

The Irish Stock Exchange has approved this document as Listing Particulars. Application has been made to the Irish Stock Exchange for the Notes to be admitted to the Official List and trading on the Global Exchange Market which is the exchange regulated market of the Irish Stock Exchange. The Global Exchange Market is not a regulated market for the purposes of Directive 2004/39/EC.

OFFERING MEMORANDUM

NOT FOR GENERAL DISTRIBUTION
IN THE UNITED STATES



Seven Energy Finance Limited
\$300,000,000
10¼% Senior Secured Notes due 2021

Seven Energy Finance Limited (the "Issuer") is offering (the "Offering") \$300,000,000 in aggregate principal amount of its 10¼% Senior Secured Notes due 2021 (the "Notes"). We will pay interest on the Notes semi-annually in arrears on each April 11 and October 11, commencing April 11, 2015. Some or all of the Notes may be redeemed prior to October 11, 2018, by paying 100% of the principal amount of such Notes plus a make-whole premium, and at any time on or after October 11, 2018, at the redemption prices set forth in this offering memorandum (the "Offering Memorandum"). In addition, prior to October 11, 2018, we may redeem, at our option, up to 35% of the Notes with the net proceeds from certain equity offerings. If we undergo a change of control or sell certain of our assets, we may be required to make an offer to purchase the Notes. In the event of certain developments affecting taxation, we may redeem all, but not less than all, of the Notes.

The Notes will be senior secured debt of the Issuer ranking *pari passu* in right of payment to all of the Issuer's existing and future senior indebtedness. The Notes will be initially guaranteed on a senior basis (the "Guarantees") by Seven Energy International Limited (the "Company") and certain of its subsidiaries (collectively, the "Guarantors"). The Guarantees will be senior secured debt of each of the relevant Guarantors, ranking *pari passu* in right of payment to all of the relevant Guarantor's existing and future senior indebtedness. The Notes and the Guarantees will be secured by first priority liens on the Collateral (as defined herein), as more fully described herein. The Guarantees and the Collateral will be subject to contractual and legal limitations under relevant local laws and may be released under certain circumstances. The Notes will be structurally subordinated to all existing and future indebtedness and other liabilities (including trade payables) of the Company's subsidiaries that are not Guarantors and effectively subordinated to any existing and future indebtedness and other liabilities of the Issuer and the Guarantors to the extent such indebtedness or other liabilities are secured by property and assets that do not secure the Notes, to the extent of the value of such property and assets.

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

Application has been made to have the Notes admitted to listing on the Official List of the Irish Stock Exchange and to trading on the Irish Stock Exchange's Global Exchange Market (the "Global Exchange Market"). The Global Exchange Market is not a regulated market pursuant to the provisions of the Markets in Financial Instruments Directive (Directive 2004/39/EC).

Investing in the Notes involves a high degree of risk. See "Risk factors" beginning on page 33.

Price: 98.781% plus accrued interest, if any, from October 10, 2014.

The Issuer expects that the Notes will be delivered in book-entry form through Euroclear Bank SA/NV ("Euroclear") and/or Clearstream Banking, *société anonyme*, Luxembourg ("Clearstream"), on or about October 10, 2014 (the "Issue Date").

The Notes and the Guarantees have not been, and will not be, registered under the U.S. Securities Act of 1933, as amended (the "U.S. Securities Act"). The Notes may not be offered or sold within the United States, except to qualified institutional buyers in reliance on the exemption from registration provided by Rule 144A under the U.S. Securities Act ("Rule 144A") or in offshore transactions in reliance on Regulation S under the U.S. Securities Act ("Regulation S"). You are hereby notified that sellers 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. See "Plan of distribution" and "Notice to investors" for additional information about eligible offerees and transfer restrictions.

Global Coordinators and Joint Lead Bookrunners

Joint Bookrunners

The date of this Offering Memorandum is October 10, 2014

TABLE OF CONTENTS

Forward-looking statements	viii
Presentation of financial and other information.....	xi
Summary.....	1
The Offering.....	18
Risk factors.....	33
The Acquisitions.....	84
Use of proceeds	85
Capitalization.....	87
Selected financial data.....	89
Unaudited pro forma financial information.....	89
Management’s discussion and analysis of financial condition and results of operations	97
Country, industry and market data.....	134
Legal and regulatory.....	143
Our business	153
Management	200
Principal equity holders.....	205
Certain relationships and related party transactions	209
Description of certain financing arrangements.....	210
Description of notes.....	243
Book-entry, delivery and form	315
Taxation.....	320
Plan of distribution	327
Notice to investors.....	330
Legal matters	333
Independent auditors.....	334
Independent petroleum engineers.....	335
Available information.....	336
Service of process and enforcement of civil liabilities	337
Certain insolvency law considerations	346
Listing and general information.....	358
Glossary of oil & gas industry terms	362
Index to financial statements.....	369

IMPORTANT INFORMATION ABOUT THIS OFFERING MEMORANDUM

In this Offering Memorandum, “we”, “our”, “us”, the “Company”, “Seven Energy”, “the Group” and “SEIL” refer to Seven Energy International Limited and its subsidiaries, as the context requires.

