*	7,066	14,991
Cardinal Drilling Services Limited	3,272	6,931
Helko Nigeria Limited	1,453	1,976
	11,791	23,898
Contracts < \$1 million in 2017		
Montego Upstream Services Limited	427	13,513
Abbeycourt Trading Company Limited	650	598
Oriental Catering Services Limited	520	579
Keco Nigeria Enterprises	361	259
ResourcePro Inter Solutions Limited	31	81
Nabila Resources & Investment Ltd	—	58
Berwick Nigeria Limited	—	28
Neimeth International Pharmaceutical Plc	2	10
Charismond Nigeria Limited	55	—
Stage leasing(formerly Ndosumuli Venture Limited)	560	1,729
	2,606	16,855
	14,397	40,753

* Nerine on average charges a mark-up of 7.5% on agency and contract workers assigned to Seplat. The amounts shown above are gross i.e. it includes salaries and Nerine's mark-up. Total costs for agency and contracts during 2017 is ₦1.4 billion, 2016: ₦2.4 billion (US\$4.6 million, 2016: US\$7.9 million).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

31. Related party relationships and transactions (Continued)

31c. Balances:

Year-end balances arising from related party transactions

i) Prepayments/receivables

	2017	2016
	US\$ '000	US\$ '000
Entities controlled by key management personnel		
Cardinal Drilling Services Limited – current portion	5,498	6,211
Cardinal Drilling Services Limited – non-current portion	—	—
	5,498	6,211

ii) Payables

	2017	2016
	US\$ '000	US\$ '000
Entities controlled by key management personnel		
Montego Upstream Services Limited	375	11,540
Nerine Support Services Limited	8	11,411
Keco Nigeria Enterprises	—	—
Cardinal Drilling Services Limited	954	1,009
	1,362	23,960

32. Information relating to employees

32a. Key management compensation

Key management includes executive and members of the leadership team. The compensation paid or payable to key management for employee services is shown below:

	2017	2016
	US\$ '000	US\$ '000
Salaries and other short-term employee benefits	17,117	4,104
Post-employment benefits	172	700
Share based payment expenses	283	289
	17,572	5,093

32b. Chairman and Directors' emoluments

	2017	2016
	US\$ '000	US\$ '000
Chairman (Non-executive)	1,118	1,116
Chief Executive Officer	1,557	1,644
Executive Directors	928	1,858
Non-Executive Directors	1,897	2,652
Bonus*	1,310	—
JV Partner Share	(1,367)	(1,926)
Total	5,443	5,344

* This relates to 2017 accrued bonus to be paid in 2018 and 2016 bonus paid in 2017. Out of this amount, ₦401 million, 2016: nil million (US\$1.3 million, 2016: US\$ nil million) relates to 2017 accrued bonus to be paid in 2018 and ₦231 million, 2016: ₦nil million (US\$0.7 million, 2016: US\$ nil) relates to 2016 bonus accrued and paid in 2017.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

32. Information relating to employees (Continued)

32c. Highest paid Director

	2017	2016
	US\$ '000	US\$ '000
Highest paid Director	1,557	1,644

Emoluments are inclusive of income taxes. No bonus was approved as of the date of the financial report.

32d. The number of Directors (excluding the Chairman) whose emoluments fell within the following ranges was:

	2017	2016
	Number	Number
Zero – US\$65,000	—	—
US\$65,001 – US\$378,000	8	7
US\$378,001 – US\$516,000	1	1
Above US\$516,000	3	3
	12	11

32e. Employees

The number of employees (other than the Directors) whose duties were wholly or mainly discharged within Nigeria, and who earned over ₦1,988,000 (US\$6,500), received remuneration (excluding pension contributions) in the following ranges:

	2017	2016
	Number	Number
US\$6,500 – US\$16,000	7	1
US\$16,001 – US\$32,000	21	33
US\$32,001 – US\$48,000	102	136
Above US\$48,000	269	220
	399	390

32f. The average number of persons (excluding Directors) in employment during the year was as follows:

	2017	2016
	Number	Number
Senior management	33	15
Managers	65	78
Senior staff	162	110
Junior staff	145	187
	405	390

32g. Employee cost

Seplat's staff costs (excluding pension contribution) in respect of the above employees amounted to the following:

	2017	2016
	US\$ '000	US\$ '000
Salaries & wages	17,417	20,055
	17,417	20,055

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

33. Commitments and contingencies

33a. Operating lease commitments – Group as lessee

The Group leases drilling rigs, buildings, land, boats and storage facilities. The lease terms are between 1 and 5 years. The operating lease commitments of the Group as at 31 December 2017 are:

Operating lease commitments	As at 31 Dec 2017	As at 31 Dec 2016
	US\$ '000	US\$ '000
Not later than one year	2,382	1,011
Later than one year and not later than five years	1,846	3,757
	4,228	4,768

33b. Contingent liabilities

The Group is involved in a number of legal suits as defendant. The estimated value of the contingent liabilities for the year ended 31 December 2017 is ₦57 billion, 2016: ₦4.7 billion (US\$ 187 million, 2016: US\$15.5 million). No provision has been made for this potential liability in these financial statements. Management and the Group's solicitors are of the opinion that the Group will suffer no loss from these claims.

34. Events after the reporting period

The Group confirmed that proceedings have begun in the English High Court against its wholly owned subsidiary, Newton Energy Limited, by Crestar Natural Resources Limited, relating to the deposit of ₦6.2 billion (US\$20.5 million) currently held in an escrow account.

The potential acquisition of an interest in OML 25 was initially identified in 2014 at which time the Group placed a sum of ₦138 billion (US\$453 million) as a deposit towards the potential investment. However, after material delays, ₦112 billion (US\$368 million) was returned to the Group in July 2015, certain events then led to renewed efforts by the consortium to secure the asset and to the Group providing the escrow monies. See Note 19c for further details.

Furthermore, the Group paid ₦3.4 billion (US\$11 million) to Crestar for past costs and a ₦13.7 billion (US\$45 million) deposit remains with the potential vendor of the asset. Crestar alleges bad faith conduct by Seplat's subsidiary, Newton Energy Limited with regards to the Group's request for the escrow monies to be released to Seplat. Seplat has emphasised that it intends to defend the claim vigorously and further announcement, if appropriate, will be made in due course.

On 1 February, 2018, the issued share capital increased by 25,000,000 shares in furtherance of the Group's Long Term Incentive Plan after approval was received from regulators. Seplat's share capital now consists of 588,444,561 ordinary shares of ₦0.50k each, all with voting rights.

There was no other significant event after the statement of financial position date which could have a material effect on the state of affairs of the Group as at 31 December 2016 and on the profit or loss for the year ended on that date, which have not been adequately provided for or disclosed in these financial statements.

STATEMENT OF VALUE ADDED
For the year ended 31 December 2017

	2017		2016	
	US\$ '000	%	US\$ '000	%
Revenue	452,179		254,217	
Finance income	4,335		59,017	
Cost of goods and other services:				
Local	(136,543)		(198,817)	
Foreign	(91,028)		(132,544)	
Valued added/(eroded)	228,943	100%	(18,127)	100%

Applied as follows:

	2017		2016	
	US\$ '000	%	US\$ '000	%
To employees:				
– as salaries and labour related expenses	25,917	11	20,869	-115
To external providers of capital:				
– as interest	72,752	32	73,900	-408
To Government:				
– as Group taxes	2,248	1	1,759	-10
Retained for the Group's future:				
– For asset replacement, depreciation, depletion & amortisation	86,277	38	59,870	-330
Deferred tax credit	(223,481)	-98	(8,431)	47
Profit/(loss) for the year	265,230	116	(166,094)	916
Valued added/(eroded)	228,943	100%	(18,127)	100%

The value added/(eroded) represents the additional wealth which the Group has been able to create by its own and its employees' efforts. This statement shows the allocation of that wealth to employees, providers of finance, shareholders, government and that retained for the creation of future wealth.

FIVE YEAR FINANCIAL SUMMARY

As at 31 December 2017

	2017	2016	2015	2014	2013
	US\$ '000	US\$ '000	US\$ '000	US\$ '000	US\$ '000
Revenue	452,179	254,217	570,477	775,019	880,227
Profit/(loss) before taxation	43,997	(172,766)	87,079	252,253	457,523
Income tax expense	221,233	6,672	(21,472)	—	92,745
Profit/(loss) for the year	265,230	(166,094)	65,607	252,253	550,268
	2017	2016	2015	2014	2013
	US\$ '000	US\$ '000	US\$ '000	US\$ '000	US\$ '000
Capital employed:					
Issued share capital	1,826	1,826	1,821	1,798	1,334
Share premium	497,457	497,457	497,457	497,457	—
Share based payment reserve	17,809	12,135	8,734	—	—
Capital contribution	40,000	40,000	40,000	40,000	40,000
Retained earnings	944,108	678,922	865,483	869,861	690,807
Foreign currency translation reserve	1,897	3,675	325	26	58
Non-controlling interest	—	—	(145)	—	—
Total equity	1,503,097	1,234,015	1,413,075	1,409,142	732,199
Represented by:					
Non-current assets	1,764,789	1,516,073	1,487,307	988,576	694,558
Current assets	849,841	663,200	1,254,583	1,421,114	623,003
Non-current liabilities	(429,698)	(463,847)	(662,774)	(261,834)	(144,271)
Current liabilities	(681,835)	(481,411)	(666,041)	(738,714)	(441,091)
Net assets	1,503,097	1,234,015	1,413,075	1,409,142	732,199

SUPPLEMENTARY FINANCIAL INFORMATION (UNAUDITED)

For the year ended 31 December 2017

35. Estimated quantities of proved plus probable reserves

	Oil & NGLs MMbbls	Natural Gas Bscf	Oil Equivalent MMboe
At 31 December 2016	195.4	1,544.1	461.6
Revisions.	37.3	(46.6)	29.3
Discoveries and extensions	—	—	—
Acquisitions	—	—	—
Production	(6.5)	(41.8)	(13.6)
At 31 December 2017	226.3	1,455.7	477.3

Reserves are those quantities of crude oil, natural gas and natural gas liquid that, upon analysis of geological and engineering data, appear with reasonable certainty to be recoverable in the future from known reservoirs under existing economic and operating conditions.

As additional information becomes available or conditions change, estimates are revised.

36. Capitalised costs related to oil producing activities

	2017 US\$ '000	2016 US\$ '000
Capitalised costs:		
Unproved properties	—	—
Proved properties	1,662,243	1,518,174
Total capitalised costs	1,662,243	1,518,174
Accumulated depreciation	375,856	293,774
Net capitalised costs	1,286,387	1,224,400

Capitalised costs include the cost of equipment and facilities for oil producing activities. Unproved properties include capitalised costs for oil leaseholds under exploration, and uncompleted exploratory well costs, including exploratory wells under evaluation. Proved properties include capitalised costs for oil leaseholds holding proved reserves, development wells and related equipment and facilities (including uncompleted development well costs) and support equipment.

37. Concessions

The original, expired and unexpired terms of concessions granted to the Group as at 31 December 2017 are:

	Original	Term in years expired	Unexpired
Seplat OML 4, 38 & 41	10	8	2
Newton OML 56	10	8	2
Seplat East Swamp OML 53	30	20	10
Seplat Swamp OML 55	30	20	10

SUPPLEMENTARY FINANCIAL INFORMATION (UNAUDITED)

For the year ended 31 December 2017

38. Results of operations for oil producing activities

	2017	2016
	US\$ '000	US\$ '000
Revenue	452,179	254,217
Other income	—	—
Production and administrative expenses	(326,100)	(372,657)
Depreciation & amortisation	(82,082)	(54,326)
Profit/(loss) before taxation	43,997	(172,766)
Taxation	221,233	6,672
Profit/(loss) after taxation	265,230	(166,094)

39. Reclassification

Certain comparative figures have been reclassified in line with the current year's presentation.

40. Exchange rates used in translating the accounts to Naira

The table below shows the exchange rates used in translating the accounts into Naira

	Basis	₦/\$
Fixed assets – opening balances	Historical rate	Historical
Fixed assets – additions	Average rate	305.80
Fixed assets – closing balances	Closing rate	305.81
Current assets	Closing rate	305.81
Current liabilities	Closing rate	305.81
Equity	Historical rate	Historical
Income and Expenses:	Overall Average rate	305.81

FINANCIAL STATEMENTS
For the year ended December 31, 2016
Expressed in US Dollars

	PAGES -----
Independent auditor's report	F-76
Statement of profit or loss and other comprehensive income	F-81
Statement of financial position	F-82
Statement of changes in equity	F-84
Statement of cash flows	F-86
Notes to the financial statements	F-87

***Independent auditor's report to the members of Seplat Petroleum Development Company Plc
For the year ended 31 December 2016***

Opinion

We have audited the consolidated and separate financial statements of Seplat Petroleum Development Company Plc (the 'Company') and its subsidiaries (together the 'Group') which comprise:

Group	Company
Consolidated statement of profit or loss and other comprehensive income for the year ended 31 December 2016	Company statement of profit or loss and other comprehensive income for the year ended 31 December 2016
Consolidated statement of financial position as at 31 December 2016	Company statement of financial position as at 31 December 2016
Consolidated statement of changes in equity for the year then ended 31 December 2016	Consolidated statement of cash flows for the year then ended 31 December 2016
Company statement of changes in equity for the year then ended 31 December 2016	Company statement of cash flows for the year then ended 31 December 2016
Related notes to the consolidated financial statements	Related notes to the Company financial statements

In our opinion:

- the financial statements present fairly, in all material respects, the financial position of the Group and of the Company as at 31 December 2016, and of the Group and Company financial performance and cash flows for the year then ended;
- the financial statements of the Group and Company have been properly prepared in accordance with International Financial Reporting Standards ('IFRS') as issued by the International Accounting Standards Board ('IASB'); and
- the financial statements of the Group and Company have been prepared in accordance with the requirements of the Companies and Allied Matters Act, CAP C20, Laws of the Federation of Nigeria 2004 and in compliance with the Financial Reporting Council of Nigeria Act, No. 6, 2011.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing ('ISAs'). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants ('IESBA Code') and other independence requirements applicable to performing audits of Seplat Petroleum Development Company Plc. We have fulfilled our other ethical responsibilities in accordance with the IESBA Code, and in accordance with other ethical requirements applicable to performing the audit of Seplat Petroleum Development Company Plc. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the Auditor's responsibilities for the audit of the financial statements section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying financial statements.

Key audit matter	How the matter was addressed in the audit
Impact of the estimation of the quantity of oil and gas reserves on impairment testing, depreciation, depletion and amortisation, decommissioning provisions and the going concern assessment. As at 31 December 2016, Seplat reported 461.7 MMboe of proved plus probable reserves. The estimation and measurement of oil and gas reserves impacts a number of material elements of the financial statements including DD&A, impairments and decommissioning provisions. There is technical uncertainty in assessing reserve quantities.	We focused on management's estimation process, including whether bias exists in the determination of reserves and resources. We carried out the following procedures: - ensured that significant movements in reserves are compliant with guidelines and policy; - ensured that additions to oil assets during the year were properly recognised and accounted for; - performed analytical review procedures on reserve revisions; - confirmed that the reserve information at year end is supported by underlying documentation and data; - performed procedures to assess the competence and objectivity of the experts involved in the estimation process; and - reviewed disclosures in the Annual Report and Accounts to ensure consistency with the reserves data that we have reviewed.
The assessment of the recoverable amount of exploration and production assets As at 31 December 2016, Seplat recognised US\$1.224 billion of oil and gas properties. A sustained low oil and gas price environment could have a significant impact on the recoverable amounts of Seplat's oil and gas properties. In view of the generally long-lived nature of Seplat's assets, the most critical assumption in forecasting future cash flows is management's view on the long-term oil and gas price outlook beyond the next three to four years. Other key inputs used in assessing recoverable amounts are the discount rate used, future expected production volumes and capital and operating expenditures.	Accounting standards require management to assess at each reporting date whether indicators of impairment exist. Seplat carried out an impairment test. Our audit procedures on the impairment test included: - assessed whether or not reserve movements represented an impairment trigger; - considered oil and gas forward curves and long-term commodity price assumptions and whether these are indicators of impairment; - discussed with management the operational status of key assets; - separately from management, we assessed whether or not indicators of impairment exist; and - challenged management's assumptions in estimating future cash flows from assets.

Key audit matter**How the matter was addressed in the audit****Deconsolidation of subsidiary**

During 2016, following the restructuring of the arrangement with BelemaOil, Seplat deconsolidated BelemaOil as it no longer exercised control over the entity.

Seplat has recorded its rights to receive the discharge sum of US\$330 million from the crude oil reserves of OML 55 as a right to receive oil to the tune of the discharge sum. The fair value of the discharge sum on the date of deconsolidation is US\$250 million.

We carried out the following audit procedures:

- reviewed the terms of the agreements relating to BelemaOil, including the Asset Management Team agreement, Deed of Settlement and Release and other Deeds of Settlement;
- reviewed management's assessment and accounting of the transaction to ensure that the appropriate accounting treatment is reflected in the financial statements; and
- assessed the appropriateness of the estimated fair value of the discharge sum and management's assessment for recoverability.

Recoverability of the Nigerian Petroleum Development Company ('NPDC') receivables

As at 31 December 2016, the undiscounted/discounted value of the receivable balance is US\$239/US\$229 million respectively.

Management has made certain assumptions about the recoverability of financial assets exposed to credit risk from NPDC. These are based on management's past experiences with NPDC, current discussions with NPDC and financial capacity of NPDC.

We carried out the following procedures:

- validated the receipts during the year and post year-end;
- obtained confirmation from NNPC of amounts owed to Seplat;
- recalculated the US Dollar equivalent of amounts owed in Nigerian Naira;
- discussed and challenged management's expectations in relation to the in-flow of funds; and
- ensured that amounts due are discounted to reflect the time value of money in line with expected timing of receipts.

Other information

The Directors are responsible for the other information. The other information comprises of the Report of the Directors, Audit Committee's Report, Statement of Directors' Responsibilities and Other National Disclosures, which we obtained prior to the date of this report, and the Annual Report and Accounts, which is expected to be made available to us after that date. Other information does not include the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and we do not express an audit opinion or any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed on the other information obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

When we read the Annual Report and Accounts, if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance.

Responsibilities of the Directors for the financial statements

The Directors are responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards, the requirements of the Companies and Allied Matters Act, CAP C20, Laws of the Federation of Nigeria 2004 and in compliance with the Financial Reporting Council of Nigeria Act, No. 6, 2011, and for such internal control as the Directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting processes.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Directors.
- Conclude on the appropriateness of the Directors' use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

We communicate with the Directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

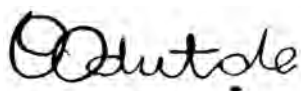
We also provide the Directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Directors, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on other legal and regulatory requirements

In accordance with the requirement of Schedule 6 of the Companies and Allied Matters Act, CAP C20, Laws of the Federation of Nigeria 2004, we confirm that:

- i) we have obtained all the information and explanations which to the best of our knowledge and belief were necessary for the purpose of our audit;
- ii) in our opinion, proper books of account have been kept by the Company, so far as appears from our examination of those books;
- iii) the statements of financial position and profit or loss and other comprehensive income are in agreement with the books of account;
- iv) and in our opinion, the financial statements have been prepared in accordance with the provisions of the Companies and Allied Matters Act, CAP C20, Laws of the Federation of Nigeria 2004 so as to give a true and fair view of the state of affairs and financial performance.



Yemi Odutola FCA

FRC/2012/ICAN/00000000141

Partner
For: Ernst & Young
Lagos, Nigeria
30 March 2017



STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2016

	Notes	The Group		The Company	
		2016	2015	2016	2015
		US\$ '000	US\$ '000	US\$ '000	US\$ '000
Revenue	5	254,217	570,477	202,446	497,867
Cost of sales	6	(182,424)	(321,694)	(157,333)	(270,505)
Gross profit		71,793	248,783	45,113	227,362
Other operating income	7	—	2,316	—	2,316
General and administrative expenses	8	(113,832)	(121,474)	(92,629)	(106,104)
(Losses)/gains on foreign exchange (net)	9	(101,455)	7,747	(104,328)	8,985
Gain on deconsolidation of subsidiary	17c	680	—	—	—
Fair value (loss)/gain	10	(15,069)	20,493	(12,455)	13,195
Operating (loss)/profit		(157,883)	157,865	(164,299)	145,754
Finance income	11	59,017	12,802	94,139	8,133
Finance costs	11	(73,900)	(83,588)	(68,751)	(77,338)
(Loss)/profit before taxation		(172,766)	87,079	(138,911)	76,549
Taxation	12	6,672	(21,472)	14,499	(16,384)
(Loss)/profit for the year		(166,094)	65,607	(124,412)	60,165
(Loss)/profit attributable to equity holders of parent		(164,590)	67,761	(124,412)	60,165
(Loss) attributable to non-controlling interest		(1,504)	(2,154)	—	—
		(166,094)	65,607	(124,412)	60,165
Other comprehensive income:					
Items that may be reclassified to profit or loss:					
Foreign currency translation difference		3,350	(299)	—	—
Items that will not be reclassified to profit or loss:					
Remeasurement of post-employment benefit obligations...	30b	563	—	563	—
Other comprehensive income/(loss) for the year		3,913	(299)	563	—
Total comprehensive (loss)/income for the year		(162,181)	65,308	(123,849)	60,165
Total comprehensive (loss)/income attributable to equity holders of parent		(160,677)	67,462	(123,849)	60,165
Total comprehensive (loss) attributable to non-controlling interest		(1,504)	(2,154)	—	—
		(162,181)	65,308	(123,849)	60,165
(Loss)/earnings per share for (loss)/profit attributable to the ordinary equity holders of the Company:					
Basic (loss)/earnings per share (US\$)	32	(0.29)	0.12	(0.22)	0.11
Diluted (loss)/earnings per share (US\$)	32	(0.29)	0.12	(0.22)	0.11

STATEMENT OF FINANCIAL POSITION

For the year ended 31 December 2016

		The Group		The Company	
	Notes	2016	2015	2016	2015
		US\$ '000	US\$ '000	US\$ '000	US\$ '000
ASSETS					
Non-current assets					
Oil & gas properties	15a	1,224,400	1,436,950	867,627	850,214
Other property, plant and equipment	15b	7,967	11,603	7,914	11,154
Other asset	17	250,090	—	—	—
Goodwill	16	—	2,000	—	—
Prepayments	18	33,616	36,754	33,616	36,754
Investment in subsidiaries.	19	—	—	1,064	1,064
Total non-current assets		1,516,073	1,487,307	910,221	899,186
Current assets					
Inventories	20	106,213	82,466	102,608	78,865
Trade and other receivables	21	390,694	811,255	1,069,003	1,322,039
Prepayments	18	6,672	11,639	6,500	10,679
Cash & cash equivalents	22	159,621	326,029	147,377	316,374
Derivatives	23	—	23,194	—	23,194
Total current assets		663,200	1,254,583	1,325,488	1,751,151
Total assets		2,179,273	2,741,890	2,235,709	2,650,337
EQUITY AND LIABILITIES					
Equity					
Issued share capital	24	1,826	1,821	1,826	1,821
Share premium.	24c	497,457	497,457	497,457	497,457
Share-based payment reserve.	24b	12,135	8,734	12,135	8,734
Capital contribution.	25	40,000	40,000	40,000	40,000
Retained earnings		678,922	865,483	730,740	877,123
Foreign currency translation reserve		3,675	325	—	—
Non-controlling interest		—	(745)	—	—
Total shareholders' equity		1,234,015	1,413,075	1,282,158	1,425,135
Non-current liabilities					
Interest bearing loans and borrowings	27	446,098	608,846	446,098	556,346
Deferred tax liabilities.	13	—	21,233	—	16,384
Contingent consideration	28	12,040	21,900	—	—
Provision for decommissioning obligation	29	597	3,869	339	2,971
Defined benefit plan	30	5,112	6,926	5,112	6,926
Total non-current liabilities.		463,847	662,774	451,549	582,627
Current liabilities					
Interest bearing loans and borrowings	27	217,998	290,769	217,998	290,769
Trade and other payables	31	261,528	375,033	282,119	351,806
Current taxation.	12	1,885	239	1,885	—
Total current liabilities.		481,411	666,041	502,002	642,575
Total liabilities		945,258	1,328,815	953,551	1,225,202
Total shareholders' equity and liabilities		2,179,273	2,741,890	2,235,709	2,650,337

Notes 1 to 37 are an integral part of the financial statements.

STATEMENT OF FINANCIAL POSITION (Continued)

For the year ended 31 December 2016

The financial statements of Seplat Development Company Plc for the year ended 31 December 2016 were authorised for issue in accordance with a resolution of the Directors on 23 March 2017 and were signed on its behalf by:



A.B.C. Orjiako
FRC/2013/IODN/00000003161
Chairman
30 March 2017



Austin Avuru
FRC/2013/IODN/00000003100
Chief Executive Officer
30 March 2017



Roger Brown
FRC/2014/IODN/00000007983
Chief Financial Officer
30 March 2017

STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2016

The Group

	Notes	Issued share capital	Share premium	Capital contribution	Share- based payment reserve	Retained earnings	Foreign currency translation reserve	Total	Non- controlling interest	Total equity
		US\$ '000	US\$ '000	US\$ '000	US\$ '000	US\$ '000	US\$ '000	US\$ '000	US\$ '000	US\$ '000
At 1 January 2015		1,798	497,457	40,000	—	869,861	26	1,409,142	—	1,409,142
Profit/(loss) for the year		—	—	—	—	67,462	—	67,462	(2,154)	65,308
Other comprehensive income		—	—	—	—	—	299	299	—	299
Total comprehensive income/(loss) for the year		—	—	—	—	67,462	299	67,761	(2,154)	65,607
Transactions with owners in their capacity as owners:										
Dividends	33	—	—	—	—	(71,840)	—	(71,840)	—	(71,840)
Employee share schemes	24b	—	—	—	8,757	—	—	8,757	—	8,757
NCI on acquisition of subsidiary		—	—	—	—	—	—	—	1,409	1,409
Issue of shares	24b	23	—	—	(23)	—	—	—	—	—
Total		23	—	—	8,734	(71,840)	—	(63,083)	1,409	(61,674)
At 31 December 2015....		1,821	497,457	40,000	8,734	865,483	325	1,413,820	(745)	1,413,075
At 1 January 2016		1,821	497,457	40,000	8,734	865,483	325	1,413,820	(745)	1,413,075
Loss for the year		—	—	—	—	(164,590)	—	(164,590)	(1,504)	(166,094)
Other comprehensive income		—	—	—	—	563	3,350	3,913	—	3,913
Total comprehensive (loss)/income for the year		—	—	—	—	(164,027)	3,350	(160,677)	(1,504)	(162,181)
Transactions with owners in their capacity as owners:										
Dividends	33	—	—	—	—	(22,534)	—	(22,534)	—	(22,534)
Employee share schemes	24b	—	—	—	3,406	—	—	3,406	—	3,406
Loss of control		—	—	—	—	—	—	—	2,249	2,249
Issue of shares	24b	5	—	—	(5)	—	—	—	—	—
Total		5	—	—	3,401	(22,534)	—	(19,128)	2,249	(16,879)
At 31 December 2016....		1,826	497,457	40,000	12,135	678,922	3,675	1,234,015	—	1,234,015

STATEMENT OF CHANGES IN EQUITY (Continued)

For the year ended 31 December 2016

The Company						
Notes	Issued share capital	Share premium	Capital contribution	Share-based payment reserve	Retained earnings	Total equity
	US\$ '000	US\$ '000	US\$ '000	US\$ '000	US\$ '000	US\$ '000
At 1 January 2015	1,798	497,457	40,000		888,798	1,428,053
Profit for the year	—	—	—		60,165	60,165
Other comprehensive income	—	—	—	—	—	—
Total comprehensive income for the year	—	—	—	—	60,165	60,165
Transactions with owners in their capacity as owners:						
Dividends 33	—	—	—	—	(71,840)	(71,840)
Employee share schemes 24b	—	—	—	8,757	—	8,757
Issue of shares 24b	23	—	—	(23)	—	—
Total	23	—	—	8,734	(71,840)	(63,083)
At 31 December 2015	1,821	497,457	40,000	8,734	877,123	1,425,135
At 1 January 2016	1,821	497,457	40,000	8,734	877,123	1,425,135
Loss for the year	—	—	—	—	(124,412)	(124,412)
Other comprehensive income	—	—	—	—	563	563
Total comprehensive (loss)/income for the year	—	—	—	—	(123,849)	(123,849)
Transactions with owners in their capacity as owners:						
Dividends 33	—	—	—	—	(22,534)	(22,534)
Employee share schemes 24b	—	—	—	3,406	—	3,406
Issue of shares 24b	5	—	—	(5)	—	—
Total	5	—	—	3,401	(22,534)	(19,128)
At 31 December 2016	1,826	497,457	40,000	12,135	730,740	1,282,158

STATEMENT OF CASH FLOWS

For the year ended 31 December 2016

		The Group		The Company	
	Notes	2016	2015	2016	2015
		US\$ '000	US\$ '000	US\$ '000	US\$ '000
Cash flows from operating activities					
Cash generated from operations	14	160,856	38,039	156,665	96,918
Receipts from derivatives		10,739	—	10,739	—
Net cash inflows from operating activities.		171,595	38,039	167,404	96,918
Cash flows from investing activities					
Investment in oil and gas properties		(51,834)	(366,878)	(51,834)	(139,985)
Acquisition of other property, plant and equipment		(2,349)	(4,615)	(2,352)	(4,656)
Disposal of other property plant and equipment		385	—	385	—
Acquisition of subsidiary		—	(79,409)	—	—
Proceeds from sale of assets		—	208	—	208
Interest received.		1,664	3,243	1,644	3,243
Refunds from advances on investment		—	368,160	—	—
Net cash (outflows) from investing activities		(52,134)	(79,291)	(52,157)	(141,190)
Cash flows from financing activities					
Proceeds from bank financing.		—	967,101	—	967,101
Repayments of bank financing		(187,000)	(735,940)	(187,000)	(735,940)
Dividends paid		(22,534)	(71,840)	(22,534)	(71,840)
Interest paid		(73,420)	(77,338)	(68,421)	(77,338)
Net cash (outflows)/inflows from financing activities.		(282,954)	81,983	(277,955)	81,983
Net (decrease)/increase in cash and cash equivalents		(163,493)	40,731	(162,708)	37,711
Cash and cash equivalents at beginning of year		326,029	285,298	316,374	278,663
Effects of exchange rate changes on cash and cash equivalent		(2,915)	—	(6,289)	—
Cash and cash equivalents at end of year	22	159,621	326,029	147,377	316,374

NOTES TO THE FINANCIAL STATEMENTS

1. Corporate information and business

Seplat Petroleum Development Company Plc ('Seplat' or the 'Company'), the parent of the Group, was incorporated on 17 June 2009 as a private limited liability company and re-registered as a public company on 3 October 2014, under the Companies and Allied Matters Act, CAP C20, Laws of the Federation of Nigeria 2004. The Company commenced operations on 1 August 2010. The Company is principally engaged in oil and gas exploration and production.

The Company's registered address is: 25a Lugard Avenue, Ikoyi, Lagos, Nigeria.

The Company acquired, pursuant to an agreement for assignment dated 31 January 2010 between the Company, SPDC, TOTAL and AGIP, a 45% participating interest in the following producing assets:

OML 4, OML 38 and OML 41 located in Nigeria. The total purchase price for these assets was US\$340 million paid at the completion of the acquisition on 31 July 2010 and a contingent payment of US\$33 million payable 30 days after the second anniversary, 31 July 2012, if the average price per barrel of Brent Crude oil over the period from acquisition up to 31 July 2012 exceeds US\$80 per barrel. US\$358.6 million was allocated to the producing assets including US\$18.6 million as the fair value of the contingent consideration as calculated on acquisition date. The contingent consideration of US\$33 million was paid on 22 October 2012.

In 2013, Newton Energy Limited ('Newton Energy'), an entity previously beneficially owned by the same shareholders as Seplat, became a subsidiary of the Company. On 1 June 2013, Newton Energy acquired from Pillar Oil Limited ('Pillar Oil') a 40% participant interest in producing assets: the Umuseti/Igbuku marginal field area located within OPL 283 (the 'Umuseti/Igbuku Fields').

In 2015, the Group purchased a 40% participating interest in OML 53, onshore north eastern Niger Delta, from Chevron Nigeria Ltd. for US\$259.4 million. It also concluded negotiations to buy 56.25% of BelemaOil Producing Ltd., a Nigerian special purpose vehicle that bought a 40% interest in the producing OML 55, located in the swamp to coastal zone of south eastern Niger Delta. NNPC holds the remaining 60.00% interest in OML 55, and Seplat's effective participating interest in OML 55 as a result of the acquisition was 22.50%.

Based on the above, Seplat consolidated BelemaOil in its 31 December 2015 consolidated financial statements.

During the year, the minority shareholders of BelemaOil began to dispute Seplat's majority shareholding in the entity. In July 2016, Seplat instituted legal action in a bid to secure its investment in OML 55.

Subsequently, and in a bid to resolve pending legal disputes, representatives of both Seplat and BelemaOil have agreed to a new arrangement which provides for a discharge sum of US\$330 million, as at the reporting date fair valued at US\$250 million, to be paid to Seplat over a six-year period, through allocation of crude oil reserves of OML 55. In turn, Seplat relinquishes all claims to its shareholding of BelemaOil as an entity. The 40% stake in OML 55 will be held by Seplat and BelemaOil over the period of this arrangement through an Asset Management Team comprising equal representatives of both parties. The Asset Management Team makes all the key decisions regarding the relevant activities of the underlying asset, and consent of all parties is required for decision making. The agreements have been signed by both parties but are subject to ministerial consent. The Group however believes consent will be received as the agreements were brokered by the Ministry of Petroleum Resources.

Subsequent to year end, the Asset Management Team of OML 55 has been formally inaugurated, and first lifting has taken place, the proceeds of which have been deposited into the escrow account as prescribed in the agreements.

As a result of the foregoing, Seplat no longer exercises control and has now deconsolidated BelemaOil in the financial statements in accordance with IFRS 10 (par B97). Seplat has recorded its rights to receive the discharge sum from the crude oil reserves of OML 55 as other asset.

The Company together with its subsidiary, Newton Energy, and four wholly owned subsidiaries, namely, Seplat Petroleum Development Company UK Limited ('Seplat UK'), which was incorporated on 21 August 2014, Seplat East Onshore Limited ('Seplat East'), which was incorporated on 12 December 2014, Seplat EastSwamp Company Limited ('SeplatSwamp'), which was incorporated on 12 December 2014, and Seplat

NOTES TO THE FINANCIAL STATEMENTS (Continued)

1. Corporate information and business (Continued)

Gas Company Limited ('Seplat GAS'), which was incorporated on 12 December 2014, are referred to as the Group.

Subsidiary	Country of incorporation and place of business	Shareholding %	Principal activities
Newton Energy Limited	Nigeria	100%	Oil & gas exploration and production
Seplat Petroleum Development UK	United Kingdom	100%	Oil & gas exploration and production
Seplat East Onshore Limited	Nigeria	100%	Oil & gas exploration and production
Seplat East Swamp Company Limited	Nigeria	100%	Oil & gas exploration and production
Seplat Gas Company	Nigeria	100%	Oil & gas exploration and production

2. Summary of significant accounting policies

2.1 Introduction to summary of significant accounting policies

This note provides a list of the significant accounting policies adopted in the preparation of these consolidated and separate financial statements to the extent they have not already been disclosed in the other notes above. These policies have been consistently applied to all the years presented, unless otherwise stated. The financial statements are for the Group consisting of Seplat and its subsidiaries.

2.2 Basis of preparation

i) *Compliance with IFRS*

The consolidated and separate financial statements for the year ended 31 December 2016 have been prepared in accordance with International Financial Reporting Standards ('IFRS') and interpretations issued by the IFRS Interpretations Committee ('IFRS IC') applicable to companies reporting under IFRS. The financial statements comply with IFRS as issued by the International Accounting Standards Board ('IASB'). Additional information required by national regulations is included where appropriate.

The financial statements comprise the statement of profit or loss and other comprehensive income, the statement of financial position, the statement of changes in equity, the statement of cash flows and the notes to the financial statements.

ii) *Historical cost convention*

The financial information has been prepared under the going concern assumption and historical cost convention, except for contingent consideration, borrowings on initial recognition and financial instruments – derivatives that have been measured at fair value. The historical financial information is presented in US Dollars and all values are rounded to the nearest thousand (US\$ '000), except when otherwise indicated. The accounting policies are applicable to both the Company and Group.

iii) *Going concern*

Nothing has come to the attention of the Directors to indicate that the Company will not remain a going concern for at least 12 months from the date of this statement.

iv) *New and amended standards adopted by the Group*

There were a number of new standards and interpretations, effective from 1 January 2016, that the Group applied for the first time in the current year. The nature and the impact of each new standard and amendment that may have an impact on the Group now or in the future is described below. Several other amendments apply for the first time in 2016; however, they do not impact the annual financial statements of the Group.

Other than the changes described below, the accounting policies adopted are consistent with those of the previous financial year.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

2. Summary of significant accounting policies (Continued)

a) Amendments to IFRS 11 Joint Arrangements: Accounting for Acquisitions of Interests in Joint Operations

The amendments to IFRS 11 require that a joint operator account for the acquisition of an interest in a joint operation, in which the activity of the joint operation constitutes a business, using the relevant IFRS 3 principles for business combinations accounting. The amendments also clarify that a previously held interest in a joint operation is not remeasured on the acquisition of an additional interest in the same joint operation while joint control is retained. In addition, a scope exclusion has been added to IFRS 11 to specify that the amendments do not apply when the parties sharing joint control, including the reporting entity, are under common control of the same ultimate controlling party.

The amendments apply to both the acquisition of the initial interest in a joint operation and the acquisition of any additional interests in the same joint operation and are prospectively effective for annual periods beginning on or after 1 January 2016, with early adoption permitted.

Following the restructuring of the arrangement with BelemaOil with respect to OML 55, as described in note 1, the Group has now deconsolidated BelemaOil in these financial statements in accordance with IFRS 10 (par B97), as it no longer exercises control over the entity. BelemaOil's 40% stake in OML 55 will be jointly managed by Seplat and BelemaOil over the period of this arrangement through an Asset Management Team comprising equal representatives of both parties. As required by this amendment, the application of IFRS 3 principles in accounting for this transaction had no material impact in the financial statements as the transfer of assets between parties was in settlement of a pre-existing relationship and Seplat has no other interests in the jointly managed OML 55 except for the discharge sum which has been recognised at fair value and the resulting gain on the transaction recognised in the profit or loss account.

b) Amendments to IAS 16 and IAS 38: Clarification of Acceptable Methods of Depreciation and Amortisation

c) Annual Improvements to IFRS 2012-2014. These improvements are effective for annual periods beginning on or after 1 January 2016.

They include:

- IAS 34 Interim Financial Reporting
- Amendments to IAS 1: Disclosure Initiative
- IFRS 5 Non-current Assets Held for Sale and Discontinued Operations
- IFRS 7 Financial Instruments: Disclosures (i) Servicing contracts
- Applicability of the amendments to IFRS 7 to condensed interim financial statements
- IAS 19 Employee Benefits
- Amendments to IFRS 10, IFRS 12 and IAS 28: Investment Entities: Applying the Consolidation Exception

As these amendments merely clarify the existing requirements, they do not materially affect the Group's accounting policies or any of the disclosures.

v) New standards and interpretations not yet adopted

The standards and interpretations that are issued, but not yet effective, up to the date of issuance of the Group's financial statements are disclosed below. The Group intends to adopt these standards, if applicable, when they become effective.

i) IFRS 9 Financial Instruments

IFRS 9 Financial instruments addresses the classification, measurement and derecognition of financial assets and financial liabilities, and introduces new rules for hedge accounting and a new impairment model for financial assets. The standard does not need to be applied until 1 January 2018 but is available for early adoption.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

2. Summary of significant accounting policies (Continued)

While the Group has yet to undertake a detailed assessment of the classification and measurement of financial assets, the Group does not expect the new guidance to have a significant impact on the classification and measurement of its financial assets.

There will be no impact on the Group's accounting for financial liabilities, as the new requirements only affect accounting for own credit risk of financial liabilities that are designated at fair value through profit or loss and the Group does not have any such liabilities.

The derecognition rules have been transferred from IAS 39 Financial Instruments: Recognition and Measurement and have not been changed.

The new hedge accounting rules will align the accounting for hedging instruments more closely with the Group's risk management practices. As a general rule, more hedge relationships might be eligible for hedge accounting, as the standard introduces a more principles based approach. The Group does not expect a significant impact on the accounting for its hedging relationships.

The new impairment model requires the recognition of impairment provisions based on expected credit losses ('ECL') rather than only incurred credit losses as is the case under IAS 39. It applies to financial assets classified at amortised cost, debt instruments measured at FVOCI, contract assets under IFRS 15 – Revenue from Contracts with Customers, lease receivables, loan commitments and certain financial guarantee contracts. While the Group has not yet undertaken a detailed assessment of how its impairment provisions would be affected by the new model, it may result in earlier recognition of credit losses.

The new standard also introduces expanded disclosure requirements and changes in presentation. These are expected to change the nature and extent of the Group's disclosures about its financial instruments particularly in the year of the adoption of the new standard. The Group is yet to assess the full impact of IFRS 9.

ii) IFRS 15 Revenue from Contracts with Customers

The IASB has issued a new standard for the recognition of revenue. This will replace IAS 18 which covers revenue arising from the sale of goods and the rendering of services and IAS 11 which covers construction contracts.

The new standard is based on the principle that revenue is recognised when control of a good or service transfers to a customer.

The standard permits either a full retrospective or a modified retrospective approach for the adoption. The new standard is effective for first interim periods within annual reporting periods beginning on or after 1 January 2018, and will allow early adoption.

At this stage, the Group is yet to estimate the effect of the new principles on the Group's financial statements. The Group will make more detailed assessments of the effect over the next 12 months. The Group does not expect to adopt the new standard before 1 January 2018.

iii) IFRS 16 Leases

This standard eliminates the classification of leases as either operating or finance leases for a lessee. Instead, all leases are treated in a similar way to finance leases under IAS 17. Leases are 'capitalised' by recognising the present value of the lease payments and showing them either as lease assets (right-of-use assets) or together with property, plant and equipment. If lease payments are made over time, the Group also recognises a financial liability representing its obligation to make future lease payments. IFRS 16 does not require a lessee to recognise assets and liabilities for (a) short-term leases, or (b) leases of low-value assets. The Group is yet to assess the full impact of IFRS 16 and intends to adopt IFRS 16 no later than 1 January 2019 as required by the standard.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

2. Summary of significant accounting policies (Continued)

At this stage, the Group is yet to estimate the effect of the new rules on its financial statements. The Group will make more detailed assessments of the effect over the next 12 months. The Group does not expect to adopt the new standard before 1 January 2019.

iv) *Recognition of Deferred Tax Assets for Unrealised Losses – Amendments to IAS 12*

Amendments made to IAS 12 in January 2016 clarify the accounting for deferred tax where an asset is measured at fair value and that fair value is below the asset's tax base. Specifically, the amendments confirm that:

- A temporary difference exists whenever the carrying amount of an asset is less than its tax base at the end of the reporting period.
- An entity can assume that it will recover an amount higher than the carrying amount of an asset to estimate its future taxable profit.
- Where the tax law restricts the source of taxable profits against which particular types of deferred tax assets can be recovered, the recoverability of the deferred tax assets can only be assessed in combination with other deferred tax assets of the same type.
- Tax deductions resulting from the reversal of deferred tax assets are excluded from the estimated future taxable profit that is used to evaluate the recoverability of those assets.

This amendment is effective 1 January 2017.

2.3 Basis of consolidation

i) *Subsidiaries*

Subsidiaries are all entities (including structured entities) over which the Group has control.

The consolidated financial information comprises the financial statements of the Group and its subsidiaries as at 31 December 2016. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the Group controls an investee if and only if the Group has:

- Power over the investee (i.e. existing rights that give it the current ability to direct the relevant activities of the investee);
- Exposure, or rights, to variable returns from its involvement with the investee; and
- The ability to use its power over the investee to affect its returns.

Subsidiaries are consolidated from the date on which control is obtained by the Group and are deconsolidated from the date control ceases.

Generally, there is a presumption that a majority of voting rights results in control. To support this presumption and when the Group has less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- The contractual arrangement(s) with the other vote holders of the investee
- Rights arising from other contractual arrangements
- The Group's voting rights and potential voting rights

ii) *Change in the ownership interest of subsidiary*

The Group re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in the statement of comprehensive income from the date the Group gains control until the date the Group ceases to control the subsidiary.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

2. Summary of significant accounting policies (Continued)

Profit or loss and each component of OCI are attributed to the equity holders of the parent of the Group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

The financial statements of the subsidiaries are prepared for the same reporting periods as the parent company using consistent accounting policies.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

iii) *Disposal of subsidiary*

If the Group loses control over a subsidiary, it:

- derecognises the assets (including goodwill) and liabilities of the subsidiary;
- derecognises the carrying amount of any non-controlling interests;
- derecognises the cumulative translation differences recorded in equity;
- recognises the fair value of the consideration received;
- recognises the fair value of any investment retained;
- recognises any surplus or deficit in profit or loss; and
- reclassifies the parent's share of components previously recognised in OCI to profit or loss or retained earnings, as appropriate, as would be required if the Group had directly disposed of the related assets or liabilities.

iv) *Joint arrangements*

Under IFRS 11 Joint Arrangements investments in joint arrangements are classified as either joint operations or joint ventures. The classification depends on the contractual rights and obligations of each investor, rather than the legal structure of the joint arrangement. As at the reporting date, the Group has only joint operations.