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. Neither we nor any of the Initial Purchasers, represent that the information herein is complete. The information in this Offering Memorandum is current only as of the date on the cover, and our business or financial condition and other information in this Offering Memorandum may change after that date. You should consult your own legal, tax and business advisors regarding an investment in the Notes. Information in this Offering Memorandum is not legal, tax or business advice.

You should base your decision to invest in the Notes solely on information contained in this Offering Memorandum. Neither we nor the Initial Purchasers have authorized anyone to provide you with any different information.

We are offering the Notes, and the Guarantors are issuing the Guarantees in respect thereof, in reliance on an exemption from registration under the U.S. Securities Act for an offer and sale of securities that does not involve a public offering. If you purchase the Notes, you will be deemed to have made certain acknowledgments, representations and warranties as detailed under “Notice to investors”. 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. We do not make any representation to you that the Notes are a legal investment for you. No action has been, or will be, taken to permit a public offering in any jurisdiction where action would be required for that purpose.

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.

None of the U.S. Securities and Exchange Commission (the “SEC”), any U.S. state securities commission or any non-U.S. securities authority or 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 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 Registrar, the Transfer Agent, the Paying Agent, and the Security Agent 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 as to the past or the future.

We have prepared this Offering Memorandum solely for use in connection with the offer of the Notes. You agree that you will hold the information contained in this Offering Memorandum and the transactions contemplated hereby in confidence. You may not distribute this Offering Memorandum to any person, other than a person retained to advise you in connection with the purchase of the Notes.

We and the Initial Purchasers may reject any offer to purchase the Notes in whole or in part, 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 information set forth in relation to sections of this Offering Memorandum describing clearing and settlement arrangements, including the section entitled “Book-entry, delivery and form”, is subject to a change in or reinterpretation of the rules, regulations and procedures of Euroclear or Clearstream currently in effect. While we accept responsibility for accurately summarizing the information concerning Euroclear or Clearstream.

We have applied for the admission of the Notes to trading on the Global Exchange Market and to listing on the Official List of the Irish Stock Exchange, and expect that the listing will be approved as of the settlement date for the Notes. The settlement of the Notes is conditional on obtaining this listing.

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. Prospective purchasers should be aware that they may be required to bear the financial risks of this investment for an indefinite period of time. See “Notice to investors”.

IN CONNECTION WITH THIS OFFERING, THE STABILIZING MANAGER (OR PERSONS ACTING ON BEHALF OF THE STABILIZING MANAGER), MAY OVER-ALLOT NOTES OR EFFECT TRANSACTIONS WITH A VIEW TO SUPPORTING THE MARKET PRICE OF THE NOTES AT A LEVEL HIGHER THAN THAT WHICH MIGHT OTHERWISE PREVAIL. HOWEVER, THERE IS NO ASSURANCE THAT THE STABILIZING MANAGER (OR PERSONS ACTING ON BEHALF OF A STABILIZING MANAGER) WILL UNDERTAKE ANY STABILIZATION ACTION. ANY STABILIZATION ACTION MAY BEGIN ON OR AFTER THE DATE ON WHICH ADEQUATE PUBLIC DISCLOSURE OF THE FINAL TERMS OF THE OFFER OF THE NOTES IS MADE AND, IF BEGUN, MAY BE ENDED AT ANY TIME, BUT MUST END NO LATER THAN THE EARLIER OF 30 CALENDAR DAYS AFTER THE ISSUE DATE OF THE NOTES 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 PERSON ACTING ON BEHALF OF THE STABILIZING MANAGER) IN ACCORDANCE WITH ALL APPLICABLE LAWS AND REGULATIONS.

NOTICE TO NEW HAMPSHIRE RESIDENTS

NEITHER THE FACT THAT A REGISTRATION STATEMENT OR AN APPLICATION FOR A LICENSE HAS BEEN FILED UNDER CHAPTER 421-B OF THE NEW HAMPSHIRE REVISED STATUTES ANNOTATED, 1955, AS AMENDED (“RSA 421-B”), WITH THE STATE OF NEW HAMPSHIRE NOR THE FACT THAT A SECURITY IS EFFECTIVELY REGISTERED OR A PERSON IS LICENSED IN THE STATE OF NEW HAMPSHIRE CONSTITUTES A FINDING BY THE SECRETARY OF STATE OF THE STATE OF NEW HAMPSHIRE THAT ANY DOCUMENT FILED UNDER RSA 421-B IS TRUE, COMPLETE AND NOT MISLEADING. NEITHER ANY SUCH FACT NOR THE FACT THAT AN EXEMPTION OR EXCEPTION IS AVAILABLE FOR A SECURITY OR A TRANSACTION MEANS THAT THE SECRETARY OF STATE OF THE STATE OF NEW HAMPSHIRE HAS PASSED IN ANY WAY UPON THE MERITS OR QUALIFICATIONS OF, OR RECOMMENDED OR GIVEN APPROVAL TO, ANY PERSON, SECURITY OR TRANSACTION. IT IS UNLAWFUL TO MAKE, OR CAUSE TO BE MADE, TO ANY PROSPECTIVE PURCHASER, CUSTOMER, OR CLIENT ANY REPRESENTATION INCONSISTENT WITH THE PROVISIONS OF THIS PARAGRAPH.

NOTICE TO U.S. INVESTORS

Each purchaser of the Notes will be deemed to have made the representations, warranties and acknowledgements that are described in this Offering Memorandum under “Notice to investors”. The Notes have not been and will not be registered under the U.S. Securities Act or the securities laws of any state of the United States and are subject to certain restrictions on transfer. Prospective purchasers are hereby notified that the seller of any Note may be relying on the exemption from the provisions of Section 5 of the U.S. Securities Act provided by Rule 144A. Outside the United States, offers are being made in reliance on Regulation S under the Securities Act. For a description of certain further restrictions on resale or transfer of the Notes, see “Notice to investors”. The Notes may not be offered to the public within any jurisdiction. By accepting delivery of this Offering Memorandum, you agree not to offer, sell, resell transfer or deliver, directly or indirectly, any Note to the public.

NOTICE TO CERTAIN EUROPEAN INVESTORS

Jersey No invitation will be made directly or indirectly to any person resident in Jersey to subscribe for any of the Notes. Neither the Jersey Financial Services Commission nor the Registrar of Companies in Jersey has provided consent to the circulation of the Offering Memorandum in Jersey and no action has been taken to permit any offer of the Notes in Jersey.

United Kingdom This Offering Memorandum is for distribution only to, and is only directed at, persons who (i) are investment professionals falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005, as amended, (the “Financial Promotion Order”), (ii) are persons falling within Article 49(2)(a) to (d) (high net worth companies, unincorporated associations, etc.) of the Financial Promotion Order 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 (all such persons together being referred to as “relevant persons”). This Offering Memorandum is directed only at relevant persons and 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. Any person who is not a relevant person should not act or rely on this Offering Memorandum or any of its contents.

NOTICE TO BERMUDIAN INVESTORS

This Offering Memorandum is not subject to and has not received approval from either the Bermuda Monetary Authority or the Registrar of Companies in Bermuda and no statement to the contrary, explicit or implicit, is authorized to be made in this regard. The Notes may be offered or sold in Bermuda only in compliance with the provisions of the Investment Business Act 2003 of Bermuda and the Exchange Control Act 1972 of Bermuda and regulations thereunder. Additionally, non-Bermudian persons may not carry on or engage in any trade or business in Bermuda unless such persons are authorized to do so under applicable Bermuda legislation. Engaging in the activity of distributing or marketing this Offering Memorandum in Bermuda to persons in Bermuda may be deemed to be carrying on business in Bermuda.

NOTICE TO BRITISH VIRGIN ISLANDS INVESTORS

This Offering Memorandum is not intended to be distributed to individuals that are members of the public in the British Virgin Islands or otherwise to individuals in the British Virgin Islands. The Notes are only available to, and any invitation or offer to subscribe, purchase or otherwise acquire the Notes will be made only to, persons outside the British Virgin Islands, with the exception of persons resident in the British Virgin Islands solely by virtue of being a company incorporated in the British Virgin Islands. Any person who is a member of the public in the British Virgin Islands (other than solely by virtue of being a company incorporated in the British Virgin Islands) or who receives this Offering Memorandum in the British Virgin Islands (other than in the case of a person resident in the British Virgin Islands solely by virtue of being a company incorporated in the British Virgin Islands, at its registered office in the British Virgin Islands) should not act or rely on this Offering Memorandum or any of its contents.