Joint operations

The Group recognises its direct right to the assets, liabilities, revenues and expenses of joint operations and its share of any jointly held or incurred assets, liabilities, revenues and expenses. These have been incorporated in the financial statements under the appropriate headings.

The Group recognises in its own accounting records as follows:

- a) Its share of the mineral properties is shown within property, plant and equipment.
- b) Any liabilities that it has incurred including those incurred to finance its share of the asset.
- c) Its share of any liabilities incurred jointly with other venturers, including the decommissioning liability of production and field facilities.
- d) Any income from its sale or use of its share of the output.
- e) Any expenses that it has incurred in respect of its interest in the venture, together with its share of any expenses incurred by the joint operation.

In addition to joint costs, the Group also incurs exclusive costs, which are fully borne by the Group.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

2. Summary of significant accounting policies (Continued)

2.4 Functional and presentation currency

Items included in the financial statements of the Company and each of the Group's subsidiaries are measured using the currency of the primary economic environment in which the subsidiaries operate ('the functional currency'), which is the US Dollar. The consolidated and separate financial statements are presented in US Dollars.

i) *Transactions and balances*

Foreign currency transactions are translated into the functional currency using the exchange rates at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies at year end exchange rates are generally recognised in profit or loss.

Foreign exchange gains and losses that relate to borrowings are presented in the statement of profit or loss, within finance costs. All other foreign exchange gains and losses are presented in the statement of profit or loss on a net basis within other income or other expenses.

Non-monetary items that are measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined. Translation differences on assets and liabilities carried at fair value are reported as part of the fair value gain or loss.

ii) *Group companies*

The results and financial position of foreign operations that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- assets and liabilities for each balance sheet presented are translated at the closing rate at the date of the balance sheet
- income and expenses for each statement of profit or loss and statement of comprehensive income are translated at average exchange rates (unless this is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions), and
- all resulting exchange differences are recognised in other comprehensive income.

On disposal of a foreign operation, the component of other comprehensive income relating to that particular foreign operation is recognised in profit or loss.

2.5 Oil and gas accounting

i) *Pre-licence costs*

Pre-licence costs are expensed in the period in which they are incurred.

ii) *Exploration licence cost*

Exploration licence costs are capitalised within oil and gas properties. Licence costs paid in connection with a right to explore in an existing exploration area are capitalised and amortised on a straight-line basis over the life of the permit.

Licence costs are reviewed at each reporting date to confirm that there is no indication that the carrying amount exceeds the recoverable amount. This review includes confirming that exploration drilling is still under way or firmly planned, or that it has been determined, or work is under way to determine that the discovery is economically viable based on a range of technical and commercial considerations and sufficient progress is being made on establishing development plans and timing. If no future activity is planned or the licence has been relinquished or has expired, the carrying value of the licence is written off through profit or loss.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

2. Summary of significant accounting policies (Continued)

iii) *Acquisition of producing assets*

Upon acquisition of producing assets which do not constitute a business combination, the Group identifies and recognises the individual identifiable assets acquired (including those assets that meet the definition of, and recognition criteria for, intangible assets in IAS 38 Intangible Assets) and liabilities assumed. The purchase price paid for the group of assets is allocated to the individual identifiable assets and liabilities on the basis of their relative fair values at the date of purchase.

iv) *Exploration and evaluation expenditures*

Geological and geophysical exploration costs are charged to profit or loss as incurred.

Exploration and evaluation expenditures incurred by the entity are accumulated separately for each area of interest. Such expenditures comprise net direct costs and an appropriate portion of related overhead expenditure, but do not include general overheads or administrative expenditure that is not directly related to a particular area of interest. Each area of interest is limited to a size related to a known or probable hydrocarbon resource capable of supporting an oil operation.

Costs directly associated with an exploration well, exploratory stratigraphic test well and delineation wells are temporarily suspended (capitalised) until the drilling of the well is complete and the results have been evaluated. These costs include employee remuneration, materials and fuel used, rig costs, delay rentals and payments made to contractors. If hydrocarbons ('proved reserves') are not found, the exploration expenditure is written off as a dry hole and charged to profit or loss. If hydrocarbons are found, the costs continue to be capitalised. Suspended exploration and evaluation expenditure in relation to each area of interest is carried forward as an asset provided that one of the following conditions is met:

- the costs are expected to be recouped through successful development and exploitation of the area of interest or alternatively, by its sale;
- exploration and/or evaluation activities in the area of interest have not, at the reporting date, reached a stage which permits a reasonable assessment of the existence or otherwise of economically recoverable reserves; and
- active and significant operations in, or in relation to, the area of interest are continuing.

Exploration and/or evaluation expenditures which fail to meet at least one of the conditions outlined above are written off. In the event that an area is subsequently abandoned or exploration activities do not lead to the discovery of proved or probable reserves, or if the Directors consider the expenditure to be of no value, any accumulated costs carried forward relating to the specified areas of interest are written off in the year in which the decision is made. While an area of interest is in the development phase, amortisation of development costs is not charged pending the commencement of production. Exploration and evaluation costs are transferred from the exploration and/or evaluation phase to the development phase upon commitment to a commercial development.

v) *Development expenditures*

Development expenditure incurred by the entity is accumulated separately for each area of interest in which economically recoverable reserves have been identified to the satisfaction of the Directors. Such expenditure comprises net direct costs and, in the same manner as for exploration and evaluation expenditure, an appropriate portion of related overhead expenditure directly related to the development property. All expenditure incurred prior to the commencement of commercial levels of production from each development property is carried forward to the extent to which recoupment is expected to be derived from the sale of production from the relevant development property.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

2. Summary of significant accounting policies (Continued)

2.6 Revenue recognition

Revenue arises from the sale of crude oil and gas. Revenue comprises the realised value of crude oil lifted by customers. Revenue is recognised when crude products are lifted by a third party (buyer) Free on Board ('FOB') at the Group's designated loading facility or lifting terminals. At the point of lifting, all risks and rewards are transferred to the buyer. Gas revenue is recognised when gas passes through the custody transfer point.

Overlift and underlift

The excess of the product sold during the period over the participant's ownership share of production is termed as an overlift and is accrued for as a liability and not as revenue. Conversely, an underlift is recognised as an asset and the corresponding revenue is also reported.

Overlifts and underlifts are initially measured at the market price of oil at the date of lifting, consistent with the measurement of the sale and purchase.

Subsequently, they are remeasured at the current market value. The change arising from this remeasurement is included in the income statement as revenue or cost of sales.

2.7 Property, plant and equipment

Oil and gas properties and other plant and equipment are stated at cost, less accumulated depreciation and accumulated impairment losses.

The initial cost of an asset comprises its purchase price or construction cost, any costs directly attributable to bringing the asset into operation, the initial estimate of any decommissioning obligation and, for qualifying assets, borrowing costs. The purchase price or construction cost is the aggregate amount paid and the fair value of any other consideration given to acquire the asset. Where parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items of property, plant and equipment.

Expenditure on major maintenance refits or repairs comprises the cost of replacement assets or parts of assets, inspection costs and overhaul costs. Where an asset or part of an asset that was separately depreciated and is now written off is replaced and it is probable that future economic benefits associated with the item will flow to the entity, the expenditure is capitalised. Inspection costs associated with major maintenance programmes are capitalised and amortised over the period to the next inspection. Overhaul costs for major maintenance programmes are capitalised as incurred as long as these costs increase the efficiency of the unit or extend the useful life of the asset. All other maintenance costs are expensed as incurred.

Depreciation

Production and field facilities are depreciated on a unit-of-production basis over the estimated proved developed reserves. Assets under construction are not depreciated. Other property, plant and equipment is depreciated on a straight-line basis over their estimated useful lives. Depreciation commences when an asset is available for use. The depreciation rate for each class is as follows:

Leasehold improvements	Over the unexpired portion of the lease
-----	-----
Plant and machinery	20%
Office furniture and equipment	33.33%
Motor vehicles	25%
Computer equipment	33.33%

The expected useful lives and residual values of property, plant and equipment are reviewed on an annual basis and, if necessary, changes in useful lives are accounted for prospectively.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

2. Summary of significant accounting policies (Continued)

2.8 Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on the qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

2.9 Impairment of non-financial assets

Goodwill and intangible assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment, or more frequently. Other non-financial assets are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Individual assets are grouped for impairment assessment purposes at the lowest level at which there are identifiable cash flows that are largely independent of the cash flows of other groups of assets. This should be at a level no higher than an operating segment.

If any such indication of impairment exists or when annual impairment testing for an asset group is required, the entity makes an estimate of its recoverable amount. Such indicators include changes in the Group's business plans, changes in commodity prices, evidence of physical damage and, for oil and gas properties, significant downward revisions of estimated recoverable volumes or increases in estimated future development expenditure.

The recoverable amount is the higher of an asset's fair value less costs of disposal ('FVLCD') and value in use ('VIU'). The recoverable amount is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or group of assets, in which case, the asset is tested as part of a larger cash-generating unit to it belongs. Where the carrying amount of an asset group exceeds its recoverable amount, the asset group is considered impaired and is written down to its recoverable amount.

Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at the end of each reporting period.

In calculating VIU, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset/CGU. In determining FVLCD, recent market transactions are taken into account. If no such transactions can be identified, an appropriate valuation model is used. These calculations are corroborated by valuation multiples, quoted share prices for publicly traded companies or other available fair value indicators.

Impairment – exploration and evaluation assets

Exploration and evaluation assets are tested for impairment once commercial reserves are found before they are transferred to oil and gas assets, or whenever facts and circumstances indicate impairment. An impairment loss is recognised for the amount by which the exploration and evaluation assets' carrying amount exceeds their recoverable amount. The recoverable amount is the higher of the exploration and evaluation assets' fair value less costs to sell and their value in use.

Impairment – proved oil and gas production properties

Proven oil and gas properties are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

2. Summary of significant accounting policies (Continued)

2.10 Cash and cash equivalents

Cash and cash equivalents in the statement of cash flows comprise cash at banks and at hand and short-term deposits with an original maturity of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of change in value.

2.11 Inventories

Inventories represent the value of tubulars, casings and wellheads. These are stated at the lower of cost and net realisable value. Cost is determined using the invoice value and all other directly attributable costs to bringing the inventory to the point of use determined on a first in first out basis. Net realisable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated cost necessary to make the sale.

2.12 Other asset

The Group's interest in the oil and gas reserves of OML 55 has been classified as other asset. On initial recognition, it is measured at the fair value of future recoverable oil and gas reserves.

Subsequently, the other asset is stated at the amount initially recognised, less accumulated impairment losses.

The carrying value of the other asset is reviewed for impairment whenever events or circumstances indicate the carrying value may not be recoverable.

2.13 Segment reporting

Segment reporting has not been prepared as the Group operates one segment, being the exploration, development and production of oil and gas related products located in Nigeria. Operations in the different OMLs are integrated due to geographic proximity, the use of shared infrastructure and common operational management.

2.14 Financial instruments

2.14.1 Financial assets

i) Financial assets initial recognition and measurement

The Group determines the classification of its financial assets at initial recognition.

All financial assets are recognised initially at fair value plus transaction costs, except in the case of financial assets recorded at fair value through the statement of profit or loss which do not include transaction costs. The Group's financial assets include cash and short-term deposits, trade and other receivables, favourable derivatives and loan and other receivables.

ii) Subsequent measurement

The subsequent measurement of financial assets depends on their classification, as follows:

Trade receivables, loans and other receivables

Trade receivables, loans and other receivables, which are non-derivative financial assets that have fixed or determinable payments that are not quoted in an active market, are classified as loans and receivables. They are included in the current assets, except for maturities greater than 12 months after the reporting date. The Group's loan and receivables comprise trade and other receivables in the consolidated historical financial information.

Loans and receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest rate method net of any impairment.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

2. Summary of significant accounting policies (Continued)

A provision for impairment of trade receivables is established when there is objective evidence that the Group will not be able to collect all the amounts due according to the original terms of the receivable.

Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation and default or delinquency in payments are considered as indicators that the trade receivable is impaired. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate.

The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the loss is recognised in the statement of profit or loss. When a trade is uncollectable, it is written off against the allowance account for trade receivables.

iii) *Impairment of financial assets*

The Group assesses at each reporting date whether there is objective evidence that a financial asset or a group of financial assets is impaired.

A financial asset or a group of financial assets is deemed to be impaired if there is objective evidence of impairment as a result of one or more events that has occurred since the initial recognition of the asset (an incurred loss event) and that loss event has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that the debtor or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and observable data indicating that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

iv) *Derecognition of financial assets*

A financial asset is derecognised when the contractual rights to the cash flows from the financial asset expire. When an existing financial asset is transferred, the transfer qualifies for derecognition if the Group transfers the contractual rights to receive the cash flows of the financial asset or retains the contractual rights to receive the cash flows of the financial asset, but assumes a contractual obligation to pay the cash flows to one or more recipients in an arrangement.

2.14.2 *Financial liabilities*

Financial liabilities in the scope of IAS 39 are classified as financial liabilities at fair value through profit or loss, and financial liabilities at amortised cost as appropriate. The Group determines the classification of its financial liabilities at initial recognition.

i) *Financial liabilities initial recognition and measurement*

All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings, net of directly attributable transaction costs.

The Group's financial liabilities include trade and other payables, bank overdrafts and loans and borrowings.

ii) *Subsequent measurement*

The measurement of financial liabilities depends on their classification as described below:

Trade payables

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Trade payables are classified as current liabilities if payment is due within one year or less. If not, they are presented as non-current liabilities.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

2. Summary of significant accounting policies (Continued)

Trade payables are recognised initially at fair value and subsequently measured at amortised cost using effective interest method.

Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently carried at amortised cost while any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the statement of profit or loss over the period of borrowings using the effective interest method.

Fees paid on establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw down occurs. To the extent that there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalised as a pre-payment for liquidity services and amortised over the period of the facility to which it relates.

iii) *Derecognition of financial liabilities*

A financial liability is derecognised when the associated obligation is discharged or cancelled or expired. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognised in the statement of profit or loss.

2.14.3 *Derivative financial instruments*

The Group uses derivative financial instruments, such as forward exchange contracts, to hedge its foreign exchange risks as well as put options to hedge against its oil price risk. However, such contracts are not accounted for as designated hedges. Derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently re-measured at fair value. Derivatives are carried as financial assets when the fair value is positive and as financial liabilities when the fair value is negative. Any gains or losses arising from changes in the fair value of derivatives are taken directly to the statement of profit or loss and other comprehensive income, and presented within operating profit.

Commodity contracts that were entered into and continue to be held for the purpose of the receipt or delivery of a non-financial item in accordance with the Group's expected purchase, sale or usage requirements fall within the exemption from IAS 32 and IAS 39, which is known as the 'normal purchase or sale exemption'. For these contracts and the host part of the contracts containing embedded derivatives, they are accounted for as executory contracts. The Group recognises such contracts in its statement of financial position only when one of the parties meets its obligation under the contract to deliver either cash or a non-financial asset. An analysis of fair values of financial instruments and further details as to how they are measured are provided in note 4 Financial risk management.

2.14.4 *Fair value of financial instruments*

The Group measures all financial instruments at initial recognition at fair value and financial instruments carried at fair value through profit and loss such as derivatives at fair value at each balance sheet date. From time to time, the fair values of non-financial assets and liabilities are required to be determined, e.g., when the entity acquires a business, or where an entity measures the recoverable amount of an asset or cash-generating unit ('CGU') at FVLCD.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

2. Summary of significant accounting policies (Continued)

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs. From time to time external valuers are used to assess FVLCD of the Group's non-financial assets. Involvement of external valuers is decided upon by the valuation committee after discussion with and approval by the Company's Audit Committee. Selection criteria include market knowledge, reputation, independence and whether professional standards are maintained. Valuers are normally rotated every three years. The valuation committee decides, after discussions with the Group's external valuers, which valuation techniques and inputs to use for each case.

Changes in estimates and assumptions about these inputs could affect the reported fair value. The fair value of financial instruments that are traded in active markets at each reporting date is determined by reference to quoted market prices or dealer price quotations (bid price for long positions and ask price for short positions), without any deduction for transaction costs.

2.15 Business combination and goodwill

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, which is measured at acquisition date fair value, and the amount of any non-controlling interests in the acquiree. For each business combination, the Group elects whether to measure the non-controlling interests in the acquiree at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition-related costs are expensed as incurred and included in administrative expenses.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date.

Any contingent consideration to be transferred by the acquirer will be recognised at fair value at the acquisition date. Contingent consideration classified as an asset or liability that is a financial instrument and within the scope of IAS 39 Financial Instruments: Recognition and Measurement, is measured at fair value with the changes in fair value recognised in the statement of profit or loss.

Goodwill is initially measured at cost (being the excess of the aggregate of the consideration transferred and the amount recognised for non-controlling interests) and any previous interest held over the net identifiable assets acquired and liabilities assumed. If the fair value of the net assets acquired is in excess of the aggregate consideration transferred, the Group re-assesses whether it has correctly identified all of the assets acquired and all of the liabilities assumed and reviews the procedures used to measure the amounts to be recognised at the acquisition date. If the reassessment still results in an excess of the fair value of net assets acquired over the aggregate consideration transferred, then the gain is recognised in profit or loss.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

Where goodwill has been allocated to a cash-generating unit ('CGU') and part of the operation within that unit is disposed of, the goodwill associated with the disposed operation is included in the carrying amount of the operation when determining the gain or loss on disposal. Goodwill disposed in these circumstances is measured based on the relative values of the disposed operation and the portion of the cash-generating unit retained.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

2. Summary of significant accounting policies (Continued)

2.16 Share capital

Issued share capital has been translated at the exchange rate prevailing at the date of the transaction and is not retranslated subsequent to initial recognition.

2.17 Earnings and dividends per share

Basic EPS

Basic earnings per share is calculated on the Group's profit or loss after taxation attributable to the parent entity and on the basis of weighted average of issued and fully paid ordinary shares at the end of the year.

Diluted EPS

Diluted EPS is calculated by dividing the profit or loss attributable to ordinary equity holders of the parent (after adjusting for outstanding share options arising from the share-based payment scheme) by the weighted average number of ordinary shares outstanding during the year plus the weighted average number of ordinary shares that would be issued on conversion of all the dilutive potential ordinary shares into ordinary shares.

Dividends on ordinary shares are recognised as a liability in the period in which they are approved.

2.18 Post-employment benefits

Defined contribution scheme

The Group contributes to a defined contribution scheme for its employees in compliance with the provisions of the Pension Reform Act 2014. The scheme is fully funded and is managed by licensed Pension Fund Administrators. Membership of the scheme is automatic upon commencement of duties at the Group. The Group's contributions to the defined contribution scheme are charged to the profit and loss account in the year to which they relate.

Employee benefits are all forms of consideration given by an entity in exchange for service rendered by employees or for the termination of employment. The Group operates a defined contribution plan and it is accounted for based on IAS 19 Employee benefits.

Defined contribution plans are post-employment benefit plans under which an entity pays fixed contributions into a separate entity (a fund) and will have no legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay all employee benefits relating to employee service in the current and prior periods. Under defined contribution plans the entity's legal or constructive obligation is limited to the amount that it agrees to contribute to the fund.

Thus, the amount of the post-employment benefits received by the employee is determined by the amount of contributions paid by an entity (and perhaps also the employee) to a post-employment benefit plan or to an insurance company, together with investment returns arising from the contributions. In consequence, actuarial risk (that benefits will be less than expected) and investment risk (that assets invested will be insufficient to meet expected benefits) fall, in substance, on the employee.

Defined benefit scheme

The Group operates a defined benefit gratuity plan, which requires contributions to be made to a separately administered fund. The Group also provides certain additional post-employment benefits to employees. These benefits are unfunded.

The cost of providing benefits under the defined benefit plan is determined using the projected unit credit method.

Remeasurements, comprising actuarial gains and losses, are recognised immediately in the statement of financial position with a corresponding debit or credit to retained earnings through OCI in the period in which they occur.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

2. Summary of significant accounting policies (Continued)

Remeasurements are not reclassified to profit or loss in subsequent periods.

Past service costs are recognised in profit or loss on the earlier of:

- The date of the plan amendment or curtailment; and
- The date that the Group recognises related restructuring costs.

Net interest is calculated by applying the discount rate to the net defined benefit liability or asset. The Group recognises the following changes in the net defined benefit obligation under employee benefit expenses in general and administrative expenses:

- Service costs comprises current service costs, past-service costs, gains and losses on curtailments and non-routine settlements.

2.19 Provisions

Provisions are recognised when (i) the Group has a present legal or constructive obligation as a result of past events; (ii) it is probable that an outflow of economic resources will be required to settle the obligation as a whole; and (iii) the amount can be reliably estimated. Provisions are not recognised for future operating losses.

In measuring the provision:

- risks and uncertainties are taken into account;
- the provisions are discounted where the effects of the time value of money are considered to be material;
- when discounting is used, the increase of the provision over time is recognised as interest expense;
- future events, such as changes in law and technology, are taken into account where there is subjective audit evidence that they will occur; and
- gains from expected disposal of assets are not taken into account, even if the expected disposal is closely linked to the event giving rise to the provision.

Decommissioning

Liabilities for decommissioning costs are recognised as a result of the constructive obligation of past practice in the oil and gas industry, when it is probable that an outflow of economic resources will be required to settle the liability and a reliable estimate can be made. The estimated costs, based on current requirements, technology and price levels, prevailing at the reporting date, are computed based on the latest assumptions as to the scope and method of abandonment.

Provisions are measured at the present value of management's best estimates of the expenditure required to settle the present obligation at the end of the reporting period. The discount rate used to determine the present value is a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The increase in the provision due to the passage of time is recognised as interest expense. The corresponding amount is capitalised as part of the oil and gas properties and is amortised on a unit-of-production basis as part of the depreciation, depletion and amortisation charge. Any adjustment arising from the estimated cost of the restoration and abandonment cost is capitalised, while the charge arising from the accretion of the discount applied to the expected expenditure is treated as a component of finance charges.

If the change in estimate results in an increase in the decommissioning provision and, therefore, an addition to the carrying value of the asset, the Group considers whether this is an indication of impairment of the asset as a whole, and if so, tests for impairment in accordance with IAS 36. If, for mature fields, the revised oil and gas assets net of decommissioning provisions exceed the recoverable value, that portion of the increase is charged directly to expense.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

2. Summary of significant accounting policies (Continued)

2.20 Contingencies

A contingent asset or contingent liability is a possible asset or obligation that arises from past events and whose existence will be confirmed by the occurrence or non-occurrence of uncertain future events. The assessment of the existence of the contingencies will involve management judgement regarding the outcome of future events.

2.21 Income taxation

i) *Current income tax*

The tax expense for the period comprises current and deferred tax. Tax is recognised in the statement of profit or loss and other comprehensive income, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the country where Group operates and generates taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulations are subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Taxation on crude oil activities is provided in accordance with the Petroleum Profits Tax Act ('PPTA') CAP. P13 Vol. 13 LFN 2004 and on gas operations in accordance with the Companies Income Tax Act ('CITA') CAP. C21 Vol. 3 LFN 2004. Education tax is assessed at 2% of the assessable profits.

ii) *Deferred tax*

Deferred tax is recognised, using the liability method, on temporary differences arising between the carrying amounts of assets and liabilities in the consolidated historical financial information and the corresponding tax bases used in the computation of taxable profit.

A deferred income tax charge is determined using tax rates (and laws) that have been enacted or substantively enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such deferred tax assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income tax assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

iii) *New tax regime*

Effective 1 January 2014, the Company was granted the pioneer tax status incentive by the Nigerian Investment Promotion Commission for an initial three-year period and a further two-year period on approval. For the period the incentive applies, the Company is exempt from petroleum profits tax on crude oil profits (which would be otherwise taxed at 65.75%, to increase to 85% in 2015), corporate income tax on natural gas profits (currently taxed at 30%) and education tax of 2%. Newton Energy was also granted pioneer tax status on the same basis. The Company has completed its first three years of the pioneer tax period and is no longer exempted from paying petroleum profits tax on crude oil profits, corporate income tax on natural gas profits and education tax of 2%.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

2. Summary of significant accounting policies (Continued)

Tax incentives do not apply to Seplat East Onshore Limited (OML 53) and Seplat East Swamp Company Limited (OML 55), hence all taxes have been included in full for these entities in the financial statements.

2.22 Leases

The determination of whether an arrangement is, or contains, a lease is based on the substance of the arrangement at the inception date. The arrangement is assessed for whether fulfilment of the arrangement is dependent on the use of a specific asset or assets or the arrangement conveys a right to use the asset or assets, even if that right is not explicitly specified in an arrangement.

Leases in which a significant portion of the risks and rewards of ownership are not transferred to the Group as lessee are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to profit or loss on a straight-line basis over the period of the lease.

2.23 Share-based payments

Employees (including senior executives) of the Group receive remuneration in the form of share-based payments, whereby employees render services as consideration for equity instruments (equity-settled transactions).

i) Equity-settled transactions

The cost of equity-settled transactions is determined by the fair value at the date when the grant is made using an appropriate valuation model.

That cost is recognised in employee benefits expense together with a corresponding increase in equity (other capital reserves), over the period in which the service and, where applicable, the performance conditions are fulfilled (the vesting period). The cumulative expense recognised for equity-settled transactions at each reporting date until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest. The expense or credit in the statement of profit or loss for a period represents the movement in cumulative expense recognised as at the beginning and end of that period.

Service and non-market performance conditions are not taken into account when determining the grant date and for fair value of awards, but the likelihood of the conditions being met is assessed as part of the Group's best estimate of the number of equity instruments that will ultimately vest. Market performance conditions are reflected within the grant date fair value. Any other conditions attached to an award, but without an associated service requirement, are considered to be non-vesting conditions. Non-vesting conditions are reflected in the fair value of an award and lead to an immediate expensing of an award unless there are also service and/or performance conditions.

No expense is recognised for awards that do not ultimately vest because non-market performance and/or service conditions have not been met. Where awards include a market or non-vesting condition, the transactions are treated as vested irrespective of whether the market or non-vesting condition is satisfied, provided that all other performance and/or service conditions are satisfied. When the terms of an equity-settled award are modified, the minimum expense recognised is the grant date fair value of the unmodified award, provided the original terms of the award are met. An additional expense, measured as at the date of modification, is recognised for any modification that increases the total fair value of the share-based payment transaction, or is otherwise beneficial to the employee. Where an award is cancelled by the entity or by the counterparty, any remaining element of the fair value of the award is expensed immediately through profit or loss. The dilutive effect of outstanding awards is reflected as additional share dilution in the computation of diluted earnings per share.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

3. Significant accounting judgements, estimates and assumptions

The preparation of the Group's consolidated historical financial information requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the accompanying disclosures, and the disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of assets or liabilities affected in future periods.

3.1 Judgements

In the process of applying the Group's accounting policies, management has made the following judgements, which have the most significant effect on the amounts recognised in the consolidated historical financial information:

i) *OMLs 4, 38 and 41*

OMLs 4, 38 and 41 are grouped together as a cash-generating unit for the purpose of impairment testing. These three OMLs are grouped together because they each cannot independently generate cash flows. They currently operate as a single block sharing resources for the purpose of generating cash flows. Crude oil and gas sold to third parties from these OMLs are invoiced together.

ii) *Advances on investment (note 21)*

The Group considers that the advances on investment of US\$65.7 million in relation to the acquisition of additional assets are fully recoverable in accordance with the terms of the deposit.

iii) *New tax regime*

As at the end of the year, the Nigerian Investment Promotion Commission is yet to approve the tax incentives for the additional two years of the tax holidays. The financial statements have been prepared on the assumption that the tax incentives may not be renewed and hence this forms the basis of the Group and Company's current and deferred taxation in the financial statements. There were no deferred tax liabilities recognised during the year. In 2015, deferred tax liabilities recognised in the period would have been reduced by US\$16 million for Group and Company, if assumed that the tax incentives were renewed.

iv) *Deconsolidation of subsidiary (note 17)*

Following the restructuring of the arrangement with BelemaOil with respect to OML 55, as described in note 1, the Group has now deconsolidated BelemaOil in these financial statements in accordance with IFRS 10 (par B97), as it no longer exercises control over the entity.

BelemaOil's 40% stake in OML 55 will be jointly managed by Seplat and BelemaOil over the period of this arrangement through an Asset Management Team comprising equal representatives of both parties. The Asset Management Team makes all the key decisions regarding the technical and commercial activities of the underlying asset, and consent of all parties is required for decision making. Asset Management Team guidelines and other agreements that will govern the operations of the AMT have been approved. The Group has recognised this as other assets.

3.2 Estimates and assumptions

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are described below. The Group based its assumptions and estimates on parameters available when the consolidated financial statements were prepared. Existing circumstances and assumptions about future developments may change due to market changes or circumstances arising that are beyond the control of the Group. Such changes are reflected in the assumptions when they occur.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

3. Significant accounting judgements, estimates and assumptions (Continued)

i) *Other asset (note 17b)*

Seplat has recorded its rights to receive the discharge sum of US\$330 million from the crude oil reserves of OML 55 as other asset. The fair value of the discharge sum on the date of deconsolidation is US\$250 million and has been determined using the income approach in line with IFRS 13 (Discounted Cash Flow). The gain on deconsolidation recognised amounted to US\$680,000 and has been recognised in the income statement.

ii) *NPDC receivables (note 21)*

NPDC receivables were impaired during this year (2015: not materially impaired). The impairment assessment was carried out using the future estimated cash flow expected to be recoverable from NPDC over the next 18 months. The estimated future cash payments and receipts recoverable over the expected life of the receivable are discounted using Seplat's average borrowing cost of 8%. The resulting adjustment has been recognised under general and administrative expenses in the statement of comprehensive income. As at 31 December 2016, the total amount owed by NPDC is US\$239 million (2015: US\$492 million). This is the undiscounted amount; see note 21 for the impairment loss and discounted value.

iii) *Contingent consideration (note 28)*

During the year, the Group derecognised the contingent consideration on OML 55 as a result of the deconsolidation of its subsidiary BelemaOil. The Group continued to recognise the contingent consideration of US\$18.5 million for OML 53 at the fair value of US\$12 million; it is contingent on the oil price rising above US\$90/bbl over the next three years.

iv) *Defined benefit plans (pension benefits) (note 30)*

The cost of the defined benefit retirement plan and the present value of the retirement obligation are determined using actuarial valuations. An actuarial valuation involves making various assumptions that may differ from actual developments in the future. These include the determination of the discount rate, future salary increases, mortality rates and changes in inflation rates. Due to the complexities involved in the valuation and its long-term nature, a defined benefit obligation is highly sensitive to changes in these assumptions. All assumptions are reviewed at each reporting date. The parameter most subject to change is the discount rate. In determining the appropriate discount rate, management considers market yield on federal government bond in currencies consistent with the currencies of the post-employment benefit obligation and extrapolated as needed along the yield curve to correspond with the expected term of the defined benefit obligation. The rates of mortality assumed for employees are the rates published in 67/70 ultimate tables, published jointly by the Institute and Faculty of Actuaries in the UK.

v) *Oil and gas reserves*

Proved oil and gas reserves are used in the units of production calculation for depletion as well as the determination of the timing of well closure for estimating decommissioning liabilities and impairment analysis. There are numerous uncertainties inherent in estimating oil and gas reserves. Assumptions that are valid at the time of estimation may change significantly when new information becomes available. Changes in the forecast prices of commodities, exchange rates, production costs or recovery rates may change the economic status of reserves and may ultimately result in the reserves being restated.

vi) *Share-based payment reserve (note 24b)*

Estimating fair value for share-based payment transactions requires determination of the most appropriate valuation model, which depends on the terms and conditions of the grant. This estimate also requires determination of the most appropriate inputs to the valuation model including the expected life of the share award or appreciation right, volatility and dividend yield and making assumptions about them. The Group measures the fair value of equity-settled transactions with employees at the grant date, and uses a Monte-Carlo model for the global offer, non-executive and long-term incentive scheme. The assumptions and models used for estimating fair value for share-based payment transactions are disclosed in note 24b.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

3. Significant accounting judgements, estimates and assumptions (Continued)

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. Such estimates and assumptions are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

vii) Provision for decommissioning obligations (note 29)

Provisions for environmental clean-up and remediation costs associated with the Group's drilling operations are based on current constructions, technology, price levels and expected plans for remediation. Actual costs and cash outflows can differ from estimates because of changes in public expectations, prices, discovery and analysis of site conditions and changes in clean-up technology.

viii) Property, plant and equipment (note 15)

The Group assesses its property, plant and equipment, including exploration and evaluation assets, for possible impairment if there are events or changes in circumstances that indicate that carrying values of the assets may not be recoverable, or at least at every reporting date.

If there are low oil prices or natural gas prices during an extended period the Group may need to recognise significant impairment charges. The assessment for impairment entails comparing the carrying value of the cash-generating unit with its recoverable amount, that is, value in use. Value in use is usually determined on the basis of discounted estimated future net cash flows. Determination as to whether and how much an asset is impaired involves management estimates on highly uncertain matters such as future commodity prices, the effects of inflation on operating expenses, discount rates, production profiles and the outlook for regional market supply-and-demand conditions for crude oil and natural gas.

In 2016, in response to the force majeure on OMLs 4, 38 and 41, the Group executed an impairment assessment. The Group used the value in use in determining the recoverable amount of the cash-generating unit. The assessment did not result in an impairment charge. In determining the value, the Group used a recent forward curve for five years, reverting to the Group's long-term price assumption for impairment testing which is US\$55 in 2017, US\$60 in 2018 and US\$70 per barrel from 2019 point forward. The Group used a post-tax discount rate of 10% based on the Group weighted average cost of capital.

Management has considered whether a reasonably possible change in one of the main assumptions will cause an impairment and believes otherwise.

ix) Useful life of other property, plant and equipment

The Group recognises depreciation on other property, plant and equipment on a straight line basis in order to write-off the cost of the asset over its expected useful life. The economic life of an asset is determined based on existing wear and tear, economic and technical ageing, legal and other

limits on the use of the asset, and obsolescence. If some of these factors were to deteriorate materially, impairing the ability of the asset to generate future cash flow, the Group may accelerate depreciation charges to reflect the remaining useful life of the asset or record an impairment loss.

x) Contingencies (note 36)

By their nature, contingencies will only be resolved when one or more uncertain future events occur or fail to occur. The assessment of the existence, and potential quantum, of contingencies inherently involves the exercise of significant judgement and the use of estimates regarding the outcome of future events.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

3. Significant accounting judgements, estimates and assumptions (Continued)

xi) *Income taxes (note 12)*

The Group is subject to income taxes by the Nigerian tax authority, which does not require significant judgement in terms of provision for income taxes, but a certain level of judgement is required for recognition of deferred tax assets. Management is required to assess the ability of the Group to generate future taxable economic earnings that will be used to recover all deferred tax assets. Assumptions about the generation of future taxable profits depend on management's estimates of future cash flows. The estimates are based on the future cash flow from operations taking into consideration the oil and gas prices, volumes produced, operational and capital expenditure.

4. Financial risk management

4.1 Financial risk factors

The Group's activities expose it to a variety of financial risks such as market risk (including foreign exchange risk, interest rate risk and commodity price risk), credit risk and liquidity risk. The Group's risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance.

Risk management is carried out by the treasury department under policies approved by the Board of Directors. The Board provides written principles for overall risk management, as well as written policies covering specific areas, such as foreign exchange risk, interest rate risk, credit risk and investment of excess liquidity.

Risk	Exposure arising from	Measurement	Management
Market risk – foreign exchange	• Future commercial transactions • Recognised financial assets and liabilities not denominated in US Dollars	• Cash flow forecasting • Sensitivity analysis	• Match and settle foreign denominated cash inflows with foreign denominated cash outflows
Market risk – interest rate	• Long-term borrowings at variable rate	• Sensitivity analysis	• None
Market risk – commodity prices	• Future sales transactions	• Sensitivity analysis	• Oil price hedges
Credit risk	• Cash and cash equivalents, trade receivables and derivative financial instruments	• Ageing analysis • Credit ratings	• Diversification of bank deposits
Liquidity risk	• Borrowings and other liabilities	• Rolling cash flow forecasts	• Availability of committed credit lines and borrowing facilities

4.1.1 Market risk

Market risk is the risk of loss that may arise from changes in market factors such as commodity prices, interest rates and foreign exchange rates.

i) *Commodity price risk*

The Group is exposed to the risk of fluctuations on crude oil prices. The Group currently hedges against this risk and sells the oil that it produces to Shell Trading and Mercuria at market prices calculated in accordance with the terms of the off-take agreement.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

4. Financial risk management (Continued)

The following table summarises the impact on the Group's (loss)/profit before tax of a 10% change in crude oil prices, with all other variables held constant:

	Effect on (loss)/profit before tax 2016 US\$ '000	Effect on other components of equity before tax 2016 US\$ '000	Effect on (loss)/profit before tax 2015 US\$ '000	Effect on other components of equity before tax 2015 US\$ '000
Increase/decrease in commodity price – the Group				
+10%	14,876	—	49,348	—
– 10%	(14,876)	—	(49,348)	—
	Effect on (loss)/profit before tax 2016 US\$ '000	Effect on other components of equity before tax 2016 US\$ '000	Effect on (loss)/profit before tax 2015 US\$ '000	Effect on other components of equity before tax 2015 US\$ '000
Increase/decrease in commodity price – the Company				
+10%	9,699	—	42,087	—
– 10%	(9,699)	—	(42,087)	—

The following table summarises the impact on the Group's (loss)/profit before tax of a 10% change in gas prices, with all other variables held constant:

	Effect on (loss)/profit before tax 2016 US\$ '000	Effect on other components of equity before tax 2016 US\$ '000	Effect on (loss)/profit before tax 2015 US\$ '000	Effect on other components of equity before tax 2015 US\$ '000
Increase/decrease in commodity price – the Group				
+10%	10,546	—	7,700	—
– 10%	(10,546)	—	(7,700)	—
	Effect on (loss)/profit before tax 2016 US\$ '000	Effect on other components of equity before tax 2016 US\$ '000	Effect on (loss)/profit before tax 2015 US\$ '000	Effect on other components of equity before tax 2015 US\$ '000
Increase/decrease in commodity price – the Company				
+10%	10,546	—	7,700	—
– 10%	(10,546)	—	(7,700)	—

ii) Cash flow and fair value interest rate risk

The Group's exposure to interest rate risk relates primarily to long-term borrowings. Borrowings issued at variable rates expose the Group to cash flow interest rate risk which is partially offset by cash and fixed deposit held at variable rates. Borrowings issued at fixed rates do not expose the Group to market interest rate risk. Most of the Group's borrowings are denominated in US Dollars.

The Group is exposed to cash flow interest rate risk on short-term deposits to the extent that the significant reductions in market interest rates would result in a decrease in the interest earned by the Group.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

4. Financial risk management (Continued)

The following table demonstrates the sensitivity of the Group and Company's (loss)/profit before tax to changes in LIBOR rate, with all other variables held constant.

	Effect on (loss)/profit before tax 2016 US\$ '000	Effect on other components of equity before tax 2016 US\$ '000	Effect on (loss)/profit before tax 2015 US\$ '000	Effect on other components of equity before tax 2015 US\$ '000
Increase/decrease in interest rate – the Group				
+1%	6,641	—	8,996	—
– 1%	(6,641)	—	(8,996)	—
	Effect on (loss)/profit before tax 2016 US\$ '000	Effect on other components of equity before tax 2016 US\$ '000	Effect on (loss)/profit before tax 2015 US\$ '000	Effect on other components of equity before tax 2015 US\$ '000
Increase/decrease in interest rate – the Company				
+1%	6,641	—	8,471	—
– 1%	(6,641)	—	(8,471)	—

iii) Foreign exchange risk

The Group has transactional currency exposures that arise from sales or purchases in currencies other than the respective functional currency. The Group is exposed to exchange rate risk to the extent that balances and transactions are denominated in a currency other than the US Dollar.

The Group holds the majority of its cash and cash equivalents in US Dollar. However, the Group does maintain deposits in Naira in order to fund ongoing general and administrative activity and other expenditure incurred in this currency. Other monetary assets and liabilities which give rise to foreign exchange risk include trade and other receivables and trade and other payables.

The following table demonstrates the sensitivity to a reasonably possible change in the foreign exchange rate, with all other variables held constant, of the Group and Company's (loss)/profit before tax due to changes in the carrying value of monetary assets and liabilities at the reporting date:

	The Group		The Company	
	2016 US\$ '000	2015 US\$ '000	2016 US\$ '000	2015 US\$ '000
Financial assets				
Cash and cash equivalents	32,695	16,214	27,402	15,990
Trade and other receivables	67,555	137,507	67,555	137,507
	100,250	153,721	94,957	153,497
Financial liabilities				
Trade and other payables	(9,406)	(39,958)	(9,159)	(39,989)
Net exposure to foreign exchange risk	90,844	113,763	85,798	113,508

NOTES TO THE FINANCIAL STATEMENTS (Continued)

4. Financial risk management (Continued)

Sensitivity to foreign exchange risk is based on the Group and Company's net exposure to foreign exchange risk due to Naira denominated balances.

	Effect on (loss)/ profit before tax 2016 US\$ '000	Effect on other components of equity before tax 2016 US\$ '000	Effect on (loss)/ profit before tax 2015 US\$ '000	Effect on other components of equity before tax 2015 US\$ '000
Increase/decrease in foreign exchange risk – the Group				
+5%	(4,326)	—	(5,417)	—
– 5%	4,781	—	5,988	—
	Effect on (loss)/ profit before tax 2016 US\$ '000	Effect on other components of equity before tax 2016 US\$ '000	Effect on (loss)/ profit before tax 2015 US\$ '000	Effect on other components of equity before tax 2015 US\$ '000
Increase/decrease in foreign exchange risk – the Company				
+5%	(4,086)	—	(5,405)	—
– 5%	4,516	—	5,974	—

4.1.2 Credit risk

Credit risk refers to the risk of a counterparty defaulting on its contractual obligations resulting in financial loss to the Company. Credit risk arises from cash and cash equivalents, favourable derivative financial instruments, deposits with banks and financial institutions as well as credit exposures to customers and Joint venture partners, i.e. NPDC with outstanding receivables.

i) Risk management

The Company's trade with Shell Western Supply and Trading Limited is as specified within the terms of the crude off-take agreement and will run for five years until 31 December 2017 with a 30 day payment term. The off-take agreement with Mercuria is also to run for five years until 31 July 2020 with a 30 day payment term. In addition, the Company is exposed to credit risk in relation to its trade with Nigerian Gas Company Limited, a subsidiary of NNPC, the sole customer during the year. The Company monitors receivable balances on an ongoing basis and there has been no significant history of impairment losses except for the NPDC receivables which have now been impaired during this reporting period.

The credit risk on cash is limited because the majority of deposits are with banks that have an acceptable credit rating assigned by an international credit agency. The Company's maximum exposure to credit risk due to default of the counterparty is equal to the carrying value of its financial assets.

The accounts receivable balance includes the following related party receivables:

		The Group		The Company	
		Percentage of total receivables			
Related party	Payment terms	2016	2015	2016	2015
Cardinal Drilling Services Limited	Receivables relate to deposits that are expected to be utilised or refunded	2%	2%	1%	1%

NOTES TO THE FINANCIAL STATEMENTS (Continued)

4. Financial risk management (Continued)

The maximum exposure to credit risk as at the reporting date is:

	The Group		The Company	
	2016	2015	2016	2015
	US\$ '000	US\$ '000	US\$ '000	US\$ '000
Trade and other receivables (gross)	391,579	799,923	1,070,728	1,310,806
Cash and cash equivalents	159,621	326,029	147,377	316,374
Derivative not designated as hedges	—	23,194	—	23,194
Gross amount	551,200	1,149,146	1,218,105	1,650,374
Impairment of NPDC receivables	(10,260)	—	(10,260)	—
Net amount	540,940	1,149,146	1,207,845	1,650,374

Trade and other payables (excluding non-financial liabilities such as provisions, taxes, pension and other non-contractual payables), trade and other receivables (excluding prepayments) and cash and cash equivalents are financial instruments whose carrying amounts in the financial statements approximate their fair values.