NOTICE TO MAURITIAN INVESTORS

The Notes may not be offered or sold, directly or indirectly, to the public in Mauritius. Neither this Offering Memorandum, nor any offering material or information contained herein relating to the offer of Notes, may be released or issued to the public in Mauritius or used in connection with any such offer. This Offering Memorandum does not constitute an offer to sell Notes to the public in Mauritius.

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, or under the Nigerian Investment and Securities Act No. 29 of 2007 (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 or to, or for the account or benefit of, persons resident in Nigeria, except in certain transactions exempt from the registration requirements of the ISA. Accordingly, this Offering Memorandum is not directed to, and the Notes are not available for subscription by, any persons within Nigeria, other than the selected investors to whom the Offering Memorandum has been addressed as a private sale, or domestic concern, within the exemption and meaning of Section 69(2) of the ISA.

NOTICE TO SWISS INVESTORS

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 Ltd., 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 the SIX Swiss Exchange Ltd. and corresponding prospectus schemes annexed to the listing rules of the SIX Swiss Exchange Ltd. The Notes are being offered in Switzerland by way of a private placement (i.e., to a small number of 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 (or from) Switzerland.

NOTICE TO HONG KONG INVESTORS

The Notes may not be offered or sold in Hong Kong by means of any document other than to (1) "professional investors" within the meaning of the Securities and Futures Ordinance (Cap. 571) of Hong Kong and any rules made thereunder, or (2) in circumstances which do not result in the document being a "prospectus" as defined in the Companies Ordinance (Cap. 32) of the laws of Hong Kong or which do not constitute an offer to the public within the meaning of that ordinance. No invitation, advertisement or document relating to the Notes may be issued or may be in the possession of any person for the purpose of issue (in each

case whether in Hong Kong or elsewhere), which is directed at, or the contents of which are likely to be accessed or read by, the public of Hong Kong (except if permitted to do so under the securities laws of Hong Kong) other than with respect to the Notes which are intended to be disposed of only to persons outside Hong Kong or only to “professional investors”, as defined under the Securities and Futures Ordinance (Cap. 571) of the laws of Hong Kong and any rules made thereunder.

NOTICE TO SINGAPORE INVESTORS

This Offering Memorandum and the Notes have not been and will not be registered with the Monetary Authority of Singapore. Accordingly, this Offering Memorandum or any other document or material in connection with the offer or sale, or invitation for subscription or purchase, of the Notes may not be circulated or distributed, nor may the Notes be offered or sold, or be made the subject of an invitation for subscription or purchase, whether directly or indirectly, to persons in Singapore other than (1) to an institutional investor under Section 274 of the Securities and Futures Act, Chapter 289 of Singapore (the “SFA”), (2) to a relevant person pursuant to Section 275(1) or any person pursuant to Section 275(1A) of the SFA, and in accordance with the conditions specified in Section 275 of the SFA, or (3) otherwise pursuant to, and in accordance with the conditions of, any other applicable provision of the SFA.

NOTICE TO SINGAPORE INVESTORS

This Offering Memorandum and the Notes have not been and will not be registered with the Monetary Authority of Singapore. Accordingly, this Offering Memorandum or any other document or material in connection with the offer or sale, or invitation for subscription or purchase, of the Notes may not be circulated or distributed, nor may the Notes be offered or sold, or be made the subject of an invitation for subscription or purchase, whether directly or indirectly, to persons in Singapore other than (1) to an institutional investor under Section 274 of the Securities and Futures Act, Chapter 289 of Singapore (the “SFA”), (2) to a relevant person pursuant to Section 275(1) or any person pursuant to Section 275(1A) of the SFA, and in accordance with the conditions specified in Section 275 of the SFA, or (3) otherwise pursuant to, and in accordance with the conditions of, any other applicable provision of the SFA.

Where the Notes are subscribed for or purchased under Section 275 of the SFA by a relevant person which is:

- a corporation (which is not an accredited investor (as defined in Section 4 of the SFA)) the sole business of which is to hold investments and the entire share capital of which is owned by one or more individuals, each of whom is an accredited investor; or
- a trust (where the trustee is not an accredited investor) whose sole purpose is to hold investments and each beneficiary of the trust is an individual who is an accredited investor,

securities (as defined in Section 239(1) of the SFA) of that corporation or the beneficiaries’ rights and interest (however described) in that trust shall not be transferable within six months after the corporation or that trust has acquired the Notes pursuant to an offer made under Section 275 of the SFA except:

- to an institutional investor or to a relevant person defined in Section 275(2) of the SFA, or to any person arising from an offer referred to in Section 275(1A) or Section 276(4)(i)(B) of the SFA, and in accordance with the conditions specified in Section 275 of the SFA;
- where no consideration is or will be given for the transfer; or
- as specified in Section 276(7) of the SFA.