31 Dec 2016	The Group					Total
	Trade receivables	NPDC/ NAPIMS receivables	Other receivables	Cash & cash equivalents	Derivative not designated as hedges	
	US\$ '000	US\$ '000	US\$ '000	US\$ '000	US\$ '000	US\$ '000
Neither past due nor impaired	1,096	—	5,180	159,621	—	165,897
Past due but not impaired	72,331	8,233	65,705	—	—	146,269
Impaired	—	239,034	—	—	—	239,034
Gross amount	73,427	247,267	70,885	159,621	—	551,200
Impairment loss	—	(10,260)	—	—	—	(10,260)
Net amount	73,427	237,007	70,885	159,621	—	540,940
31 Dec 2015						
Neither past due nor impaired	79,704	274,465	174,044	326,029	23,194	877,436
Past due but not impaired	54,201	217,509	—	—	—	271,710
Impaired	—	—	—	—	—	—
Gross amount	133,905	491,974	174,044	326,029	23,194	1,149,146
Impairment loss	—	—	—	—	—	—
Net amount	133,905	491,974	174,044	326,029	23,194	1,149,146

NOTES TO THE FINANCIAL STATEMENTS (Continued)

4. Financial risk management (Continued)

The Company						
31 Dec 2016	Trade receivables & intercompany receivables	NPDC receivables	Other receivables	Cash & cash equivalents	Derivative not designated as hedges	Total
	US\$ '000	US\$ '000	US\$ '000	US\$ '000	US\$ '000	US\$ '000
Neither past due nor impaired	761,960	—	25	147,377	—	909,362
Past due but not impaired	69,708	—	1	—	—	69,709
Impaired	—	239,034	—	—	—	239,034
Gross amount	831,668	239,034	26	147,377	—	1,218,105
Impairment loss	—	(10,260)	—	—	—	(10,260)
Net amount	831,668	228,774	26	147,377	—	1,207,845
31 Dec 2015						
Neither past due nor impaired	58,490	274,465	723,500	316,374	23,194	1,396,023
Past due but not impaired	36,842	217,509	—	—	254,351	Impaired . . .
Impaired	—	—	—	—	—	—
Gross amount	95,332	491,974	723,500	316,374	23,194	1,650,374
Impairment loss	—	—	—	—	—	—
Net amount	95,332	491,974	723,500	316,374	23,194	1,650,374

ii) Credit quality of financial assets that are neither past due nor impaired

The credit quality of financial assets that are neither past due nor impaired can be assessed by reference to external credit ratings (if available) or to historical information about counterparty default rates.

Counterparties with external credit rating (Fitch's)	The Group		The Company	
	2016	2015	2016	2015
	US\$ '000	US\$ '000	US\$ '000	US\$ '000
Cash and cash equivalents				
Non rated	86,669	72,767	80,188	70,846
B -	1,924	26,200	1,924	26,200
B	25,527	30,437	21,134	22,716
B + ...	9,388	2,379	8,024	2,374
A + ...	36,113	194,246	36,107	238
	159,621	326,029	147,377	316,374
Counterparties without external credit rating				
	The Group		The Company	
	2016	2015	2016	2015
	US\$ '000	US\$ '000	US\$ '000	US\$ '000
Trade and other receivables ¹				
Group 1	—	17,002	—	17,002
Group 2	6,276	449,700	761,985	977,942
Group 3	—	61,511	—	61,511
	6,276	528,213	761,985	1,056,455

1. Includes trade receivables, intercompany receivables, NPDC receivables and other receivables.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

4. Financial risk management (Continued)

Counterparties without external credit rating	The Group		The Company	
	2016	2015	2016	2015
	US\$ '000	US\$ '000	US\$ '000	US\$ '000
Derivatives				
Group 1	—	23,194	—	23,194
Group 2	—	—	—	—
Group 3	—	23,194	—	23,194
Total that are neither past due nor impaired	165,897	877,436	909,362	1,396,023

Group 1 — new customers (less than 1 year).

Group 2 — existing customers (more than 1 year) with some defaults in the past. All defaults were fully recovered.

Group 3 — Government entities.

iii) Ageing analysis for financial assets that are past due but not impaired

The ageing analysis of the trade receivables and amounts due from NPDC/NAPIMS is as follows:

The Group:	Total	Past due but not impaired				
		<30 days	30-60 days	60-90 days	90-120 days	>120 days
	US\$ '000	US\$ '000	US\$ '000	US\$ '000	US\$ '000	US\$ '000
Trade receivables						
31 December 2016	72,331	45,656	—	4,961	—	21,714
31 December 2015	54,201	5,261	9,965	6,732	9,039	23,204
NPDC/NAPIMS receivables						
31 December 2016	8,233	—	588	3,526	600	3,519
31 December 2015	217,509	27,213	56,886	10,021	41,842	81,547
The Company:	Total	Past due but not impaired				
		<30 days	30-60 days	60-90 days	90-120 days	>120 days
	US\$ '000	US\$ '000	US\$ '000	US\$ '000	US\$ '000	US\$ '000
Trade receivables						
31 December 2016	69,708	45,656	—	4,961	—	19,091
31 December 2015	36,842	5,261	7,165	8,145	9,039	7,232
NPDC receivables						
31 December 2016	—	—	—	—	—	—
31 December 2015	217,509	27,213	56,886	10,021	41,842	81,547

iv) Impaired receivables

Individual receivables which are known to be uncollectible are written off by reducing the carrying amount directly. The other receivables are assessed collectively to determine whether there is objective evidence that an impairment has been incurred but not yet identified. For these receivables the estimated impairment losses are recognised in a separate allowance for impairment. The Group considers that there is evidence of impairment if any of the following indicators are present:

- significant financial difficulties of the debtor;
- probability that the debtor will enter bankruptcy or financial reorganisation; and
- default or delinquency in payments (more than 30 days overdue).

Receivables for which an impairment allowance was recognised are written off against the allowance when there is no expectation of recovering additional cash.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

4. Financial risk management (Continued)

Impairment losses are recognised in profit or loss within other expenses. Subsequent recoveries of amounts previously written off are credited against other expenses. See note 2.14.1(iii) for information about how impairment losses are calculated.

Individually impaired trade receivables relate to NPDC receivables that have been outstanding over the years (2015 – Nil). The Group expects to recover the receivables, however due to the timing of the receipts the future cash flows have been discounted to reflect the time value of money.

Movements in the provision for impairment of trade receivables that are assessed for impairment collectively are as follows:

	The Group and Company	
	2016	2015
	US\$ '000	US\$ '000
At 1 January	—	—
Allowance for impairment recognised during the year	<u>10,260</u>	<u>—</u>
At 31 December	<u>10,260</u>	<u>—</u>

4.1.3 Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due.

The Group manages liquidity risk by ensuring that sufficient funds are available to meet its commitments as they fall due.

The Group uses both long-term and short-term cash flow projections to monitor funding requirements for activities and to ensure there are sufficient cash resources to meet operational needs. Cash flow projections take into consideration the Group's debt financing plans and covenant compliance. Surplus cash held is transferred to the treasury department which invests in deposit bearing current accounts, time deposits and money market deposits.

The following table details the Group's remaining contractual maturity for its non-derivative financial liabilities with agreed maturity periods. The table has been drawn based on the undiscounted cash flows of the financial liabilities based on the earliest date on which the Group can be required to pay.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

4. Financial risk management (Continued)

31 December 2016	The Group						
	Effective interest rate	Less than 1 year	1 – 2 year	2 – 3 years	3 – 5 years	After 5 years	Total
	%	US\$ '000	US\$ '000	US\$ '000	US\$ '000	US\$ '000	US\$ '000
Non-derivatives							
Variable interest rate borrowings (bank loans):							
Zenith Bank Plc	8.5% + LIBOR	37,406	76,006	70,109	74,477	—	257,998
First Bank of Nigeria Limited	8.5% + LIBOR	23,379	47,504	43,818	46,548	—	161,249
United Bank for Africa Plc	8.5% + LIBOR	23,379	47,504	43,818	46,548	—	161,249
Stanbic IBTC Bank Plc	8.5% + LIBOR	3,504	7,119	6,567	6,976	—	24,166
The Standard Bank of South Africa Limited	8.5% + LIBOR	3,504	7,119	6,567	6,976	—	24,166
Standard Chartered Bank	6.0% + LIBOR	27,711	—	—	—	—	27,711
Natixis	6.0% + LIBOR	27,711	—	—	—	—	27,711
Citibank Nigeria Ltd and Citibank NA	6.0% + LIBOR	27,711	—	—	—	—	27,711
Bank of America Merrill Lynch Int'l Ltd	6.0% + LIBOR	18,474	—	—	—	—	18,474
FirstRand Bank Ltd (Rand Merchant Bank Division)	6.0% + LIBOR	18,474	—	—	—	—	18,474
JP Morgan Chase Bank NA, London Branch	6.0% + LIBOR	18,474	—	—	—	—	18,474
NedBank Ltd, London Branch	6.0% + LIBOR	18,474	—	—	—	—	18,474
Stanbic IBTC Bank Plc	6.0% + LIBOR	13,856	—	—	—	—	13,856
The Standard Bank of South Africa Ltd	6.0% + LIBOR	13,856	—	—	—	—	13,856
Other non-derivatives							
Trade and other payables	—	161,773	—	—	—	—	161,773
Contingent consideration	—	—	—	—	18,500	—	18,500
		437,686	185,252	170,879	200,025	—	993,842
		=====	=====	=====	=====	=====	=====

31 December 2015	The Group						
	Effective interest rate	Less than 1 year	1 – 2 year	2 – 3 years	3 – 5 years	After 5 years	Total
	%	US\$ '000	US\$ '000	US\$ '000	US\$ '000	US\$ '000	US\$ '000
Non-derivatives							
Variable interest rate borrowings (bank loans):							
Zenith Bank Plc	8.5% + LIBOR	81,976	70,418	51,200	74,753	24,104	302,451
First Bank of Nigeria Limited	8.5% + LIBOR	51,235	44,012	32,000	46,721	15,065	189,033
United Bank for Africa Plc	8.5% + LIBOR	51,235	44,012	32,000	46,721	15,065	189,033
Stanbic IBTC Bank Plc	8.5% + LIBOR	7,678	6,596	4,796	7,002	2,258	28,330
The Standard Bank of South Africa Limited	8.5% + LIBOR	7,678	6,596	4,796	7,002	2,258	28,330
Standard Chartered Bank	6.0% + LIBOR	17,534	27,711	—	—	—	45,245
Natixis	6.0% + LIBOR	17,534	27,711	—	—	—	45,245
Citibank Nigeria Ltd and Citibank NA	6.0% + LIBOR	17,534	27,711	—	—	—	45,245
Bank of America Merrill Lynch Int'l Ltd	6.0% + LIBOR	11,689	18,474	—	—	—	30,163
FirstRand Bank Ltd (Rand Merchant Bank Division)	6.0% + LIBOR	11,689	18,474	—	—	—	30,163
JP Morgan Chase Bank NA, London Branch	6.0% + LIBOR	11,689	18,474	—	—	—	30,163
NedBank Ltd, London Branch	6.0% + LIBOR	11,689	18,474	—	—	—	30,163
Stanbic IBTC Bank Plc	6.0% + LIBOR	8,767	13,856	—	—	—	22,623
The Standard Bank of South Africa Ltd	6.0% + LIBOR	8,767	13,856	—	—	—	22,623
Sterling bank	—	52,500	—	—	—	—	52,500
Other non-derivatives							
Trade and other payables	—	302,475	—	—	—	—	302,475
Contingent consideration	—	—	—	—	39,400	—	39,400
		671,669	356,375	124,792	221,599	58,750	1,433,185
		=====	=====	=====	=====	=====	=====

NOTES TO THE FINANCIAL STATEMENTS (Continued)

4. Financial risk management (Continued)

31 December 2016	The Company						
	Effective interest rate	Less than 1 year	1 – 2 year	2 – 3 years	3 – 5 years	After 5 years	Total
	%	US\$ '000	US\$ '000	US\$ '000	US\$ '000	US\$ '000	US\$ '000
Non-derivatives							
Variable interest rate borrowings (bank loans):							
Zenith Bank Plc	8.5% + LIBOR	37,406	76,006	70,109	74,477	—	257,998
First Bank of Nigeria Limited.	8.5% + LIBOR	23,379	47,504	43,818	46,548	—	161,249
United Bank for Africa Plc	8.5% + LIBOR	23,379	47,504	43,818	46,548	—	161,249
Stanbic IBTC Bank Plc	8.5% + LIBOR	3,504	7,119	6,567	6,976	—	24,166
The Standard Bank of South Africa Limited.	8.5% + LIBOR	3,504	7,119	6,567	6,976	—	24,166
Standard Chartered Bank	6.0% + LIBOR	27,711	—	—	—	—	27,711
Natixis	6.0% + LIBOR	27,711	—	—	—	—	27,711
Citibank Nigeria Ltd and Citibank NA	6.0% + LIBOR	27,711	—	—	—	—	27,711
Bank of America Merrill Lynch Int'l Ltd	6.0% + LIBOR	18,474	—	—	—	—	18,474
FirstRand Bank Ltd (Rand Merchant Bank Division)	6.0% + LIBOR	18,474	—	—	—	—	18,474
JP Morgan Chase Bank NA, London Branch.	6.0% + LIBOR	18,474	—	—	—	—	18,474
NedBank Ltd, London Branch.	6.0% + LIBOR	18,474	—	—	—	—	18,474
Stanbic IBTC Bank Plc	6.0% + LIBOR	13,856	—	—	—	—	13,856
The Standard Bank of South Africa Ltd	6.0% + LIBOR	13,856	—	—	—	—	13,856
Other non-derivatives							
Trade and other payables.	—	190,905	—	—	—	—	190,905
		466,818	185,252	170,879	181,525	—	1,004,474
		=====	=====	=====	=====	=====	=====

31 December 2015	The Company						
	Effective interest rate	Less than 1 year	1 – 2 year	2 – 3 years	3 – 5 years	After 5 years	Total
	%	US\$ '000	US\$ '000	US\$ '000	US\$ '000	US\$ '000	US\$ '000
Non-derivative							
Variable interest rate borrowings (bank loans):							
Zenith Bank Plc	8.5% + LIBOR	81,976	70,418	51,200	74,753	24,104	302,451
First Bank of Nigeria Limited.	8.5% + LIBOR	51,235	44,012	32,000	46,721	15,065	189,033
United Bank for Africa Plc	8.5% + LIBOR	51,235	44,012	32,000	46,721	15,065	189,033
Stanbic IBTC Bank Plc	8.5% + LIBOR	7,678	6,596	4,796	7,002	2,258	28,330
The Standard Bank of South Africa Limited.	8.5% + LIBOR	7,678	6,596	4,796	7,002	2,258	28,330
Standard Chartered Bank	6.0% + LIBOR	17,534	27,711	—	—	—	45,245
Natixis	6.0% + LIBOR	17,534	27,711	—	—	—	45,245
Citibank Nigeria Ltd and Citibank NA	6.0% + LIBOR	17,534	27,711	—	—	—	45,245
Bank of America Merrill Lynch Int'l Ltd	6.0% + LIBOR	11,689	18,474	—	—	—	30,163
FirstRand Bank Ltd (Rand Merchant Bank Division)	6.0% + LIBOR	11,689	18,474	—	—	—	30,163
JP Morgan Chase Bank NA, London Branch.	6.0% + LIBOR	11,689	18,474	—	—	—	30,163
NedBank Ltd, London Branch.	6.0% + LIBOR	11,689	18,474	—	—	—	30,163
Stanbic IBTC Bank Plc	6.0% + LIBOR	8,767	13,856	—	—	—	22,623
The Standard Bank of South Africa Ltd	6.0% + LIBOR	8,767	13,856	—	—	—	22,623
Other non-derivatives							
Trade and other payables.	—	287,921	—	—	—	—	287,921
		604,615	356,375	124,792	182,199	58,750	1,326,731
		=====	=====	=====	=====	=====	=====

NOTES TO THE FINANCIAL STATEMENTS (Continued)

4. Financial risk management (Continued)

4.2 Fair value

Set out below is a comparison by category of carrying amounts and fair value of all financial instruments:

The Group				
	Carrying amount		Fair value	
	2016	2015	2016	2015
	US\$ '000	US\$ '000	US\$ '000	US\$ '000
Financial assets				
Trade and other receivables	381,319	799,923	381,319	799,923
Cash and cash equivalents	159,621	326,029	159,621	326,029
Derivatives	—	23,194	—	23,194
	<u>540,940</u>	<u>1,149,146</u>	<u>540,940</u>	<u>1,149,146</u>
Financial liabilities				
Borrowings – Bank loans	664,096	899,615	664,096	899,615
Contingent consideration	12,040	21,900	12,040	21,900
Trade and other payables	161,773	302,475	161,773	302,475
	<u>837,909</u>	<u>1,223,990</u>	<u>837,909</u>	<u>1,223,990</u>
The Company				
	Carrying amount		Fair value	
	2016	2015	2016	2015
	US\$ '000	US\$ '000	US\$ '000	US\$ '000
Financial assets				
Trade and other receivables	1,060,468	1,310,806	1,060,468	1,310,806
Cash and cash equivalents	147,377	316,374	147,377	316,374
Derivatives	—	23,194	—	23,194
	<u>1,207,845</u>	<u>1,650,374</u>	<u>1,207,845</u>	<u>1,650,374</u>
Financial liabilities				
Borrowings – Bank loans	664,096	847,115	813,569	847,115
Contingent consideration	—	—	—	—
Trade and other payables	190,905	287,921	190,905	287,921
	<u>855,001</u>	<u>1,135,036</u>	<u>1,004,474</u>	<u>1,135,036</u>

In determining the fair value of the borrowings, non-performance risks of Seplat as at year-end were assessed to be insignificant.

Trade and other payables (excludes non-financial liabilities such as provisions, taxes and pension and other non-contractual payables), trade and other receivables (excluding prepayments) and cash and cash equivalents are financial instruments whose carrying amounts as per the financial statements approximate their fair values. This is mainly due to their short-term nature. Derivatives and contingent consideration are measured and recognised at fair value.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

4. Financial risk management (Continued)

4.2.1 Fair value hierarchy

The Group has classified its financial instruments into the three levels prescribed under the accounting standards. An explanation of each level follows underneath the table. These are all recurring fair value measurements.

	The Group			The Company		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
31 Dec 2016						
Financial assets:						
Derivatives	—	—	—	—	—	—
Financial liabilities:						
Borrowings – Bank loans	—	664,096	—	—	664,096	—
Contingent consideration	—	—	12,040	—	—	—
	—	664,096	12,040	—	664,096	—
31 Dec 2015						
Financial assets:						
Derivatives	—	23,194	—	—	1,751,151	—
Financial liabilities:						
Borrowings – Bank loans	—	899,615	—	—	847,115	—
Contingent consideration	—	—	21,900	—	—	—
	—	899,615	21,900	—	847,115	—

- Level 1 – Quoted (unadjusted) market prices in active markets for identical assets or liabilities.
- Level 2 – Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable.
- Level 3 – Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable. There were no transfers between fair value levels during the year.

The fair value of the financial instruments is included at the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

The following methods and assumptions were used to estimate the fair values:

- Fair values of the Group's interest-bearing loans and borrowings are determined by using discounted cash flow models that use effective interest rates that reflect the borrowing rate as at the end of the year.
- The fair value of the Group's contingent consideration is determined using the discounted cash flow model. The cash flow determined based on probable future oil prices. The estimated future cash flow was discounted to present value using a discount rate of 15.45% which is based on the applicable FGN Bond rates.

The Group enters into derivative financial instruments with various counterparties, principally financial institutions with investment grade credit ratings. Derivatives valued using valuation techniques with market observable inputs are mainly commodity option contracts. The most frequently applied valuation techniques include option pricing and swap models that use present value calculations. The models incorporate various inputs including the credit quality of counterparties and forward rate curves of the underlying commodity. All derivative contracts are fully cash-funded, thereby eliminating both counterparty and the Group's own non-performance risk. As at 31 December 2016, there were no open derivative financial instruments (2015: the marked-to-market value of derivative asset positions is net of a credit valuation adjustment attributable to derivative counterparty default risk. The changes in counterparty credit risk had no material effect on financial instruments recognised at fair value). The fair values of derivative financial instruments are disclosed in note 23.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

4. Financial risk management (Continued)

4.2.2 Reconciliation of fair value measurements of Level 3 financial instruments

<u>Contingent consideration</u>	<u>The Group</u>
	<u>US\$ '000</u>
At 1 January 2015.	9,377
Additions.	19,198
Write-off.	(10,000)
Fair value movement.	3,325
At 31 December 2015.	21,900
At 1 January 2016.	21,900
Fair value movement.	2,614
Deconsolidation of subsidiary.	(12,474)
At 31 December 2016.	12,040

4.2.3 Contingent consideration sensitivity

The following table demonstrates the sensitivity to changes in the discount rate of the contingent consideration, with all other variables held constant, of the Group's (loss)/profit before tax.

<u>Increase/decrease in discount rate – The Group</u>	<u>Effect on</u> <u>(loss)/profit</u> <u>before tax</u> <u>2016</u>	<u>Effect on other</u> <u>components</u> <u>of equity</u> <u>before tax</u> <u>2016</u>	<u>Effect on</u> <u>(loss)/profit</u> <u>before tax</u> <u>2015</u>	<u>Effect on other</u> <u>components</u> <u>of equity</u> <u>before tax</u> <u>2015</u>
	<u>US\$ '000</u>	<u>US\$ '000</u>	<u>US\$ '000</u>	<u>US\$ '000</u>
+10%	5,868	—	1,093	—
- 10%	(8,535)	—	(1,093)	—

The Company has no contingent consideration.

4.3 Capital management

4.3.1 Risk management

The Group's objective when managing capital is to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders, to maintain optimal capital structure and reduce cost of capital. Consistent with others in the industry, the Group monitors capital on the basis of the following gearing ratio, net debt divided by total capital. Net debt is calculated as total borrowings less cash and cash equivalents.

	<u>The Group</u>		<u>The Company</u>	
	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>
	<u>US\$ '000</u>	<u>US\$ '000</u>	<u>US\$ '000</u>	<u>US\$ '000</u>
Borrowings:	664,096	899,615	664,096	847,115
Less: cash and cash equivalents	(159,621)	(326,029)	(147,377)	(316,374)
Net debt	504,475	573,586	516,719	530,741
Total equity	1,234,015	1,413,075	1,282,158	1,425,135
Total capital	1,738,490	1,986,661	1,798,877	1,955,876
Net debt (net debt/total capital) ratio	29%	29%	29%	27%

During 2016, the Group's strategy, which was unchanged from 2015, was to maintain a gearing ratio between 20% to 40%. Capital includes share capital, share premium, capital contribution and all other equity reserves attributable to the equity holders of the parent.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

4. Financial risk management (Continued)

4.3.2 Loan covenant

Under the terms of the major borrowing facilities, the Group is required to comply with the following financial covenants every six months:

- Total net financial indebtedness to annualised EBITDA is not to be greater than 3:1;
- Six-month Debt Service Reserve Account ('DSCR') not to be lower than 1.25x on a forward looking basis,
- Satisfactory 12-month Group liquidity test.

The Group has complied with these covenants throughout the reporting period (2015: The Group complied with the applicable covenants) with the exception of the financial indebtedness/EBITDA covenant which was waived by a majority lender consent.

5. Revenue

	The Group		The Company	
	2016	2015	2016	2015
	US\$ '000	US\$ '000	US\$ '000	US\$ '000
Crude oil sale	132,975	459,389	104,235	404,018
Underlift/(overlift)	15,782	34,091	(7,249)	16,852
	148,757	493,480	96,986	420,870
Gas sales	105,460	76,997	105,460	76,997
	254,217	570,477	202,446	497,867

The major off-takers for crude oil are Mercuria (2016: US\$104 million, 2015: US\$94.5 million) and Shell Western Supply and Trading Limited (2016: Nil, 2015: US\$368.8 million). The major off-taker of gas is the Nigerian Gas Company (2016: US\$105 million, 2015: US\$76 million).

6. Cost of sales

	The Group		The Company	
	2016	2015	2016	2015
	US\$ '000	US\$ '000	US\$ '000	US\$ '000
Royalties	44,796	102,243	37,043	89,033
Depletion, depreciation and amortisation (note 15a)	54,326	68,097	48,600	59,102
Crude handling fee	7,804	64,499	5,351	58,670
NESS fee	142	663	109	521
Barging costs	17,885	—	17,885	—
Niger Delta Development Commission Levy	—	7,766	—	7,552
Rig-related costs	9,067	8,640	9,154	8,553
Operational & maintenance expenses	48,404	69,786	39,191	47,074
	182,424	321,694	157,333	270,505

NOTES TO THE FINANCIAL STATEMENTS (Continued)

7. Other operating income

	The Group		The Company	
	2016	2015	2016	2015
	US\$ '000	US\$ '000	US\$ '000	US\$ '000
Long stop date income	—	2,250	—	2,250
Profit on disposal of plant & equipment	—	66	—	66
	—	2,316	—	2,316

a. Long stop date income

This represents the penalties levied on Azura Energy for failure to take up 100mmscf of gas from 1 July 2014. The long stop date period is from 1 July 2014 to 31 December 2015. There was no long stop date income during the current reporting period.

8. General and administrative expenses

	The Group		The Company	
	2016	2015	2016	2015
	US\$ '000	US\$ '000	US\$ '000	US\$ '000
Depreciation (note 15b)	5,544	5,502	5,207	5,133
Auditor's remuneration	505	1,000	245	1,000
Professional and consulting fees	28,424	42,788	27,683	39,898
Directors' emoluments (Executive)	2,758	6,446	1,641	4,568
Directors' emoluments (Non-Executive)	4,309	6,028	4,244	5,257
Donations	184	210	178	206
Employee benefits (note 8a)	20,869	26,042	19,354	21,639
Business development expenses	11,023	165	20	165
Flights and other travel costs	6,176	7,580	5,248	6,934
Rentals	4,855	3,435	4,325	2,793
Impact of receivables discounting (note 21)	10,260	—	10,260	—
Other general expenses	18,925	22,278	14,224	18,511
	113,832	121,474	92,629	106,104

Directors' emoluments have been split between Executive and Non-Executive Directors and include share-based benefits recognised, the basis of which has been further highlighted in note 35.

There were no non-audit services rendered by the Group's auditors during the year.

Other general expenses relate to costs such as office maintenance costs, rentals, telecommunication costs, logistics costs and others. Impairment loss relates to the impairment of receivables due from Nigerian Petroleum Development Company ('NPDC') in note 21.

8a. Salaries and employee related costs include the following:

	The Group		The Company	
	2016	2015	2016	2015
	US\$ '000	US\$ '000	US\$ '000	US\$ '000
Short-term employee benefits:				
Basic salary	8,194	8,226	8,194	3,823
Housing allowance	3,190	3,345	3,190	3,345
Other allowances	3,468	5,380	2,249	5,380
Post employment benefits:				
Defined contribution expenses	1,673	1,511	1,377	1,511
Defined benefit expenses (note 30)	938	3,117	938	3,117
Share-based payment benefits	3,406	4,463	3,406	4,463
Totals salaries and employee-related costs	20,869	26,042	19,354	21,639

NOTES TO THE FINANCIAL STATEMENTS (Continued)

9. (Losses)/gains on foreign exchange (net)

	The Group		The Company	
	2016	2015	2016	2015
	US\$ '000	US\$ '000	US\$ '000	US\$ '000
Exchange (losses)/gains	(101,455)	7,747	(104,328)	8,985
Total	(101,455)	7,747	(104,328)	8,985

Foreign exchange losses resulted from the Naira devaluation of approximately 53% as announced by the Central Bank of Nigeria during the year. These losses were majorly attributed to outstanding balances due from NPDC. See also note 11 for income related to these outstanding receivables and recognised in the period and reported in accordance with provisions of the Joint Operating Agreement.

10. Fair value (loss)/gain

	The Group		The Company	
	2016	2015	2016	2015
	US\$ '000	US\$ '000	US\$ '000	US\$ '000
Fair value (loss)/gain on option derivatives	(12,455)	13,195	(12,455)	13,195
Fair value (loss)/gain on contingent consideration (note 28)...	(2,614)	7,298	—	—
Total	(15,069)	20,493	(12,455)	13,195

Fair value loss on commodity derivatives represents the losses on crude oil price options charged to profit or loss. Fair value loss on contingent consideration loss arises in relation to remeasurement of contingent consideration on the Group's acquisition of participating interest in its OMLs. The contingency criteria are the achievement of certain production milestones.

11. Finance (cost)/income

	The Group		The Company	
	2016	2015	2016	2015
	US\$ '000	US\$ '000	US\$ '000	US\$ '000
Finance income:				
Interest income	59,017	12,802	94,139	8,133
Finance cost:				
Interest on bank loans and other bank charges	73,420	83,588	68,421	77,338
Unwinding of discount on provision for decommissioning (note 29)	480	—	330	—
	73,900	83,588	68,751	77,338
Finance (cost)/income (net)	(14,883)	(70,786)	25,388	(69,205)

Finance income represents interest on fixed deposits for the Group and Company. Included in other income are interests of US\$48 million calculated on outstanding NPDC receivables in accordance with provisions of the Joint Operating Agreement. Discussions will continue with our government partners on the recovery of all outstanding receivables.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

12. Taxation

The major components of income tax expense for the years ended 31 December 2016 and 2015 are:

12a. Income tax expenses

	The Group		The Company	
	2016	2015	2016	2015
	US\$ '000	US\$ '000	US\$ '000	US\$ '000
Current tax:				
Current tax on profit for the year	—	239	—	—
Education tax	1,885	—	1,885	—
Prior period over provision	(126)	—	—	—
Total current tax	1,759	239	1,885	—
Deferred tax:				
Net deferred tax in profit or loss	—	21,233	—	16,384
Deferred tax credit	(8,431)	—	(16,384)	—
Total tax (credit)/charge in statement of profit or loss	(6,672)	21,472	(14,499)	16,384
Effective tax rate	4%	25%	10%	21%

12b. Reconciliation of effective tax rate

The applicable tax rate for 2016 was 65.75% (2015: 65.75%) for both Group and Company.

During 2013, applications were made by Seplat and its wholly owned subsidiary, Newton Energy, for the tax incentives available under the provisions of the Industrial Development (Income Tax Relief) Act. In February 2014, Seplat was granted the incentives in respect of the tax treatment of OMLs 4, 38 and 41. Newton Energy was also granted similar incentives in respect of the tax treatment of OPL 283/OML 56.

Under these incentives, the companies' profits are subject to a tax rate of 0% with effect from 1 January 2013 to 31 December 2015 in the first instance and then for an additional two years for the Company, and 1 June 2013 to 31 May 2015 in the first instance and then for an additional two years for Newton Energy if both companies meet certain conditions included in the NIPC pioneer status award document.

Seplat East Onshore and Seplat Swamp are exempt from the tax incentives as they had no activities at the time the incentives were granted to Seplat and Newton.

As at the end of the reporting period, the Nigerian Investment Promotion Commission is yet to approve the tax incentives for the additional two years of the tax holidays. The financial statements have been prepared on the assumption that the tax incentives may not be renewed and this forms the basis of the Group and Company's current and deferred taxation in the financial statements.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

12. Taxation (Continued)

A reconciliation between income tax expense and accounting profit before income tax multiplied by the applicable statutory tax rate is as follows:

	The Group		The Company	
	2016	2015	2016	2015
	US\$ '000	US\$ '000	US\$ '000	US\$ '000
(Loss)/ profit before taxation	(172,766)	87,079	(138,911)	76,549
Tax rate of 65.75% (2015: 65.75%)	(113,594)	57,254	(91,334)	50,331
Tax effect of amounts which are not deductible (taxable) in calculating taxable income:				
Expenses not deductible for tax purposes	33,856	—	37,672	—
Impact of deferred tax not recognised	71,307	—	37,278	—
Impact of tax incentive on deferred tax balances	—	(35,782)	—	(33,947)
Education tax	1,885	—	1,885	—
Prior period over provision	(126)	—	—	—
Total tax (credit)/ charge in statement of profit or loss	(6,672)	21,472	(14,499)	16,384

The movement in the current tax liability is as follows:

	The Group		The Company	
	2016	2015	2016	2015
	US\$ '000	US\$ '000	US\$ '000	US\$ '000
As at 1 January	239	—	—	—
Tax charge	1,885	239	1,885	—
Deconsolidation of subsidiary	(113)	—	—	—
Prior period over provision	(126)	—	—	—
As 31 December	1,885	239	1,885	—

13. Deferred income tax

The analysis of deferred tax assets and deferred tax liabilities is as follows:

	The Group		The Company	
	2016	2015	2016	2015
	US\$ '000	US\$ '000	US\$ '000	US\$ '000
Deferred tax assets				
Deferred tax asset to be recovered in less than 12 months	—	—	—	—
Deferred tax asset to be recovered after more than 12 months	—	—	—	—
	—	—	—	—
Deferred tax liabilities				
Deferred tax liabilities to be recovered in less than 12 months	—	—	—	—
Deferred tax liability to be recovered after more than 12 months	—	(21,233)	—	(16,384)
	—	(21,233)	—	(16,384)
Net deferred tax asset/(liability)	—	(21,233)	—	(16,384)

NOTES TO THE FINANCIAL STATEMENTS (Continued)

13. Deferred income tax (Continued)

Deferred income tax assets are recognised for tax loss carry-forwards to the extent that the realisation of the related tax benefit through future taxable profits is probable. The Group and Company did not recognise deferred income tax assets of US\$178 million and US\$145 million (2015: Nil for both Group and Company) in respect of losses of the Group and Company amounting to US\$271 million and US\$221 million (2015: Nil) that can be carried forward against future taxable income. There are no expiration dates for the tax losses.

13a. Deferred tax asset/(liability)

The Group							
	Property, plant and equipment	Decom- missioning provision	Defined benefit expenses	Underlift/ overlift	Unrealised foreign exchange (gain)/loss	Tax losses	Contingent liability equipment Total
	US\$ '000	US\$ '000	US\$ '000	US\$ '000	US\$ '000	US\$ '000	US\$ '000
At 1 January 2015							
Credited/(charged) to profit							
or loss	(10,448)	2,544	4,554	(17,794)	(89)	—	(21,233)
At 31 December 2015	(10,448)	2,544	4,554	(17,794)	(89)	—	(21,233)
At 1 January 2016	(10,448)	2,544	4,554	(17,794)	(89)	—	(21,233)
Deconsolidation of subsidiary	(1,659)	(125)	—	29,443	—	(7,315)	(7,542)
Deferred tax credit	12,107	(2,419)	(4,554)	(11,649)	89	7,315	8,431
At 31 December 2016	—	—	—	—	—	—	—

13b. Deferred tax asset/(liability)

The Company							
	Property, plant and equipment	Decom- missioning provision	Defined benefit expenses	Underlift/ overlift	Unrealised foreign exchange (gain)/loss	Tax losses	Contingent liability Total
	US\$ '000	US\$ '000	US\$ '000	US\$ '000	US\$ '000	US\$ '000	US\$ '000
At 1 January 2015							
Credited/(charged) to profit							
or loss	(18,173)	1,953	4,554	(4,629)	(89)	—	(16,384)
At 31 December 2015	(18,173)	1,953	4,554	(4,629)	(89)	—	(16,384)
At 1 January 2016	(18,173)	1,953	4,554	(4,629)	(89)	—	(16,384)
Credited/(charged) to profit							
or loss	—	—	—	—	—	—	—
Deferred tax credit	18,173	(1,953)	(4,554)	4,629	89	—	16,384
At 31 December 2016	—	—	—	—	—	—	—

NOTES TO THE FINANCIAL STATEMENTS (Continued)

14. Computation of cash generated from operations

	The Group		The Company	
	2016	2015	2016	2015
	US\$ '000	US\$ '000	US\$ '000	US\$ '000
(Loss)/profit before tax	(172,766)	87,079	(138,911)	76,549
Adjusted for:				
Depreciation and amortisation	59,870	73,599	53,807	64,235
Impairment loss	10,260	—	10,260	—
Finance income (note 11)	(59,017)	(12,802)	(94,139)	(8,133)
Interest on bank loans (note 11)	73,420	83,588	68,421	77,338
Accretion discount (note 11)	480	—	330	—
Fair value movement on contingent consideration (including gains on derecognition) (note 10)	2,614	(7,298)	—	—
Gain on disposal of property, plant and equipment ..	—	(66)	—	(66)
Fair value movements on derivatives (note 10)	12,455	(17,762)	12,455	(17,762)
Loss/(gains) on unrealised foreign exchange	101,455	(8,046)	104,328	(8,985)
Share-based payment expenses	3,406	(8,757)	3,406	(8,757)
Defined benefit expenses (note 30)	(1,709)	—	(1,709)	—
Gain on deconsolidation (note 17)	(680)	—	—	—
Loss on disposal	1,509	—	1,509	—
Changes in working capital (excluding the effects of exchange differences and deconsolidation):				
Trade and other receivables	244,102	(104,338)	233,741	(77,765)
Prepayments	16,035	(8,145)	15,247	2,625
Trade and other payables	(106,831)	(10,961)	(88,337)	25,921
Inventories	(23,747)	(28,052)	(23,743)	(28,282)
Net cash from operating activities	160,856	38,039	156,665	96,918

NOTES TO THE FINANCIAL STATEMENTS (Continued)

15. Property, plant and equipment

15a. Oil and gas properties

	The Group			The Company		
	Production and field facilities	Assets under construction	Total	Production and field facilities	Assets under construction	Total
Costs	US\$ '000	US\$ '000	US\$ '000	US\$ '000	US\$ '000	US\$ '000
At 1 January 2015	590,548	432,580	1,023,128	529,965	416,327	946,292
Additions	426,203	—	426,203	146,852	—	146,852
Additions from business combination	244,062	—	244,062	—	—	—
Changes in decommissioning	(8,821)	—	(8,821)	(6,867)	—	(6,867)
Transfer from asset under construction	113,760	(113,760)	—	115,083	(115,083)	—
At 31 December 2015	<u>1,365,752</u>	<u>318,820</u>	<u>1,684,572</u>	<u>785,033</u>	<u>301,244</u>	<u>1,086,277</u>
Depreciation						
At 1 January 2015	179,525	—	179,525	176,961	—	176,961
Charged for the year	68,097	—	68,097	59,102	—	59,102
At 31 December 2015	<u>247,622</u>	<u>—</u>	<u>247,622</u>	<u>236,063</u>	<u>—</u>	<u>236,063</u>
NBV						
At 31 December 2015	<u>1,118,130</u>	<u>318,820</u>	<u>1,436,950</u>	<u>548,970</u>	<u>301,244</u>	<u>850,214</u>
Cost						
At 1 January 2016	1,365,752	318,820	1,684,572	785,033	301,244	1,086,277
Additions	—	82,893	82,893	—	70,484	70,484
Changes in decommissioning	(3,720)	—	(3,720)	(2,962)	—	(2,962)
Transfer from asset under construction	248,324	(248,324)	—	248,324	(248,324)	—
Deconsolidation of subsidiary	(244,062)	—	(244,062)	—	—	—
Disposal	—	(1,509)	(1,509)	—	(1,509)	(1,509)
At 31 December 2016	<u>1,366,294</u>	<u>151,880</u>	<u>1,518,174</u>	<u>1,030,395</u>	<u>121,895</u>	<u>1,152,290</u>
Depreciation						
At 1 January 2016	247,622	—	247,622	236,063	—	236,063
Charged for the year	54,326	—	54,326	48,600	—	48,600
Deconsolidation of subsidiary	(8,174)	—	(8,174)	—	—	—
At 31 December 2016	<u>293,774</u>	<u>—</u>	<u>293,774</u>	<u>284,663</u>	<u>—</u>	<u>284,663</u>
NBV						
At 31 December 2016	<u>1,072,520</u>	<u>151,880</u>	<u>1,224,400</u>	<u>745,732</u>	<u>121,895</u>	<u>867,627</u>

The Company's present and future assets (except jointly owned with NNPC/NPDC) along with all equipment, machinery and immovable property of the Group situated on the property to which the oil mining leases relate are pledged as security for the syndicate loan (note 27).

Assets under construction represent costs capitalised in connection with the development of the Group's oil fields and other property, plant and equipment not yet ready for their intended use. These are funded from the Group's operations; hence no borrowing cost was capitalised during the year.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

15. Property, plant and equipment (Continued)

15b. Other property, plant and equipment

	The Group				
	Plant & machinery	Motor vehicles	Office furniture & IT equipment	Leasehold improvements	Total
Cost	US\$ '000	US\$ '000	US\$ '000	US\$ '000	US\$ '000
At 1 January 2015	4,714	5,356	11,469	2,463	24,002
Additions	—	1,663	2,146	687	4,496
Reclassification to assets under construction	(707)	—	—	—	(707)
Disposals	—	(246)	—	—	(246)
At 31 December 2015	4,007	6,773	13,615	3,150	27,545
Depreciation					
At 1 January 2015	1,091	2,171	6,436	845	10,543
Disposals	—	(103)	—	—	(103)
Charged for the year	619	1,442	2,873	568	5,502
At 31 December 2015	1,710	3,510	9,309	1,413	15,942
NBV					
At 31 December 2015	2,297	3,263	4,306	1,737	11,603
Cost					
At 1 January 2016	4,007	6,773	13,615	3,150	27,545
Additions	785	508	1,056	—	2,349
Disposals	—	(136)	—	(317)	(453)
Transfer	12	173	(205)	20	—
Exchange differences	—	—	(206)	—	(206)
At 31 December 2016	4,804	7,318	14,260	2,853	29,235
Depreciation					
At 1 January 2016	1,710	3,510	9,309	1,413	15,942
Disposal	—	(68)	—	—	(68)
Charge for the year	842	1,316	2,819	567	5,544
Exchange differences	—	—	(150)	—	(150)
At 31 December 2016	2,552	4,758	11,978	1,980	21,268
NBV					
At 31 December 2016	2,252	2,560	2,282	873	7,967

NOTES TO THE FINANCIAL STATEMENTS (Continued)

15. Property, plant and equipment (Continued)

	The Company				
	Plant & machinery	Motor vehicles	Office furniture & IT equipment	Leasehold improvements	Total
Cost	US\$ '000	US\$ '000	US\$ '000	US\$ '000	US\$ '000
At 1 January 2015	3,322	5,357	10,539	2,462	21,680
Additions	685	1,662	1,867	688	4,902
Reclassification to assets under construction	—	—	—	—	—
Disposals	—	(246)	—	—	(246)
At 31 December 2015	4,007	6,773	12,406	3,150	26,336
Depreciation					
At 1 January 2015	982	2,171	6,155	845	10,153
Disposals	—	(104)	—	—	(104)
Charge for the year	724	1,349	2,501	559	5,133
At 31 December 2015	1,706	3,416	8,656	1,404	15,182
NBV					
At 31 December 2015	2,301	3,357	3,750	1,746	11,154
Cost					
At 1 January 2016	4,007	6,773	12,406	3,150	26,336
Addition	786	509	1,057	—	2,352
Disposal	—	(136)	—	(317)	(453)
At 31 December 2016	4,793	7,146	13,463	2,833	28,235
Depreciation					
At 1 January 2016	1,706	3,416	8,656	1,404	15,182
Disposal	—	(68)	—	—	(68)
Charge for the year	840	1,273	2,531	563	5,207
At 31 December 2016	2,546	4,621	11,187	1,967	20,321
NBV					
At 31 December 2016	2,247	2,525	2,276	866	7,914

16. Goodwill

Seplat, via a wholly owned subsidiary, entered into a share purchase agreement with First Act, Belema Refinery and Petrochemical Ltd, Mr. Jack Tein and BelemaOil (the four shareholders of BelemaOil) to acquire 56.25% of BelemaOil. This sale and purchase agreement was consummated on 5 February 2015 upon acquisition of Chevron Nigeria Limited's 40% interest in OML 55. This resulted in Seplat having an indirect interest of 22.5% in OML 55.

The fair value of the purchase consideration and the assets acquired were US\$139 million and US\$137 million respectively, giving rise to a goodwill on acquisition of US\$2 million.

As at the year end, goodwill recognised on consolidation of BelemaOil has now been derecognised due to the loss of control of the subsidiary. See further details in note 17.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

16. Goodwill (Continued)

Impairment test for goodwill

Management reviews the business performance of BelemaOil based on the reserve and production forecast. Goodwill is monitored by management at the level of one operating segment. The Group tests whether goodwill has suffered any impairment on an annual basis. The recoverable amount of a cash-generating unit ('CGU') is determined based on value-in-use calculations which require the use of assumptions. The calculations use cash flow projections based on reserve, production and financial forecasts approved by management. As at the year end, goodwill arising from BelemaOil has been derecognised.

	The Group	
	2016	2015
	US\$ '000	US\$ '000
At 1 January	2,000	—
Acquisition of subsidiary	—	2,000
Deconsolidation of subsidiary	(2,000)	—
As at 31 December	—	2,000

17. Deconsolidation of subsidiary

The details of the deconsolidation of subsidiary have been disclosed in note 1 – Corporate information and business and note 3 – Significant accounting judgements, estimates and assumptions. A summary of assets and liabilities derecognised and the resulting gain on deconsolidation are shown below.

17a. Summary of assets and liabilities derecognised

	The Group 2016 US\$ '000
Non-current assets	
Producing assets	235,888
Goodwill	2,000
Current assets	
Trade and other receivables	86,340
Underlift	38,555
Total assets	362,783
Equity	
Non-controlling interest	(2,249)
Non-current liabilities	
Deferred tax liability	12,802
Contingent consideration	12,474
Provision for decommissioning obligation	32
Current liabilities	
Interest bearing loans and borrowings	52,500
Trade and other payables	37,701
Current tax	113
Total liabilities	115,622
Total equity and liabilities	113,373
Net asset derecognised	249,410

NOTES TO THE FINANCIAL STATEMENTS (Continued)

17. Deconsolidation of subsidiary (Continued)

17b. Summary of assets recognised

	The Group 2016 US\$ '000
Other asset:	
Investment in OML 55	250,090
Net asset recognised	250,090

17c. Gain on deconsolidation of subsidiary

	The Group 2016 US\$ '000
Summary of assets and liabilities derecognised (note 17a)	(249,410)
Summary of assets and liabilities recognised (note 17b)	250,090
Gain on deconsolidation of BelemaOil	680

18. Prepayments

	The Group		The Company	
	2016	2015	2016	2015
	US\$ '000	US\$ '000	US\$ '000	US\$ '000
Non-current:				
Tax paid in advance	31,623	31,623	31,623	31,623
Rent	1,993	2,760	1,993	2,760
Drilling services	—	2,371	—	2,371
	33,616	36,754	33,616	36,754
Current:				
Rent	2,632	11,639	2,600	10,679
Others	4,040	—	3,900	—
	6,672	11,639	6,500	10,679
Total prepayments	40,288	48,393	40,116	47,433

Included in non-current prepayments are the following:

18a. Tax paid in advance

In 2013 and 2014 Petroleum Profit Tax payments (2013: US\$28.7 million and 2014: US\$2.9 million) were made by the Company prior to obtaining a pioneer status. This was accounted for as a tax credit under non-current prepayments until a future date when the Company will be expected to offset it against its tax liability.

18b. Rent

In 2014, the Group entered into three new commercial leases in relation to three buildings that it occupies, two in Lagos and one in Delta State. Two of the non-cancellable leases which relate to buildings in Lagos expire in 2019 and 2018 respectively. The rent on the building in Delta State has been renewed and now expires in 2021. The Group has prepaid these rents. The long-term portion as at 31 December 2016 is US\$1.9 million (2015: US\$2.7 million).

The Group has no future minimum lease payments to be disclosed for the rental lease because the total lease payment has been prepaid at inception of the lease.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

18. Prepayments (Continued)

18c. Drilling services

In 2012, Seplat signed an agreement with Cardinal Drilling Limited with respect to the exclusive use of two rigs for five years. Seplat agreed to pay a US\$20 million advance in relation to the exclusive use of these rigs. This amount has been recognised as a prepayment and amortised over the life of the agreement (five years). The long-term portion as at 31 December 2016 is Nil (2015: US\$2.4 million).

The Group has no future minimum lease payments to be disclosed for the drilling services agreement because the total payment had been prepaid at inception of the contract.

19. Investment in subsidiaries

	The Company	
	2016	2015
	US\$ '000	US\$ '000
Newton Energy Limited	950	950
Seplat Petroleum Development UK	50	50
Seplat East Onshore Ltd	32	32
Seplat East Swamp Ltd	32	32
	1,064	1,064

20. Inventories

	The Group		The Company	
	2016	2015	2016	2015
	US\$ '000	US\$ '000	US\$ '000	US\$ '000
Tubulars, casings and wellheads	106,213	82,466	102,608	78,865

Inventory represents the value of tubulars, casings and wellheads. The inventory is carried at the lower of cost and net realisable value. Included in cost of sales is US\$0.1 million (2015: US\$0.19 million) representing inventory charged to profit or loss during the year. There was no inventory written down for the year ended 31 December 2016.

21. Trade and other receivables

	The Group		The Company	
	2016	2015	2016	2015
	US\$ '000	US\$ '000	US\$ '000	US\$ '000
Trade receivables	73,427	133,905	69,052	95,332
Nigerian Petroleum Development Company ('NPDC') receivables	239,034	491,974	239,034	491,974
National Petroleum Investment Management Services	8,233	—	—	—
Intercompany receivables	—	—	715,625	708,843
Advances on investments	65,705	85,236	1	—
Advances	—	53,175	46,335	8,632
Underlift	4,498	27,063	—	7,041
Advances to suppliers	8,921	2,597	8,087	2,498
Hedging receivables	—	7,585	—	7,585
Interest receivable from shareholders of BelemaOil ..	—	9,546	—	—
Other receivables	1,136	174	1,129	134
Impairment loss on NPDC receivables	(10,260)	—	(10,260)	—
	390,694	811,255	1,069,003	1,322,039

NOTES TO THE FINANCIAL STATEMENTS (Continued)

21. Trade and other receivables (Continued)

21a. Trade receivables

Included in trade receivables are receivables from sale of crude oil and gas due from NGC of US\$67 million (2015: US\$62 million) for both Group and Company.

21b. NPDC receivables

NPDC receivables represent the outstanding cash calls due to Seplat. Receivables have been discounted to reflect the impact of time value of money. This has been recognised in the statement of comprehensive income. As at 31 December 2016, the undiscounted value of this receivable for Group and Company is US\$239 million (2015: US\$492 million for Group and Company).

21c. Advances on investment

This comprises an advance of US\$45 million on a potential investment in OML 25 and US\$20.5 million currently held in an escrow account. Proceedings commenced against Newton Energy Limited, a wholly owned subsidiary of Seplat Plc, by Crestar Natural Resources relating to the US\$20.5 million currently held in an escrow account. The escrow monies relate to the potential acquisition of OML 25 by Crestar which Newton Energy has an option to invest into. These monies were put in escrow in July 2015 pursuant to an agreement reached with Crestar and the vendor on final terms of the transaction.

22. Cash and cash equivalents

Cash and cash equivalents in the statement of financial position comprise cash at banks and on hand and short-term deposits with a maturity of three months or less.

	The Group		The Company	
	2016	2015	2016	2015
	US\$ '000	US\$ '000	US\$ '000	US\$ '000
Cash on hand	7	50	7	50
Restricted cash	65,203	68,957	65,203	68,957
Cash at bank	94,411	257,022	82,167	247,367
Cash and cash equivalents	159,621	326,029	147,377	316,374

At 31 December 2016, cash at bank includes the debt service reserve of US\$65 million (2015: US\$68.9 million) for both Group and Company deposited pursuant to the covenant in relation to the bank syndicated loan. The debt service reserve account balance is the amount equal to at least the aggregate of the amounts of principal and interest projected to fall due on the next successive principal repayment dates and dates for the payment of interest which is on a quarterly basis.

23. Derivatives

	The Group		The Company	
	2016	2015	2016	2015
	US\$ '000	US\$ '000	US\$ '000	US\$ '000
Derivatives	—	23,194	—	23,194

In November 2015, management completed a crude oil price hedge of US\$45/bbl. for 3.3 million barrels at a cost of US\$10 million (US\$3.03/bbl.). A fair value loss of US\$12.4 million (gain – 2015: US\$13.2 million) was recognised in the reporting period for both Group and Company.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

24. Share capital

	The Group		The Company	
	2016	2015	2016	2015
	US\$ '000	US\$ '000	US\$ '000	US\$ '000
Authorised ordinary share capital				
1,000,000,000 ordinary shares denominated in Naira				
of 50 kobo per share	3,335	3,335	3,335	3,335
Issued and fully paid				
563,444,561 (2015: 560,576,101) issued shares				
denominated in Naira of 50 kobo per share	1,826	1,821	1,826	1,821

24a. Employee share-based payment scheme

In 2016, the Company gave share awards of 25,448,071 shares (2015: 14,939,102 shares) to certain employees and senior executives in line with its share-based incentive scheme. During the year ended 31 December 2016, 2,868,460 shares were vested. In 2015, 7,265,788 shares had vested resulting in an increase in number of issued and fully paid ordinary shares of 50k each from 553 million to 561 million.

Fully paid ordinary shares carry one vote per share and carry the right to dividends. During 2013, the Company sub-divided its shares from 1 to 0.50 per share resulting in an increase in the number of shares issued from 100 million to 200 million ordinary shares. On 31 July 2013, the number of ordinary shares was increased to 400 million by way of a bonus issue to existing shareholders; these were issued from the revenue reserve.

In August 2013 the authorised share capital was increased from 400 million to 1 billion denominated in 0.50 per share.

24b. Share-based payment reserve

The Group has made a number of share-based awards under incentive plans since its IPO in 2014: IPO-related grants to Executive and Non-Executive Directors, 2014 deferred bonus awards and 2014/2015 Long-Term Incentive plan ('LTIP') awards, 2015 deferred bonus awards and 2015/2016 Long-Term Incentive plan ('LTIP') awards. Shares under these incentive plans were awarded at the IPO in April 2014, 2015 and 2016 conditional on the Nigerian Stock Exchange ('NSE') approving the share delivery mechanism proposed by the Company.

Description of the awards valued

Global Offer Bonus awards

Shares were conditionally awarded, subject to NSE approval, to selected executives to recognise their historic contribution to the Company in the lead up to Admission on the London Stock Exchange on 9 April 2014. The awards operated as follows:

50% of the share bonus was awarded on IPO, there were no performance conditions attached to it, and it fully vested in 2015. The second 50% of the award vested on the first anniversary of the IPO (9 April 2015). The award fully met the performance condition, as follows:

- The Company outperformed the median TSR performance level within the 2014 LTIP E&P comparator group, over the one-year period from Admission (i.e. to 9 April 2015).
- The reserves growth underpin in FY2014 was met.

The valuation of the Global Offer Bonus awards ignores these conditions because as at the deemed date of grant the conditions were fully met. As a result, the fair value of these awards is the share price at the date of grant.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

24. Share capital (Continued)

Non-Executive Directors' nominal value shares

Non-Executive Directors were provided with the opportunity to subscribe for shares at nominal value on IPO i.e. at a discount to their market value. These awards were vested immediately. There was no vesting criteria for these awards. As a result the fair value of these awards is the share price at the deemed date of grant.

Seplat 2014 and 2015 Deferred Bonus Award

25% of each Executive Director's 2014 and 2015 bonus (paid in 2015 and 2016 respectively) has been deferred into shares and is released on 1 June 2017 and 1 June 2018 respectively subject to continued employment. No performance criteria are attached to this award. As a result the fair value of these awards is the share price at the actual date of grant.

Long-Term Incentive Plan ('LTIP') awards

Under the LTIP Plan, shares are granted to management staff of the organisation at the end of every year. The shares were granted to the employees at no cost. The shares vest (after three years) based on the following conditions:

- 50% award vesting where the reserves growth was more than a 10% decrease.
- Straight line basis between 50% and 100% where reserves growth was between a 10% decrease and a 10% increase.
- 100% award vesting where the reserves growth is equal to or greater than a 10% increase.
- If the Group outperforms the median TSR performance level with the LTIP exploration and production comparator group.

The 2014 and 2015 LTIP awards have been approved by the NSE, however, 2016 LTIP awards are still subject to approval.

The expense recognised for employee services received during the year is shown in the following table:

	The Group		The Company	
	2016	2015	2016	2015
	US\$ '000	US\$ '000	US\$ '000	US\$ '000
Expense arising from equity-settled share-based payment transactions	3,406	8,757	3,406	8,757

There were no cancellations or modifications to the awards in 2016 or 2015. The share awards granted to Executive Directors and confirmed employees are summarised below.

Scheme	Deemed grant date	Start of service period	End of service period	Number of awards
Global Offer Bonus	4 November 2015	9 April 2014	9 April 2015	6,472,138
Non-Executive Shares	4 November 2015	9 April 2014	9 April 2015	793,650
2014 Deferred Bonus	14 December 2015	14 December 2015	21 April 2017	212,701
2014 Long-Term incentive Plan	14 December 2015	14 December 2015	9 April 2017	2,173,259
2015 Long-Term incentive Plan	31 December 2015	14 December 2015	21 April 2018	5,287,354
2015 Deferred Bonus	21 April 2016	21 April 2016	20 April 2018	214,669
2016 Long-Term incentive Plan	22 December 2016	22 December 2016	21 December 2019	10,294,300
				25,448,071

NOTES TO THE FINANCIAL STATEMENTS (Continued)

24. Share capital (Continued)

Share awards used in the calculation of diluted earnings per share are based on the outstanding shares as at 31 December 2016.

Share award scheme (all awards)	The Group and Company			
	2016 Number	2016 WAEP	2015 Number	2015 WAEP
	'000	US\$	'000	US\$
Outstanding at 1 January	4,249	1.50	—	—
Granted during the year	159	1.17	11,515	0.97
Forfeited during the year	—	—	—	—
Exercised during the year	(2,868)	—	(7,266)	1.18
Outstanding at 31 December	1,540	0.67	4,249	1.50
Exercisable at 31 December	—	—	7,266	1.18

Movements during the year

The following table illustrates the number and weighted average exercise prices ('WAEP') of and movements in share awards during the year for each available scheme.

Global Offer Bonus	The Group and Company			
	2016 Number	2016 WAEP	2015 Number	2015 WAEP
		US\$		US\$
Outstanding at 1 January	—	—	—	—
Granted during the year	—	—	6,472,138	1.18
Forfeited during the year	—	—	—	—
Exercised during the year	—	—	(6,472,138)	1.18
Outstanding at 31 December	—	—	—	—
Exercisable at 31 December	—	—	—	—

Non-Executive Directors' Shares	The Group and Company			
	2016 Number	2016 WAEP	2015 Number	2015 WAEP
		US\$		US\$
Outstanding at 1 January	—	—	—	—
Granted during the year	—	—	793,650	1.18
Forfeited during the year	—	—	—	—
Exercised during the year	—	—	(793,650)	1.18
Exercisable at 31 December	—	—	—	—

Deferred Bonus Scheme	The Group and Company			
	2016 Number	2016 WAEP	2015 Number	2015 WAEP
		US\$		US\$
Outstanding at 1 January	212,701	1.13	—	—
Granted during the year	214,669	1.49	212,701	1.13
Forfeited during the year	—	—	—	—
Exercised during the year	—	—	—	—
Outstanding at 31 December	427,370	1.31	212,701	1.13
Exercisable at 31 December	—	—	—	—

NOTES TO THE FINANCIAL STATEMENTS (Continued)

24. Share capital (Continued)

Long-Term incentive Plan ('LTIP')	The Group and Company			
	2016 Number	2016 WAEP	2015 Number	2015 WAEP
		US\$		US\$
Outstanding at 1 January	7,460,613	0.76	—	—
Granted during the year	10,294,300	0.89	7,460,613	0.76
Forfeited during the year	—	—	—	—
Exercised during the year	(2,868,460)	0.05	—	—
Outstanding at 31 December	14,886,453	0.83	7,460,613	0.76
Exercisable at 31 December	—	—	—	—

The shares are granted to the employees at no cost.

The weighted average remaining contractual life for the share awards outstanding as at 31 December 2016 range from 0.80 to 1.52 years.

The weighted average fair value of awards granted during the year range from US\$0.89 to US\$1.49.

The exercise prices for options outstanding at the end of the year range from US\$0.83 to US\$1.31.

The following table lists the inputs to the models used for the four plans for the year ended 31 December 2016:

	The Group and Company				
	2015 Global Offer Bonus	2015 Non- Executive Shares Bonus	2015 Deferred Bonus	2015 LTIP	2016 LTIP
Weighted average fair values at the measurement date					
Dividend yield (%)	n/a	n/a	n/a	0.00%	0.00%
Expected volatility (%)	n/a	n/a	n/a	56%	56%
Risk-free interest rate (%)	n/a	n/a	n/a	0.63%	0.63%
Expected life of share options	nil	nil	1.46	2.35	2.35
Weighted average share price (\$)	1.5386	1.5386	1.512	1.497	1.497

24c. Share premium

	The Group and Company	
	2016	2015
	US\$ '000	US\$ '000
Share premium	497,457	497,457

Section 120.2 of Companies and Allied Matters Act, CAP C20, Laws of the Federation of Nigeria 2004 requires that where a Company issues shares at premium (i.e. above the par value), the value of the premium should be transferred to share premium.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

25. Capital contribution

This represents M&P additional cash contribution to the Company. In accordance with the Shareholders' Agreement, the amount was used by the Company for working capital as was required at the commencement of operations.

	The Group		The Company	
	2016	2015	2016	2015
	US\$ '000	US\$ '000	US\$ '000	US\$ '000
Capital contribution	40,000	40,000	40,000	40,000

26. Foreign currency translation reserve

Cumulative exchange difference arising from translation of foreign subsidiary is taken to foreign translation reserve through other comprehensive income.

27. Interest bearing loans and borrowings

	The Group		The Company	
	2016	2015	2016	2015
	US\$ '000	US\$ '000	US\$ '000	US\$ '000
Non-current:				
Bank borrowings	446,098	608,846	446,098	556,346
Current:				
Bank borrowings	217,998	290,769	217,998	290,769
Total borrowings	664,096	899,615	664,096	847,115

Bank loan

Syndicate credit facility

On 31 December 2014, Seplat signed a US\$1.7 billion debt refinancing package, made up of the following facilities:

- US\$700 million seven-year term loan with an ability to stretch it to US\$1.4 billion contingent on a qualifying acquisition with a consortium of five local banks. This facility has a seven-year maturity period.
- US\$300 million three-year corporate revolving loan primarily to manage working capital requirements with a consortium of eight international banks. This facility has a three-year maturity period.

As at 31 December 2016, there were no further draw downs (2015: US\$1 billion) of this facility. Interest accrues monthly on the principal amount outstanding at the LIBOR rate plus a margin ranging from 6.5 to 8.5%. Principal repayments in 2016 were made, and the outstanding balance as at 31 December 2016 is US\$676 million (2015: US\$900 million).

The following is the analysis of the principal outstanding showing the lenders of the facility as at the year end.

Term loan	Interest	The Group			The Company		
		Current	Non-current	Total	Current	Non-current	Total
		US\$ '000	US\$ '000	US\$ '000	US\$ '000	US\$ '000	US\$ '000
SBSA	8.5% + LIBOR	1,652	17,601	19,253	1,652	17,601	19,253
Stanbic	8.5% + LIBOR	1,652	17,601	19,253	1,652	17,601	19,253
FBN	8.5% + LIBOR	11,026	117,445	128,471	11,026	117,445	128,471
UBA	8.5% + LIBOR	11,026	117,445	128,471	11,026	117,445	128,471
Zenith Bank	8.5% + LIBOR	17,642	187,910	205,552	17,642	187,910	205,552
		42,998	458,002	501,000	42,998	458,002	501,000

NOTES TO THE FINANCIAL STATEMENTS (Continued)

27. Interest bearing loans and borrowings (Continued)

31 December 2016 Corporate loan	Interest	The Group			The Company		
		Current	Non-current	Total	Current	Non-current	Total
		US\$ '000	US\$ '000	US\$ '000	US\$ '000	US\$ '000	US\$ '000
Citibank Nigeria Limited	6% + LIBOR	26,250	—	26,250	26,250	—	26,250
FirstRand Bank Limited	6% + LIBOR	17,500	—	17,500	17,500	—	17,500
JP Morgan Chase Bank N A							
London	6% + LIBOR	17,500	—	17,500	17,500	—	17,500
Nedbank Limited, London Branch ..	6% + LIBOR	17,500	—	17,500	17,500	—	17,500
Bank Of America Merrill Lynch	6% + LIBOR	17,500	—	17,500	17,500	—	17,500
Standard Chartered Bank	6% + LIBOR	26,250	—	26,250	26,250	—	26,250
Natixis	6% + LIBOR	26,250	—	26,250	26,250	—	26,250
Stanbic Ibtc Bank Plc	6% + LIBOR	13,125	—	13,125	13,125	—	13,125
The Standard Bank Of South Africa	6% + LIBOR	13,125	—	13,125	13,125	—	13,125
		175,000	—	175,000	175,000	—	175,000

Term loan	Interest	The Group			The Company		
		Current	Non-current	Total	Current	Non-current	Total
		US\$ '000	US\$ '000	US\$ '000	US\$ '000	US\$ '000	US\$ '000
SBSA	8.5% + LIBOR	5,649	16,947	22,596	5,649	16,947	22,596
Stanbic	8.5% + LIBOR	5,649	16,947	22,596	5,649	16,947	22,596
FBN	8.5% + LIBOR	37,695	113,085	150,780	37,695	113,085	150,780
UBA	8.5% + LIBOR	37,695	113,085	150,780	37,695	113,085	150,780
Zenith Bank	8.5% + LIBOR	60,312	180,936	241,248	60,312	180,936	241,248
		147,000	441,000	588,000	147,000	441,000	588,000

31 December 2015 Corporate loan	Interest	The Group			The Company		
		Current	Non-current	Total	Current	Non-current	Total
		US\$ '000	US\$ '000	US\$ '000	US\$ '000	US\$ '000	US\$ '000
Citibank Nigeria Limited	6% + LIBOR	8,333	14,583	22,916	8,333	14,583	22,916
FirstRand Bank Limited	6% + LIBOR	10,000	17,500	27,500	10,000	17,500	27,500
JP Morgan Chase Bank N A							
London	6% + LIBOR	10,000	17,500	27,500	10,000	17,500	27,500
Nedbank Limited, London							
Branch	6% + LIBOR	10,000	17,500	27,500	10,000	17,500	27,500
Bank Of America Merrill Lynch	6% + LIBOR	10,000	17,500	27,500	10,000	17,500	27,500
Standard Chartered Bank	6% + LIBOR	15,000	26,250	41,250	15,000	26,250	41,250
Citibank N.A.	6% + LIBOR	6,667	11,667	18,334	6,667	11,667	18,334
Natixis	6% + LIBOR	15,000	26,250	41,250	15,000	26,250	41,250
Stanbic Ibtc Bank Plc	6% + LIBOR	7,500	13,125	20,625	7,500	13,125	20,625
The Standard Bank Of							
South Africa	6% + LIBOR	7,500	13,125	20,625	7,500	13,125	20,625
		100,000	175,000	275,000	100,000	175,000	275,000

Loans	The Group		The Company	
	2016	2015	2016	2015
	US\$ '000	US\$ '000	US\$ '000	US\$ '000
Term loan	501,000	588,000	501,000	588,000
Corporate loan	175,000	275,000	175,000	275,000
Sterling bank loan (business combination)	—	52,500	—	—
Less: Capitalised loan transaction costs	(11,904)	(15,885)	(11,904)	(15,885)
	664,096	899,615	664,096	847,115

NOTES TO THE FINANCIAL STATEMENTS (Continued)

28. Contingent consideration

	The Group
	US\$ '000
At 1 January 2015	9,377
Fair value movement	3,325
Additions	19,198
Write-off	(10,000)
At 31 December 2015	21,900
At 1 January 2016	21,900
Fair value movement	2,614
Additions	—
Deconsolidation of subsidiary	(12,474)
At 31 December 2016	12,040

In 2014, the Group recognised the contingent consideration in relation to its acquisition of a participating interest in assets within OPL 283 (the 'Umuseti/Igbuku Fields'). The contingency criteria are the achievement of certain production milestones. At inception, the present value was capitalised to the cost of the asset and a corresponding liability was recorded. The liability was carried at fair value through profit or loss. These milestones were not achieved as at mid-2015 and as such the liability was derecognised during the year.

During the year, the Group derecognised the contingent consideration on OML 55 as a result of the deconsolidation of its subsidiary BelemaOil. The contingent consideration of US\$18.5 million for OML 53 is being recognised at the fair value of US\$12 million. This is still contingent on oil price rising above US\$90/bbl, over the next three years.

29. Provision for decommissioning obligation

	The Group	The Company
	US\$ '000	US\$ '000
At 1 January 2015	12,690	9,838
Unwinding of discount due to passage of time	—	—
Change in estimate	(8,821)	(6,867)
At 31 December 2015	3,869	2,971
At 1 January 2016	3,869	2,971
Unwinding of discount due to passage of time	480	330
Deconsolidation of subsidiary	(32)	—
Change in estimate	(3,720)	(2,962)
At 31 December 2016	597	339

The Group makes full provision for the future cost of decommissioning oil production facilities on a discounted basis at the commencement of production. This relates to the removal of assets as well as their associated restoration costs. This obligation is recorded in the period in which the liability meets the definition of a "probable future sacrifice of economic benefits arising from a present obligation", and in which it can be reasonably measured.

The provision represents the present value of estimated future expenditure to be incurred from 2045 to 2066 which is the current expectation as to when the producing facilities are expected to cease operations. Management engaged a third party to assist with an estimate of the expenditure to be incurred from 2045 to 2066. These provisions were based on estimations carried out by DeGolyer and MacNaughton based on current assumptions on the economic environment which management believes to be a reasonable basis upon which to estimate the future liability. These estimates are reviewed regularly to take into account any material changes to the assumptions. However, actual decommissioning costs will ultimately depend upon future market prices for the necessary decommissioning works required that will reflect market conditions at the relevant time. Furthermore, the timing of decommissioning is likely to depend on when the fields cease to produce at economically viable rates.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

29. Provision for decommissioning obligation (Continued)

The change in estimate in the current year for Group and Company is US\$3.7 million and US\$2.9 million respectively (2015: US\$ 8.8 million and US\$6.9 million) and is due to the increase in the expected cessation of operations.

	Current estimated life span of reserves	
	2016	2015
Seplat Petroleum Development Company:	2045	2052
OML 4	2056	2052
OML 38	2052	2052
OML 41	2066	2052
Newton Energy Limited (OPL 283)	2045	2052
Seplat East Onshore Ltd (OML 53)	2054	2052

The discount rate used in the calculation of unwinding of the provision for both Group and Company for 2016 was within the range of 11.1% to 14.82% (2015: 11.1%). As of 31 December 2016, management has estimated decommissioning expenditure to occur from 2045 to 2066 for Group and Company (2015: 2052 for Group and Company).

30. Employee benefit obligation

30a. Defined contribution plan

The Company contributes to a funded defined contribution retirement benefit scheme for its employees in compliance with the provisions of the Pension Reform Act 2014. A defined contribution plan is a pension plan under which the Company pays fixed contributions to an approved Pension Fund Administrator ('PFA') – a separate entity. The assets of the scheme are managed by various Pension Fund Administrators patronised by employees of the Company. The Company's contributions are charged to the profit and loss account in the year to which they relate. The amount payable as at 31 December 2016 was US\$419,005 (2015: US\$394,561).

30b. Defined benefit plan

The Company commenced its unfunded defined benefit plan (gratuity) in July 2015. The Company makes provisions for gratuity for employees from day one of employment in the Company. The employee qualifies to receive the gratuity on resignation or retirement from the Company after five years of continuous service. The level of benefits provided depends on the member's length of service and salary at retirement age. The gratuity liability is adjusted to inflation, interest rate risks, changes in salary and changes in the life expectancy for the beneficiaries. The provision for gratuity was based on independent actuarial valuation performed by HR Nigeria Limited using the projected unit credit method.

The Company does not maintain any assets for the gratuity plan but ensures that it has sufficient funds for the obligations as they crystallise.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

30. Employee benefit obligation (Continued)

The following tables summarise the components of net benefit expense recognised in the statement of profit or loss and other comprehensive income and in the statement of financial position for the respective plans:

i) *Liability recognised in the financial position*

	The Group		The Company	
	2016	2015	2016	2015
	US\$ '000	US\$ '000	US\$ '000	US\$ '000
Defined benefit obligation	5,112	6,926	5,112	6,926

ii) *Amount recognised in profit or loss*

	The Group		The Company	
	2016	2015	2016	2015
	US\$ '000	US\$ '000	US\$ '000	US\$ '000
Current service cost	1,554	6,926	1,554	6,926
Interest cost on benefit obligation	530	—	530	—
	2,084	6,926	2,084	6,926

The Group recognises a part of its defined benefit expenses in profit or loss and recharges the other part to its joint operations partners; this is recognised as a receivable from the partners. Below is the breakdown:

	The Group		The Company	
	2016	2015	2016	2015
	US\$ '000	US\$ '000	US\$ '000	US\$ '000
Charged to receivables	1,146	3,809	1,146	3,809
Charged to profit or loss	938	3,117	938	3,117
	2,084	6,926	2,084	6,926

iii) *Re-measurement (gains)/losses in other comprehensive income*

	The Group		The Company	
	2016	2015	2016	2015
	US\$ '000	US\$ '000	US\$ '000	US\$ '000
Remeasurement (gains)/losses due to changes in				
financial and demographic assumptions	(1,829)	—	(1,829)	—
Remeasurement (gains)/losses due to experience adjustment	578	—	578	—
	(1,251)	—	(1,251)	—

The Group recognises a part of the remeasurement gains/losses in other comprehensive income and recharges/credits the other part to its joint operations partners; this is recognised as a receivable from the partners. Below is the breakdown:

	The Group		The Company	
	2016	2015	2016	2015
	US\$ '000	US\$ '000	US\$ '000	US\$ '000
Credited to receivables	(688)	—	(688)	—
Credited to other comprehensive income	(563)	—	(563)	—
	(1,251)	—	(1,251)	—

NOTES TO THE FINANCIAL STATEMENTS (Continued)

30. Employee benefit obligation (Continued)

iv) *Changes in the present value of the defined benefit obligation are as follows:*

	The Group		The Company	
	2016	2015	2016	2015
	US\$ '000	US\$ '000	US\$ '000	US\$ '000
Defined benefit obligation as at 1 January	6,926	—	6,926	—
Current service cost	1,554	6,926	1,554	6,926
Interest cost	530	—	530	—
Remeasurement (gains)/losses	(1,251)	—	(1,251)	—
Benefits paid by the employer	(242)	—	(242)	—
Exchange differences	(2,405)	—	(2,405)	—
Defined benefit obligation at 31 December	5,112	6,926	5,112	6,926

For the purpose of presentation in the statement of cash flows, defined benefit expenses is as follows:

	The Group		The Company	
	2016	2015	2016	2015
	US\$ '000	US\$ '000	US\$ '000	US\$ '000
Movement in defined benefit expense during the year	(1,814)	—	(1,814)	—
Adjustment for non-cash movements:				
Remeasurement gains/(losses)	1,251	—	1,251	—
Current service and interest cost charged to receivables	(1,146)	—	(1,146)	—
Defined benefit expenses in the cash flow	(1,709)	—	(1,709)	—

v) *The principal assumptions used in determining defined benefit obligations for the Company's plans are shown below:*

	The Group and Company	
	2016	2015
	%	%
Discount rate	16	12
Average future pay increase	13	12
Average future rate of inflation	12	9

a) *Mortality in service*

Sample age	The Group and Company	
	Number of deaths in year out of 10,000 lives	
	2016	2015
25	7	7
30	7	7
35	9	9
40	14	14
45	26	26

NOTES TO THE FINANCIAL STATEMENTS (Continued)

30. Employee benefit obligation (Continued)

b) Withdrawal from service

Age band	The Group and Company	
	2016	2015
Less than or equal to 30	1.0%	1.0%
31 – 39	1.5%	1.5%
40 – 44	1.5%	1.5%
45 – 55	1.0%	1.0%
56 – 60	0.0%	0.0%

c) A quantitative sensitivity analysis for significant assumption as at 31 December 2016 is as shown below:

Assumptions	Base	The Group and Company					
		Discount rate		Salary increases		Mortality	
		1% increase	1% decrease	1% increase	1% decrease	1% increase	1% decrease
		US\$ '000	US\$ '000	US\$ '000	US\$ '000	US\$ '000	US\$ '000
Sensitivity level: Impact on the net defined benefit obligation							
31 December 2016	5,112	476	(556)	(591)	511	31	(30)
31 December 2015	6,926	811	(987)	(1,013)	41	(56)	845

The sensitivity analyses above have been determined based on a method that extrapolates the impact on net defined benefit obligation as a result of reasonable changes in key assumptions occurring at the end of the reporting period. The methods and assumptions used in preparing the sensitivity analysis did not change compared to prior period.

The following payments are expected contributions to be made in the future years out of the defined benefit plan obligation:

	The Group		The Company	
	2016	2015	2016	2015
	US\$ '000	US\$ '000	US\$ '000	US\$ '000
Within the next 12 months (next annual reporting period)	364	298	364	298
Between 2 and 5 years	2,909	2,356	2,909	2,356
Between 5 and 10 years	7,912	9,378	7,912	9,378
	11,185	12,032	11,185	12,032

The weighted average liability duration for the Plan is 11.53 years. The longest weighted duration for Nigerian Government bond as at 31 December 2016 was about 5.85 years with a gross redemption yield of about 15.32%.

d) Risk exposure

Through its defined benefit pension plans and post-employment medical plans, the Group is exposed to a number of risks. The most significant of these are detailed below:

i) Liquidity risk

The plan liabilities are unfunded and as a result there is a risk of the Group not having the required cash flow to fund future defined benefit obligations as they fall due.

ii) Inflation risk

This is the risk of an unexpected significant rise/fall of market interest rates. A rise leads to a fall in long-term asset values and a rise in liability values.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

30. Employee benefit obligation (Continued)

iii) Life expectancy

The majority of the plans' obligations are to provide benefits for the life of the member, so increases in life expectancy will result in an increase in the plans' liabilities. This is particularly significant where inflationary increases result in higher sensitivity to changes in life expectancy.

31. Trade and other payables

Goodwill acquired through business combinations is allocated to OML 55 for impairment testing. The carrying amount of goodwill is stated below.

	The Group		The Company	
	2016	2015	2016	2015
	US\$ '000	US\$ '000	US\$ '000	US\$ '000
Trade payable	108,140	125,408	96,205	125,166
Accruals and other payables	117,600	216,265	101,028	169,158
NDDC levy	19	6,272	19	6,272
Deferred revenue	1,420	1,420	1,420	1,420
Royalties	34,349	25,668	27,766	25,212
Intercompany payable	—	—	55,681	24,578
	261,528	375,033	282,119	351,806

The accruals balance is mainly composed of other field-related accruals – US\$35 million and others of US\$24 million for the Group and Company (2015: US\$97.9 million). Royalties include accruals for unpaid gas revenues during the period.

32. Earnings per share ('EPS')

Basic EPS

Basic earnings per share is calculated on the Group's profit or loss after taxation attributable to the parent entity and on the basis of weighted average of issued and fully paid ordinary shares at the end of the period.

Diluted EPS

Diluted EPS is calculated by dividing the profit or loss attributable to ordinary equity holders of the parent by the weighted average number of ordinary shares outstanding during the year plus the weighted average number of ordinary shares that would be issued on conversion of all the dilutive potential ordinary shares (arising from outstanding share awards in the share-based payment scheme) into ordinary shares.

	The Group		The Company	
	2016	2015	2016	2015
	US\$ '000	US\$ '000	US\$ '000	US\$ '000
Loss)/profit for the year attributable to equity holders of the parent	(164,590)	67,462	(124,412)	60,165
	Shares '000	Shares '000	Shares '000	Shares '000
Weighted average number of ordinary shares in issue	563,445	560,576	563,445	560,576
Share awards	1,540	189	1,540	189
Weighted average number of ordinary shares adjusted for the effect of dilution	564,985	560,765	564,985	560,765
	US\$	US\$	US\$	US\$
Basic (loss)/earnings per share	(0.29)	0.12	(0.22)	0.11
Diluted (loss)/earnings per share	(0.29)	0.12	(0.22)	0.11

NOTES TO THE FINANCIAL STATEMENTS (Continued)

32. Earnings per share ('EPS') (Continued)

	The Group		The Company	
	2016	2015	2016	2015
	US\$ '000	US\$ '000	US\$ '000	US\$ '000
(Loss)/profit attributable to equity holders of the parent	(164,590)	67,462	(124,412)	60,165
(Loss)/profit used in determining diluted earnings per share	(164,590)	67,462	(124,412)	60,165

33. Dividends paid and proposed

As at 31 December 2016, the dividend proposed for the year was Nil for both Group and Company (2015: US\$49.7 million).

	The Group and Company	
	2016	2015
	US\$ '000	US\$ '000
Cash dividends on ordinary shares declared and paid:		
Interim dividend for 2016: US\$0.04 per share, 563,444,561 shares in issue		
(2015: US\$ 0.04 per share, 560,576,101 shares in issue)	22,534	22,139
Final dividend for 2016: US\$ Nil per share, 563,444,561 shares in issue		
(2015: US\$0.09 per share, 560,576,101 shares in issue)	—	49,701
Total	22,534	71,840
Proposed dividends on ordinary shares:		
Final cash dividend for 2016: US\$ Nil per share (2015: US\$0.04 per share)	22,534	22,423

34. Related party relationships and transactions

The Group is controlled by Seplat Petroleum Development Company Plc (the 'parent Company'). As at 31 December 2016, the parent Company is owned 13.84% either directly or by entities controlled by A.B.C. Orjiako ('SEPCOL') and members of his family and 13.15% either directly or by entities controlled by Austin Avuru ('Professional Support Limited' and 'Platform Petroleum Limited'). The remaining shares in the parent Company are widely held.

34a. Related party relationships

The services provided by the related parties:

Abbeycourt Trading Company Limited: The Chairman of Seplat is a director and shareholder. The company provides diesel supplies to Seplat in respect of Seplat's rig operations.

Berwick Nigeria Limited: The Chairman of Seplat is a shareholder and director. The company provides construction services to Seplat in relation to a field base station in Sapele.

Cardinal Drilling Services Limited (formerly Caroil Drilling Nigeria Limited): Is owned by common shareholders with the parent Company. The company provides drilling rigs and drilling services to Seplat.

Helko Nigeria Limited: The Chairman of Seplat is shareholder and director. The company owns the lease to Seplat's main office at 25A Lugard Avenue, Lagos, Nigeria.

Keco Nigeria Enterprises: The Chief Executive Officer's sister is shareholder and director. The company provides diesel supplies to Seplat in respect of its rig operations.

Montego Upstream Services Limited: The Chairman's nephew is shareholder and director. The company provides drilling and engineering services to Seplat.

Nabila Resources & Investment Ltd: The Chairman's in-law is a shareholder and director. The company provides lubricant to Seplat.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

34. Related party relationships and transactions (Continued)

Ndosumili Ventures Limited: Is a subsidiary of Platform Petroleum Limited. The company provides transportation services to Seplat.

Neimeth International Pharmaceutical Plc: The Chairman of Seplat is also the chairman of this company. The company provides medical supplies and drugs to Seplat, which are used in connection with Seplat's corporate social responsibility and community healthcare programmes.

Nerine Support Services Limited: Is owned by common shareholders with the parent Company. Seplat leases a warehouse from Nerine and the company provides agency and contract workers to Seplat.

Oriental Catering Services Limited: The Chief Executive Officer of Seplat's spouse is shareholder and director. The company provides catering services to Seplat at the staff canteen.

Platform Petroleum Limited: The Chief Executive Officer of Seplat is a director and shareholder of this company. The company seconded support staff to Seplat.

ResourcePro Inter Solutions Limited: The Chief Executive Officer of Seplat's in-law is its UK representative. The company supplies furniture to Seplat.

Shebah Exploration and Production Company Limited ('SEPCOL'): The Chairman of Seplat is a director and shareholder of SEPCOL. SEPCOL provided consulting services to Seplat.

The following transactions were carried by Seplat with related parties:

34b. Related party transactions

Year-end balances arising from related party transactions

i) Purchases of goods and services

	The Group		The Company	
	2016	2015	2016	2015
	US\$ '000	US\$ '000	US\$ '000	US\$ '000
Shareholders of the parent company				
SEPCOL	1,364	1,517	1,364	1,517
Platform Petroleum Limited	—	35	—	35
	1,364	1,552	1,364	1,552
Entities controlled by key management personnel:				
Contracts > US\$1 m in 2016				
Nerine Support Services Limited ¹	14,991	21,015	14,991	21,015
Montego Upstream Services Limited	13,513	9,449	13,513	9,449
Cardinal Drilling Services Limited	6,931	17,244	6,931	17,244
Helko Nigeria Limited	1,976	566	1,976	556
Ndosumili Ventures Limited	1,729	1,350	1,729	1,350
	39,140	49,624	39,140	49,614
Contracts < US\$1 m in 2016				
Abbeycourt Trading Company Limited	598	2,362	598	2,362
Oriental Catering Services Limited	579	941	579	941
Keco Nigeria Enterprises	259	1,896	259	1,896
ResourcePro Inter Solutions Limited	81	1,841	81	1,841
Nabila Resources & Investment Ltd	58	226	58	226
Berwick Nigeria Limited	28	27	28	27
Neimeth International Pharmaceutical Plc	10	—	10	—
	1,613	7,293	1,613	7,293
	40,753	56,917	40,753	56,907

1. Nerine on average charges a mark-up of 7.5% on agency and contract workers assigned to Seplat. The amounts shown above are gross i.e include salaries and Nerine's mark-up. Total costs for agency and contracts during 2016 are US\$7.9 million.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

34. Related party relationships and transactions (Continued)

34c. Balances:

Year-end balances arising from related party transactions:

i) Prepayments/receivables

	The Group and Company	
	2016	2015
	US\$ '000	US\$ '000
Entities controlled by key management personnel		
Cardinal Drilling Services Limited – current portion	6,211	12,632
Cardinal Drilling Services Limited – non-current portion	—	1,333
	<u>6,211</u>	<u>13,965</u>

ii) Payables

	The Group and Company	
	2016	2015
	US\$ '000	US\$ '000
Entities controlled by key management personnel		
Montego Upstream Services Limited	11,540	—
Nerine Support Services Limited	11,411	—
Cardinal Drilling Services Limited	<u>1,009</u>	<u>—</u>
	<u>23,960</u>	<u>—</u>

35. Information relating to employees

35a. Key management compensation

Key management includes executive and members of the leadership team. The compensation paid or payable to key management for employee services is shown below:

	The Group		The Company	
	2016	2015	2016	2015
	US\$ '000	US\$ '000	US\$ '000	US\$ '000
Salaries and other short-term employee benefits	4,104	4,522	4,104	4,522
Post-employment benefits	700	1,357	700	1,357
Share-based payment expenses	<u>289</u>	<u>3,788</u>	<u>289</u>	<u>3,788</u>
	<u>5,093</u>	<u>9,667</u>	<u>5,093</u>	<u>9,667</u>

35b. Chairman and Directors' emoluments

	The Group		The Company	
	2016	2015	2016	2015
	US\$ '000	US\$ '000	US\$ '000	US\$ '000
Chairman (Non-executive)	1,116	1,125	1,116	1,125
Chief Executive Officer	1,644	1,645	1,644	1,645
Executive Directors	1,858	2,917	1,858	2,917
Non-Executive Directors	2,652	2,708	2,652	2,461
Bonus	—	1,661	—	1,661
JV Partner Share	<u>(1,926)</u>	<u>(2,208)</u>	<u>(1,926)</u>	<u>(2,208)</u>
Total	<u>5,344</u>	<u>7,848</u>	<u>5,344</u>	<u>7,601</u>

NOTES TO THE FINANCIAL STATEMENTS (Continued)

35. Information relating to employees (Continued)

35c. Highest paid Director

	The Group and Company	
	2016	2015
	US\$ '000	US\$ '000
Highest paid Director	1,644	1,645

35d. The number of Directors (excluding the Chairman) whose emoluments fell within the following ranges was:

	The Group and Company	
	2016 Number	2015 Number
Zero – US\$65,000	—	—
US\$65,001 – US\$378,000	7	7
US\$378,001 – US\$516,000	1	—
Above US\$516,000	3	4
	11	11

35e. Employees

The number of employees (other than the Directors) whose duties were wholly or mainly discharged within Nigeria, and who earned over US\$6,500, received remuneration (excluding pension contributions) in the following ranges:

	The Group and Company	
	2016 Number	2015 Number
US\$6,500 – US\$16,000	1	4
US\$16,001 – US\$32,000	33	6
US\$32,001 – US\$48,000	136	76
Above US\$48,000	220	303
	390	389

35f. The average number of persons (excluding Directors) in employment during the year was as follows:

	The Group and Company	
	2016 Number	2015 Number
Senior management	15	19
Managers	78	68
Senior staff	110	111
Junior staff	187	191
	390	389

35g. Employee cost

Seplat's staff costs (excluding pension contribution) in respect of the above employees amounted to the following:

	The Group and Company	
	2016	2015
	US\$ '000	US\$ '000
Salaries and wages	20,055	19,057
	20,055	19,057

NOTES TO THE FINANCIAL STATEMENTS (Continued)

36. Commitments and contingencies

36a. Operating lease commitments – Group as lessee

The Group has entered into operating leases for the use of drilling rigs and rentals. The Group has no minimum lease payments to be disclosed because the total lease payment has been prepaid at inception of the lease.

36b. Contingent liabilities

The Group is involved in a number of legal suits as defendant. The estimated value of the contingent liabilities for the year ended 31 December 2016 is US\$15.5 million (31 December 2015: US\$299.9 million). No provision has been made for this potential liability in these financial statements. Management and the Group's solicitors are of the opinion that the Group will suffer no loss from these claims.

37. Events after the reporting period

The Group confirmed that proceedings have begun in the English High Court against its wholly owned subsidiary, Newton Energy Limited, by Crestar Natural Resources Limited, relating to the deposit of US\$20.5 million currently held in an escrow account.

The potential acquisition of an interest in OML 25 was initially identified in 2014 at which time the Group placed a sum of US\$453 million as a deposit towards the potential investment. However, after material delays, US\$368 million was returned to the Group in July 2015, certain events then led to renewed efforts by the consortium to secure the asset and to the Group providing the escrow monies.

Furthermore, the Group paid US\$11 million to Crestar for past costs and a US\$45 million deposit remains with the potential vendor of the asset. Crestar alleges bad faith conduct by Seplat's subsidiary, Newton Energy Limited, with regards to the Group's request for the escrow monies to be released to Seplat. Seplat has emphasised that it intends to defend the claim vigorously and further announcement, if appropriate, will be made in due course.

There was no other significant event after the statement of financial position date which could have a material effect on the state of affairs of the Group as at 31 December 2016 and on the profit or loss for the year ended on that date, which has not been adequately provided for or disclosed in these financial statements.