NOTICE REGARDING SERVICE OF PROCESS AND ENFORCEMENT OF JUDGMENTS

SUBSTANTIALLY ALL OF THE DIRECTORS AND EXECUTIVE OFFICERS OF THE ISSUER AND THE GUARANTORS ARE NON-RESIDENTS OF THE UNITED STATES. ALL OR A SUBSTANTIAL PORTION OF THE ASSETS OF SUCH NON-RESIDENT PERSONS AND OF THE ISSUER AND THE GUARANTORS 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 OR THE ISSUER AND THE GUARANTORS, OR TO ENFORCE AGAINST THEM IN U.S. COURTS JUDGMENTS OBTAINED IN SUCH COURTS PREDICATED UPON THE CIVIL LIABILITY PROVISIONS OF THE FEDERAL SECURITIES LAWS OF THE UNITED STATES. THE ISSUER AND THE GUARANTORS HAVE BEEN ADVISED BY COUNSEL THAT THERE IS DOUBT AS TO THE ENFORCEABILITY IN ENGLAND AND WALES, NIGERIA, BERMUDA, BRITISH VIRGIN ISLANDS, JERSEY AND MAURITIUS IN ORIGINAL ACTIONS OR IN ACTIONS FOR ENFORCEMENT OF JUDGMENTS OF U.S. COURTS, OF LIABILITIES PREDICATED SOLELY UPON THE SECURITIES LAWS OF THE UNITED STATES. SEE “SERVICE OF PROCESS AND ENFORCEMENT OF CIVIL LIABILITIES”.

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 forward-looking statements within the meaning of the securities laws of certain applicable jurisdictions. These forward-looking statements include, but are not limited to, all statements other than statements of historical facts contained in this Offering Memorandum, including, without limitation, those regarding our future financial position and results of operations, our oil gas reserves and resources data, our strategy, plans, objectives, goals and targets, future developments in the markets in which we participate or are seeking to participate or anticipated regulatory changes in the markets in which we operate or intend to operate. In some cases, you can identify forward-looking statements by terminology such as “aim”, “anticipate”, “believe”, “continue”, “could”, “estimate”, “expect”, “forecast”, “guidance”, “intend”, “may”, “plan”, “potential”, “predict”, “projected”, “should”, “target” or “will” or the negative of such terms or other comparable terminology.

By their nature, forward-looking statements involve known and unknown risks, uncertainties and other factors because they relate to events and depend on circumstances that may or may not occur in the future. We caution you that forward-looking statements are not guarantees of future performance and are based on numerous assumptions and that our actual results of operations, including our financial condition and liquidity and the development of the industry in which we operate, may differ materially from (and be more negative than) those made in, or suggested by, the forward-looking statements contained in this Offering Memorandum. In addition, even if our results of operations, including our 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. Important risks, uncertainties and other factors that could cause these differences include, but are not limited to:

- the concentration of our primary reserves and resources in one geographic region pursuant to one agreement, the Strategic Alliance Agreement;
- the loss or termination of the Strategic Alliance Agreement;
- allegations that negatively portray our business, operations and assets, including but not limited to the Strategic Alliance Agreement, our interest in the OMLs and relationships with third-parties;
- a failure to agree upon the interpretation or application of certain contractual terms with our contractual counterparties with respect to the Strategic Alliance Agreement;
- our non-license interests in certain assets, whereby we rely on contractual counterparties to develop and operate such assets;
- logistical and operational difficulties associated with operating in Nigeria;
- changes in governmental regulation, including regulatory changes affecting the availability of permits, and governmental actions that may affect operations or our planned expansion;
- the inability to obtain good and marketable title to, or contractual interests in, licensed assets;
- political instability, religious differences, ethnicity, regionalism and internal security concerns in Nigeria;
- adverse sovereign action, including expropriation or re-nationalization;
- our exposure to militant activity;
- disruption to our operations or loss of production due to bunkering or theft;
- the inability to adequately address actual or perceived corruption and inability to attract foreign investment;

- non-compliance with such laws and regulations due to uncertainty in the interpretation and application of such laws and regulations; amendments to, or the adoption of, new customs or taxation laws, rules and regulations;
- the exposure to increased market risk and uncertainty as a result of operating in an emerging market;
- the inconsistent application of laws, rules and regulations as a result of operating in five states within the Federal Republic of Nigeria;
- the implementation of oil production quotas, including limitations on oil production volumes imposed by OPEC;
- the loss of any of our key customers or their inability to fulfil their contractual obligations;
- operational impediments or damage to our processing and transportation infrastructure;
- the inability to obtain funds to maintain our ongoing operations, grow our business and complete planned projects;
- the failure to comply with licensing, contractual and regulatory requirements;
- the reliance on our commercial partners to comply with the obligations under the relevant licenses or the agreements pursuant to which the assets are operated and agreed work programs are completed in accordance with their terms;
- delays, disruptions and disputes with third-party operators, partners and other project participants;
- limited growth in Nigerian domestic demand for gas;
- the decline of our reserves due to the inability to explore, develop or acquire additional resources;
- our inability to expand and recognize anticipated benefits of acquisitions;
- the inability to attract and retain skilled personnel;
- damage to our image or reputation due to the actual or perceived failure to address community issues;
- damage to our or our commercial partners' reputations due to negative publicity;
- the failure to comply with health, safety and environmental laws and regulations;
- labor disputes and other disruptions;
- disruption to our information technology systems and our inability to adequately protect our confidential information;
- our inability to maintain adequate insurance coverage;
- detrimental fluctuations in currency exchange rates;
- discrepancies between our estimated reserves, resources, quality and production volumes;
- competitiveness within the oil and gas exploration and production industry;
- price fluctuations in oil, gas and refined products markets and related fluctuations in demand for such products;

- operational limitations, including equipment failures, labor disputes, technological limitations, operational hazards and processing limitations;
- uncertainties in connection with exploration, appraisal and development of oil and gas assets; 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”, “Country, 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. In light of these risks, uncertainties and assumptions, the forward-looking events described in this Offering Memorandum may not occur. These forward-looking statements speak only as of the date on which the statements were made. We undertake no obligation to update or revise any forward-looking statement or risk factor, whether as a result of new information, future events or developments or otherwise.

PRESENTATION OF FINANCIAL AND OTHER INFORMATION

Financial information

Our audited consolidated financial statements as of and for the years ended December 31, 2011, 2012 and 2013, which are included in this Offering Memorandum, have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union (“IFRS”).

Our unaudited condensed consolidated interim financial statements as of June 30, 2014 and for the six months ended June 30, 2013 and 2014, which are included in this Offering Memorandum, have been prepared in accordance with International Accounting Standards 34, as adopted by the European Union (“IAS 34”).

The audited financial statements of East Horizon Gas Company Limited (“EHGC”) as of and for the year ended December 31, 2013, which is included in this Offering Memorandum, has been prepared in accordance with IFRS.

The unaudited condensed interim financial statements of EHGC as of and for the six months ended June 30, 201 and 2013 and as of and for the three months ended March 31, 2013 and 2014, which are included in this Offering Memorandum, have been prepared in accordance with IAS 34.

The summary income statement, cash flow and other data for EHGC for the years ended December 31, 2012 and 2013, for the six months ended June 30, 2013, for the three months ended March 31, 2013 and 2014 and for the twelve months ended March 31, 2014 have been converted from Naira into US dollars. The statement of comprehensive income data for EHGC has been converted from Naira into US dollars based on the average exchange rate during the relevant period, calculated using the exchange rate at the close of trading of each day during the relevant period and the balance sheet data for EHGC has been converted from Naira to US dollars based on the exchange rate at the close of trading on relevant balance sheet date. For details of the exchange rate, see “Exchange rate information”.

Pro forma financial information

We present in this Offering Memorandum certain unaudited combined *pro forma* financial information for the year ended December 31, 2013, the six months ended June 30, 2013 and for the six months and twelve months ended June 30, 2014, in each case adjusted to give effect to the EHGC Acquisition as if it had occurred on January 1, 2013 (collectively, the “*Pro Forma*” financial information). The unaudited *Pro Forma* financial information has been prepared for illustrative purposes only and does not represent what our actual results would have been had the EHGC Acquisition occurred on January 1, 2013 nor does it purport to project our results of operation at any future date. The unaudited *pro forma* adjustments and the unaudited *Pro Forma* financial information set forth in this Offering Memorandum are based on available information and certain assumptions and estimates that we believe are reasonable and may differ from the actual adjusted amounts.