FINANCIAL STATEMENTS
For the year ended December 31, 2015
Expressed in US Dollars

	PAGES

Independent auditor's report	F-153
Consolidated statement of profit or loss and other comprehensive income	F-155
Consolidated statement of financial position	F-156
Consolidated statement of changes in equity	F-158
Consolidated statement of cash flows	F-159
Notes to the consolidated financial statements	F-160
Statement of value added	F-212
Financial summary	F-213
Supplementary financial information (unaudited)	F-215
Company statement of profit or loss and other comprehensive income	F-217
Company statement of financial position	F-218
Company statement of changes in equity	F-220
Company statement of cash flows	F-221
Notes to the company financial statements	F-222

***Independent auditor's report to the members of Seplat Petroleum Development Company Plc
For the year ended 31 December 2015***

We have audited the accompanying consolidated and separate financial statements of Seplat Petroleum Development Company Plc, ("the Company") and its subsidiaries (together "the Group") which comprise the statement of financial position as at 31 December 2015, the statement of profit or loss and other comprehensive income, the statement of changes in equity and the statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Directors' responsibility for the financial statements

The Company's Directors are responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards (IFRS), the provisions of the Companies and Allied Matters Act, CAP C20, Laws of the Federation of Nigeria 2004 and in compliance with the Financial Reporting Council of Nigeria Act, No. 6, 2011 and for such internal control as the Directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements give a true and fair view of the financial position of Seplat Petroleum Development Company Plc as at 31 December 2015, and of its financial performance and its cash flows for the year then ended in accordance with the International Financial Reporting Standards, provisions of the Companies and Allied Matters Act, CAP C20, Laws of the Federation of Nigeria 2004 and in compliance with the Financial Reporting Council Act, No. 6, 2011.

Report on other legal and regulatory requirements

In accordance with the requirement of Schedule 6 of the Companies and Allied Matters Act, CAP C20, Laws of the Federation of Nigeria 2004, we confirm that:

- i) we have obtained all the information and explanations which to the best of our knowledge and belief were necessary for the purpose of our audit;

- ii) in our opinion, proper books of account have been kept by the Company, so far as appears from our examination of those books;
- iii) the statement of financial position and profit or loss and other comprehensive income are in agreement with the books of account; and
- iv) in our opinion, the financial statements have been prepared in accordance with the provisions of the Companies and Allied Matters Act, CAP C20, Laws of the Federation of Nigeria 2004 so as to give a true and fair view of the state of affairs and financial performance.



Yemi Odutola FCA

FRC/2012/ICAN/00000000141

For Ernst & Young
Lagos, Nigeria
24 March 2016



CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

for the year ended 31 December 2015

	Notes	2015	2014
		US\$ '000	US\$ '000
Revenue	3	570,477	775,019
Cost of sales	4	(321,694)	(315,590)
Gross profit		248,783	459,429
Other operating income	5	15,511	—
Other general and administrative expenses	6	(121,474)	(151,569)
Gain on foreign exchange		7,747	(17,152)
Fair value movements in contingent consideration	26	7,298	(1,132)
Operating profit		157,865	289,576
Finance income	7a	12,802	11,996
Finance costs	7b	(83,588)	(49,319)
Profit before taxation		87,079	252,253
Taxation	8a	(21,472)	—
Profit for the year		65,607	252,253
Other comprehensive income:			
Other comprehensive income to be reclassified			
to profit or loss in the subsequent periods			
Foreign translation difference		(299)	(32)
Total comprehensive income for the period/year		65,308	—
(Profit)/Loss attributable to non-controlling interest	24	2,154	—
Profit attributable to parent		67,462	252,221
Basic earnings per share EPS (\$/₱)	31	0.12	0.50
Diluted earnings per share (\$/₱)	31	0.12	0.50

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

for the year ended 31 December 2015

	Notes	31 Dec 2015	31 Dec 2014
		US\$ '000	US\$ '000
Assets			
Non-current assets			
Oil & gas properties	11a	1,436,950	843,603
Other property, plant and equipment	11b	11,602	13,459
Intangible assets	12	1	48
Goodwill	33	2,000	-
Prepayments	14	36,754	131,466
Total non-current assets		1,487,307	988,576
Current assets			
Inventories	16	82,468	54,416
Trade and other receivables	17	811,255	1,060,854
Prepayments	18	11,639	14,224
Cash & short-term deposits	19	326,029	285,298
Other current financial assets		-	890
Derivatives not designated as hedges	20	23,194	5,432
Total current assets		1,254,585	1,421,114
Total assets		2,741,892	2,409,690
Equity and liabilities			
Equity			
Issued share capital	21a	1,821	1,798
Share premium	21b	497,457	497,457
Share equity reserve	21c	8,734	-
Capital contribution	22	40,000	40,000
Retained earnings		865,485	869,861
Foreign translation reserve	23	325	26
Non-controlling interest	24	(745)	-
Total shareholders' equity		1,413,077	1,409,142
Non-current liabilities			
Interest bearing loans and borrowings	25a	608,846	239,767
Deferred tax liabilities	9a	21,233	-
Contingent consideration	26	21,900	9,377
Provision for decommissioning obligation	27	3,869	12,690
Defined benefit plan	28	6,926	-
Total non-current liabilities		662,774	261,834
Current liabilities			
Interest bearing loans and borrowings	25b	290,769	348,389
Trade and other payables	30	375,033	390,325
Current taxation	8a	239	-
Total current liabilities		666,041	738,714
Total liabilities		1,328,815	1,000,548
Total shareholders' equity and liabilities		2,741,892	2,409,690

Notes 1 to 38 are an integral part of the financial statements.

The financial statements of Seplat Petroleum Development Company Plc for the year ended 31 December 2015 were authorised for issue in accordance with a resolution of the Directors on 24 March 2016 and were signed on its behalf by:



A.B.C. Orjiako
FRC/2013/IODN/00000003161
Chairman
24 March 2016



Austin Avuru
FRC/2013/IODN/00000003100
Chief Executive Officer
24 March 2016



Roger Brown
FRC/2014/IODN/00000007983
Chief Financial Officer
24 March 2016

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the year ended 31 December 2015

	Notes	Issued share capital	Share premium	Capital contribution	Share based reserves	Retained earnings	Foreign Translation reserve	Total equity	Non- controlling interest	Total
		US\$ '000	US\$ '000	US\$ '000	US\$ '000	US\$ '000	US\$ '000	US\$ '000	US\$ '000	US\$ '000
At 1 January 2014.		1,334	—	40,000	—	690,807	58	732,199	—	732,199
Profit for the year.		—	—	—	—	252,253	—	252,253	—	252,253
Other comprehensive income.		—	—	—	—	—	(32)	(32)	—	(32)
Dividends.		—	—	—	—	(73,199)	—	(73,199)	—	(73,199)
Increase in shares.		464	534,523	—	—	—	—	534,987	—	534,987
Transaction costs for shares issued.		—	(37,066)	—	—	—	—	(37,066)	—	(37,066)
At 31 December 2014.		1,798	497,457	40,000	—	869,861	26	1,409,142	—	1,409,142
At 1 January 2015.		1,798	497,457	40,000	—	869,861	26	1,409,142	—	1,409,142
Profit for the year.		—	—	—	—	67,462	—	67,462	(2,154)	65,308
Other comprehensive income.		—	—	—	—	—	299	299	—	299
Dividends.	32	—	—	—	—	(71,840)	—	(71,840)	—	(71,840)
Share-based payments.		—	—	—	8,757	—	—	8,757	—	8,757
Acquisition of NCI.	24	—	—	—	—	—	—	—	1,409	1,409
Increase in shares.		23	—	—	(23)	—	—	—	—	—
At 31 December 2015.		1,821	497,457	40,000	8,734	865,485	325	1,413,823	(745)	1,413,077

CONSOLIDATED STATEMENT OF CASH FLOWS

for the year ended 31 December 2015

	Notes	2015	2014
	-----	-----	-----
		US\$ '000	US\$ '000
Cash flows from operating activities			
Cash generated from operations	10	38,040	228,171
Income taxes paid	8	—	(2,874)
Net cash flows from operating activities		38,040	225,297
Cash flows from investing activities			
Investment in oil and gas properties		(366,878)	(303,214)
Investment in other property, plant and equipment		(4,615)	(9,870)
Acquisition of subsidiary		(79,409)	—
Proceeds from sale of assets		208	—
Interest received		3,243	11,996
Deposit for investment		—	(453,190)
(Deposit)/Receipts from escrow		368,160	
Aborted acquisition costs		—	(26,056)
Net cash flows from investing activities		(79,291)	(780,334)
Cash flows from financing activities			
Proceeds from issue of shares		—	534,987
Expenses from issue of shares		—	(37,066)
Proceeds from bank financing		967,101	446,000
Repayments of bank financing		(735,940)	(119,034)
Loan to subsidiary undertaking		—	—
Repayment of shareholder financing		—	(48,000)
Dividends paid		(71,840)	(73,199)
Interest paid		(77,338)	(32,847)
Net cash inflows/(outflows) from financing activities		81,983	670,841
Net increase/(decrease) in cash and cash equivalents		40,731	115,805
Cash and cash equivalents at beginning of year		285,298	169,461
Foreign translation reserve		—	32
Cash and cash equivalents at end of year		326,029	285,298

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. Corporate information and business

Seplat Petroleum Development Company Plc ('Seplat' or the 'Company'), the parent of the Group, was incorporated on 17 June 2009 as a private limited liability company and re-registered as a public company on 3 October 2014, under the Company and Allied Matters Act 2004. The Company commenced operations on 1 August 2010. The Company is principally engaged in oil and gas exploration and production.

The Company acquired, pursuant to an agreement for assignment dated 31 January 2010 between the Company, SPDC, TOTAL and AGIP, a 45% participating interest in the following producing assets:

OML 4, OML 38 and OML 41 located in Nigeria. The total purchase price for these assets was \$340 million paid at the completion of the acquisition on 31 July 2010 and a contingent payment of \$33 million payable 30 days after the second anniversary, 31 July 2012, if the average price per barrel of Brent Crude oil over the period from acquisition up to 31 July 2012 exceeds \$80 per barrel. \$358.6 million was allocated to the producing assets including \$18.6 million as the fair value of the contingent consideration as calculated on acquisition date. The contingent consideration of \$33 million was paid on 22 October 2012.

In 2014, Newton Energy Limited ('Newton Energy'), an entity previously beneficially owned by the same shareholders as Seplat, became a subsidiary of the Company. On 1 June 2014, Newton Energy acquired from Pillar Oil Limited ('Pillar Oil') a 40% participating interest in producing assets: the Umuseti/Igbuku marginal field area located within OPL 283 (the 'Umuseti/Igbuku Fields'). The total purchase price for these assets was \$50 million paid at the completion of the acquisition in June 2014 and a contingent payment of \$10 million (\$5 million when average daily production of 10,500 bopd of liquid hydrocarbon sustained over a period of one (1) month is achieved and another \$5 million when cumulative production of 10 million barrels of liquid hydrocarbons from all fields within OML 56 is achieved) by mid-2015. The fair value of \$7.731 million was capitalised to the cost of the asset and a corresponding liability recorded based on the probability. These milestones were not achieved as at mid-2015 and as such the liability was de-recognised during the year.

During the year, the Group purchased a 40% working interest in OML 53, onshore north eastern Niger Delta, from Chevron Nigeria Ltd. for \$259.4 million. It has also concluded negotiations to buy 56.25% of Belemaoil Producing Ltd., a Nigerian special purpose vehicle that has bought a 40% interest in the producing OML 55, located in the swamp to coastal zone of south eastern Niger Delta. NNPC holds the remaining 60.00% interest in OML 55, and Seplat's effective working interest in OML 55 as a result of the acquisition is 22.50%.

Seplat is paying \$132.2 million for its 22.50% interest in OML 55, after adjustments. It has also advanced certain loans of \$80.0 million to the other shareholders of Belemaoil to meet their share of investments and costs associated with Belemaoil. In addition, talks are underway to determine repayment terms for the initial deposit against the acquisition of \$52.5 million that Belemaoil funded with bank debt, which may be added to the total amount loaned to Belemaoil by Seplat.

Current gross production at OML 55 is 8,000 barrels of oil per day. Seplat has been designated operator of OML 55. The Group will also act as technical services provider to Belemaoil.

Seplat estimates net recoverable hydrocarbon volumes attributable to its 40% working interest in OML 53 are 51 million barrels of oil and condensate and 611 billion square cubic feet of gas. Seplat has been designated operator of OML 53.

The Company's registered address is: 25a Lugard Avenue, Ikoyi, Lagos, Nigeria.

The Company together with its subsidiary, Newton Energy, and four wholly owned subsidiaries, namely, Seplat Petroleum Development Company UK Limited ('Seplat UK'), which was incorporated on 21 August 2014, Seplat East Onshore Limited ('Seplat East'), which was incorporated on 12 December 2014, Seplat East Swamp Company Limited ('Seplat Swamp'), which was incorporated on 12 December 2014, and Seplat Gas Company Limited ('Seplat GAS'), which was incorporated on 12 December 2014, is referred to as the Group.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

2. Basis of preparation and significant accounting policies

2.1 Basis of preparation

The consolidated financial statements of the Group have been prepared in accordance with International Financial Reporting Standards ('IFRS') as issued by the International Accounting Standards Board ('IASB'). The financial information has been prepared under the going concern assumption and historical cost convention, except for contingent consideration, borrowings on initial recognition and financial instruments – derivatives not designated as hedges that have been measured at fair value. The historical financial information is presented in US dollars and Nigerian Naira and all values are rounded to the nearest thousand (US\$ '000) and nearest million (₦' m), except when otherwise indicated.

2.2 Basis of consolidation

The consolidated financial information comprises the financial statements of the Group and its subsidiaries as at 31 December 2015. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the Group controls an investee if and only if the Group has:

- Power over the investee (i.e. existing rights that give it the current ability to direct the relevant activities of the investee);
- Exposure, or rights, to variable returns from its involvement with the investee; and
- The ability to use its power over the investee to affect its returns.

Generally, there is a presumption that a majority of voting rights results in control. To support this presumption and when the Group has less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- The contractual arrangement(s) with the other vote holders of the investee
- Rights arising from other contractual arrangements
- The Group's voting rights and potential voting rights

The Group re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in the statement of comprehensive income from the date the Group gains control until the date the Group ceases to control the subsidiary.

Profit or loss and each component of OCI are attributed to the equity holders of the parent of the Group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

The financial statements of the subsidiaries are prepared for the same reporting periods as the parent company using consistent accounting policies.

All intra-group balances, transactions and unrealised gains and losses resulting from intra-group transactions and dividends are eliminated in full.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction. If the Group loses control over a subsidiary, it:

- Derecognises the assets (including goodwill) and liabilities of the subsidiary;
- Derecognises the carrying amount of any non-controlling interests;
- Derecognises the cumulative translation differences recorded in equity;

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

2. Basis of preparation and significant accounting policies (Continued)

- Recognises the fair value of the consideration received;
- Recognises the fair value of any investment retained;
- Recognises any surplus or deficit in profit or loss; and
- Reclassifies the parent's share of components previously recognised in OCI to profit or loss or retained earnings, as appropriate, as would be required if the Group had directly disposed of the related assets or liabilities.

2.3 Summary of significant accounting policies

The following are the significant accounting policies applied by the Company in preparing its financial statements.

2.3.1 Foreign currency translation

Functional and presentation currency

The Group's consolidated financial statements are presented in United States Dollars, which is also the Company's functional currency, and Nigerian Naira. For each entity, the Group determines the functional currency and items included in the financial statements of each entity are measured using that functional currency.

Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of foreign currency transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the statement of comprehensive income within the line item gain/(loss) on foreign exchange, net.

Group companies

On consolidation, the assets and liabilities of foreign operations are translated into the presentation currency at the rate of exchange prevailing at the reporting date and their income statements are translated at exchange rates prevailing at the dates of the transactions. The exchange differences arising on translation for consolidation are recognised in other comprehensive income. On disposal of a foreign operation, the component of other comprehensive income relating to that particular foreign operation is recognised in profit or loss.

2.3.2 Oil and gas accounting

i) Pre-licence costs

Pre-licence costs are expensed in the period in which they are incurred.

ii) Exploration licence costs

Exploration licence costs are capitalised within intangible assets. Licence costs paid in connection with a right to explore in an existing exploration area are capitalised and amortised on a straight-line basis over the life of the permit.

Licence costs are reviewed at each reporting date to confirm that there is no indication that the carrying amount exceeds the recoverable amount. This review includes confirming that exploration drilling is still under way or firmly planned, or that it has been determined, or work is under way to determine that the discovery is economically viable based on a range of technical and commercial considerations and sufficient progress is being made on establishing development plans and timing.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

2. Basis of preparation and significant accounting policies (Continued)

If no future activity is planned or the licence has been relinquished or has expired, the carrying value of the licence is written off through profit or loss.

iii) *Acquisition of producing assets*

Upon acquisition of producing assets which does not constitute a business combination, the Group identifies and recognises the individual identifiable assets acquired (including those assets that meet the definition of, and recognition criteria for, intangible assets in IAS 38 Intangible Assets) and liabilities assumed. The purchase price paid for the group of assets is allocated to the individual identifiable assets and liabilities on the basis of their relative fair values at the date of purchase.

Exploration and evaluation expenditures.

Geological and geophysical exploration costs are charged against income as incurred.

Exploration and evaluation expenditures incurred by the entity are accumulated separately for each area of interest. Such expenditures comprise net direct costs and an appropriate portion of related overhead expenditure, but do not include general overheads or administrative expenditure that is not directly related to a particular area of interest. Each area of interest is limited to a size related to a known or probable hydrocarbon resource capable of supporting an oil operation.

Costs directly associated with an exploration well, exploratory stratigraphic test well and delineation wells are temporarily suspended (capitalised) until the drilling of the well is complete and the results have been evaluated. These costs include employee remuneration, materials and fuel used, rig costs, delay rentals and payments made to contractors. If hydrocarbons ('proved reserves') are not found, the exploration expenditure is written off as a dry hole and charged against income. If hydrocarbons are found, the costs continue to be capitalised. Suspended exploration and evaluation expenditure in relation to each area of interest is carried forward as an asset provided that one of the following conditions is met:

- the costs are expected to be recouped through successful development and exploitation of the area of interest or alternatively, by its sale;
- exploration and/or evaluation activities in the area of interest have not, at the reporting date, reached a stage which permits a reasonable assessment of the existence or otherwise of economically; and
- recoverable reserves, and active and significant operations in, or in relation to, the area of interest are continuing.

Exploration and/or evaluation expenditures which fail to meet at least one of the conditions outlined above are written off. In the event that an area is subsequently abandoned or exploration activities do not lead to the discovery of proved or probable reserves, or if the Directors consider the expenditure to be of no value, any accumulated costs carried forward relating to the specified areas of interest are written off in the year in which the decision is made. While an area of interest is in the development phase, amortisation of development costs is not charged pending the commencement of production. Exploration and evaluation costs are transferred from the exploration and/or evaluation phase to the development phase upon commitment to a commercial development.

iv) *Development expenditures*

Development expenditure incurred by the entity is accumulated separately for each area of interest in which economically recoverable reserves have been identified to the satisfaction of the Directors. Such expenditure comprises net direct costs and, in the same manner as for exploration and evaluation expenditure, an appropriate portion of related overhead expenditure directly related to the development property.

All expenditure incurred prior to the commencement of commercial levels of production from each development property is carried forward to the extent to which recoupment is expected out of revenue to be derived from the sale of production from the relevant development property.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

2. Basis of preparation and significant accounting policies (Continued)

v) Joint operations

Seplat is the operator of the assets relating to OML 4, OML 38 and OML 41. The Nigerian Petroleum Development Company Limited ('NPDC'), a subsidiary of the Nigerian National Petroleum Corporation ('NNPC'), is the other venturer. Seplat holds a 45% interest, while NPDC holds 55% interest in the jointly controlled assets.

The Group also holds a 40% interest in the joint operations relating to OPL 283/OML 56 (the 'Umuseti/Igbuku Fields'). Pillar Oil is the other venturer and the operator.

During the year, the Group acquired 40% working interest in OML 53, onshore north eastern Niger Delta.

The accounting method specified for a joint operation apportions to each venturer its share of revenues, expenses, assets and liabilities. The Group recognises its share in its own accounting records as follows:

- a. Its share of the mineral properties is shown within property, plant and equipment.
- b. Any liabilities that it has incurred including those incurred to finance its share of the asset.
- c. Its share of any liabilities incurred jointly with other venturers, including the decommissioning liability of production and field facilities.
- d. Any income from its sale or use of its share of the output, together with its share of any expenses incurred by the joint operation.
- e. Any expenses that it has incurred in respect of its interest in the venture.

In addition to joint costs, the Group also incurs exclusive costs, which are fully borne by the Group.

2.3.3 Revenue recognition

Revenue arises from the sale of crude oil and gas. Revenue comprises the realised value of crude oil lifted by customers. Revenue is recognised when crude products are lifted by a third party (buyer) Free on Board ('FOB') at the Group's designated loading facility or lifting terminals. At the point of lifting, all risks and rewards are transferred to the buyer. Gas revenue is recognised when gas passes through the custody transfer point.

Overlift and underlift

The excess of the product sold during the period over the participant's ownership share of production is termed as an overlift and is accrued for as a liability and not as revenue. Conversely, an underlift is recognised as an asset and the corresponding revenue is also reported.

Overlifts and underlifts are initially measured at the market price of oil at the date of lifting, consistent with the measurement of the sale and purchase.

2.3.4 Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

2.3.5 Property, plant and equipment

Oil and gas properties and other plant and equipment are stated at cost, less accumulated depreciation and accumulated impairment losses.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

2. Basis of preparation and significant accounting policies (Continued)

The initial cost of an asset comprises its purchase price or construction cost, any costs directly attributable to bringing the asset into operation, the initial estimate of any decommissioning obligation and, for qualifying assets, borrowing costs. The purchase price or construction cost is the aggregate amount paid and the fair value of any other consideration given to acquire the asset. Where parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items of property, plant and equipment.

Expenditure on major maintenance refits or repairs comprises the cost of replacement assets or parts of assets, inspection costs and overhaul costs. Where an asset or part of an asset that was separately depreciated and is now written off is replaced and it is probable that future economic benefits associated with the item will flow to the entity, the expenditure is capitalised. Inspection costs associated with major maintenance programmes are capitalised and amortised over the period to the next inspection. Overhaul costs for major maintenance programmes are capitalised as incurred as long as these costs increase the efficiency of the unit or extend the useful life of the asset. All other maintenance costs are expensed as incurred.

Depreciation

Production and field facilities are depreciated/amortised on a unit-of-production basis over the estimated proved developed reserves. Other property, plant and equipment is depreciated on a straight-line basis over their estimated useful lives. Depreciation commences when an asset is available for use. The depreciation rate for each class is as follows:

Leasehold improvements	Over the unexpired portion of the lease
Plant and machinery	20%
Office furniture and equipment	33.33%
Motor vehicles	25%
Computer equipment	33.33%

The expected useful lives and residual values of property, plant and equipment are reviewed on an annual basis and, if necessary, changes in useful lives are accounted for prospectively.

2.3.6 Impairment of non-financial assets

The entity assesses assets or group of assets for impairment whenever events or changes in circumstances indicate that the carrying value of an asset may not be recoverable. Individual assets are grouped for impairment assessment purposes at the lowest level at which there are identifiable cash flows that are largely independent of the cash flows of other groups of assets. If any such indication of impairment exists or when annual impairment testing for an asset group is required, the entity makes an estimate of its recoverable amount. Such indicators include changes in the Group's business plans, changes in commodity prices, evidence of physical damage and, for oil and gas properties, significant downward revisions of estimated recoverable volumes or increases in estimated future development expenditure.

The recoverable amount is the higher of an asset's fair value less costs of disposal ('FVLCD') and value in use ('VIU'). The recoverable amount is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or group of assets, in which case, the asset is tested as part of a larger cash generating unit to it belongs. Where the carrying amount of an asset group exceeds its recoverable amount, the asset group is considered impaired and is written down to its recoverable amount.

In calculating VIU, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset/CGU. In determining FVLCD, recent market transactions are taken into account. If no such transactions can be identified, an appropriate valuation model is used. These calculations are corroborated by valuation multiples, quoted share prices for publicly traded companies or other available fair value indicators.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

2. Basis of preparation and significant accounting policies (Continued)

A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. If that is the case, the carrying amount of the asset is increased to the recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in the statement of profit or loss after such a reversal and the depreciation charge is adjusted in future periods to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining useful life.

2.3.7 Cash and cash equivalents

Cash and cash equivalents in the statement of cash flows comprise cash at banks and at hand and short-term deposits with an original maturity of three months or less.

2.3.8 Inventories

Inventories represent the value of tubulars, casing and wellheads. These are stated at the lower of cost and net realisable value. Cost is determined using the invoice value and all other directly attributable costs to bringing the inventory to the point of use determined on a first in first out basis. Net realisable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated cost necessary to make the sale.

2.3.9 Financial instruments

i) Financial assets

Financial assets' initial recognition and measurement

Financial assets in the scope of IAS 39 Financial Instruments: Recognition and Measurement are classified as financial assets at fair value through the statement of profit or loss, loans and receivables, held to maturity investments, available-for-sale financial assets, or derivatives designated as hedging instruments in an effective hedge, as appropriate. The Group determines the classification of its financial assets at initial recognition.

All financial assets are recognised initially at fair value plus transaction costs, except in the case of financial assets recorded at fair value through the statement of profit or loss which do not include transaction costs.

The Group's financial assets include cash and short-term deposits, trade and other receivables and loan and other receivables.

Subsequent measurement

The subsequent measurement of financial assets depends on their classification, as follows:

Trade receivables, loans and other receivables

Trade receivables, loans and other receivables, which are non-derivative financial assets that have fixed or determinable payments that are not quoted in an active market, are classified as loans and receivables. They are included in the current assets, except for maturities greater than 12 months after the reporting date. The Group's loan and receivables comprise trade and other receivables in the consolidated historical financial information.

Loans and receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest rate method net of any impairment.

A provision for impairment of trade receivables is established when there is objective evidence that the Group will not be able to collect all the amounts due according to the original terms of the receivable.

Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation and default or delinquency in payments are considered as indicators that the trade receivable is impaired. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

2. Basis of preparation and significant accounting policies (Continued)

The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the loss is recognised in the statement of profit or loss. When a trade is uncollectable, it is written off against the allowance account for trade receivables.

Impairment of financial assets

The Group assesses at each reporting date whether there is objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if there is objective evidence of impairment as a result of one or more events that has occurred since the initial recognition of the asset (an incurred loss event) and that loss event has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that the debtor or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and observable data indicating that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

(ii) *Financial liabilities*

Financial liabilities in the scope of IAS 39 are classified as financial liabilities at fair value through the statement of profit or loss, loans and borrowings as appropriate. The Group determines the classification of its financial liabilities at initial recognition.

All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings, net of directly attributable transaction costs.

The Group's financial liabilities include trade and other payables, bank overdrafts and loans and borrowings.

Subsequent measurement

The measurement of financial liabilities depends on their classification as described below.

Trade payables, loans and borrowings

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Accounts payable are classified as current liabilities if payment is due within one year or less. If not, they are presented as non-current liabilities.

Trade payables are recognised initially at fair value and subsequently measured at amortised cost using effective interest method.

Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently carried at amortised cost while any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the statement of profit or loss over the period of borrowings using the effective interest method.

Fees paid on establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw down occurs. To the extent that there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalised as a pre-payment for liquidity services and amortised over the period of the facility to which it relates.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

2. Basis of preparation and significant accounting policies (Continued)

Derecognition of financial liabilities

A financial liability is derecognised when the associated obligation is discharged or cancelled or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognised in the statement of profit or loss & other comprehensive income.

Derivative financial instruments

The Group uses derivative financial instruments, such as forward exchange contracts, to hedge its foreign exchange risks as well as put options to hedge against its oil price risk. However, such contracts are not accounted for as designated hedges. Derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently re-measured at fair value. Derivatives are carried as financial assets when the fair value is positive and as financial liabilities when the fair value is negative. Any gains or losses arising from changes in the fair value of derivatives are taken directly to the statement of profit or loss and other comprehensive income, and presented within operating profit.

Commodity contracts that were entered into and continue to be held for the purpose of the receipt or delivery of a non-financial item in accordance with the Group's expected purchase, sale or usage requirements fall within the exemption from IAS 32 and IAS 39, which is known as the 'normal purchase or sale exemption'. For these contracts and the host part of the contracts containing embedded derivatives, they are accounted for as executory contracts. The Group recognises such contracts in its statement of financial position only when one of the parties meets its obligation under the contract to deliver either cash or a non-financial asset. An analysis of fair values of financial instruments and further details as to how they are measured are provided in note 20 Financial instruments.

2.3.10 *Fair value of financial instruments*

The Group measures all financial instruments at initial recognition at fair value and financial instruments carried at fair value through profit and loss such as derivatives at fair value at each balance sheet date. From time to time, the fair values of non-financial assets and liabilities are required to be determined, e.g., when the entity acquires a business, or where an entity measures the recoverable amount of an asset or cash-generating unit ('CGU') at FVLCD.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs. From time to time external valuers are used to assess FVLCD of the Group's non-financial assets. Involvement of external valuers is decided upon by the valuation committee after discussion with and approval by the Company's Audit Committee. Selection criteria include market knowledge, reputation, independence and whether professional standards are maintained. Valuers are normally rotated every three years. The valuation committee decides, after discussions with the Group's external valuers, which valuation techniques and inputs to use for each case.

Changes in estimates and assumptions about these inputs could affect the reported fair value. The fair value of financial instruments that are traded in active markets at each reporting date is determined by reference to quoted market prices or dealer price quotations (bid price for long positions and ask price for short positions), without any deduction for transaction costs.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

2. Basis of preparation and significant accounting policies (Continued)

2.3.11 *Business combinations and goodwill*

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, which is measured at acquisition date fair value, and the amount of any non-controlling interests in the acquiree. For each business combination, the Group elects whether to measure the non-controlling interests in the acquiree at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition-related costs are expensed as incurred and included in administrative expenses.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date.

Any contingent consideration to be transferred by the acquirer will be recognised at fair value at the acquisition date. Contingent consideration classified as an asset or liability that is a financial instrument and within the scope of IAS 39 Financial Instruments: Recognition and Measurement, is measured at fair value with the changes in fair value recognised in the statement of profit or loss.

Goodwill is initially measured at cost (being the excess of the aggregate of the consideration transferred and the amount recognised for non-controlling interests) and any previous interest held over the net identifiable assets acquired and liabilities assumed. If the fair value of the net assets acquired is in excess of the aggregate consideration transferred, the Group re-assesses whether it has correctly identified all of the assets acquired and all of the liabilities assumed and reviews the procedures used to measure the amounts to be recognised at the acquisition date. If the reassessment still results in an excess of the fair value of net assets acquired over the aggregate consideration transferred, then the gain is recognised in profit or loss.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

Where goodwill has been allocated to a cash-generating unit ('CGU') and part of the operation within that unit is disposed of, the goodwill associated with the disposed operation is included in the carrying amount of the operation when determining the gain or loss on disposal. Goodwill disposed in these circumstances is measured based on the relative values of the disposed operation and the portion of the cash-generating unit retained.

Seplat East Swamp Company Limited owns 56.25% of Belemaoil Producing Ltd., a Nigerian special purpose vehicle that bought a 40% interest in the producing OML 55, located in the swamp to coastal zone of south eastern Niger Delta.

2.3.12 *Share capital, earnings and dividends per share*

Issued share capital has been translated at the exchange rate prevailing at the date of the transaction and is not retranslated subsequent to initial recognition.

Basic earnings per share is calculated by dividing the net profit for the year attributable to ordinary shareholders of the Group by the weighted average number of ordinary shares outstanding during the year. Dividends on ordinary shares are recognised as a liability in the period in which they are approved.

2.3.13 *Post-employment benefits*

Defined contribution scheme

The Group contributes to a defined contribution scheme for its employees in compliance with the provisions of the Pension Reform Act 2004. The scheme is fully funded and is managed by licensed Pension Fund Administrators. Membership of the scheme is automatic upon commencement of duties at the Group. The Group's contributions to the defined contribution scheme are charged to the profit and loss account in the year to which they relate.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

2. Basis of preparation and significant accounting policies (Continued)

Defined benefits

The Group also operates a defined benefit pension plan, which requires contributions to be made to a separately administered fund. The Group also provides certain additional post-employment benefits to employees. These benefits are unfunded.

The cost of providing benefits under the defined benefit plan is determined using the projected unit credit method.

Remeasurements, comprising actuarial gains and losses, are recognised immediately in the statement of financial position with a corresponding debit or credit to retained earnings through OCI in the period in which they occur.

Remeasurements are not reclassified to profit or loss in subsequent periods.

Past service costs are recognised in profit or loss on the earlier of:

- The date of the plan amendment or curtailment; and
- The date that the Group recognises related restructuring costs.

Net interest is calculated by applying the discount rate to the net defined benefit liability or asset. The Group recognises the following changes in the net defined benefit obligation under 'cost of sales', 'administration expenses' and 'selling and distribution expenses' in the consolidated statement of profit or loss (by function):

- Service costs comprising current service costs, past-service costs, gains and losses on curtailments and non-routine settlements.

2.3.14 *Provisions*

Provisions are recognised when (i) the Group has a present legal or constructive obligation as a result of past events; (ii) it is probable that an outflow of economic resources will be required to settle the obligation as a whole; and (iii) the amount can be reliably estimated. Provisions are not recognised for future operating losses.

In measuring the provision:

- risks and uncertainties are taken into account;
- the provisions are discounted where the effects of the time value of money is considered to be material;
- when discounting is used, the increase of the provision over time is recognised as an interest expense;
- future events such as changes in law and technology, are taken into account where there is subjective audit evidence that they will occur; and
- gains from expected disposal of assets are not taken into account, even if the expected disposal is closely linked to the event giving rise to the provision.

Decommissioning

Liabilities for decommissioning costs are recognised as a result of the constructive obligation of past practice in the oil and gas industry, when it is possible that an outflow of economic resources will be required to settle the liability and a reliable estimate can be made. The estimated costs, based on current requirements, technology and price levels, prevailing at the reporting date, are computed based on the latest assumptions as to the scope and method of abandonment.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

2. Basis of preparation and significant accounting policies (Continued)

Provisions are measured at the fair value of the expenditures expected to be required to settle the obligation using a pre-tax rate, updated at each reporting date that reflects current market assessments of the time value of money and the risks specific to the obligation. The corresponding amount is capitalised as part of the oil and gas properties and is amortised on a unit-of-production basis as part of the depreciation, depletion and amortisation charge. Any adjustment arising from the estimated cost of the restoration and abandonment cost is capitalised, while the charge arising from the accretion of the discount applied to the expected expenditure is treated as a component of finance charges.

If the change in estimate results in an increase in the decommissioning provision and, therefore, an addition to the carrying value of the asset, the Group considers whether this is an indication of impairment of the asset as a whole, and if so, tests for impairment in accordance with IAS 36. If, for mature fields, the revised oil and gas assets net of decommissioning provisions exceed the recoverable value, that portion of the increase is charged directly to expense.

2.3.15 *Contingencies*

A contingent asset or contingent liability is a possible asset or obligation that arises from past events and whose existence will be confirmed by the occurrence or non-occurrence of uncertain future events. The assessment of the existence of the contingencies will involve management judgement regarding the outcome of future events.

2.3.16 *Income taxation*

Current income tax

The tax expense for the period comprises current and deferred tax. Tax is recognised in the statement of profit or loss and other comprehensive income, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the country where Group operates and generates taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulations are subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Taxation on crude oil activities is provided in accordance with the Petroleum Profits Tax Act ('PPTA') CAP. P13 Vol. 13 LFN 2004 and on gas operations in accordance with the Companies Income Tax Act ('CITA') CAP. C21 Vol. 3 LFN 2004. Education tax is assessed at 2% of the assessable profits.

Deferred tax

Deferred tax is recognised, using the liability method, on temporary differences arising between the carrying amounts of assets and liabilities in the consolidated historical financial information and the corresponding tax bases used in the computation of taxable profit.

A deferred income tax charge is determined using tax rates (and laws) that have been enacted or substantively enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such deferred tax assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

2. Basis of preparation and significant accounting policies (Continued)

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income tax assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

2.3.17 *New tax regime*

Effective 1 January 2014, the Company was granted the pioneer tax status incentive by the Nigerian Investment Promotion Commission for an initial three-year period and a further two-year period on approval. For the period the incentive applies, the Company is exempt from petroleum profits tax on crude oil profits (which would be otherwise taxed at 65.75%, to increase to 85% in 2015), corporate income tax on natural gas profits (currently taxed at 30 per cent.) and education tax of 2%. Newton Energy was also granted pioneer tax status on the same basis. The Company has completed its first three years of the pioneer tax period and applied for the approval of the remaining two years. As at 31 December 2015, the Nigerian Investment Promotion Commission is yet to approve the extension. In preparing the financial statements, the Group has assumed that the extension will not be approved and recognised deferred tax liabilities as at the balance sheet date.

Tax incentives do not apply to Seplat East Onshore Limited (OML 53) and Seplat East Swamp Company Limited (OML 55), hence all taxes have been included in full for these entities in the financial statements.

2.3.18 *Leases*

The determination of whether an arrangement is, or contains, a lease is based on the substance of the arrangement at the inception date. The arrangement is assessed for whether fulfilment of the arrangement is dependent on the use of a specific asset or assets or the arrangement conveys a right to use the asset or assets, even if that right is not explicitly specified in an arrangement.

Operating lease payments and capitalised prepaid operating leases are recognised as an operating expense in the statement of profit or loss and other comprehensive income on a straight-line basis over the lease term.

2.3.19 *Share-based payments*

Employees (including senior executives) of the Group receive remuneration in the form of share-based payments, whereby employees render services as consideration for equity instruments (equity-settled transactions). Employees working in the business development group are granted share appreciation rights, which are settled in cash (cash-settled transactions).

Equity-settled transactions

The cost of equity-settled transactions is determined by the fair value at the date when the grant is made using an appropriate valuation model.

That cost is recognised in employee benefits expense together with a corresponding increase in equity (other capital reserves), over the period in which the service and, where applicable, the performance conditions are fulfilled (the vesting period). The cumulative expense recognised for equity-settled transactions at each reporting date until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest. The expense or credit in the statement of profit or loss for a period represents the movement in cumulative expense recognised as at the beginning and end of that period.

Service and non-market performance conditions are not taken into account when determining the grant date and for fair value of awards, but the likelihood of the conditions being met is assessed as part of the Group's best estimate of the number of equity instruments that will ultimately vest. Market performance conditions are reflected within the grant date fair value. Any other conditions attached to an award, but without an associated service requirement, are considered to be non-vesting conditions. Non-vesting conditions are reflected in the fair value of an award and lead to an immediate expensing of an award unless there are also service and/or performance conditions.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

2. Basis of preparation and significant accounting policies (Continued)

No expense is recognised for awards that do not ultimately vest because non-market performance and/or service conditions have not been met. Where awards include a market or non-vesting condition, the transactions are treated as vested irrespective of whether the market or non-vesting condition is satisfied, provided that all other performance and/or service conditions are satisfied. When the terms of an equity-settled award are modified, the minimum expense recognised is the grant date fair value of the unmodified award, provided the original terms of the award are met. An additional expense, measured as at the date of modification, is recognised for any modification that increases the total fair value of the share-based payment transaction, or is otherwise beneficial to the employee. Where an award is cancelled by the entity or by the counterparty, any remaining element of the fair value of the award is expensed immediately through profit or loss. The dilutive effect of outstanding options is reflected as additional share dilution in the computation of diluted earnings per share.

Cash-settled transactions

A liability is recognised for the fair value of cash-settled transactions. The fair value is measured initially and at each reporting date up to and including the settlement date, with changes in fair value recognised in employee benefits expense. The fair value is expensed over the period until the vesting date with recognition of a corresponding liability. The fair value is determined using a binomial model.

2.3.20 *Retirement benefits*

Employee benefits are all forms of consideration given by an entity in exchange for service rendered by employees or for the termination of employment. The Group operates a defined contribution plan and it is accounted for based on IAS 19 Employee benefits.

Defined contribution plans are post-employment benefit plans under which an entity pays fixed contributions into a separate entity (a fund) and will have no legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay all employee benefits relating to employee service in the current and prior periods. Under defined contribution plans the entity's legal or constructive obligation is limited to the amount that it agrees to contribute to the fund. Thus, the amount of the post-employment benefits received by the employee is determined by the amount of contributions paid by an entity (and perhaps also the employee) to a post-employment benefit plan or to an insurance company, together with investment returns arising from the contributions. In consequence, actuarial risk (that benefits will be less than expected) and investment risk (that assets invested will be insufficient to meet expected benefits) fall, in substance, on the employee.

2.4 Significant accounting judgements, estimates and assumptions

The preparation of the Group's consolidated historical financial information requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the accompanying disclosures, and the disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of assets or liabilities affected in future periods.

Judgements

In the process of applying the Group's accounting policies, management has made the following judgements, which have the most significant effect on the amounts recognised in the consolidated historical financial information:

i) *OMLs 4, 38 and 41*

OMLs 4, 38, 41 are grouped together as a cash generating unit. These three OMLs are grouped together because they cannot independently generate cash flow. Crude oil and gas sold to third parties from these OMLs are invoiced together.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

2. Basis of preparation and significant accounting policies (Continued)

ii) *Acquisition of a 40% participating interest in producing assets*

The acquisition of a 40% participating interest in OPL 283 (the 'Umuseti/Igbuku Fields'), in 2014, has been accounted for as an acquisition of assets, with the exception of adopting IFRS 3, Business combination, when accounting for the contingent consideration. This is on the basis that the assets do not constitute a business.

iii) *NPDC receivable (note 17)*

NPDC continues to demonstrate its commitment to repay outstanding debts. After significant payments during 2015, the amount owed by NPDC as at 31 December 2015 was \$435 million (2014: \$463 million), of which \$190 million (2014: \$248 million) is overdue. The Group considers that the current receivable balance remains fully recoverable as cash payments continue to be received and, as at 11 March 2016, solely the amounts relating to 2014 and 2015 are overdue.

iv) *Deposit for investment (note 17)*

The Group considers that the deposit for investment of \$45 million in relation to the acquisition of additional assets is fully recoverable in accordance with the terms of the deposit.

v) *Share-based payments*

Estimating fair value for share-based payment transactions requires determination of the most appropriate valuation model, which depends on the terms and conditions of the grant. This estimate also requires determination of the most appropriate inputs to the valuation model including the expected life of the share option or appreciation right, volatility and dividend yield and making assumptions about them. The Group measures the fair value of equity-settled transactions with employees at the grant date, and uses a Monte-Carlo model for the global offer, non-executive and long term incentive scheme. The assumptions and models used for estimating fair value for share-based payment transactions are disclosed in note 21c.

Estimates and assumptions

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are described below. The Group based its assumptions and estimates on parameters available when the consolidated financial statements were prepared. Existing circumstances and assumptions about future developments may change due to market changes or circumstances arising that are beyond the control of the Group. Such changes are reflected in the assumptions when they occur.

vi) *Contingent consideration (note 26)*

In 2014, the Group recognised the contingent consideration in relation to its acquisition of a participating interest in assets within OPL 283 (the 'Umuseti/Igbuku Fields'). The contingency criteria are the achievement of certain production milestones. At inception, the present value was capitalised to the cost of the asset and a corresponding liability was recorded. The liability was carried at fair value through profit or loss. These milestones were not achieved as at mid-2015 and as such the liability was de-recognised during the year.

During the year, a part of the consideration paid for OML 53 and 55 is a discount of \$39.4 million contingent on oil price rising above \$90/bbl. over the next three years. The fair value of this discount is \$20.5m; this has been capitalised to the cost of the asset and the corresponding liability recorded based on the probability.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

2. Basis of preparation and significant accounting policies (Continued)

vii) *Defined benefit plans (pension benefits)*

The cost of the defined benefit retirement plan and the present value of the retirement obligation are determined using actuarial valuations. An actuarial valuation involves making various assumptions that may differ from actual developments in the future. These include the determination of the discount rate, future salary increases, mortality rates and changes in inflation rates. Due to the complexities involved in the valuation and its long-term nature, a defined benefit obligation is highly sensitive to changes in these assumptions. All assumptions are reviewed at each reporting date. The parameter most subject to change is the discount rate. In determining the appropriate discount rate, management considers market yield on federal government bond in currencies consistent with the currencies of the post-employment benefit obligation and extrapolated as needed along the yield curve to correspond with the expected term of the defined benefit obligation. The rates of mortality assumed for employees are the rates published in 67/70 ultimate tables, published jointly by the Institute and Faculty of Actuaries in the UK. Further details about pension obligations are provided in note 29.

Oil and gas reserves

Proved oil and gas reserves are used in the units of production calculation for depletion as well as the determination of the timing of well closure and impairment analysis. There are numerous uncertainties inherent in estimating oil and gas reserves. Assumptions that are valid at the time of estimation may change significantly when new information becomes available. Changes in the forecast prices of commodities, exchange rates, production costs or recovery rates may change the economic status of reserves and may ultimately result in the reserves being restated.

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. Such estimates and assumptions are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Group's 2P reserves increased by 71% from 281 MMboe as at 31 December 2014 to 480 MMboe as at 31 December 2015 due to additional 184 MMboe reserves on newly acquired OMLs 53 and 55 and 15 MMboe net revisions on OMLs 4, 38 & 41 and OML 56. The 15 MMboe net revisions on OMLs 4, 38 & 41 is due to Okporhuru and Orogho field developments, Sapele development drilling and performance and issue of Okwefe field development plan and production tests. Also, further developments in Ovhor and Oben oil and gas contribute to the upward reserves movements. The majority of these movements relate to contingent to reserves conversions; in a few cases like Okporhuru development, new reservoir sands were penetrated and in other cases, reservoir performance was better than initially predicted. It is on this basis that the reserves evaluator showed the improvement in the reserves position year on year as documented in the CPR and Reserves assessment reports.

viii) *Provision for decommissioning (note 27)*

Provisions for environmental clean-up and remediation costs associated with the Group's drilling operations are based on current constructions, technology, price levels and expected plans for remediation. Actual costs and cash outflows can differ from estimates because of changes in public expectations, prices, discovery and analysis of site conditions and changes in clean-up technology.

ix) *Recoverability of assets' carrying amount (note 11a)*

The Group assesses its property, plant and equipment, including exploration and evaluation assets, for possible impairment if there are events or changes in circumstances that indicate that carrying values of the assets may not be recoverable, or at least at every reporting date.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

2. Basis of preparation and significant accounting policies (Continued)

If there are low oil prices or natural gas prices during an extended period the Group may need to recognise significant impairment charges. The assessment for impairment entails comparing the carrying value of the cash-generating unit with its recoverable amount, that is, value in use. Value in use is usually determined on the basis of discounted estimated future net cash flows. Determination as to whether and how much an asset is impaired involves management estimates on highly uncertain matters such as future commodity prices, the effects of inflation on operating expenses, discount rates, production profiles and the outlook for regional market supply-and-demand conditions for crude oil and natural gas.

In 2015, in response to the significant fall in commodity prices, the Group executed an impairment assessment. The Group used the value in use in determining the recoverable amount of the cash-generating unit. The assessment did not result in an impairment charge. In determining the value, the Group used a recent forward curve for five years, reverting to the Group's long-term price assumption for impairment testing of \$60 per barrel from 1 January 2019. The Group used a pre-tax discount rate of 10% based on the Group weighted average cost of capital.

Management has considered whether a reasonable possible change in one of the main assumptions will cause an impairment and believes no change will cause an impairment.

x) Contingencies (note 35c)

By their nature, contingencies will only be resolved when one or more uncertain future events occur or fail to occur. The assessment of the existence, and potential quantum, of contingencies inherently involves the exercise of significant judgement and the use of estimates regarding the outcome of future events.

xi) Income taxes (note 8)

The Group is subject to income taxes only by the Nigerian tax authority, which does not require much judgement in terms of provision for income taxes, but a certain level of judgement is required for recognition of deferred tax assets. Management is required to assess the ability of the Group to generate future taxable economic earnings that will be used to recover all deferred tax assets. Assumptions about the generation of future taxable profits depend on management's estimates of future cash flows. The estimates are based on the future cash flow from operations taking into consideration the oil and gas prices, volumes produced, operational and capital expenditure.

2.5 Changes in accounting policies and disclosures

New and amended standards and interpretations

There were a number of new standards and interpretations, effective from 1 January 2015, that the Group applied for the first time in the current year. The nature and the impact of each new standard and amendment that may have an impact on the Group now or in the future is described below. Several other amendments apply for the first time in 2015; however, they do not impact the annual financial statements of the Group.

Other than the changes described below, the accounting policies adopted are consistent with those of the previous financial year.

IFRIC 21 Levies

IFRIC 21 clarifies that an entity recognises a liability for a levy when the activity that triggers payment, as identified by the relevant legislation, occurs. For a levy that is triggered upon reaching a minimum threshold, the interpretation clarifies that no liability should be anticipated before the specified minimum threshold is reached. Retrospective application is required for IFRIC 21. This interpretation has no impact on the Group as it has applied the recognition principles under IAS 37 consistent with the requirements of IFRIC 21 in prior years.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

2. Basis of preparation and significant accounting policies (Continued)

Recoverable Amount Disclosures for Non-Financial Assets — Amendments to IAS 36 Impairment of Assets.

The amendment clarifies the disclosures required in relation to the recoverable amount of impaired assets if that amount is based on fair value less costs of disposal. The amendment to IAS 36 only resulted in certain disclosures being updated.

Annual Improvements 2010-2012 Cycle

In the 2010-2012 annual improvements cycle, the IASB issued seven amendments to six standards, which included an amendment to IFRS 13 Fair Value Measurement. The amendment to IFRS 13 is effective immediately, and thus for periods beginning 1 January 2015, and clarifies in the Basis for Conclusions that short-term receivables and payables with no stated interest rates can be measured at invoice amounts when the effect of discounting is immaterial. This amendment to IFRS 13 has no impact on the Group.

2.6 Standards issued but not effective

The standards and interpretations that are issued, but not yet effective, up to the date of issuance of the Group's financial statements are disclosed below. The Group intends to adopt these standards, if applicable, when they become effective.

IFRS 9 Financial Instruments

In July 2014, the IASB issued the final version of IFRS 9 Financial Instruments that replaces IAS 39 Financial Instruments: Recognition and Measurement and all previous versions of IFRS 9. IFRS 9 brings together all three aspects of the accounting for financial instruments project: classification and measurement, impairment and hedge accounting. IFRS 9 is effective for annual periods beginning on or after 1 January 2018, with early application permitted. Except for hedge accounting, retrospective application is required but providing comparative information is not compulsory. For hedge accounting, the requirements are generally applied prospectively, with some limited exceptions. The Group plans to adopt the new standard on the required effective date. The Group is currently assessing the impact of IFRS 9.

IFRS 14 Regulatory Deferral Accounts

IFRS 14 is an optional standard that allows an entity, whose activities are subject to rate-regulation, to continue applying most of its existing accounting policies for regulatory deferral account balances upon its first-time adoption of IFRS. Entities that adopt IFRS 14 must present the regulatory deferral accounts as separate line items on the statement of financial position and present movements in these account balances as separate line items in the statement of profit or loss and OCI. The standard requires disclosure of the nature of, and risks associated with, the entity's rate-regulation and the effects of that rate-regulation on its financial statements. IFRS 14 is effective for annual periods beginning on or after 1 January 2016. Since the Group is an existing IFRS preparer, this standard would not apply.

IFRS 15 Revenue from Contracts with Customers

IFRS 15 was issued in May 2014 and establishes a five-step model to account for revenue arising from contracts with customers. Under IFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer.

The new revenue standard will supersede all current revenue recognition requirements under IFRS. Either a full retrospective application or a modified retrospective application is required for annual periods beginning on or after 1 January 2018, when the IASB finalises their amendments to defer the effective date of IFRS 15 by one year. Early adoption is permitted. The Group plans to adopt the new standard on the required effective date using the full retrospective method. The Group is currently assessing the impact of IFRS 15.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

2. Basis of preparation and significant accounting policies (Continued)

Amendments to IFRS 11 Joint Arrangements: Accounting for Acquisitions of Interests

The amendments to IFRS 11 require that a joint operator accounting for the acquisition of an interest in a joint operation, in which the activity of the joint operation constitutes a business, must apply the relevant IFRS 3 principles for business combinations accounting. The amendments also clarify that a previously held interest in a joint operation is not remeasured on the acquisition of an additional interest in the same joint operation while joint control is retained. In addition, a scope exclusion has been added to IFRS 11 to specify that the amendments do not apply when the parties sharing joint control, including the reporting entity, are under common control of the same ultimate controlling party.

The amendments apply to both the acquisition of the initial interest in a joint operation and the acquisition of any additional interests in the same joint operation and are prospectively effective for annual periods beginning on or after 1 January 2016, with early adoption permitted. These amendments are not expected to have any impact on the Group.

Amendments to IAS 16 and IAS 38: Clarification of Acceptable Methods of Depreciation and Amortisation

The amendments clarify the principle in IAS 16 and IAS 38 that revenue reflects a pattern of economic benefits that are generated from operating a business (of which the asset is part) rather than the economic benefits that are consumed through use of the asset. As a result, a revenue-based method cannot be used to depreciate property, plant and equipment and may only be used in very limited circumstances to amortise intangible assets. The amendments are effective prospectively for annual periods beginning on or after 1 January 2016, with early adoption permitted. These amendments are not expected to have any impact on the Group given that the Group has not used a revenue-based method to depreciate its non-current assets.

Amendments to IAS 16 and IAS 41: Agriculture: Bearer Plants

The amendments change the accounting requirements for biological assets that meet the definition of bearer plants. Under the amendments, biological assets that meet the definition of bearer plants will no longer be within the scope of IAS 41. Instead, IAS 16 will apply. After initial recognition, bearer plants will be measured under IAS 16 at accumulated cost (before maturity) and using either the cost model or revaluation model (after maturity). The amendments also require that produce that grows on bearer plants will remain in the scope of IAS 41 measured at fair value less costs to sell. For government grants related to bearer plants, IAS 20 Accounting for Government Grants and Disclosure of Government Assistance will apply. The amendments are retrospectively effective for annual periods beginning on or after 1 January 2016, with early adoption permitted. These amendments are not expected to have any impact on the Group as the Group does not have any bearer plants.

Amendments to IAS 27: Equity Method in Separate Financial Statements

The amendments will allow entities to use the equity method to account for investments in subsidiaries, joint ventures and associates in their separate financial statements. Entities already applying IFRS and electing to change to the equity method in its separate financial statements will have to apply that change retrospectively. For first-time adopters of IFRS electing to use the equity method in its separate financial statements, they will be required to apply this method from the date of transition to IFRS. The amendments are effective for annual periods beginning on or after 1 January 2016, with early adoption permitted. These amendments will not have any impact on the Group's consolidated financial statements.

Amendments to IFRS 10 and IAS 28: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture

The amendments address the conflict between IFRS 10 and IAS 28 in dealing with the loss of control of a subsidiary that is sold or contributed to an associate or joint venture. The amendments clarify that the gain or loss resulting from the sale or contribution of assets that constitute a business, as defined in IFRS 3, between an investor and its associate or joint venture, is recognised in full. Any gain or loss resulting from the sale or contribution of assets that do not constitute a business, however, is recognised only to the extent of unrelated investors' interests in the associate or joint venture. These amendments must be applied prospectively and are effective for annual periods beginning on or after 1 January 2016, with early adoption permitted. These amendments are not expected to have any impact on the Group.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

2. Basis of preparation and significant accounting policies (Continued)

Annual Improvements 2012-2014 Cycle

These improvements are effective for annual periods beginning on or after 1 January 2016. They include:

IFRS 5 Non-current Assets Held for Sale and Discontinued Operations

Assets (or disposal groups) are generally disposed of either through sale or distribution to owners. The amendment clarifies that changing from one of these disposal methods to the other would not be considered a new plan of disposal, rather it is a continuation of the original plan. There is, therefore, no interruption of the application of the requirements in IFRS 5. This amendment must be applied prospectively.

IFRS 7 Financial Instruments: Disclosures

(i) Servicing contracts

The amendment clarifies that a servicing contract that includes a fee can constitute continuing involvement in a financial asset. An entity must assess the nature of the fee and the arrangement against the guidance for continuing involvement in IFRS 7 in order to assess whether the disclosures are required. The assessment of which servicing contracts constitute continuing involvement must be done retrospectively. However, the required disclosures would not need to be provided for any period beginning before the annual period in which the entity first applies the amendments.

(ii) Applicability of the amendments to IFRS 7 to condensed interim financial statements

The amendment clarifies that the offsetting disclosure requirements do not apply to condensed interim financial statements, unless such disclosures provide a significant update to the information reported in the most recent annual report. This amendment must be applied retrospectively.

IAS 19 Employee Benefits

The amendment clarifies that market depth of high quality corporate bonds is assessed based on the currency in which the obligation is denominated, rather than the country where the obligation is located. When there is no deep market for high quality corporate bonds in that currency, government bond rates must be used. This amendment must be applied prospectively.

IAS 34 Interim Financial Reporting

The amendment clarifies that the required interim disclosures must either be in the interim financial statements or incorporated by cross-reference between the interim financial statements and wherever they are included within the interim financial report (e.g., in the management commentary or risk report). The other information within the interim financial report must be available to users on the same terms as the interim financial statements and at the same time. This amendment must be applied retrospectively.

These amendments are not expected to have any impact on the Group.

Amendments to IAS 1 Disclosure Initiative

The amendments to IAS 1 Presentation of Financial Statements clarify, rather than significantly change, existing IAS 1 requirements. The amendments clarify:

- The materiality requirements in IAS 1
- That specific line items in the statement(s) of profit or loss and OCI and the statement of financial position may be disaggregated
- That entities have flexibility as to the order in which they present the notes to financial statements

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

2. Basis of preparation and significant accounting policies (Continued)

- That the share of OCI of associates and joint ventures accounted for using the equity method must be presented in aggregate as a single line item, and classified between those items that will or will not be subsequently reclassified to profit or loss

Furthermore, the amendments clarify the requirements that apply when additional subtotals are presented in the statement of financial position and the statement(s) of profit or loss and OCI. These amendments are effective for annual periods beginning on or after 1 January 2016, with early adoption permitted. These amendments are not expected to have any impact on the Group.

Amendments to IFRS 10, IFRS 12 and IAS 28: Investment Entities: Applying the Consolidation Exception

The amendments address issues that have arisen in applying the investment entities exception under IFRS 10. The amendments to IFRS 10 clarify that the exemption from presenting consolidated financial statements applies to a parent entity that is a subsidiary of an investment entity, when the investment entity measures all of its subsidiaries at fair value.

Furthermore, the amendments to IFRS 10 clarify that only a subsidiary of an investment entity that is not an investment entity itself and that provides support services to the investment entity is consolidated. All other subsidiaries of an investment entity are measured at fair value. The amendments to IAS 28 allow the investor, when applying the equity method, to retain the fair value measurement applied by the investment entity associate or joint venture to its interests in subsidiaries. These amendments must be applied retrospectively and are effective for annual periods beginning on or after 1 January 2016, with early adoption permitted. These amendments are not expected to have any impact on the Group.

2.7 Segment reporting

The Group operates one segment, being the exploration, development and production of oil and gas related projects located in Nigeria. Therefore, no segment reporting has been prepared.

3. Revenue

	2015	2014
	US\$ '000	US\$ '000
Crude oil sale	459,389	777,601
Changes in lifting	34,091	(29,942)
	493,480	747,659
Gas sales	76,997	27,360
	570,477	775,019

The major crude off-taker is Shell (\$368.8 million, ₦73 billion) and Mercuria (\$94.5 million, ₦18.7 billion). The major off-taker of gas is the Nigerian Gas company – \$76 million (₦15.1 billion).

4. Cost of sales

	2015	2014
	US\$ '000	US\$ '000
Royalties	102,243	149,748
Depletion, depreciation and amortisation	68,097	41,249
Crude handling fee	64,499	22,056
NESS fee	663	822
Niger Delta Development Commission Levy	7,766	10,236
Rig related costs	8,640	29,910
Operational & maintenance expenses	69,786	61,569
	321,694	315,590

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

4. Cost of sales (Continued)

Operations and maintenance costs (\$58 million, ₦11.5 billion), while the balance of \$12 million (₦2.4 billion) comprises costs for community, Health, Safety, Security and Environment ('HSSE'), field logistics and others.

Crude handling includes \$25 million of excess charges related to 2010-2014.

5. Other operating income

	2015	2014
	US\$ '000	US\$ '000
Long stop date income (5a)	2,250	—
Fair value gain on put option (hedging)	13,195	—
Profit on disposal of plant & equipment	66	—
	15,511	—

5a. Long stop date income

This represents the penalties levied on Azura Energy for failure to take up 100mmscf of gas from 1 July 2014. The long stop date period is from 1 July 2014 to 31 December 2015.

5b. Fair value gain on put option (hedging)

This represents the gains on a new crude oil price hedge of US\$45/bbl. for 3.3 million barrels at a cost of \$10 million (US\$3.03/bbl.) secured on 30 November 2015. The gains represent the fair value of the investment as at 31 December 2015.

6. Other general and administrative expenses

	2015	2014
	US\$ '000	US\$ '000
Depreciation and amortisation	5,502	4,052
Auditor's remuneration	1,000	716
Professional and consulting fees	42,788	40,691
Directors' emoluments (Executive)	6,446	7,740
Directors' emoluments (Non-Executive)	6,028	—
Donations	210	179
Employee benefits (note 6a)	24,156	18,205
Business development	165	20
Flights and other travel costs	7,580	8,956
Other general expenses	27,599	44,954
Aborted acquisition costs	—	26,000
	121,474	151,569

Directors' emoluments have been split between Executive & Non-Executive in 2015 and include share-based benefits recognised in 2015, the basis of which has been further highlighted in note 21c.

Other general expenses relate to costs such as office maintenance costs, rentals, telecommunication costs, logistics costs and others.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

6. Other general and administrative expenses (Continued)

6a. Salaries and employee related costs include the following:

	2015	2014
	US\$ '000	US\$ '000
Basic salary	8,226	6,733
Housing allowance	3,345	2,203
Share-based benefits	4,463	—
Other allowances	8,122	9,269
Total salaries and employee related costs	24,156	18,205

7. Finance income/cost

7a. Interest income

	2015	2014
	US\$ '000	US\$ '000
Interest income	12,802	11,996

This represents interest on shareholder loans at libor plus 10 – \$9.5m and interest on Fixed deposits – \$3.3m

7b. Finance cost

	2015	2014
	US\$ '000	US\$ '000
Finance cost		
Interest on bank loans	83,588	47,375
Unwinding of discount on provision for decommissioning (note 27)	—	1,944
	83,588	49,319

8. Taxation

The major components of income tax expense for the years ended 31 December 2015 and 2014 are:

8a. Taxon profit

	2015	2014
	US\$ '000	US\$ '000
Current tax:		
Current tax charge for the year	239	—
Under provision from prior year	—	—
	239	—
Deferred tax:		
Net deferred tax in profit or loss	21,233	—
Total tax charge/(credit) in statement of profit or loss	21,472	—
Effective tax rate	0%	0%

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

8. Taxation (Continued)

8b. Reconciliation of effective tax rate

The applicable tax rates for 2015 were 0% (2014: 0%).

During 2013, applications were made by Seplat and its wholly owned subsidiary, Newton Energy, for the tax incentives available under the provisions of the Industrial Development (Income Tax Relief) Act. In February 2014, Seplat was granted the incentives in respect of the tax treatment of OMLs 4, 38 and 41. Newton Energy was also granted similar incentives in respect of the tax treatment of OPL 283/OML 56. Under these incentives, the companies' profits are subject to a tax rate of 0% with effect from 1 January 2013 to 31 December 2015 in the first instance and then for an additional two years for Seplat and 1 June 2013 to 31 May 2015 in the first instance and then for an additional two years for Newton Energy if the two companies meet certain conditions included in the NIPC pioneer status award document.

Seplat East onshore and Seplat Swamp are exempt from the tax incentives as they had no activities at the time the incentives were granted to Seplat and Newton.

As at the end of the reporting period, the Nigerian Investment Promotion Commission is yet to approve the tax incentives for the additional two years of the tax holidays. The financial statements have been prepared on the assumption that the tax incentives may not be renewed and hence this forms the basis of the Group's current and deferred taxation in the financial statements.

A reconciliation between income tax expense and accounting profit before income tax multiplied by the applicable statutory tax rate is as follows:

	2015	2014
	US\$ '000	US\$ '000
Profit before taxation	87,079	252,253
Under provision from prior year	—	—
Adjustment in respect of prior periods	—	—
Impact of tax incentive on deferred tax balances	(21,233)	—

The movement in the current tax (prepayment)/liability is as follows:

	2015	2014
	US\$ '000	US\$ '000
As at 1 January	(31,623)	(28,749)
Under provision from prior year	—	—
Tax paid	—	(2,874)
Exchange difference	—	—
Tax prepayment	(31,623)	(31,623)

9. Deferred income tax

The analysis of deferred tax assets and deferred tax liabilities is as follows:

	2015	2014
	US\$ '000	US\$ '000
Deferred tax asset to be recovered after more than 12 months	—	10,787
Deferred tax liability to be recovered after more than 12 months	(21,233)	(2,996)
Net deferred tax liability	(21,233)	7,791

The Group has \$21.23 million deferred tax liability as at 31 December 2015 (2014: Nil) in respect of unutilised losses and capital allowances.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

9. Deferred income tax (Continued)

9a. Deferred tax liabilities

	Fixed asset	Decom- missioning provision	Underlift/ Overlift	Defined Benefit	Total
	US\$ '000	US\$ '000	US\$ '000	US\$ '000	US\$ '000
At 1 January 2015	—	—	—	—	—
Credited/(charged) to profit or loss	(10,449)	2,554	(17,882)	4,554	(21,233)
At 31 December 2015	(10,449)	2,554	(17,882)	4,554	(21,233)

Net deferred tax liability at 31 December 2015 is \$21.23 million (2014: Nil).

10. Computation of cash generated from operations

	2015	2014
	US\$ '000	US\$ '000
Profit before tax	87,079	252,253
Adjusted for:		
Depreciation and amortisation	73,599	45,306
Finance income	(12,802)	(11,996)
Finance cost	83,588	49,319
Fair value movement on contingent consideration	(7,298)	1,132
Gain on disposal of property, plant and equipment	(66)	—
Foreign exchange loss/(gain)	(8,046)	17,184
Current financial assets	(17,762)	—
Aborted acquisition costs	—	26,056
Share-based payments	(8,757)	—
Changes in working capital:		
Trade and other receivables	(104,337)	99,222
Prepayments	(8,145)	—
Trade and other payable	(10,961)	(239,001)
Inventories	(28,052)	(11,304)
	(49,039)	(24,082)
Net cash from operating activities	38,040	228,171

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

11. Property, plant and equipment

11a. Oil and gas properties

Cost	Production & field facilities	Assets under construction	Total
---	US\$ '000	US\$ '000	US\$ '000
At 1 January 2014	480,947	235,283	716,230
Addition	—	311,328	311,328
Changes in decommissioning	(4,430)	—	(4,430)
Transfer from asset under construction	114,031	(114,031)	—
Exchange differences	—	—	—
At 31 December 2014	590,548	432,580	1,023,128
Depreciation			
At 1 January 2014	138,276	—	138,276
Charged for the year	41,249	—	41,249
Exchange differences	—	—	—
At 31 December 2014	179,525	—	179,525
NBV			
At 31 December 2014	411,023	432,580	843,603
Cost	Production & field facilities	Assets under construction	Total
---	US\$ '000	US\$ '000	US\$ '000
At 1 January 2015	590,548	432,580	1,023,128
Addition	426,202	—	426,202
Additions from business combination	244,062	—	244,062
Changes in decommissioning	(8,821)	—	(8,821)
Transfer from asset under construction	113,760	(113,760)	—
Exchange differences	—	—	—
At 31 December 2015	1,365,751	318,820	1,684,571
Depreciation			
At 1 January 2015	179,525	—	179,525
Charged for the year	68,096	—	68,096
Exchange differences	—	—	—
At 31 December 2015	247,621	—	247,621
NBV			
At 31 December 2015	1,118,130	318,820	1,436,950

The Group's present and future assets (except jointly owned with NNPC/NPDC) along with all equipment, machinery and immovable property of the Group situated on the property to which the oil mining leases relate are pledged as security for the syndicated loan (note 25).

Assets under construction represent costs capitalised in connection with the development of the Group's oil fields and other fixed assets not yet ready for their intended use. These are funded from the Group's operations; hence no borrowing cost was capitalised during the year.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

11. Property, plant and equipment (Continued)

11b. Property, plant and equipment

Cost	Plant & machinery	Motor vehicle	Office furniture & IT equipment	Leasehold improvements	Total
---	US\$ '000	US\$ '000	US\$ '000	US\$ '000	US\$ '000
At 1 January 2014	2,015	2,816	8,152	1,149	14,132
Addition	2,699	2,540	3,317	1,314	9,870
At 31 December 2014	4,714	5,356	11,469	2,463	24,002
Depreciation					
At 1 January 2014	518	1,343	4,273	445	6,579
Charged for the year	573	828	2,163	400	3,964
At 31 December 2014	1,091	2,171	6,436	845	10,543
NBV					
At 31 December 2014	3,623	3,185	5,033	1,618	13,459
Cost	Plant & machinery	Motor vehicle	Office furniture & IT equipment	Leasehold improvements	Total
---	US\$ '000	US\$ '000	US\$ '000	US\$ '000	US\$ '000
At 1 January 2015	4,714	5,356	11,469	2,463	24,002
Addition	—	1,663	2,146	687	4,496
Disposals	—	(246)	—	—	(246)
Reclassification to AUC	(707)	—	—	—	(707)
At 31 December 2015	4,007	6,773	13,615	3,150	27,545
Depreciation					
At 1 January 2015	1,091	2,171	6,436	845	10,543
Disposals	—	(104)	—	—	(104)
Charged for the year	619	1,443	2,873	568	5,503
At 31 December	1,710	3,510	9,309	1,413	15,943
NBV					
At 31 December 2015	2,297	3,263	4,306	1,737	11,602

12. Intangible assets

	US\$ '000
Cost:	-----
At 1 January 2015	414
Exchange difference	—
At 31 December 2015	414
Accumulated amortisation:	
At 1 January 2015	366
Charge for the year	47
Exchange difference	—
At 31 December 2015	413
NBV:	
At 31 December 2015	1
At 31 December 2014	48
	=====

Intangible assets relate to an oil mining licence granted to the Group that is expected to expire in 2019.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

13. Business combination

Seplat, via a wholly owned subsidiary, entered into a share purchase agreement with First Act, Belema Refinery and Petrochemical Ltd, Mr. Jack Tein and Belemaoil (the four shareholders of Belemaoil) to acquire 56.25% of Belemaoil. This sale and purchase agreement was consummated on 5 February 2015 upon Seplat consortium's acquisition of CNL's 40% interest in OMLs 52, 53 and 55. This results in Seplat having an indirect interest of 22.5% in OML 55.

The acquisition of OML 55 is a business combination through its indirect acquisition of the asset and has been accounted for in accordance with IFRS 3R. The fair value of the purchase consideration and the assets acquired are \$139 million and \$137 million respectively, giving rise to a goodwill on acquisition of \$2 million (₦399 million).

	31 Dec 2015	31 Dec 2014
	US\$ '000	US\$ '000
Purchase consideration	139,285	—
Fair value of net assets of Belemaoil	(137,285)	—
Goodwill	2,000	—

Acquisition in 2015

On 20 January 2015, the Group acquired 56.25% of the voting shares of Belemaoil, an unlisted company based in Port-Harcourt, Nigeria and specializing in oil exploration and production, in exchange for Group shares. The Group acquired Belemaoil because it significantly enlarges its operation.

The Group has elected to measure the non-controlling interest in the acquisition at fair value.

Assets acquired and liabilities assumed

Assets	Fair value recognised on acquisition
	US\$ '000
OML 55	137,285
Non-controlling interest measured at fair value	—
Goodwill on acquisition	2,000
Purchase consideration	139,285

The goodwill of \$2,000,000 comprises expected synergies arising from the acquisition. Goodwill recognised is not expected to be deductible for tax purposes.

The fair value of the non-controlling interest has been estimated by applying a discounted earnings technique. The fair value measurement is based on significant inputs that are not observable in the market.

From the date of acquisition, Belemaoil contributed \$42.7 million to revenue and \$4.9 million loss before tax.

Cash paid on the acquisition of Belemaoil was \$79.4 million.

14. Prepayment

	31 Dec 2015	31 Dec 2014
	US\$ '000	US\$ '000
Deposit for oil mining licence	—	86,362
Tax paid in advance	31,623	31,623
Rent	2,760	2,614
Drilling services	2,371	5,333
Prepaid fees – NIPC	—	5,519
Prepaid others	—	15
	36,754	131,466

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

14. Prepayment (Continued)

Included in prepayments are the following:

Deposit for oil mining licence

In 2013, Seplat executed a sale and purchase agreement with Chevron Nigeria Limited ('CNL') in relation to producing assets in OML 53, subject to conditions precedent being met ('CNL Assets SPA').

In 2014, an additional \$17.4 million was advanced to Belemaoil in relation to OML 55.

During the year, the Group completed the acquisition of both OML 53 and 55. See note 1.

Tax paid in advance

In 2014, Seplat Petroleum Development Company paid \$2.9 million petroleum profit tax instalment in addition to the total instalment sum of \$28 million paid in 2013. These payments relate to 2013 and were made prior to obtaining the pioneer status. This was accounted for as a tax credit under non-current prepayment until a future date when the Company will be expected to offset it against its tax liability.

Rent

In 2014, the Group entered into three new commercial leases in relation to three buildings that it occupies in Lagos and Delta states. The Group has prepaid the rent. Two of the non-cancellable leases which relate to buildings in Lagos expire in 2019 and 2018 respectively. The building in Delta state is also non-cancellable and it expires in 2016. The long-term portion as at 31 December 2015 is \$2.8 million.

Drilling services

In 2012, Seplat signed an agreement with Cardinal Drilling Limited with respect to the exclusive use of two rigs for five years. Seplat agreed to pay a \$20 million advance in relation to the exclusive use of these rigs, which has been recognised as a prepayment and amortised over the life of the agreement (five years). The long-term portion as at 31 December 2015 is \$2.4 million.

Prepaid fees – NIPC

This relates to fees for the pioneer period prepaid to Nigerian Investment Promotion Commission ('NIPC').

15. Investment in subsidiaries

	Subsidiary	Location Shareholding %
Newton Energy Limited	(Nigeria)	100
Seplat Petroleum Development UK	(United Kingdom)	100
Seplat East Onshore Limited	(Nigeria)	100
Seplat East Swamp Company Limited	(Nigeria)	100
Seplat Gas Company	(Nigeria)	100
Belemaoil Producing	(Nigeria)	56.25

16. Inventories

	2015 US\$ '000	2014 US\$ '000
Tubular, casing and wellheads	82,468	54,416
Foreign exchange difference	—	—
	82,468	54,416

Inventory represents the value of tubulars, casings and wellheads. The inventory is carried at the lower of cost and net realisable value. Included in cost of sales is \$0.19 million representing inventory charged to profit or loss during the year.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

17. Trade and other receivables

	2015	2014
	US\$ '000	US\$ '000
Trade receivables	133,905	119,588
Nigerian Petroleum Development Company (NPDC) receivables	491,974	463,118
Deposit for investments	85,236	453,190
Advances	53,175	10,924
Underlift	27,063	2,783
Advances to suppliers	2,597	10,934
Hedging receivables	7,585	—
Interest receivable from shareholders of Belema oil	9,546	—
Other receivables	174	—
	317	—
	811,255	1,060,854

Trade receivables

This mainly represents crude receivables on OML 53 and 55 (\$36 million), Mercuria (\$17 million), Shell (\$15 million) and gas receivables from NGC (\$62 million).

NPDC receivables

Seplat has not yet remitted the sum of \$56.4 million due to NPDC on crude handling charges as of 31 December 2015; after considering this, net receivables due from NPDC are \$435 million. Subsequent to year end \$115 million was received as cash relating to the outstanding debt bringing the net balance to \$320 million, without considering current expenditure and cash calls.

Deposit for investment

By a consortium agreement made amongst parties, Newton Energy Limited (a subsidiary of Seplat) agreed to make payments of \$453 million towards an investment in 2014. During the year \$367 million was received from the escrow account in respect of this investment.

- a. \$45 million refundable deposit made towards the investment in 2014 remains with the potential vendors. As at year-end, the investment was not consummated, and this remains a deposit whilst negotiation between the parties continues.
- b. \$36.5 million was placed in an escrow account in London related to the same investment pending agreements of final terms. Out of this and in the period under review \$3.5 million has been paid out in consortium fees. See further note on subsequent events, note 39.

In the event the negotiations do not lead to a consummation of investment, these funds will be returned to the Group.

The ageing analysis of the trade receivables and amounts due from NPDC is as follows:

	Total	Neither past due nor impaired	Past due but not impaired				
	US\$ '000	US\$ '000	<30 days	30-60 days	60-90 days	90-120 days	>120 days
	US\$ '000	US\$ '000	US\$ '000	US\$ '000	US\$ '000	US\$ '000	US\$ '000
Trade receivables							
31 December 2015	133,905	79,704	5,261	9,965	6,732	9,039	23,204
31 December 2014	119,588	89,027	6,230	2,015	6,504	1,556	14,256
NPDC receivables							
31 December 2015	491,974	274,465	27,213	56,886	10,021	41,842	81,547
31 December 2014	463,118	207,495	68,097	120,743	36,491	—	30,292

Shell Western Supply and Mercuria Trading Company have subsequently settled the outstanding balance of \$15.4 million and \$17.2 million in January 2016. NPDC has paid a total of \$115 million from the outstanding

balance subsequent to year-end. The remaining balance is expected to be fully paid during 2016.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

18. Prepayments

	31 Dec 2015	31 Dec 2014
	US\$ '000	US\$ '000
Prepayments	11,640	14,224

Prepayments relate to prepaid rent and drilling services – see note 14.

19. Cash and short-term deposits

Cash and short-term deposits in the statement of financial position comprise cash at banks and on hand and short-term deposits with a maturity of three months or less.

	31 Dec 2015	31 Dec 2014
	US\$ '000	US\$ '000
Cash on hand	50	62
Cash at bank	325,979	285,236
Short-term deposits	—	—
Cash and cash equivalents	326,029	285,298

At 31 December 2015, cash at bank included the debt service reserve of \$68.9 million (2014: \$46.5 million) deposited pursuant to the covenant in relation to the bank syndicated loan. The debt service reserve account balance is the amount equal to at least the aggregate of the amounts of principal and interest projected to fall due on the next successive principal repayment dates and dates for the payment of interest on the loans.

20. Financial instruments

	31 Dec 2015	31 Dec 2014
	US\$ '000	US\$ '000
Derivatives not designated as hedges	23,194	5,432

In November 2015, management completed a crude oil price hedge of US\$45/bbl. for 3.3 million barrels at a cost of \$10 million (US\$3.03/bbl.). The fair value of this hedge as at 31 December 2015 is \$23.2 million, giving rise to a fair value gain of \$13.2 million.

21. Share capital and premium

21a. Share capital

	2015	2014
	US\$ '000	US\$ '000
Authorised ordinary share capital		
1,000,000,000 ordinary shares denominated in Nigerian		
Naira of 50k per share	3,335	3,335
Issued and fully paid		
560,576,101 (2014: 553,310,313) issued shares denominated in		
Nigerian Naira of 50k per share	1,821	1,798

In 2015, the Company gave share options (14,939,102 shares) to certain employees and senior executives in line with its share-based incentive scheme. As at 31 December 2015, 7,265,788 shares had vested, resulting in an increase in number of issued and fully paid ordinary shares of 50k each from 553 million to 561 million.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

21. Share capital and premium (Continued)

Fully paid ordinary shares carry one vote per share and carry the right to dividends. During 2013, the Company sub-divided its shares from 1 to 0.50 per share resulting in an increase in the number of shares issued from 100 million to 200 million ordinary shares. On 31 July 2013, the number of ordinary shares was increased to 400 million by way of a bonus issue to existing shareholders; these were issued from the revenue reserve. In August 2013 the authorised share capital was increased from 400 million to 1 billion denominated in 0.50 per share.

21b. Share premium

	2015	2014
	US\$ '000	US\$ '000
Gross proceeds	—	534,987
Share issue	—	(464)
Share premium	—	534,523
Issue costs	—	(37,066)
Issued share capital proceeds	—	497,457

In 2014, net proceeds of \$497.9 million was received from the initial public offering. 153,310,313 shares of 50k each totalling \$464,577 were transferred to share capital.

21c. Share equity reserve

The Group has made a number of share-based awards under incentive plans since its IPO in 2014: IPO-related grants to Executive and Non- Executive Directors, 2014 deferred bonus awards and 2014/2015 Long-term Incentive plan ('LTIP') awards. Shares under these incentive plans were awarded at the IPO on 9 April 2014 and early in 2015 conditional on the Nigerian Stock Exchange ('NSE') approving the share delivery mechanism proposed by the Company.

Description of the awards valued

Global Offer Bonus awards

Shares were conditionally awarded, subject to NSE approval, to selected executives to recognise their historic contribution to the Company in the lead up to Admission on the London Stock Exchange on 9 April 2014. The awards operated as follows:

50% of the share bonus was awarded on IPO, there were no performance conditions attached to it, and it fully vested in 2015. The second 50% of the award vested on the first anniversary of the IPO (9 April 2015). The award fully met the performance condition, as follows:

- The Company outperformed the median TSR performance level within the 2014 LTIP E&P comparator group, over the one year period from Admission (i.e. to 9 April 2015).
- The reserves growth underpin in FY2014 was met.

The valuation of the Global Offer Bonus awards ignores these conditions because as at the deemed date of grant the conditions were fully met. As a result, the fair value of these awards is the share price at the date of grant.

Seplat 2014 Deferred Bonus Award

25% of each Executive Director's 2014 bonus (paid in 2015) has been deferred into shares and is released on 1 June 2017 subject to continued employment. No performance criteria are attached to this award. As a result the fair value of these awards is the share price at the actual date of grant.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

21. Share capital and premium (Continued)

LTIP awards

Under the LTIP Plan, share options are granted to senior employees of the organisation at the end of every year. The exercise price of the share options is equal to the market price of the underlying shares at the date of grant. The share options vest based on the following conditions.

- 50% award vesting where the reserves growth was more than a 10% decrease.
- Straight line basis between 50% and 100% where reserves growth was between a 10% decrease and a 10% increase.
- 100% award vesting where the reserves growth is equal to or greater than a 10% increase.
- If the Group outperforms the median TSR performance level with the LTIP exploration and production comparator group.

After obtaining approval from the NSE for new issued shares, the Company communicated the award levels and conditions to the participants on 14 December 2015 and hence a shared understanding was achieved on that date. Therefore the grant date for the 2014 LTIP is 14 December 2015. The 2015 LTIP awards are still subject to approval by the NSE.

The expense recognised for employee services received during the year is shown in the following table:

	2015	2014
	US\$ '000	US\$ '000
Expense arising from equity-settled share-based payment transactions	8,757	—

There were no cancellations or modifications to the awards in 2015 or 2014.

The share options granted to Executive Directors and confirmed employees are summarised below.

Scheme	Deemed grant date	Start of service period	End of service period	Number of awards
Global Bonus Offer	4 November 2015	9 April 2014	9 April 2015	6,472,138
Non-Executive Shares . .	4 November 2015	9 April 2014	9 April 2016	793,650
2014 Deferred Bonus . . .	4 November 2015	14 December 2015	1 June 2017	212,701
2014 Long term incentive Plan	14 November 2015	14 December 2015	1 June 2017	2,173,259
2015 Long term incentive Plan	31 December 2015	14 December 2015	21 April 2018	5,287,354

Movements during the year

The following table illustrates the number and weighted average exercise prices ('WAEP') of and movements in share options during the year.

	2015 Number	2015 WAEP
	000	\$
Outstanding at 1 January	—	
Granted during the year	14,939	0.97
Forfeited during the year	0	
Exercised during the year	(7,266)	1.18
Expired during the year	0	
Outstanding at 31 December	7,673	1.5
Exercisable at 31 December	7,266	1.18

The weighted average share price at the date of exercise of these options was \$1.18.

The weighted average remaining contractual life for the share options outstanding as at 31 December 2015 was 1.3 years.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

21. Share capital and premium (Continued)

The weighted average fair value of options granted during the year was \$0.97.

The exercise prices for options outstanding at the end of the year was \$1.18.

The following table lists the inputs to the models used for the four plans for the year ended 31 December 2015:

	2015 Global offer bonus	2015 Non-executive shares bonus	2015 Deferred bonus	2015 LTIP
Weighted average fair values at the measurement date				
Dividend yield (%)	n/a	n/a	n/a	0.00%
Expected volatility (%)	n/a	n/a	n/a	56%
Risk-free interest rate (%)	n/a	n/a	n/a	0.63%
Expected life of share options	nil	nil	1.46	2.35
Weighted average share price (□)	1.5386	1.5386	1.512	1.497
Model used	n/a	n/a	n/a	Monte Carlo

22. Capital contribution

This represents M&P additional cash contribution to the Company. In accordance with the Shareholders' Agreement, the amount was used by the Company for working capital as was required at the commencement of operations. Subsequently, the interest held by M&P was transferred to MPI. All terms and conditions previously held by M&P were re-assigned to MPI.

23. Foreign translation reserve

Cumulative exchange difference arising from translation of foreign subsidiary is taken to foreign translation reserve through other comprehensive income. The Group foreign subsidiary was incorporated in 2014.

24. Non-controlling interest

On 20 January 2015, the Group acquired 56.25% of the voting shares of Belemaoil, an unlisted company based in Port-Harcourt, Nigeria and specializing in oil exploration and production. The non-controlling interest represents 43.75% of the net profits in OML 55 and share capital of Belemaoil as at the end of the period.

The loss allocated to non-controlling interests of the subsidiary is \$2.2m.

Summarised financial information about the subsidiary is included below:

Statement of comprehensive income

	US\$ '000
Revenue	42,678
Expenses	(40,285)
Profit/(loss) before tax	2,393
Tax	(7,334)
Profit/(loss) after tax	(4,942)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

24. Non-controlling interest (Continued)

Statement of financial position

	US\$ '000
Non-current assets	
Producing asset	238,543
Current assets	
Trade receivables	26,177
Underlift	16,501
Others	32
	<u>42,710</u>
Total assets	<u>281,253</u>
Equity	
Share capital	32
Retained earnings	(4,942)
	<u>(4,910)</u>
Non-current liability	
Loans	52,500
Contingent liability	11,471
Deferred tax	7,221
	<u>71,192</u>
Current liability	
Payables	181,507
Accruals	33,351
Current tax	113
	<u>214,971</u>
Total liabilities	<u>286,163</u>
Total shareholders' equity and liabilities	<u>281,253</u>

Summarised cash flow information for the year ended 31 December 2015.

Statement of comprehensive income

	US\$ '000
Operating	244,030
Investing	(244,062)
Financing	32
Net increase/(decrease) in cash and cash equivalents	<u>—</u>

25. Interest bearing loans and borrowings

25a. Non-current

Non-current	2015	2014
	US\$ '000	US\$ '000
Bank borrowings	608,846	239,767

25b. Current

Current	2015	2014
	US\$ '000	US\$ '000
Bank borrowings	290,769	348,389

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

25. Interest bearing loans and borrowings (Continued)

Bank loan

Syndicate credit facility

On 31 December 2014, Seplat signed a US\$1.7 billion debt refinancing package, made up of the following facilities:

- US\$700 million seven year term loan with an ability to stretch it to US\$1.4bn contingent on a qualifying acquisition with a consortium of five local banks. This facility has a seven year maturity period.
- US\$300 million three year corporate revolver primarily to manage working capital requirements with a consortium of eight international banks. This facility has a three year maturity period.

As at 31 December 2015, Seplat had drawn down \$1 billion of this facility and made principal repayments in 2015. Interest accrues monthly on the principal amount outstanding at the LIBOR rate plus a margin ranging from 6.5 to 8.5%. The outstanding balance as of 31 December 2015 is \$863 million.

As part of the acquisition of OML 55, it was agreed with the shareholders of Belemaoil to take over its existing loan of \$52.5 million with Sterling Bank. This has been consolidated in the Group accounts.

Term loan	Interest	Current	Non-current	Total
		US\$ '000	US\$ '000	US\$ '000
SBSA	8.5% + LIBOR	5,649	16,947	22,596
Stanbic	8.5% + LIBOR	5,649	16,947	22,596
FBN	8.5% + LIBOR	37,695	113,085	150,780
UBA	8.5% + LIBOR	37,695	113,085	150,780
Zenith Bank	8.5% + LIBOR	60,312	180,936	241,248
		147,000	441,000	588,000
Corporate loan (US\$300m)	Interest	Current	Non-current	Total
		US\$ '000	US\$ '000	US\$ '000
Citibank Nigeria Limited	6.00% + LIBOR	8,333	14,583	22,917
Firststrand Bank Limited Acting	6.00% + LIBOR	10,000	17,500	27,500
JPMorgan Chase Bank N A London	6.00% + LIBOR	10,000	17,500	27,500
Nedbank Limited, London Branch	6.00% + LIBOR	10,000	17,500	27,500
Bank Of America Merrill Lynch	6.00% + LIBOR	10,000	17,500	27,500
Standard Chartered Bank	6.00% + LIBOR	15,000	26,250	41,250
Citibank N.A.	6.00% + LIBOR	6,667	11,667	18,333
Natixis	6.00% + LIBOR	15,000	26,250	41,250
Stanbic Ibtc Bank Plc	6.00% + LIBOR	7,500	13,125	20,625
The Standard Bank Of South Africa	6.00% + LIBOR	7,500	13,125	20,625
		100,000	175,000	275,000
Loans				US\$ '000
Term loan				588,000
Corporate loan				275,000
Sterling bank loan (business combination)				52,500
Less: Capitalised loan transaction costs				(15,885)
				899,615

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

26. Contingent consideration

	US\$ '000
At 1 January 2014	8,245
Fair value movement	1,132
Exchange difference	—
At 1 January 2015	9,377
Fair value movement	3,325
Additions	19,198
Write-off	(10,000)
Exchange difference	—
At 31 December 2015	<u>21,900</u>

In 2013, the Group entered into an agreement with Pillar Oil to acquire a 40% participating interest in the Umuseti/Igbuku marginal field area in OML 56 (formerly OPL 283). The total consideration payable was \$50 million upon signing of the agreement and \$10 million payable upon reaching certain production milestones (\$5 million when average daily production of 10,500 bopd of liquid hydrocarbon sustained over a period of one (1) month is achieved and another \$5 million when cumulative production of 10 million barrels of liquid hydrocarbons from all fields within OML 56 is achieved) by mid-2015. The fair value of \$7.731 million was capitalised to the cost of the asset and a corresponding liability recorded based on the probability.