Non-IFRS financial measures and other operating metrics

This Offering Memorandum contains non-IFRS measures and ratios, including EBITDAX, *Pro Forma* EBITDAX, Adjusted EBITDAX, *Pro Forma* Adjusted EBITDAX, net debt, gross production, contracted gas volumes, total recordable incidence rate (“TRIR”), net entitlement and related leverage and coverage ratios calculated using such non-IFRS measures that are not defined by, or presented in accordance with, IFRS. We present these non-IFRS measures 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. We believe that EBITDAX, *Pro Forma* EBITDAX, Adjusted EBITDAX and *Pro Forma* Adjusted EBITDAX are useful to investors in evaluating our operating performance and our ability to incur and service our indebtedness because they:

- are widely used by investors in the oil and gas industry to measure a company’s operating performance before depletion, depreciation and amortization among other items, which can vary substantially from company to company depending upon accounting methods, book value of assets, capital structure and the method by which assets were acquired, among other factors; and help investors to more meaningfully evaluate and compare the results of our operations from period to period by removing the effect of our capital structure from our operating structure.

EBITDAX, *Pro Forma* EBITDAX, Adjusted EBITDAX, *Pro Forma* 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. They 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. These non-IFRS measures 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 or any other performance measures derived in accordance with IFRS or any other generally accepted accounting principles, or as alternatives to cash flow from or used in operating, investing or financing activities. The non-IFRS measures that we use may not be directly comparable with similarly-titled measures used by other companies. You should exercise caution in comparing EBITDAX, *Pro Forma* EBITDAX, Adjusted EBITDAX, *Pro Forma* Adjusted EBITDAX and related leverage and coverage ratios derived therefrom as reported by us to similarly titled measures used by other companies.

EBITDAX is commonly defined as profit or loss before finance costs, investment revenue, foreign exchange gains or losses, taxes, depreciation, depletion, and amortization and exploration costs. Adjusted EBITDAX is defined as EBITDAX, less impairment charges or reversals of oil and gas assets, charges or write-downs and share-based payments charges. We exclude share-based compensation from Adjusted EBITDAX as it is a non-cash charge and we do not believe that it relates to our ongoing performance. EBITDAX and Adjusted EBITDAX are calculated based on continuing operations. EBITDAX as presented in this Offering Memorandum does not adjust for impairment charges, unlike EBITDAX as presented in our annual report. *Pro Forma* EBITDAX and *Pro Forma* Adjusted EBITDAX represent EBITDAX and Adjusted EBITDAX on a *pro forma* basis adjusted to give effect to the EHGC Acquisition as if it had occurred on January 1, 2013.

Net debt is total borrowings less cash and cash equivalents.

Gross oil production is the average oil production volume from our upstream assets over a specified period of time. Gross oil production underpins the value of our asset portfolio and indicates production growth from existing assets.

Contracted gas volumes are the total volumes of gas contracted over the remaining life of our existing contracts at a specific point in time.

TRIR is a recognized industry metric used to calculate the rate of recordable workplace injuries. TRIR is determined by multiplying the total recordable workplace injuries by 200,000, and dividing the product by the total hours worked during the applicable period. Recordable workplace incidents include fatalities, permanent total disabilities, permanent partial disabilities, lost time incidences, restricted work cases and medical treatment cases (excluding first aid cases).

Net entitlement is the share of oil production from the OMLs to which we are entitled, which comprises ‘cost oil’, the amount of oil allocated to us to recover our costs incurred on the OMLs plus ‘profit oil’, which is our share of the oil remaining after costs, royalty and taxes have been paid. See “Management discussion and analysis of financial condition and results of operations”.

Adjustments

Certain numerical figures set forth in this Offering Memorandum, including financial data presented in billions, millions or thousands and percentages, 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.

Financial information for the twelve months ended June 30, 2014

The financial information for the twelve months ended June 30, 2014 presented herein has been derived by adding results for the six months ended June 30, 2014 to the results for the year ended December 31, 2013, and subtracting the results for the six months ended June 30, 2013. The summary financial information for the twelve months ended June 30, 2014 presented herein is not required by or presented in accordance with IFRS or any other generally accepted accounting principles, has been prepared for illustrative purposes only and is not

necessarily representative of our results for any future period or our financial condition at any such date. The EHGC financial information for the twelve months ended March 31, 2014 presented herein has been derived by adding results for the three months ended March 31, 2014 to the results for the year ended December 31, 2013, and subtracting the results for the three months ended March 31, 2013.