These milestones were not achieved as at mid-2015 and as such the liability was de-recognised during the year.

During the year, a part of the consideration paid for OML 53 and 55 is a discount of \$39.4 million contingent on the oil price rising above \$90/bbl. over the next three years. The fair value of this discount is \$19.2 million, this has been capitalised to the cost of the asset and the corresponding liability recorded based on the probability.

27. Provision for decommissioning obligation

	US\$ '000
At 1 January 2014	15,176
Unwinding of discount due to passage of time	1,944
Change in estimate	(4,431)
Exchange difference	—
At 31 December 2014	12,690
Unwinding of discount due to passage of time	—
Change in estimate	(8,821)
Exchange difference	—
At 31 December 2015	<u>3,869</u>

The Group makes full provision for the future cost of decommissioning oil production facilities on a discounted basis at the commencement of production. This relates to the removal of assets as well as their associated restoration costs. This obligation is recorded in the period in which the liability meets the definition of a "probable future sacrifice of economic benefits arising from a present obligation", and in which it can be reasonably measured.

The provision represents the present value of estimated future expenditure to be incurred in 2052 which is the current expectation as to when the producing facilities are expected to cease operations. Management engaged a third party to assist with an estimate of the expenditure to be incurred in 2052. These provisions were based on estimation carried out by DeGolyer and MacNaughton based on current assumptions on the economic environment which management believe to be a reasonable basis upon which to estimate the future liability. These estimates are reviewed regularly to take into account any material changes to the assumptions. However, actual decommissioning costs will ultimately depend upon future market prices for the necessary decommissioning works required that will reflect market conditions at the relevant time. Furthermore, the timing of decommissioning is likely to depend on when the fields cease to produce at economically viable rates.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

27. Provision for decommissioning obligation (Continued)

The change in estimate in the current year of \$8.8 million is due to the change of expected cessation of operations from 2035 to 2052.

The discount rate used in the calculation of unwinding of the provision as at 31 December 2015 was 11.10% (year ended 31 December 2014: 14.64%). As of 31 December 2015, management has estimated decommissioning expenditure to occur in 2052 (31 December 2014: 2036).

28. Defined benefit plan

	2015	2014
	US\$ '000	US\$ '000
Defined benefit obligation	6,926	—
	6,926	—

The Company commenced its unfunded defined benefit plan (gratuity) in July 2015. The Company makes provisions for gratuity for employees from day one of employment in the Company. The employee qualifies to receive the gratuity on resignation or retirement from the Company after five years of continuous service. The level of benefits provided depends on the member's length of service and salary at retirement age. The gratuity liability is adjusted to inflation, interest rate risks, changes in salary and changes in the life expectancy for the beneficiaries. The provision for gratuity was based on independent actuarial valuation performed by HR Nigeria Limited using the projected unit credit method. The Company does not maintain any assets for the gratuity plan but ensures that it has sufficient funds for the obligations as they crystallise.

The following tables summarise the components of net benefit expense recognised in the statement of profit or loss and other comprehensive income and in the statement of financial position for the respective plans:

a) Net benefit expense 2015 (recognised in profit or loss)

	2015	2014
	US\$ '000	US\$ '000
Current service cost	6,926	—
Interest cost on benefit obligation	—	—
	6,926	—

b) Re-measurement gains/(losses) in other comprehensive income

	2015	2014
	US\$ '000	US\$ '000
Actuarial (gains)/losses	—	—
	6,926	—

c) Changes in the present value of the defined benefit obligation are as follows:

	2015	2014
	US\$ '000	US\$ '000
Defined benefit obligation at 1 January	—	—
Current service cost	6,926	—
Interest cost	—	—
Benefits paid by the employer	—	—
Actuarial gains/losses	—	—
Defined benefit obligation at 31 December	6,926	—

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

28. Defined benefit plan (Continued)

d) *The principal assumptions used in determining defined benefit obligations for the Company's plans are shown below:*

	2015	2014
	%	%
Discount rate	12	—
Average future pay increase	12	—
Average future rate of inflation	9	—

Mortality in service

Sample age	Number of deaths in year out of 10,000 lives
25	7
30	7
35	9
40	14
45	26

e) *A quantitative sensitivity analysis for significant assumption as at 31 December 2015 is as shown below:*

Assumptions	Discount rate		Salary increases		Mortality	
	1% increase	1% decrease	1% increase	1% decrease	1% increase	1% decrease
	US\$ '000	US\$ '000	US\$ '000	US\$ '000	US\$ '000	US\$ '000
Sensitivity level: Impact on the net defined benefit obligation						
31 December 2015	6,115	(7,913)	7,939	(6,081)	6,982	(6,885)
31 December 2014	—	—	—	—	—	—
	6,115	(7,913)	7,939	(6,081)	6,982	(6,885)

The sensitivity analyses above have been determined based on a method that extrapolates the impact on net defined benefit obligation as a result of reasonable changes in key assumptions occurring at the end of the reporting period.

The following payments are expected contributions to be made in the future years out of the defined benefit plan obligation

	2015	2014
	US\$ '000	US\$ '000
Within the next 12 months (next annual reporting period)	298	—
Between 2 and 5 years	2,356	—
Between 5 and 10 years	9,378	—
	12,032	—

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

29. Employee benefits – defined contribution

The Company contributes to a funded defined contribution retirement benefit scheme for its employees in compliance with the provisions of the Pension Reform Act 2004. A defined contribution plan is a pension plan under which the Company pays fixed contributions to an approved Pension Fund Administrator ('PFA') – a separate entity. The assets of the scheme are managed by various Pension Fund Administrators patronised by employees of the Company. The Company's contributions are charged to the profit and loss account in the year to which they relate. The amount payable as at 31 December 2015 was \$394,561 (2014:\$331,958).

30. Trade and other payables

	2015	2014
	US\$ '000	US\$ '000
Trade payable	125,408	75,443
Accruals and other payables	216,265	267,579
Overlift	—	9,811
NDDC levy	6,272	11,327
Deferred revenue	1,420	1,420
Royalties	25,668	24,745
Intercompany payable	—	—
	375,033	390,325

The accruals balance is mainly composed of other field-related accruals – \$97.9m (2014: \$219.9m) and NPDC payables – \$56.4m.

31. Earnings per share

Basic EPS is calculated by dividing the profit for the year attributable to ordinary equity holders of the parent by the weighted average number of ordinary shares outstanding during the year.

Diluted EPS is calculated by dividing the profit attributable to ordinary equity holders of the parent (after adjusting for interest on the convertible preference shares) by the weighted average number of ordinary shares outstanding during the year plus the weighted average number of ordinary shares that would be issued on conversion of all the dilutive potential ordinary shares into ordinary shares.

Group	2015	2014
-----	US\$ '000	US\$ '000
Profit for the year attributable to shareholders	67,462	252,221
	Shares '000	Shares '000
Weighted average number of ordinary shares in issue	560,576	508,120
options	189	—
Weighted average number of ordinary shares adjusted for the effect of dilution	560,765	508,120
	US\$	US\$
Basic earnings per share	0.12	0.50
Diluted earnings per share	0.12	0.50
Earnings	US\$ '000	US\$ '000
-----	-----	-----
Profit attributable to equity holders of the Group	67,462	252,221
Profit used in determining diluted earnings per share	67,462	252,221

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

32. Dividends paid and proposed

<u>Group</u>	<u>2015</u>	<u>2014</u>
	US\$ '000	US\$ '000
Cash dividends on ordinary shares declared and paid:		
Interim dividend for 2015: \$0.04 per share (2014: \$0.06 per share), 553,310,313 shares in issue	22,139	33,199
Final dividend for 2014: \$0.09 per share (2013: \$0.10 per share), 553,310,313 shares in issue (2013: 400,000,000 shares in issue)	49,701	40,000
	<u>71,840</u>	<u>73,199</u>
Proposed dividends on ordinary shares:		
Final cash dividend for 2015: \$0.04 per share, 560,576,101 shares in issue and fully paid	<u>22,423</u>	<u>49,800</u>

Proposed dividends on ordinary shares are subject to approval at the Annual General Meeting and are not recognised as a liability as at 31 December 2015.

33. Goodwill

Goodwill acquired through business combinations is allocated to OML 55 for impairment testing. The carrying amount of goodwill is stated below.

<u>Group</u>	<u>2015</u>	<u>2014</u>
	US\$ '000	US\$ '000
At 1 January 2015	—	—
Acquisition of a subsidiary	2,000	—
At 31 December 2015	<u>2,000</u>	<u>—</u>

The Group performed its annual impairment test in December 2015. The Group considers the relationship between its market capitalisation and its book value, among other factors, when reviewing for indicators of impairment. As at 31 December 2015, the market capitalisation of the Group was above the book value of its equity, indicating no impairment of goodwill.

OML 55

The recoverable amount of the OML, \$335 million (¥66.6 billion) as at 31 December 2015, has been determined based on the value in use calculation using cash flow projections from financial budgets approved by senior management covering a five-year period. The projected cash flows have been updated to reflect increase in oil price over five years. The pre-tax discount rate applied to cash flow projections is 10% (2014: nil) and cash flows beyond the five-year period are extrapolated using 23% growth rate (2014: nil), which is the same as the long-term average growth rate for OML 55.

It was concluded that the value in use is more than the carrying value of the goodwill. Therefore no impairment charge is recognised in the statement of profit or loss.

Key assumptions used in value in use calculation and sensitivity to changes in assumption.

The calculation of value in use for OML 55 is most sensitive to the following assumptions.

- a. Oil Price: Evaluation is based on BP Price of \$40 (2016), \$50 (2017) and \$60 (2018+). Increase in demand for oil leads to a decrease in oil price and vice versa.
- b. Discount rate: The discount rate represents the current market assessment of the risks specific to OML 55 taking into consideration the time value of money and individual risks of the underlying assets that have been incorporated in the cash flow estimates. The discount rate calculation is based on the specific circumstances of the Group and it is derived from its weighted average cost of capital ('WACC'). The WACC takes into account both debt and equity. The cost of equity is derived from the expected return on investment by the Group's investors. The cost of debt is based on the interest bearing borrowings the Group is obliged to service. Adjustments to the discount rate are made to factor in the specific amounts and timing of the future cash flows in order to reflect a pre-tax discount rate.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

33. Goodwill (Continued)

A rise in the pre-tax discount rate to 10.5% (i.e. +0.5%) in OML 55 would result in impairment.

34. Related party relationships and transactions

The following companies are common control entities as the companies are controlled by close family members:

- Abbey Court Trading Company Limited
- Abtrust Integrated Services
- Berwick Nigeria Limited
- Cardinal Drilling Nigeria Limited
- Charismond Nigeria Limited
- D. D. Dodo & Co
- Helko Nigeria Limited
- Keco Nigeria Enterprises
- Montego Upstream Services Limited
- Nabila Resources & Investment Limited
- Ndosumili Ventures Limited
- Neimeth International Pharmaceutical Plc
- Nerine Support Services Limited
- Oriental Catering Services Limited
- Platform Petroleum Limited
- ResourcePro Inter Solutions Limited
- Shebah Exploration and Production Company Limited ("SEPCOL")

Services provided by the related parties:

Abbeycourt Trading Company Limited: the Chairman of Seplat is a director and shareholder. The company provides diesel supplies to Seplat in respect of Seplat's rig operations.

Abtrust Integrated Services: The Chief Executive Officer of Seplat's wife is shareholder and director. The company provides bespoke gift hampers to Seplat.

Berwick Nigeria Limited: The chairman of Seplat is a shareholder and director. The company provides construction services to Seplat in relation to a field base station in Sapele.

Cardinal Drilling Services Limited (formerly Caroil Drilling Nigeria Limited): is a company under common control. The company provides drilling rigs and drilling services to Seplat.

Charismond Nigeria Limited: The Chief Executive Officer's sister works at Charismond as a general manager. The company provides bespoke gift hampers to Seplat.

D. D. Dodo & Co: The owner is an Independent Non-Executive Director of Seplat and also a partner of the law firm that provides legal services to the Company (2015: \$0.59 million).

Helko Nigeria Limited: The chairman of Seplat is shareholder and director. The company owns the lease to Seplat's main office at 25A Lugard Avenue, Lagos, Nigeria.

Keco Nigeria Enterprises: The Chief Executive Officer's sister is shareholder and director. The company provides diesel supplies to Seplat in respect of its rig operations.

Montego Upstream Services Limited: The chairman's nephew is shareholder and director. The company provides drilling and engineering services to Seplat.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

34. Related party relationships and transactions (Continued)

Nabila Resources & Investment Ltd: The chairman's in-law is a shareholder and director. The company provides lubricant to Seplat.

Ndosumili Ventures Limited: is a subsidiary of Platform Petroleum Limited. The company provides transportation services to Seplat.

Neimeth International Pharmaceutical Plc: The chairman of Seplat is also the chairman of this company. The company provides medical supplies and drugs to Seplat, which are used in connection with Seplat's corporate social responsibility and community healthcare programmes.

Nerine Support Services Limited: is a company under common control. The company provides agency and contract workers to Seplat.

Oriental Catering Services Limited: The Chief Executive Officer of Seplat's spouse is shareholder and director. The company provides catering services to Seplat at the staff canteen.

Platform Petroleum Limited: The Chief Executive Officer of Seplat is a director and shareholder of this company. The company seconded support staff to Seplat in Q1, 2015.

ResourcePro Inter Solutions Limited: The Chief Executive Officer of Seplat's in-law is its UK representative. The company supplies furniture to Seplat.

Shebah Exploration and Production Company Limited ('SEPCOL'): The Chairman of Seplat is a director and shareholder of SEPCOL. SEPCOL provided consulting services to Seplat.

The following transactions were carried out by related parties on behalf of Seplat:

a) *Transactions:*

i) *Purchases of goods and services*

	2015	2014
	US\$ '000	US\$ '000
Shareholders:		
MPI	—	299
Shebah	1,517	1,936
Platform Petroleum Limited	35	201
	1,552	2,436
Entities under common control:		
Abbeycourt Trading Company Limited	2,362	4,329
Abtrust Integrated Services	—	50
Charismond Nigeria Limited	29	176
Cardinal Drilling Services Limited	17,244	36,612
Keco Nigeria Enterprises	1,896	3,596
Ndosumili Ventures Limited	1,350	2,759
Oriental Catering Services Limited	941	598
ResourcePro Inter Solutions Limited	1,841	2,913
Berwick Nigeria Limited	27	950
Montego Upstream Services Limited	9,449	17,328
Neimeth International Pharmaceutical Plc	—	28
Nerine Support Services Limited	21,015	31,277
Nabila Resources & Investment Ltd	226	455
Helko Nigeria Limited	566	2,379
D.D Dodo & Co	—	590
	56,946	104,040

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

34. Related party relationships and transactions (Continued)

ii) Interest expense

	2015	2014
	US\$ '000	US\$ '000
Shareholders:		
MPI	—	960

b) Balances:

Year-end balances arising from related party transactions:

iii) Prepayments/receivables

	2015	2014
	US\$ '000	US\$ '000
Under common control:		
Cardinal Drilling Services Limited – current portion	12,632	10,934
Cardinal Drilling Services Limited – non-current portion	1,333	5,333
	13,965	16,267

iv) Payables

	2015	2014
	US\$ '000	US\$ '000
Shareholders:		
Other payables to MPI	—	1,223
	—	1,223

c) Key management compensation:

Key management includes executive and members of the executive committee. The compensation paid or payable to key management for employee services is shown below:

	31 Dec 2015	31 Dec 2014
	US\$ '000	US\$ '000
Salaries and other short-term employee benefits	4,522	5,372
	4,522	5,372

35. Commitments and contingencies

35a. Operating lease commitments – Group as lessee

The Group has entered into operating leases for the use of drilling rigs.

Future minimum rentals payable under non-cancellable operating leases as at each reporting date are as follows:

	31 Dec 2015	31 Dec 2014
	US\$ '000	US\$ '000
Within one year	—	30,249
After one year but not more than five years	—	—
	—	30,249

35b. Commitments

The Group has commitments to OML 55. See note 24.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

35. Commitments and contingencies (Continued)

35c. Contingent liabilities

The Group is involved in a number of legal suits as defendant. The possible liabilities arising from these court proceedings amount to \$299.9 million (31 December 2014: \$23.2 million). No provision has been made for this potential liability in these financial statements. Management and the Group's solicitors are of the opinion that the Group will suffer no loss from these claims.

Pursuant to an agreement reached by Newton in connection with a potential acquisition of an asset by a consortium, \$31 million has been set aside (\$20 million in an escrow and \$11 million as prepaid agreed consortium fees) pending a final decision on proceeding with the investment. In the event that Newton at its discretion decides not to proceed, \$31 million will be fully paid out and expensed to the parties, otherwise these amounts set aside will be applied as acquisition costs and amounts in escrow released to Newton.

36. Financial risk management

The Company's activities expose it to a variety of financial risks such as market risk (including foreign exchange risk, interest rate risk and commodity price risk), credit risk and liquidity risk. The Group's risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Company's financial performance.

Risk management is carried out by the treasury department under policies approved by the Board of Directors. The Board provides written principles for overall risk management, as well as written policies covering specific areas, such as foreign exchange risk, interest rate risk, credit risk and investment of excess liquidity.

36.1 Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due.

The Group manages liquidity risk by ensuring that sufficient funds are available to meet its commitments as they fall due.

The Group uses both long-term and short-term cash flow projections to monitor funding requirements for activities and to ensure there are sufficient cash resources to meet operational needs. Cash flow projections take into consideration the Group's debt financing plans and covenant compliance. Surplus cash held is transferred to the treasury department which invests in deposit bearing current accounts, time deposits and money market deposits.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

36. Financial risk management (Continued)

The following table details the Group's remaining contractual maturity for its non-derivative financial liabilities with agreed maturity periods. The table has been drawn based on the undiscounted cash flows of the financial liabilities based on the earliest date on which the Group can be required to pay.

31 Dec 2015	Effective interest rate %	Less than 1 year	1-2 years	2-3 years	3-5 years	After 5 years	Total
		US\$ '000	US\$ '000	US\$ '000	US\$ '000	US\$ '000	US\$ '000
Variable interest rate borrowings:							
Bank loans:							
Zenith Bank Plc	8.5% + LIBOR	81,976	70,418	51,200	74,753	24,104	302,451
First Bank of Nigeria Limited	8.5% + LIBOR	51,235	44,012	32,000	46,721	15,065	189,033
United Bank for Africa Plc	8.5% + LIBOR	51,235	44,012	32,000	46,721	15,065	189,033
Stanbic IBTC Bank Plc	8.5% + LIBOR	7,678	6,596	4,796	7,002	2,258	28,330
The Standard Bank of South Africa Limited	8.5% + LIBOR	7,678	6,596	4,796	7,002	2,258	28,330
Standard Chartered Bank	6.00% + LIBOR	17,534	27,711	—	—	—	45,245
Natixis	6.00% + LIBOR	17,534	27,711	—	—	—	45,245
Citibank Nigeria Ltd and Citibank NA	6.00% + LIBOR	17,534	27,711	—	—	—	45,245
Bank of America Merrill Lynch Int'l Ltd	6.00% + LIBOR	11,689	18,474	—	—	—	30,163
FirstRand Bank Ltd (Rand Merchant Bank Division)	6.00% + LIBOR	11,689	18,474	—	—	—	30,163
JP Morgan Chase Bank NA, London Branch	6.00% + LIBOR	11,689	18,474	—	—	—	30,163
NedBank Ltd, London Branch	6.00% + LIBOR	11,689	18,474	—	—	—	30,163
Stanbic IBTC Bank Plc	6.00% + LIBOR	8,767	13,856	—	—	—	22,623
The Standard Bank of South Africa Ltd	6.00% + LIBOR	8,767	13,856	—	—	—	22,623
Sterling bank	—	52,500	—	—	—	—	52,500
Trade, other payables	—	375,033	—	—	—	—	375,033
Contingent consideration	—	—	—	—	21,900	—	21,900
		744,227	356,375	124,792	204,099	58,750	1,488,243
		=====	=====	=====	=====	=====	=====
31 Dec 2014	Effective interest rate %	Less than 1 year	1-2 years	2-3 years	3-5 years	After 5 years	Total
		US\$ '000	US\$ '000	US\$ '000	US\$ '000	US\$ '000	US\$ '000
Variable interest rate borrowings:							
Bank loans:							
Skye Bank Plc	8.00%	68,623	50,616	—	—	—	119,239
United Bank for Africa Plc	7.5% + LIBOR	56,431	39,052	—	—	—	95,483
First Bank of Nigeria Plc	7.5% + LIBOR	147,759	87,389	—	—	—	235,148
First Bank of Nigeria Plc	8% + LIBOR	106,269	0	—	—	—	106,269
Africa Export-Import Bank	7.5% + LIBOR	101,029	91,732	—	—	—	192,761
Zenith loan	7.5% + LIBOR	65,455	61,186	56,594	52,955	—	236,190
Trade, other payables	—	389,103	0	—	—	—	389,103
Contingent consideration	—	—	9,377	—	—	—	9,377
		934,669	339,352	56,594	52,955	—	1,383,570
		=====	=====	=====	=====	=====	=====

36.2 Market risk

Market risk is the risk of loss that may arise from changes in market factors such as commodity prices, interest rates and foreign exchange rates.

Commodity price risk

The Group is exposed to the risk of fluctuations on crude oil prices. The Group currently hedges against this risk and sells the oil that it produces to Shell Trading and Mercuria at market prices calculated in accordance with the terms of the Off-take Agreement.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

36. Financial risk management (Continued)

The following table summarises the impact on the Group's profit before tax of a 10% change in crude oil prices, with all other variables held constant:

Increase/decrease in commodity price	Effect on profit before tax 31 December 2015 Increase/ (Decrease) US\$ '000	Effect on profit before tax 31 December 2014 Increase/ (Decrease) US\$ '000
+10%	57,048	76,418
- 10%	(57,048)	(76,418)

Interest rate risk

The Group's exposure to interest rate risk relates primarily to long-term borrowings. Borrowings issued at variable rates expose the Group to cash flow interest rate risk which is partially offset by cash held at variable rates. Borrowings issued at fixed rates do not expose the Group to market interest rate risk. Most of the Group's borrowings are denominated in US dollars.

The Group is exposed to cash flow interest rate risk on short-term deposits to the extent that the significant reductions in market interest rates would result in a decrease in the interest earned by the Group.

The following table demonstrates the sensitivity to changes in LIBOR rate, with all other variables held constant, of the Group's profit before tax.

	Change in interest rate	Effect on profit before tax US\$ '000
2015	1%	773
2014	1%	526

Foreign exchange risk

The Group has transactional currency exposures that arise from sales or purchases in currencies other than the respective functional currency. The Group is exposed to exchange rate risk to the extent that balances and transactions are denominated in a currency other than the US dollar.

The Group holds the majority of its cash and cash equivalents in US dollars. However, the Group does maintain deposits in Naira in order to fund ongoing general and administrative activity and other expenditure incurred in this currency.

As at 31 December 2015 the Group held \$16.2 million equivalent in Nigerian Naira (31 December 2014: \$181.4 million).

The following table demonstrates the sensitivity to a reasonably possible change in the foreign exchange rate, with all other variables held constant, of the Group's profit before tax due to changes in the carrying value of monetary assets and liabilities at the reporting date:

Change in foreign exchange rate	Effect on profit before tax 31 Dec 2015 US\$ '000	Effect on profit before tax 31 Dec 2014 US\$ '000
+5%	(853)	(9,990)
- 5%	853	9,990

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

36. Financial risk management (Continued)

36.3 Credit risk

Credit risk refers to the risk of a counterparty defaulting on its contractual obligations resulting in financial loss to the Company. Credit risk arises from the Company's cash at banks and accounts receivable balances.

The Company's trade with Shell Western Supply and Trading Limited, is as specified within the terms of the crude off-take agreement and will run for five years until 31 December 2017 with 30 day payment terms. The off-take agreement with Mercuria is also to run for five years until 31 July 2020 with a 30 day payment terms. In addition, the Company is exposed to credit risk in relation to its trade with Nigerian Gas Company Limited, a subsidiary of NNPC, the sole customer during the period. The Company monitors receivable balances on an ongoing basis and there has been no significant history of late collections.

The credit risk on cash is limited because the majority of deposits are with a bank that has an acceptable credit rating assigned by an international credit agency. The Company's maximum exposure to credit risk due to default of the counterparty is equal to the carrying value of its financial assets.

The accounts receivable balance includes the following related party receivables:

Related party	Payment terms	Percentage of total receivables	
		2015	2014
NPDC	14 days	60%	72%
Cardinal Drilling Services Limited	Receivables relate to deposits that are expected to be utilised or refunded	1%	3%

The maximum exposure to credit risk as at the reporting date is:

	31 Dec 2015	31 Dec 2014
	US\$ '000	US\$ '000
Trade and other receivables	811,255	1,060,854
Cash and cash at bank	326,029	285,298
	1,137,284	1,346,152

36.4 Fair value

Set out below is a comparison by category of carrying amounts and fair value of all the Group's financial instruments:

	Carrying amount		Fair value	
	2015	2014	2015	2014
	US\$ '000	US\$ '000	US\$ '000	US\$ '000
Financial liabilities				
Borrowings – Shareholder loan	—	—	—	—
Borrowings – Bank loans	899,615	588,156	899,615	588,156
Contingent consideration	21,900	9,377	21,900	9,377
Derivatives not designated as hedges	23,194	5,432	23,194	5,432
	944,709	602,965	944,709	602,965

The loans are all LIBOR loans which are re-priced on a pre-determined basis as defined in the loan agreement. As a result, the loans are always carried at market rate and there is no indication of credit spread change or change in credit risk for Seplat.

Trade and other payables have not been included in the analysis as the carrying amount per the financial statements approximates fair values.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

36. Financial risk management (Continued)

The Group enters into derivative financial instruments with various counterparties, principally financial institutions with investment grade credit ratings. Derivatives valued using valuation techniques with market observable inputs are mainly commodity forward contracts. The most frequently applied valuation techniques include forward pricing and swap models that use present value calculations. The models incorporate various inputs including the credit quality of counterparties and forward rate curves of the underlying commodity. All derivative contracts are fully cash-funded, thereby eliminating both counterparty and the Group's own non-performance risk. As at 31 December 2015, the marked-to-market value of derivative asset positions is net of a credit valuation adjustment attributable to derivative counterparty default risk. The changes in counterparty credit risk had no material effect on financial instruments recognised at fair value. The fair values of derivative financial instruments are disclosed in note 20.

36.4 Fair value

Fair value hierarchy as at 31 December 2015

Liabilities	Level 1	Level 2	Level 3
-----	US\$ '000	US\$ '000	US\$ '000
Borrowings – Shareholder loan	—	—	—
Borrowings – Bank loans	—	899,615	—
Contingent consideration	—	21,900	—
Derivatives not designated as hedges	—	23,194	—
	-----	-----	-----

- Level 1 – Quoted (unadjusted) market prices in active markets for identical assets or liabilities.
- Level 2 – Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable.
- Level 3 – Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

There were no transfers between fair value levels during the period.

The fair value of the financial instruments is included at the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

The following methods and assumptions were used to estimate the fair values:

- Fair values of the Group's interest-bearing loans and borrowings are determined by using discounted cash flow models that use effective interest rates that reflect the borrowing rate as at the end of the reporting period.

The fair value of the Group's contingent consideration is determined using the discounted cash flow model. The estimate future cash flow was discounted to present value.

Reconciliation of fair value measurements of Level 2 financial instruments

Contingent consideration	US\$ '000

At 1 January 2014	8,245
Additions	—
Fair value movement (profit or loss)	1,132
Exchange difference	—
At 31 December 2014	9,377
Fair value movement (Profit or loss)	3,325
Additions	19,198
Write-off	(10,000)
Exchange difference	—
At 31 December 2015	21,900

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

36. Financial risk management (Continued)

Contingent consideration sensitivity

The following table demonstrates the sensitivity to changes in the discount rate of the contingent consideration, with all other variables held constant, of the Group's profit before tax.

Increase/decrease in discount rate -----	Effect on profit before tax 31 December 2015 Increase/(Decrease)	Effect on profit before tax 31 December 2014 Increase/(Decrease)
	US\$ '000	US\$ '000
+10%	1,903	56
- 10%	(1,903)	(57)
	-----	-----

37. Capital management

The Group's objective when managing capital is to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders, to maintain optimal capital structure and reduce cost of capital. The net debt ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings less cash and cash equivalents.

	31 Dec 2015	31 Dec 2014
	US\$ '000	US\$ '000
Borrowings:	899,615	588,156
Less: cash and cash equivalents	(326,029)	(285,298)
Net debt	573,586	302,858
Total equity	1,413,077	1,409,142
Total capital	1,986,663	1,712,000
Net debt (net debt/total capital) ratio	29%	18%
	-----	-----

As at 31 December 2015, the Company's net debt ratio was 29% in accordance with its policy of maintaining a debt to equity ratio of less than 2 to 1.

38. Information relating to employees

a. Chairman and Directors' emoluments:

	2015	2014
	US\$ '000	US\$ '000
Fees	2,461	2,254
Chairman (Non-executive)	1,125	1,092
Chief Executive Officer	1,645	1,572
Executive Directors	2,917	3,073
Non-Executive Directors	247	203
JV Partner Share	(2,208)	(3,276)
Bonus	1,661	1,890
Total	7,848	6,808
	-----	-----

b. Highest paid Director

	2015	2014
	US\$ '000	US\$ '000
Highest paid Director	1,645	1,572
	-----	-----

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

38. Information relating to employees (Continued)

Emoluments are inclusive of income taxes. Subsequent to the year end, the Remuneration Committee approved 25% of the bonus of \$1.66 million to the CEO and Executive Directors as shares in the Company.

c. The number of directors (excluding the Chairman) whose emoluments fell within the following ranges was:

	2015 Number	2014 Number
Zero - \$65,000	—	4
\$65,001 - \$378,000	7	—
\$378,001 - \$516,000	—	—
\$516,000 and above	4	6
	11	10

d. Employees:

The number of employees of the Company (other than the Directors) whose duties were wholly or mainly discharged within Nigeria, and who earned over ₦1,000,000, received remuneration (excluding pension contributions) in the following ranges:

	2015 Number	2014 Number
	US\$ '000	US\$ '000
\$6,500 - \$16,000	4	—
\$16,001 - \$32,000	6	1
\$32,001 - \$48,000	76	39
Above \$48,000	303	300
	389	340

e. The average number of persons (excluding Directors) employed by the Company during the year was as follows:

	2015 Number	2014 Number
Senior management	19	17
Managers	68	55
Senior staff	111	93
Junior staff	191	175
	389	340

f. Employee costs:

Seplat's staff costs (excluding pension contribution) in respect of the above employees amounted to \$19.057 million (2014: \$21.485 million) as follows:

	2015 US\$ '000	2014 US\$ '000
Salaries & wages	19,057	18,205
Bonus	—	3,280
	19,057	21,485

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

39. Events after the reporting period

OMLs 53 & 55

On 1 February 2016, the Group took over OMLs 53 & 55 from Chevron Nigeria Limited ('CNL') following the ruling of the Supreme Court of Nigeria which ruled in favour of Seplat, Belema Oil Producing Limited and Chevron Nigeria Limited ('CNL') in a litigation brought against the parties by Britannia-U Nigeria Limited.

STATEMENT OF VALUE ADDED
For the year ended 31 December 2015

The Group	2015	%	2014	%
	US\$ '000	US\$ '000	US\$ '000	US\$ '000
Revenue	570,477		775,019	
Cost of goods and other services:				
Local	(220,322)		(295,375)	
Foreign	(95,889)		(126,589)	
Other income	15,511		11,996	
Valued added	269,777		365,051	
Applied as follows:				
To employees:				
– as salaries and labour related expenses	24,156	9	18,205	5
To external providers of capital:				
– as interest	83,588	31	49,319	14
To Government:				
– as company taxes	239	0	—	—
Retained for the Company's future:				
– For asset replacement – depreciation, depletion & amortisation	73,099	27	45,306	12
Deferred tax	21,233	8	—	
– Profit for the year	67,462	25	252,221	69
	269,777	100	365,051	100

The value added represents the additional wealth which the Company has been able to create by its own and its employees' efforts.

This statement shows the allocation of that wealth to employees, providers of finance, shareholders, government and that retained for the future creation of more wealth.

The Company	2015	%	2014	%
	US\$ '000	US\$ '000	US\$ '000	US\$ '000
Revenue	497,867		755,508	
Cost of goods and other services:				
Local	(186,824)		(272,307)	
Foreign	(88,680)		(116,703)	
Other income	15,511		14,784	
Valued added	237,874		380,782	
Applied as follows:				
To employees:				
– as salaries and labour related expenses	19,753	8	17,046	4
To external providers of capital:				
– as interest	77,338	33	49,319	13
To Government:				
– as company taxes	—	0	—	—
Retained for the Company's future:				
– For asset replacement – depreciation, depletion & amortisation	64,235	27	43,181	11
Deferred tax	16,384	7	—	
– Profit for the year	60,164	25	271,236	72
	237,874	100	380,782	100

The value added represents the additional wealth which the Company has been able to create by its own and its employees' efforts. This statement shows the allocation of that wealth to employees, providers of finance, shareholders, government and that retained for the future creation of more wealth.

FINANCIAL SUMMARY
For the year ended 31 December 2015

The Group	Notes	31 Dec 2015	31 Dec 2014	31 Dec 2013	31 Dec 2012	31 Dec 2011	1 Jan 2011
		US\$ '000	US\$ '000	US\$ '000	US\$ '000	US\$ '000	US\$ '000
Assets							
Non-current assets							
Oil & gas properties	11a	1,436,950	843,603	577,954	379,931	301,334	351,540
Other property, plant and equipment	11b	11,602	13,459	7,553	6,184	3,411	5,016
Intangible assets	12	1	48	141	234	324	414
Goodwill	13	2,000	—	—	—	—	—
Deferred tax asset		—	—	—	26,042	52,298	29,382
Prepayments	15	36,754	131,466	108,910	14,208	1,000	314
Total non-current assets		1,487,307	988,576	694,558	426,599	358,367	386,666
Current assets							
Inventories	17	82,468	54,416	43,112	24,949	10,903	0
Trade and other receivables	18	811,255	1,060,854	410,430	294,302	112,521	Prepayments
	19	11,640	14,224	—	—	—	—
Cash & short-term deposits	20	326,029	285,298	169,461	154,332	201,777	30,368
Other current financial assets		—	890	—	—	—	—
Derivatives not designated as hedges	21	23,194	5,432	—	—	—	—
Total current assets		1,254,586	1,421,114	623,003	473,583	312,816	142,889
Total assets		2,741,893	2,409,690	1,317,561	900,182	671,183	529,555
Equity and liabilities							
Equity							
Issued share capital	22a	1,821	1,798	1,334	690	690	690
Share premium	22b	497,457	497,457	—	0	—	—
Share equity reserve	22c	8,734	—	—	—	—	—
Capital contribution	23	40,000	40,000	40,000	40,000	40,000	40,000
Retained earnings		865,485	869,861	690,807	141,183	66,084	12,660
Foreign translation reserve	24	325	26	58	—	—	—
Non-controlling interest	25	(745)	—	—	—	—	—
Total shareholders' equity		1,413,077	1,409,142	732,199	181,873	106,774	53,350
Non-current liabilities							
Interest bearing loans and borrowings	26a	608,846	239,767	120,850	146,358	247,281	47,979
tax liabilities	9a	21,233	—	—	119,404	54,521	Deferred
Contingent consideration	27	21,900	9,377	8,245	—	—	24240
Provision for decommissioning obligation	28	3,869	12,690	15,176	15,727	10,112	8,793
Defined benefit plan	29	6,926	—	—	—	—	—
Total non-current liabilities		662,774	261,834	144,271	281,489	311,914	81,012
Current liabilities							
Interest bearing loans and borrowings	26b	290,769	348,389	189,753	101,247	189,753	189,753
consideration		—	—	—	—	32,858	Contingent
Trade and other payables	31	375,033	390,325	251,338	258,355	102,386	97,268
payable		239	0	0	77,218	63,001	Tax
							25,829
Total current liabilities		666,041	738,714	441,091	436,820	252,495	395,193
Total liabilities		1,328,815	1,000,548	585,362	718,309	564,409	476,205
Total shareholders' equity and liabilities		2,741,893	2,409,690	1,317,561	900,182	671,183	529,555

FINANCIAL SUMMARY
For the year ended 31 December 2015

The Company	Notes	31 Dec 2015	31 Dec 2014	31 Dec 2013	31 Dec 2012	31 Dec 2011	1 Jan 2011
		US\$ '000	US\$ '000	US\$ '000	US\$ '000	US\$ '000	US\$ '000
Assets							
Non-current assets							
Oil & gas properties	48a	850,213	769,331	512,737	379,931	301,334	351,540
Other property, plant and equipment	48b	11,154	11,527	6,605	6,184	3,411	5,016
Intangible assets		1	48	141	234	324	414
Deferred tax asset		—	—	—	26,042	52,298	29,382
Prepayments	50	36,754	45,104	108,910	14,208	1,000	314
Investment in subsidiaries	51	1,064	1,032	1,000	0	0	0
Total non-current assets		899,186	827,042	629,393	426,599	358,367	386,666
Current assets							
Inventories	52	78,864	50,582	39,508	24,949	10,903	0
Trade and other receivables	53	1,322,039	1,244,275	471,792	294,302	112,521	Prepayments
	54	10,679	13,304	—	—	—	—
Cash & short-term deposits	55	316,374	278,663	150,172	154,332	201,777	30,368
Other current financial assets		—	858	—	—	—	—
Derivatives not designated as hedges	56	23,194	5,432	—	—	—	—
Total current assets		1,751,149	1,593,114	661,472	473,583	312,816	142,889
Total assets		2,650,335	2,420,156	1,290,865	900,182	671,183	529,555
Equity and liabilities							
Equity							
Issued share capital	57a	1,821	1,798	1,334	690	690	690
Share premium	57b	497,457	497,457	—	0	—	—
Equity share reserve	22c	8,734	—	—	—	—	—
Capital contribution	58	40,000	40,000	40,000	40,000	40,000	40,000
Retained earnings		877,123	888,798	690,761	141,183	66,084	12,660
Total shareholders' equity		1,425,134	1,428,053	732,095	181,873	106,774	53,350
Non-current liabilities							
Interest bearing loans and borrowings	59a	556,346	239,767	120,850	146,358	247,281	47,979
Deferred tax liabilities	46	16,384	—	—	119,404	54,521	—
Contingent consideration		—	—	—	—	—	24240
Provision for decommissioning obligation	60	2,971	9,838	14,578	15,727	10,112	8,793
Defined benefit plan	61	6,926	—	—	—	—	—
Total non-current liabilities		582,627	249,605	135,428	281,489	311,914	81,012
Current liabilities							
Interest bearing loans and borrowings	59b	290,769	348,389	189,753	101,247	189,753	Contingent
consideration		—	—	—	—	32,858	—
Trade and other payables	63	351,806	394,109	233,589	258,355	102,386	97,268
payable		—	0	0	77,218	63,001	25,829
Total current liabilities		642,575	742,498	423,342	436,820	252,495	395,193
Total liabilities		1,225,201	992,103	558,770	718,309	564,409	476,205
Total shareholders' equity and liabilities		2,650,335	2,420,156	1,290,865	900,182	671,183	529,555

SUPPLEMENTARY FINANCIAL INFORMATION (Unaudited)

For the year ended 31 December 2015

1. Estimated quantities of proved plus probable reserves

	Oil & NGLs MMbbls	Natural gas Bscf	Oil equivalent MMboe
At 31 Dec 2014	138.5	827.0	281.1
Revisions	17.0	63.0	27.9
Discoveries and extensions	—	9.8	1.7
Acquisitions	62.8	706.0	184.5
Production	(9.4)	(36.6)	(15.0)
At 31 Dec 2015	208.9	1,573.2	480.2

Reserves are those quantities of crude oil, natural gas and natural gas liquid that, upon analysis of geological and engineering data, appear with reasonable certainty to be recoverable in the future from known reservoirs under existing economic and operating conditions.

As additional information becomes available or conditions change, estimates are revised.

2. Capitalised costs related to oil producing activities

	The Group		The Company	
	2015	2014	2015	2014
	US\$ '000	US\$ '000	US\$ '000	US\$ '000
Capitalised costs:				
Unproved properties	—	—	—	—
Proved properties	1,684,571	1,023,128	1,083,276	946,292
Total capitalised costs	1,684,571	1,023,128	1,083,276	946,292
Accumulated depreciation	(247,621)	(179,525)	(236,062)	(176,961)
Net capitalised costs	1,436,950	843,603	850,214	769,331

Capitalised costs include the cost of equipment and facilities for oil producing activities. Unproved properties include capitalised costs for oil leaseholds under exploration, and uncompleted exploratory well costs, including exploratory wells under evaluation. Proved properties include capitalised costs for oil leaseholds holding proved reserves, development wells and related equipment and facilities (including uncompleted development well costs) and support equipment.

3. Concessions

The original, expired and unexpired terms of concessions granted to the Group as at 31 December 2015 are:

	Original	Term in years expired	Unexpired
Seplat OML 4, 38 & 41	10	6	4
Newton OML 56	10	6	4
Seplat East Swamp OML 53	30	18	12
Seplat Swamp OML 55	30	18	12

SUPPLEMENTARY FINANCIAL INFORMATION (Unaudited) (Continued)

For the year ended 31 December 2015

4. Results of operations for oil producing activities

	The Group		The Company	
	2015	2014	2015	2014
	US\$ '000	US\$ '000	US\$ '000	US\$ '000
Revenue	570,477	775,019	497,867	755,508
Other income	15,511	11,996	15,511	14,784
Production and administrative expenses	(430,812)	(489,456)	(377,727)	(455,875)
Depreciation & amortisation	(68,097)	(45,306)	(59,102)	(43,181)
Profit before taxation	87,079	252,253	76,548	271,236
Taxation	(21,472)	—	(16,384)	—
Profit after taxation	65,607	252,253	60,164	271,236

COMPANY STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2015

	Notes	31 Dec 2015	31 Dec 2014
		US\$ '000	US\$ '000
Revenue	40	497,867	755,508
Cost of sales	41	(270,505)	(310,715)
Gross profit		227,362	444,793
Other operating income	42	15,511	—
Other general and administrative expenses	43	(106,104)	(118,643)
Gain on foreign exchange		8,985	(20,380)
Fair value movements in contingent consideration		—	—
Operating profit		145,753	305,770
Finance income	44a	8,133	14,784
Finance costs	44b	(77,338)	(49,319)
Profit before taxation		76,549	271,236
Taxation	45	(16,384)	—
Profit for the year		60,164	271,236
Other comprehensive income:			
Other comprehensive income to be reclassified			
to profit or loss in the subsequent periods			
Foreign translation difference		—	—
Total comprehensive income net of tax		60,164	271,236
Basic earnings per share (\$/¥)	64	0.11	0.53
Diluted earnings per share (\$/¥)	64	0.11	0.53

COMPANY STATEMENT OF FINANCIAL POSITION

For the year ended 31 December 2015

	Notes	2015 US\$ '000	2014 US\$ '000
Assets			
Non-current assets			
Oil & gas properties	48a	850,214	769,331
Other property, plant and equipment	48b	11,154	11,527
Intangible assets		1	48
Prepayments	50	36,754	45,104
Investment in subsidiaries	51	1,064	1,032
Total non-current assets		899,187	827,042
Current assets			
Inventories	52	78,864	50,582
Trade and other receivables	53	1,322,039	1,244,275
Prepayments	54	10,679	13,304
Cash & short-term deposits	55	316,374	278,663
Other current financial assets		—	858
Derivatives not designated as hedges	56	23,194	5,432
Total current assets		1,751,150	1,593,114
Total assets		2,650,337	2,420,156
Equity and liabilities			
Equity			
Issued share capital	57a	1,821	1,798
Share premium	57b	497,457	497,457
Equity share reserve		8,734	—
Capital contribution	58	40,000	40,000
Retained earnings		877,123	888,798
Foreign translation reserve		—	—
Total shareholders' equity		1,425,135	1,428,053
Non-current liabilities			
Interest bearing loans and borrowings	59a	556,346	239,767
Deferred tax liabilities	46	16,384	—
Provision for decommissioning obligation	60	2,971	9,838
Defined Benefit Plan	61	6,926	—
Total non-current liabilities		582,627	249,605
Current liabilities			
Interest bearing loans and borrowings	59b	290,769	348,389
Trade and other payables	63	351,806	394,109
Total current liabilities		642,575	742,498
Total liabilities		1,225,202	992,103
Total shareholder equity and liabilities		2,650,337	2,420,156

Notes 40 to 69 are an integral part of the financial statements.

COMPANY STATEMENT OF FINANCIAL POSITION (Continued)

For the year ended 31 December 2015

The financial statements of Seplat Development Company Plc for the year ended 31 December 2015 were authorised for issue in accordance with a resolution of the Directors on 24 March 2016 and were signed on its behalf by:



A.B.C. Orjiako
FRC/2013/IODN/00000003161
Chairman
24 March 2016



Austin Avuru
FRC/2013/IODN/00000003100
Chief Executive Officer
24 March 2016



Roger Brown
FRC/2014/IODN/00000007983
Chief Financial Officer
24 March 2016

COMPANY STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2015

	Notes	Issued share capital	Share premium	Equity share reserve	Capital contribution	Retained earnings	Total
		US\$ '000	US\$ '000	US\$ '000	US\$ '000	US\$ '000	US\$ '000
At 1 January 2014		1,334	—	—	40,000	690,761	732,095
Profit for the year		—	—	—	—	271,236	271,236
Other comprehensive income		—	—	—	—	—	—
Dividends		—	—	—	—	(73,199)	(73,199)
Increase in shares		464	534,523	—	—	—	534,987
Transaction costs for shares issued		—	(37,066)	—	—	—	(37,066)
At 31 December 2014		1,798	497,457	—	40,000	888,798	1,428,053
At 1 January 2015		1,798	497,457	—	40,000	888,798	1,428,053
Profit for the year		—	—	—	—	60,164	60,164
Share-based payments		—	—	8,757	—	—	8,757
Dividends	65	—	—	—	—	(71,840)	(71,840)
Increase in shares		23	—	(23)	—	—	—
At 31 December 2015		1,821	497,457	8,734	40,000	877,123	1,425,135
		=====	=====	=====	=====	=====	=====

COMPANY STATEMENT OF CASH FLOWS

For the year ended 31 December 2015

	Notes	2015	2014
		US\$ '000	US\$ '000
Cash flows from operating activities			
Cash generated from operations	47	96,918	228,370
Income taxes paid	45	—	(2,874)
Net cash flows from operating activities		96,918	225,496
Cash flows from investing activities			
Investment in oil and gas properties		(139,985)	(294,875)
Investment in other property, plant and equipment		(4,656)	(8,510)
Proceeds from sale of assets		208	—
Interest received		3,243	14,784
Deposit for investment		—	—
Aborted acquisition costs		—	—
Net cash flows from investing activities		(141,190)	(288,601)
Cash flows from financing activities			
Proceeds from issue of shares		—	534,987
Expenses from issue of shares		—	(37,066)
Proceeds from bank financing		967,101	446,000
Repayments of bank financing		(735,940)	(119,034)
Loan to subsidiary undertaking		—	(479,246)
Repayment of shareholder financing		—	(48,000)
Dividends paid		(71,840)	(73,199)
Interest paid		(77,338)	(32,847)
Net cash inflows/(outflows) from financing activities		81,983	191,596
Net decrease in cash and cash equivalents		37,711	128,491
Cash and cash equivalents at beginning of year		278,663	150,172
Foreign translation reserve		—	—
Cash and cash equivalents at end of year		316,374	278,663

NOTES TO THE COMPANY FINANCIAL STATEMENTS

40. Revenue

	2015	2014
	US\$ '000	US\$ '000
Crude oil sale	404,018	764,346
Changes in lifting	16,852	(36,198)
	420,870	728,148
Gas sales	76,997	27,360
	497,867	755,508

41. Cost of sales

	2015	2014
	US\$ '000	US\$ '000
Royalties	89,033	149,245
Depletion, depreciation and amortisation	59,102	39,499
Crude handling fee	58,670	20,923
Ness fee	521	803
Niger Delta Development Commission levy	7,552	10,236
Rig related costs	8,553	29,910
Operations and maintenance costs	47,074	60,099
	270,505	310,715

Operations and maintenance costs (\$36 million, ₦7.2 billion), while the balance of \$11 million (₦2.2 billion) comprises costs for community, Health, Safety, Security and Environment ('HSSE'), field logistics and others.

42. Other operating income

	2015	2014
	US\$ '000	US\$ '000
Long stop date income	2,250	—
Fair value gain on put option (hedging)	13,195	—
Profit on disposal of plant & equipment	66	—
	15,511	—

42a. Long stop date income

This represents the penalties levied on Azura Energy for failure to take up 100mmscf of gas from 1 July 2014. The long stop date period is from 1 July 2014 to 31 December 2015.

42b. Fair value gain on put option (hedging)

This represents the gains on a new crude oil price hedge of US\$45/bbl. for 3.3 million barrels at a cost of \$10m (US\$3.03/bbl.) secured on 30 November 2015. The gains represent the fair value of the investment as at 31 December 2015.

NOTES TO THE COMPANY FINANCIAL STATEMENTS

43. Other general and administrative expenses

	2015	2014
	US\$ '000	US\$ '000
Depreciation and amortisation	5,133	3,675
Auditor's remuneration	1,000	604
Professional and consulting fees	39,898	39,947
Directors' emoluments (Execs)	4,568	7,480
Directors' emoluments (Non- Execs)	5,257	—
Donations	206	179
Employee benefits (note 43a)	19,753	17,046
Business development	165	20
Flights and other travel costs	6,934	8,849
Other general expenses	23,190	40,843
Aborted acquisition costs	—	—
	106,104	118,643

Directors' emoluments have been split between Executive & Non-Executive in 2015 and include share-based benefits recognised in 2015, the basis of which has been further highlighted in note 69.

Other general expenses relate to costs such as office maintenance costs, rentals, telecommunication costs, logistics costs and others.

43a. Salaries and employee related costs include the following:

	2015	2014
	US\$ '000	US\$ '000
Basic salary	3,823	5,574
Housing allowance	3,345	2,203
Share benefits	4,463	—
Other allowances	8,122	9,269
Total salaries and employee related costs	19,753	17,046

44. Finance income/cost

44a. Interest income

	2015	2014
	US\$ '000	US\$ '000
Interest income	8,133	14,784

This represents interest income on \$60m intercompany loan to one of Seplat's subsidiaries (Newton) – \$4.9m and interest on fixed deposits – \$3.3m.

44b. Finance cost

	2015	2014
	US\$ '000	US\$ '000
Interest on shareholders' loan	—	—
Interest on bank loans	77,338	47,375
Unwinding of discount on provision for decommissioning (note 27)	—	1,944
	77,338	49,319

NOTES TO THE COMPANY FINANCIAL STATEMENTS

45. Taxation

The major components of income tax expense for the years ended 31 December 2015 and 2014 are:

45a. Tax on profit

	2015	2014
	US\$ '000	US\$ '000
Current tax:		
Current tax charge for the year	—	—
Under provision from prior year	—	—
Deferred tax:		
Net deferred tax in profit or loss	—	—
Total tax charge/(credit) in statement of profit or loss	—	—
Effective tax rate	0%	0%

45b. Reconciliation of effective tax rate

The applicable tax rates for 2015 were 0%. (2014: 0%).

During 2013, applications were made by Seplat and its wholly owned subsidiary, Newton Energy, for the tax incentives available under the provisions of the Industrial Development (Income Tax Relief) Act. In February 2014, Seplat was granted the incentives in respect of the tax treatment of OMLs 4, 38 and 41. Newton Energy was also granted similar incentives in respect of the tax treatment of OPL 283/OML 56. Under these incentives, the companies' profits are subject to a tax rate of 0% with effect from 1 January 2013 to 31 December 2015 in the first instance and then for an additional two years for Seplat and 1 June 2013 to 31 May 2015 in the first instance and then for an additional two years for Newton Energy if the two companies meet certain conditions included in the NIPC pioneer status award document.

The new incentives form the basis of the Group's current and deferred taxation in the financial statements.

A reconciliation between income tax expense and accounting profit before income tax multiplied by the applicable statutory tax rate is as follows:

	2015	2014
	US\$ '000	US\$ '000
Profit before taxation	76,549	271,236
Under provision from prior year	—	—
Adjustment in respect of prior periods	—	—
Impact of tax incentive on deferred tax balances	(16,384)	—

The movement in the current tax (prepayment)/liability is as follows:

	2015	2014
	US\$ '000	US\$ '000
As at 1 January	(31,623)	(28,749)
Under provision from prior year	—	—
Tax paid	—	(2,874)
Tax prepayment	(31,623)	(31,623)

NOTES TO THE COMPANY FINANCIAL STATEMENTS

46. Deferred income tax

The movement in the current tax (prepayment)/liability is as follows:

	2015	2014
	US\$ '000	US\$ '000
Deferred tax asset to be recovered after more than 12 months	—	8,362
Deferred tax liability to be recovered after more than 12 months	(16,384)	(3,923)
Net deferred tax	(16,384)	4,439

The Company has \$16.38 million deferred tax liability in respect of unutilised losses and capital allowances.

46a. Deferred tax liabilities

	Fixed asset	Decom- missioning provision	Underlift/ overlift	Defined benefit	Total
	US\$ '000	US\$ '000	US\$ '000	US\$ '000	US\$ '000
At 1 January 2015	—	—	—	—	—
Credited/(charged) to profit or loss	(18,173)	1,953	(4,718)	4,554	(16,384)
At 31 December 2015	(18,173)	1,953	(4,718)	4,554	(16,384)

The net deferred tax liability as at 31 December 2015 is \$16.38 million (2014: Nil).

47. Computation of cash generated from operations

	31 Dec 2015	31 Dec 2014
	US\$ '000	US\$ '000
Profit before tax	76,549	271,236
Adjusted for:		
Depreciation and amortisation	64,236	43,181
Finance income	(8,133)	(14,784)
Finance cost	77,338	49,319
Fair value movement on contingent consideration	—	—
Gain on disposal of property, plant and equipment	(66)	—
Financial assets	(17,762)	—
Foreign exchange loss/(gain)	(8,985)	20,380
Share-based payments	(8,757)	—
Changes in working capital:		
Trade and other receivables	(77,764)	(289,178)
Prepayments	2,625	—
Trade and other payable	25,921	159,291
Inventories	(28,282)	(11,074)
	20,371	(42,865)
Net cash from operating activities	96,918	228,370

NOTES TO THE COMPANY FINANCIAL STATEMENTS

48. Property, plant and equipment

48a. Oil and gas properties

Cost	Production and field facilities	Assets under construction	Total
-----	US\$ '000	US\$ '000	US\$ '000
At 1 January	422,618	227,580	650,198
Addition	—	302,778	302,778
Changes in decommissioning	(6,684)	—	(6,684)
Transfer from asset under construction	114,031	(114,031)	—
At 31 December	529,965	416,327	946,292
Depreciation			
At 1 January	137,461	—	137,461
Disposal	—	—	—
Charged for the year	39,500	—	39,500
At 31 December	176,961	—	176,961
NBV			
At 31 December 2014	353,004	416,327	769,331
Cost	Production and	Assets under	Total
-----	field facilities	construction	-----
	US\$ '000	US\$ '000	US\$ '000
At 1 January 2015	529,965	416,327	946,292
Addition	146,852	—	146,852
Changes in decommissioning	(6,867)	—	(6,867)
Transfer from asset under construction	115,083	(115,083)	—
At 31 December 2015	785,033	301,244	1,086,277
Depreciation			
At 1 January 2015	176,961	—	176,961
Disposal	—	—	—
Charged for the year	59,102	—	59,102
At 31 December 2015	236,063	—	236,063
NBV			
At 31 December 2015	548,970	301,244	850,214

The Company's present and future assets (except jointly owned with NNPC/NPDC) along with all equipment, machinery and immovable property of the Group situated on the property to which the oil mining leases relate are pledged as security for the syndicate loan (note 59).

Assets under construction represent costs capitalised in connection with the development of the Group's oil fields and other fixed assets not yet ready for their intended use. These are funded from the Group's operations; hence no borrowing cost was capitalised during the year.

NOTES TO THE COMPANY FINANCIAL STATEMENTS

48. Property, plant and equipment (Continued)

48b. Property, plant and equipment

Cost	Plant & machinery	Motor vehicle	Office		Total
			Furniture and IT equipment	Leasehold improvements	
	US\$ '000	US\$ '000	US\$ '000	US\$ '000	US\$ '000
At 1 January 2014	1,830	2,817	7,375	1,148	13,170
Addition	1,492	2,540	3,164	1,314	8,510
At 31 December 2014	3,322	5,357	10,539	2,462	21,680
Depreciation					
At 1 January 2014	504	1,343	4,273	445	6,565
Charged for the year	478	828	1,882	400	3,588
At 31 December	982	2,171	6,155	845	10,153
NBV					
At 31 December 2014	2,340	3,185	4,384	1,618	11,527

Cost	Plant & machinery	Motor vehicle	Office		Total
			Furniture and IT equipment	Leasehold improvements	
	US\$ '000	US\$ '000	US\$ '000	US\$ '000	US\$ '000
At 1 January 2015	3,322	5,357	10,539	2,462	21,680
Addition	685	1,662	1,867	688	4,902
Disposals		(246)			(246)
At 31 December 2015	4,007	6,773	12,406	3,150	26,336
Depreciation					
At 1 January 2015	982	2,171	6,155	845	10,153
Disposals	(104)	(104)			
Charged for the year	724	1,349	2,501	559	5,133
At 31 December	1,706	3,416	8,656	1,404	15,182
NBV					
At 31 December 2015	2,301	3,357	3,750	1,746	11,154

49. Intangible assets

	US\$ '000
Cost:	
At 1 January 2015	414
Exchange difference	—
At 31 December 2015	414
Accumulated amortisation:	
At 1 January 2015	366
Charge for the year	47
Exchange difference	—
At 31 December 2015	413
NBV:	
At 31 December 2015	1
At 31 December 2014	48

Intangible assets relate to an oil mining licence granted to the Group that is expected to expire in 2019.

NOTES TO THE COMPANY FINANCIAL STATEMENTS

50. Prepayments (non-current)

	31 Dec 2015	31 Dec 2014
	US\$ '000	US\$ '000
Tax paid in advance	31,623	31,623
Rent	2,760	2,614
Drilling services	2,371	5,333
Prepaid fees – NIPC	—	5,519
Prepaid others	—	15
	-----	-----
	3,754	45,104
	-----	-----

Included in prepayments are the following:

Tax paid in advance

In 2014, Seplat Petroleum Development Company paid \$2.9 million petroleum profit tax instalment in addition to the total instalment sum of \$28 million paid in 2013. These payments relate to 2013 and were made prior to obtaining the pioneer status. This was accounted for as a tax credit under non-current prepayment until a future date when the Company will be expected to offset it against its tax liability.

Rent

In 2014, the Group entered into three new commercial leases in relation to three buildings that it occupies in Lagos and Delta states. The Group has prepaid the rent. Two of the non-cancellable leases which relate to buildings in Lagos expire in 2019 and 2018 respectively. The building in Delta state is also non-cancellable and it expires in 2016. The long-term portion as at 31 December 2015 is \$2.8 million

Drilling services

In 2012, Seplat signed an agreement with Cardinal Drilling Limited with respect to the exclusive use of two rigs for five years. Seplat agreed to pay a \$20 million advance in relation to the exclusive use of these rigs. This \$20 million has been recognised as a prepayment and amortised over the life of the agreement (five years). The long-term portion as at 31 December 2015 is \$2.4 million.

Prepaid fees – NIPC

This relates to fees for the pioneer period prepaid to Nigerian Investment Promotion Commission ('NIPC').

51. Investment in subsidiaries

	31 Dec 2015	31 Dec 2014
	US\$ '000	US\$ '000
Newton Energy Limited	950	950
Seplat Petroleum Development UK	50	50
Seplat East Onshore Ltd	32	32
Seplat East Swamp Ltd	32	—
	-----	-----
	1,064	1,032
	-----	-----

Subsidiary

	Location	Shareholding %
Newton Energy Limited	(Nigeria)	100
Seplat Petroleum Development UK	(United Kingdom)	100
Seplat East Onshore Limited	(Nigeria)	100
Seplat East Swamp Company Limited	(Nigeria)	100
Seplat Gas Company	(Nigeria)	100
Belemaoil Producing	(Nigeria)	56.25

NOTES TO THE COMPANY FINANCIAL STATEMENTS

52. Inventories

	31 Dec 2015	31 Dec 2014
	US\$ '000	US\$ '000
Tubular, casing and wellheads	78,864	50,582
Foreign exchange difference	—	—
	78,864	50,582

Inventory represents the value of tubulars, casings and wellheads. The inventory is carried at the lower of cost and net realisable value. Included in cost of sales is \$0.19 million representing inventory charged to profit or loss during the year.

53. Trade and other receivables

	31 Dec 2015	31 Dec 2014
	US\$ '000	US\$ '000
Trade receivables	95,332	115,116
Nigerian Petroleum Development Company (NPDC) receivables	491,974	463,118
Intercompany receivables	708,843	643,912
Deposit for investments	—	—
Advances	8,632	10,924
Underlift	7,041	—
Advances to suppliers	2,498	10,934
Hedging receivables	7,585	—
Other receivables	134	271
	1,322,039	1,244,275

Trade receivables

This mainly represents crude receivables on Mercuria (\$17 million), Shell (\$15 million) and gas receivables from NGC (\$62 million).

NPDC receivables:

Seplat has not yet remitted the sum of \$56.4 million due to NPDC on crude handling charges as of 31 December 2015; after considering this, net receivables due from NPDC are \$435 million. Subsequent to year end \$115 million was received as cash relating to the outstanding debt bringing the net balance to \$320 million, without considering current expenditure and cash calls.

Deposit for investment:

- a) \$45 million refundable deposit was made towards an investment in 2014 with potential vendors. This remains a deposit whilst negotiation between the parties continue.
- b) \$36.5 million was placed in an escrow account in London related to the same investment pending agreements of final terms. Out of this and in the period under review \$3.5 million has been paid out in consortium fees. See further note on subsequent events, note 70.

NOTES TO THE COMPANY FINANCIAL STATEMENTS

53. Trade and other receivables (Continued)

The ageing analysis of the trade receivables and amounts due from NPDC is as follows:

	Total	Neither past due nor impaired	Past due but not impaired				
			<30 days	30-60 days	60-90 days	90-120 days	>120 days
	US\$ '000	US\$ '000	US\$ '000	US\$ '000	US\$ '000	US\$ '000	US\$ '000
Trade receivables							
31 Dec 2015	95,332	58,490	5,261	7,165	8,145	9,039	7,232
31 Dec 2014	115,116	89,027	1,759	2,015	6,503	1,556	14,256
NPDC receivables							
31 Dec 2015	491,974	274,465	27,213	56,886	10,021	41,842	81,547
31 Dec 2014	463,118	207,495	68,097	120,743	36,491	0	30,292
	=====	=====	=====	=====	=====	=====	=====

Shell Western Supply and Mercuria Trading Company have subsequently settled the outstanding balance of \$15.4 million and \$17.2 million in January 2016. NPDC has also paid a total of \$115 million from the outstanding balance after year-end. The remaining balance is expected to be fully paid during 2016.

54. Prepayments (current)

	31 Dec 2015	31 Dec 2014
	US\$ '000	US\$ '000
Prepayments	10,679	13,304
	-----	-----

Prepayments relate to prepaid rent and drilling services. See note 50.

55. Cash and short-term deposits

Cash and short-term deposits in the statement of financial position comprise cash at banks and on hand and short-term deposits with a maturity of three months or less.

	31 Dec 2015	31 Dec 2014
	US\$ '000	US\$ '000
Cash on hand	50	60
Cash at bank	316,324	278,603
Short-term deposits	—	—
Cash and cash equivalents	316,374	278,663
	-----	-----

At 31 December 2015, cash at bank included the debt service reserve of \$68.9 million (2014: \$46.5 million) deposited pursuant to the covenant in relation to the bank syndicated loan. The debt service reserve account balance is the amount equal to at least the aggregate of the amounts of principal and interest projected to fall due on the next successive principal payment dates and dates for the payment of interest on the loans.

56. Financial instruments

	31 Dec 2015	31 Dec 2014
	US\$ '000	US\$ '000
Derivatives not designated as hedges	23,194	5,432
	-----	-----

In November 2015, management completed a crude oil price hedge of US\$45/bbl. for 3.3 million barrels at a cost of \$10m (US\$3.03/bbl.). The fair value of this hedge as at 31 December 2015 is \$23.2 million giving rise to a fair value gain of \$13.2 million.

NOTES TO THE COMPANY FINANCIAL STATEMENTS

57. Share capital and premium

57a. Share capital

	31 Dec 2015	31 Dec 2014
	US\$ '000	US\$ '000
Authorised ordinary share capital		
1,000,000,000 ordinary shares denominated in Nigerian		
Naira of 50k per share	3,335	3,335
Issued and fully paid		
560,576,1011 (2014: 553,310,313) issued shares denominated in		
Nigerian Naira of 50k per share	1,821	1,798

In 2015, the Company gave share options (14,939,102 shares) to certain employees and senior executives in line with its share-based incentive scheme. As at 31 December 2015, 7,265,788 shares had vested, resulting in an increase in number of issued and fully paid ordinary shares of 50k each from 553 million to 561 million.

57b. Share premium

	31 Dec 2015	31 Dec 2014
	US\$ '000	US\$ '000
Gross proceeds	—	534,987
Share issue	—	(464)
Share premium	—	534,523
Issue costs	—	(37,066)
Issued share capital proceeds	—	497,457

In 2014, the net proceeds of \$497.9 million were received from the initial public offering. 153,310,313 shares of 50k each totalling \$464,000 were transferred to share capital.

58. Capital contribution

This represents M&P additional cash contribution to the Company. In accordance with the Shareholders' Agreement, the amount was used by the Company for working capital as was required at the commencement of operations. Subsequently, the interest held by M&P was transferred to MPI. All terms and conditions previously held by M&P were re-assigned to MPI.

59. Interest bearing loans and borrowings

59a. Non-current

	31 Dec 2015	31 Dec 2014
	US\$ '000	US\$ '000
Non-current		
Bank borrowings	556,346	239,767

59b. Current

	31 Dec 2015	31 Dec 2014
	US\$ '000	US\$ '000
Current		
Bank borrowings	290,769	348,389

NOTES TO THE COMPANY FINANCIAL STATEMENTS

59. Interest bearing loans and borrowings (Continued)

Bank loan

Syndicate credit facility

On 31 December 2014, Seplat signed a US\$1.7 billion debt refinancing package, made of the following facilities:

- US\$700 million seven year term loan with an ability to stretch it to US\$1.4bn contingent on a qualifying acquisition with a consortium of five local banks. This facility has a seven year maturity period.
- US\$300 million three year corporate revolver primarily to manage working capital requirements with a consortium of eight international banks. This facility has a three year maturity period.

As at 31 December 2015, Seplat had drawn down \$1 billion of this facility and made principal repayments in 2015. Interest accrues monthly on the principal amount outstanding at the LIBOR rate plus a margin ranging from 6.5 to 8.5%. The outstanding balance as of 31 December 2015 is \$863 million. As part of the Acquisition of OML 55, it was agreed with the shareholders of Belemail to take over its existing loan of \$52.5 million with Sterling Bank. This has been consolidated in the Group accounts.

Term loan	Interest	Current	Non-current	Total
		US\$ '000	US\$ '000	US\$ '000
SBSA	8.5% + LIBOR	5,649	16,947	22,596
Stanbic	8.5% + LIBOR	5,649	16,947	22,596
FBN	8.5% + LIBOR	37,695	113,085	150,780
UBA	8.5% + LIBOR	37,695	113,085	150,780
Zenith Bank	8.5% + LIBOR	60,312	180,936	241,248
		147,000	441,000	588,000

Corporate Loan (US\$300M)	Interest	Current	Non-Current	Total
		US\$ '000	US\$ '000	US\$ '000
Citibank Nigeria Limited	6.00% + LIBOR	8,333	14,583	22,917
Firststrand Bank Limited Acting	6.00% + LIBOR	10,000	17,500	27,500
JPMorgan Chase Bank N A London	6.00% + LIBOR	10,000	17,500	27,500
Nedbank Limited, London Branch	6.00% + LIBOR	10,000	17,500	27,500
Bank Of America Merrill Lynch	6.00% + LIBOR	10,000	17,500	27,500
Standard Chartered Bank	6.00% + LIBOR	15,000	26,250	41,250
Citibank N.A.	6.00% + LIBOR	6,667	11,667	18,333
Natixis	6.00% + LIBOR	15,000	26,250	41,250
Stanbic Ibt Bank Plc	6.00% + LIBOR	7,500	13,125	20,625
The Standard Bank Of South Africa	6.00% + LIBOR	7,500	13,125	20,625
		100,000	175,000	275,000

Loans	US\$ '000
Term loan	588,000
Corporate loan	275,000
Less: Capitalised loan transaction costs	(15,885)
	847,115

NOTES TO THE COMPANY FINANCIAL STATEMENTS

60. Provision for decommissioning obligation

	US\$ '000
At 1 January 2014	14,578
Unwinding of discount due to passage of time	1,944
Change in estimate	(6,684)
Exchange difference	—
At 31 December 2014	9,838
Unwinding of discount due to passage of time	—
Change in estimate	(6,867)
Exchange difference	—
At 31 December 2015	2,971

The Company makes full provision for the future cost of decommissioning oil production facilities on a discounted basis at the commencement of production. This relates to the removal of assets as well as their associated restoration costs. This obligation is recorded in the period in which the liability meets the definition of a “probable future sacrifice of economic benefits arising from a present obligation,” and in which it can be reasonably measured.

The provision represents the present value of estimated future expenditure to be incurred in 2052 which is the current expectation as to when the producing facilities are expected to cease operations. Management engaged a third party to assist with an estimate of the expenditure to be incurred in 2052. These provisions were based on estimation carried out by DeGolyer and MacNaughton based on current assumptions on the economic environment which management believe to be a reasonable basis upon which to estimate the future liability. These estimates are reviewed regularly to take into account any material changes to the assumptions. However, actual decommissioning costs will ultimately depend upon future market prices for the necessary decommissioning works required that will reflect market conditions at the relevant time. Furthermore, the timing of decommissioning is likely to depend on when the fields cease to produce at economically viable rates.

The discount rate used in the calculation of unwinding of the provision as at 31 December 2015 was 11.1% (the year ended 31 December 2014: 14.64%). As of 31 December 2015, management has estimated decommissioning expenditure to occur in 2052 (31 December 2014: 2036).

61. Defined benefit plan

	31 Dec 2015	31 Dec 2014
	US\$ '000	US\$ '000
Defined benefit Obligation	6,926	—
	6,926	—

The Company commenced its unfunded defined benefit plan (gratuity) in July 2015. The Company makes provisions for gratuity for employees from day one of employment in the Company. The employee qualifies to receive the gratuity on resignation or retirement from the Company after five years of continuous service. The level of benefits provided depends on the member’s length of service and salary at retirement age. The gratuity liability is adjusted to inflation, interest rate risks, changes in salary and changes in the life expectancy for the beneficiaries. The provision for gratuity was based on independent actuarial valuation performed by HR Nigeria Limited using the projected unit credit method. The Company does not maintain any assets for the gratuity plan but ensures that it has sufficient funds for the obligations as they crystallize.

The following tables summarise the components of net benefit expense recognised in the statement of profit or loss and other comprehensive income and in the statement of financial position for the respective plans:

NOTES TO THE COMPANY FINANCIAL STATEMENTS

61. Defined benefit plan (Continued)

61a. Net benefit expense 2015 (recognised in profit or loss)

	31 Dec 2015	31 Dec 2014
	US\$ '000	US\$ '000
Current service cost	6,926	—
Interest cost on benefit obligation	—	—
	6,926	—

61b. Re-measurement gains/(losses) in other comprehensive income:

	31 Dec 2015	31 Dec 2014
	US\$ '000	US\$ '000
Actuarial (gains)/losses	—	—
	—	—
	6,926	—

61c. Changes in the present value of the defined benefit obligation are as follows:

	31 Dec 2015	31 Dec 2014
	US\$ '000	US\$ '000
Defined benefit obligation at 1 January	—	—
Current service cost	6,926	—
Interest cost	—	—
Benefits paid by the employer	—	—
Actuarial gains/losses	—	—
Defined benefit obligation at 31 December	6,926	—

61d. The principal assumptions used in determining defined benefit obligations for the Company's plans are shown below:

	31 Dec 2015	31 Dec 2014
	%	%
Discount rate	12	—
Average future pay increase	12	—
Average future rate of inflation	9	—

Mortality in service

Sample age	Number of deaths in year out of 10,000 lives
25	7
30	7
35	9
40	14
45	26

NOTES TO THE COMPANY FINANCIAL STATEMENTS

61. Defined benefit plan (Continued)

61e. A quantitative sensitivity analysis for significant assumptions as at 31 December 2015 is as shown below:

Assumptions	Discount rate		Salary increases		Mortality	
	1% increase	1% decrease	1% increase	Improved by 1% decrease	Worsens by 10%	10%
	US\$ '000	US\$ '000	US\$ '000	US\$ '000	US\$ '000	US\$ '000
Sensitivity level: Impact on the net defined benefit obligation						
31 December 2015	6,115	(7,913)	7,939	(6,081)	6,982	(6,885)
31 December 2014	—	—	—	—	—	—
	6,115	(7,913)	7,939	(6,081)	6,982	(6,885)

The sensitivity analyses above have been determined based on a method that extrapolates the impact on net defined benefit obligation as a result of reasonable changes in key assumptions occurring at the end of the reporting period.

The following payments are expected contributions to be made in the future years out of the defined benefit plan obligation:

	2015	2014
	US\$ '000	US\$ '000
Within the next 12 months (next annual reporting period)	298	—
Between 2 and 5 years	2,356	—
Between 5 and 10 years	9,378	—
	12,032	—

62. Employee benefits – defined contribution

The Company contributes to a funded defined contribution retirement benefit scheme for its employees in compliance with the provisions of the Pension Reform Act 2004. A defined contribution plan is a pension plan under which the Company pays fixed contributions to an approved Pension Fund Administrator ('PFA') – a separate entity. The assets of the scheme are managed by various Pension Fund Administrators patronised by employees of the Company. The Company's contributions are charged to the profit and loss account in the year to which they relate. The amount payable as at 31 December 2015 was \$394,561 (2014: \$331,958).

63. Trade and other payables

	2015	2014
	US\$ '000	US\$ '000
Trade payable	125,166	75,409
Accruals and other payables	169,158	260,026
Overlift	—	9,811
NDDC levy	6,272	11,327
Deferred revenue	1,420	1,420
Royalties	25,212	24,413
Intercompany payable	24,578	11,703
	351,806	394,109

The accruals balance is mainly composed of other field-related accruals – \$63.4 million (2014: \$219.9 million) and NPDC payables – \$56.4 million.

NOTES TO THE COMPANY FINANCIAL STATEMENTS

64. Earnings per share

Basic

Basic earnings per share is calculated on the Company's profit after taxation and on the basis of weighted average of issued and fully paid ordinary shares at the end of the year.

	2015	2014
	US\$ '000	US\$ '000
Profit for the year attributable to shareholders	60,164	271,236
	Shares '000	Shares '000
Weighted average number of ordinary shares in issue	560,576	508,120
Share options	189	—
Weighted average number of ordinary shares adjusted for the effect of dilution	560,765	508,120
	US\$	US\$
Basic earnings per share	0.11	0.53
Diluted earnings per share	0.11	0.53
Earnings	US\$ '000	US\$ '000
Profit attributable to equity holders of the Group	60,164	271,236
Profit used in determining diluted earnings per share	60,164	271,236

65. Dividends paid and proposed

	2015	2014
	US\$ '000	US\$ '000
Cash dividends on ordinary shares declared and paid:		
Interim dividend for 2015: \$0.04 per share (2014: \$0.06 per share), 553,310,313 shares in issue	22,139	33,199
Final dividend for 2014: \$0.09 per share (2013: \$0.10 per share), 553,310,313 shares in issue (2013: 400,000,000 shares in issue)	49,701	40,000
	71,840	73,199
Proposed dividends on ordinary shares:		
Final cash dividend for 2015: \$0.04 per share, 560,764,710 issued and fully paid	22,431	49,800

Proposed dividends on ordinary shares are subject to approval at the Annual General Meeting and are not recognised as a liability as at 31 December 2015.

66. Related party relationships and transactions

The following companies are common control entities as the companies are controlled by close family members:

- Abbey Court Trading Company Limited
- Abtrust Integrated Services
- Berwick Nigeria Limited
- Cardinal Drilling Nigeria Limited
- Charismond Nigeria Limited
- D. D. Dodo & Co
- Helko Nigeria Limited

NOTES TO THE COMPANY FINANCIAL STATEMENTS

66. Related party relationships and transactions (Continued)

- Keco Nigeria Enterprises
- Montego Upstream Services Limited
- Nabila Resources & Investment Limited
- Ndosumili Ventures Limited
- Neimeth International Pharmaceutical Plc
- Nerine Support Services Limited
- Oriental Catering Services Limited
- Platform Petroleum Limited
- ResourcePro Inter Solutions Limited
- Shebah Exploration and Production Company Limited ("SEPCOL")

Services provided by the related parties:

Abbeycourt Trading Company Limited: the Chairman of Seplat is a director and shareholder. The company provides diesel supplies to Seplat in respect of Seplat's rig operations.

Abtrust Integrated Services: The Chief Executive Officer of Seplat's wife is shareholder and director. The company provides bespoke gift hampers to Seplat.

Berwick Nigeria Limited: The chairman of Seplat is a shareholder and director. The company provides construction services to Seplat in relation to a field base station in Sapele.

Cardinal Drilling Services Limited (formerly Caroil Drilling Nigeria Limited): is a company under common control. The company provides drilling rigs and drilling services to Seplat.

Charismond Nigeria Limited: The Chief Executive Officer's sister works at Charismond as a general manager. The company provides bespoke gift hampers to Seplat.

D. D. Dodo & Co: The owner is an Independent Non-Executive Director of Seplat and also a partner of the law firm that provided legal services to the Company (2014: \$0.59 million).

Helko Nigeria Limited: The chairman of Seplat is shareholder and director. The company owns the lease to Seplat's main office at 25A Lugard Avenue, Lagos, Nigeria.

Keco Nigeria Enterprises: The Chief Executive Officer's sister is shareholder and director. The company provides diesel supplies to Seplat in respect of its rig operations.

Montego Upstream Services Limited: The chairman's nephew is shareholder and director. The company provides drilling and engineering services to Seplat.

Nabila Resources & Investment Ltd: The chairman's in-law is a shareholder and director. The company provides lubricant to Seplat.

Ndosumili Ventures Limited: is a subsidiary of Platform Petroleum Limited. The company provides transportation services to Seplat.

Neimeth International Pharmaceutical Plc: The chairman of Seplat is also the chairman of this company. The company provides medical supplies and drugs to Seplat, which are used in connection with Seplat's corporate social responsibility and community healthcare programmes.

Nerine Support Services Limited: is a company under common control. The company provides agency and contract workers to Seplat.

Oriental Catering Services Limited: The Chief Executive Officer of Seplat's spouse is shareholder and director. The company provides catering services to Seplat at the staff canteen.

Platform Petroleum Limited: The Chief Executive Officer of Seplat is a director and shareholder of this company. The company seconded support staff to Seplat in Q1, 2015.

NOTES TO THE COMPANY FINANCIAL STATEMENTS

66. Related party relationships and transactions (Continued)

ResourcePro Inter Solutions Limited: The Chief Executive Officer of Seplat's in-law is its UK representative. The company supplies furniture to Seplat.

Shebah Exploration and Production Company Limited ('SEPCOL'): The Chairman of Seplat is a director and shareholder of SEPCOL. SEPCOL provides consulting services to Seplat.

The following transactions were carried out by related parties on behalf of Seplat:

a) *Transactions:*

i) *Purchases of goods and services*

	2015	2014
	US\$ '000	US\$ '000
Shareholders:		
MPI	—	299
Shebah	1,517	1,936
Platform Petroleum Limited	35	201
	1,552	2,436
Entities under common control:		
Abbeycourt Trading Company Limited	2,362	4,329
Abtrust Integrated Services	—	50
Charismond Nigeria Limited	29	176
Cardinal Drilling Services Limited	17,244	36,612
Keco Nigeria Enterprises	1,896	3,596
Ndosumili Ventures Limited	1,350	2,759
Oriental Catering Services Limited	941	598
ResourcePro Inter Solutions Limited	1,841	2,913
Berwick Nigeria Limited	27	950
Montego Upstream Services Limited	9,449	17,328
Neimeth International Pharmaceutical Plc	—	28
Nerine Support Services Limited	21,015	31,277
Nabila Resources & Investment Ltd	226	455
Helko Nigeria Limited	566	2,379
D.D Dodo & Co	—	590
	56,946	104,040

ii) *Interest expense*

	2015	2014
	US\$ '000	US\$ '000
Shareholders:		
MPI	—	960

NOTES TO THE COMPANY FINANCIAL STATEMENTS

66. Related party relationships and transactions (Continued)

b) *Balances:*

Year-end balances arising from related party transactions:

iii) *Prepayments/receivables*

	2015	2014
	US\$ '000	US\$ '000
Under common control:		
Cardinal Drilling Services Limited – current portion	12,632	10,934
Cardinal Drilling Services Limited – non current portion	1,333	5,333
Abbeycourt Petroleum Company Limited	—	—
	-----	-----
	13,965	16,267
	-----	-----

iv) *Payables*

	2015	2014
	US\$ '000	US\$ '000
Shareholders:		
Loan from MPI	—	—
Other payables to MPI	—	1,223
	-----	-----
	—	1,223
	-----	-----

v) *Key management compensation*

Key management includes executive and members of the executive committee. The compensation paid or payable to key management for employee services is shown below:

	31 Dec 2015	31 Dec 2014
	US\$ '000	US\$ '000
Salaries and other short-term employee benefits	4,522	5,372
	-----	-----
	4,522	5,372
	-----	-----

67. Commitments and contingencies

67a. Operating lease commitments – Group as lessee

The Company has entered into operating leases for the use of drilling rigs.

Future minimum rentals payable under non-cancellable operating leases as at each reporting date are as follows:

	31 Dec 2015	31 Dec 2014
	US\$ '000	US\$ '000
Within one year	—	30,249
After one year but not more than five years	—	—
	-----	-----
	—	30,249
	-----	-----

67b. Commitments

The Group has commitments in OML 55. See note 24.

NOTES TO THE COMPANY FINANCIAL STATEMENTS

67. Commitments and contingencies (Continued)

67c. Contingent liabilities

The Company is involved in a number of legal suits as defendant. The possible liabilities arising from these court proceedings amount to \$299.9 million (31 December 2015 – \$23,229,745). No provision has been made for this potential liability in these financial statements. Management and the Company's solicitors are of the opinion that the Company will suffer no loss from these claims.

Pursuant to an agreement reached by Newton in connection with a potential acquisition of an asset by a consortium, \$31m has been set aside (\$20 million in an escrow and \$11 million as prepaid agreed consortium fees) pending a final decision on proceeding with the investment. In the event that Newton at its discretion decides not to proceed \$31 million will be fully paid out and expensed to the parties, otherwise these amounts set aside will be applied as acquisition costs and amounts in escrow released to Newton.

68. Financial risk management

The Company's activities expose it to a variety of financial risks such as market risk (including foreign exchange risk, interest rate risk and commodity price risk), credit risk and liquidity risk. The Company's risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Company's financial performance.

Risk management is carried out by the treasury department under policies approved by the Board of Directors. The Board provides written principles for overall risk management, as well as written policies covering specific areas, such as foreign exchange risk, interest rate risk, credit risk and investment of excess liquidity.

68.1 Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due.

The Company manages liquidity risk by ensuring that sufficient funds are available to meet its commitments as they fall due.

The Company uses both long-term and short-term cash flow projections to monitor funding requirements for activities and to ensure there are sufficient cash resources to meet operational needs. Cash flow projections take into consideration the Company's debt financing plans and covenant compliance. Surplus cash held is transferred to the treasury department which invests in deposit bearing current accounts, time deposits and money market deposits.

NOTES TO THE COMPANY FINANCIAL STATEMENTS

68. Financial risk management (Continued)

The following table details the Company's remaining contractual maturity for its non-derivative financial liabilities with agreed maturity periods. The table has been drawn based on the undiscounted cash flows of the financial liabilities based on the earliest date on which the Company can be required to pay.

31 Dec 2015	Effective interest rate %	Less than 1 year	1-2 years	2-3 years	3-5 years	After 5 years	Total
		US\$ '000	US\$ '000	US\$ '000	US\$ '000	US\$ '000	US\$ '000
Variable interest rate borrowings:							
Bank loans:							
Zenith Bank Plc	8.5% + LIBOR	81,976	70,418	51,200	74,753	24,104	302,451
First Bank of Nigeria Limited	8.5% + LIBOR	51,235	44,012	32,000	46,721	15,065	189,033
United Bank for Africa Plc	8.5% + LIBOR	51,235	44,012	32,000	46,721	15,065	189,033
Stanbic IBTC Bank Plc	8.5% + LIBOR	7,678	6,596	4,796	7,002	2,258	28,330
The Standard Bank of South Africa Limited	8.5% + LIBOR	7,678	6,596	4,796	7,002	2,258	28,330
Standard Chartered Bank	6.00% + LIBOR	17,534	27,711	—	—	—	45,245
Natixis	6.00% + LIBOR	17,534	27,711	—	—	—	45,245
Citibank Nigeria Ltd and Citibank NA	6.00% + LIBOR	17,534	27,711	—	—	—	45,245
Bank of America Merrill Lynch Int'l Ltd	6.00% + LIBOR	11,689	18,474	—	—	—	30,163
FirstRand Bank Ltd (Rand Merchant Bank Division)	6.00% + LIBOR	11,689	18,474	—	—	—	30,163
JP Morgan Chase Bank NA, London Branch	6.00% + LIBOR	11,689	18,474	—	—	—	30,163
NedBank Ltd, London Branch	6.00% + LIBOR	11,689	18,474	—	—	—	30,163
Stanbic IBTC Bank Plc	6.00% + LIBOR	8,767	13,856	—	—	—	22,623
The Standard Bank of South Africa Ltd	6.00% + LIBOR	8,767	13,856	—	—	—	22,623
Trade, other payables	—	351,806	—	—	—	—	351,806
		668,500	356,375	124,792	182,199	58,750	1,390,616
		=====	=====	=====	=====	=====	=====
31 Dec 2014	Effective interest rate %	Less than 1 year	1-2 years	2-3 years	3-5 years	After 5 years	Total
		US\$ '000	US\$ '000	US\$ '000	US\$ '000	US\$ '000	US\$ '000
Variable interest rate borrowings:							
Bank loans:							
Skye Bank Plc	8.00%	68,623	50,616	—	—	—	119,239
United Bank for Africa Plc	7.5% + LIBOR	56,431	39,052	—	—	—	95,483
First Bank of Nigeria Plc	7.5% + LIBOR	147,759	87,389	—	—	—	235,148
First Bank of Nigeria Plc	8% + LIBOR	106,269	0	—	—	—	106,269
Africa Export-Import Bank	7.5% + LIBOR	101,029	91,732	—	—	—	192,761
Zenith loan	7.5% + LIBOR	65,455	61,186	56,594	52,955	—	236,190
Trade, other payables	—	389,103	0	—	—	—	389,103
Contingent consideration	—	—	9,377	—	—	—	9,377
		934,669	339,352	56,594	52,955	—	1,383,570
		=====	=====	=====	=====	=====	=====

NOTES TO THE COMPANY FINANCIAL STATEMENTS

69. Information relating to employees

a. Chairman and Directors' emoluments:

	2015	2014
	US\$ '000	US\$ '000
Fees	2,461	2,254
Chairman (Non-Executive)	1,125	1,092
Chief Executive Officer	1,645	1,572
Executive Directors	2,917	3,073
Non-Executive Directors	—	203
JV Partner Share	(2,208)	(3,276)
Bonus	1,661	1,890
Total	7,601	6,808

b. Highest paid Director

	2015	2014
	US\$ '000	US\$ '000
Highest paid Director	1,645	1,572

Emoluments are inclusive of income taxes. Subsequent to the year end, the Remuneration Committee approved 25% of the bonus of \$1.66 million to the CEO and Executive Directors as shares in the Company.

c. The number of directors (excluding the Chairman) whose emoluments fell within the following ranges was:

	Number 2015	Number 2014
	US\$ '000	US\$ '000
Zero – \$65,000	—	4
\$65,001 – \$378,000	7	—
\$378,001 – \$516,000	—	—
\$516,000 and above	4	6
	11	10

d. Employees:

The number of employees of the Company (other than the Directors) whose duties were wholly or mainly discharged within Nigeria, and who earned over ₦1,000,000, received remuneration (excluding pension contributions) in the following ranges:

	Number 2015	Number 2014
	US\$ '000	US\$ '000
\$6,500 – \$16,000	4	—
\$16,001 – \$32,000	6	1
\$32,001 – \$48,000	76	39
Above \$48,000	303	300
	389	340

NOTES TO THE COMPANY FINANCIAL STATEMENTS

69. Information relating to employees (Continued)

e. The average number of persons (excluding Directors) employed by the Company during the year was as follows:

	Number 2015	Number 2014
Senior management	19	17
Managers	68	55
Senior staff	111	93
Junior staff	191	175
	389	340

f. Employee costs:

Seplat's staff costs (excluding pension contribution) in respect of the above employees amounted to \$19.057 million (2014: \$21.485 million) as follows:

	2015	2014
	US\$ '000	US\$ '000
Salaries & wages	19,057	18,205
Bonus	—	3,280
	19,057	21,485

70. Events after the reporting period

70.1 Investments

On 1 February 2016, Seplat took over OMLs 53 & 55 from Chevron Nigeria Limited ('CNL') following the ruling of the Supreme Court of Nigeria which ruled in favour of Seplat, Belema Oil Producing Limited and Chevron Nigeria Limited ('CNL') in a litigation brought against the parties by Britannia-U Nigeria Limited.

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