The summary financial information for the twelve months ended June 30, 2014 and the EHGC financial information for the twelve months ended March 31, 2014 presented herein is not required by or presented in accordance with IFRS or

Currency presentation & other information

In this Offering Memorandum, all references to “US dollars” and “\$” are to the lawful currency of the United States, all references to “pound sterling” are to the lawful currency of the United Kingdom and all references to “Nigerian Naira”, “Naira” and “₦” are to the lawful currency of Nigeria.

Certain reserves and production information

Unless otherwise indicated, the oil and gas reserves and resources data presented in this Offering Memorandum are audited at our request by Senergy (GB) Limited (“Senergy”), in relation to certain of our oil and gas assets, and by Novas Consulting Limited (“Novas”), in relation to Oil Prospecting Lease 905 (“OPL 905”). Senergy and Novas are international oil and gas consultants who have prepared estimates in accordance with resource definitions jointly set forth by the Society of Petroleum Engineers (“SPE”), the World Petroleum Council (“WPC”), the American Association of Petroleum Geologists (“AAPG”) and the Society of Petroleum Evaluation Engineers (“SPEE”) in April 2007 in the “Petroleum Resources Management System” (“PRMS”). Thus, reserves and resources data presented herein may differ from such data that might be estimated according to definitions used by other companies in the industry or the SEC.

Pursuant to the classifications and definitions provided by the PRMS, “proved reserves” (“1P”) 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. In the context where probabilistic methods are used, there should be at least a 90% probability that the quantities actually recovered will equal or exceed the estimate of proved reserves. “Probable reserves” (“2P”) is defined as proved and those additional unproved reserves which analysis of geoscience and engineering data indicate are less likely to be recovered than proved reserves but more likely than not to be recoverable and more certain to be recovered than possible reserves. In this context, when probabilistic methods are used, there should be at least a 50% probability that the quantities actually recovered will equal or exceed the sum of estimated proved plus probable reserves. Pursuant to the classifications and definitions provided by PRMS, in the “low estimate” scenario of contingent resources (“1C”), the probability that the quantities of contingent resources actually recovered will equal or exceed the estimated amounts is at least 90%; in the “best estimate” scenario of contingent resources (“2C”), the probability that the quantities of contingent resources actually recovered will equal or exceed the estimated amounts is at least 50%.

Information in this Offering Memorandum that is derived or reproduced from the Senergy Report (as defined below) and the Novas Report (as defined below) is qualified in its entirety by reference to the reports produced by Senergy and Novas on certain of our reserves and resources. The Senergy Report is dated January 17, 2014 with an effective date of December 31, 2013. The Novas Report is dated August 31, 2013 with an effective date of August 31, 2013.

Unless otherwise indicated, reserves figures presented in the Senergy Report are calculated on a net working interest basis, including tax and royalties volumes and resources figures presented in the Novas Report are presented on a gross basis. 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. Our legal interest and effective working interest in the relevant fields and license areas are separately disclosed. See “Our business—Summary of our reserves, resources and production”. See also “Our business—Material agreements relating to our assets” for a more detailed discussion of the terms of the agreements governing our interests.

Hydrocarbon data

General

We use standards prepared by the PRMS. Since 2010, we have engaged Senergy to conduct reviews of our hydrocarbon reserves and resources. Unless otherwise stated herein, the estimates set forth in this Offering Memorandum of our proven and probable reserves and our resources are based on reports prepared for us by (i) Senergy and (ii) Novas, in each case, in accordance with the standards established by the PRMS.

Each of the reports referenced in this Offering Memorandum use the following estimates:

- oil in millions of barrels (“MMbbl”) (a barrel being the equivalent of 42 U.S. gallons);
- gas and gas liquids in billions of cubic feet (“Bcf”) at standard temperature and pressure bases; and
- liquid in millions of barrels of oil equivalent (“MMboe”).

The actual number of barrels of oil produced, shipped or sold may vary from the barrel equivalents (“boe”) of oil presented herein, as a tonne of heavier oil will yield fewer barrels than a tonne of lighter oil. Our conversion of data from cubic feet into boe may differ from that data used by other companies. We have assumed a conversion rate of 6 Bcf to 1 MMboe.

There are a number of uncertainties inherent in estimating quantities of proved and probable reserves, contingent resources and prospective resources, including many factors beyond our control, such as commodity pricing. Therefore, the reserve, contingent resources and prospective resources information in the Senergy Report and Novas Report each represent only estimates and such estimates are forward-looking statements which are based on judgments regarding future events that may be inaccurate. See “Forward-looking statements”. Estimation of reserves and contingent resources is a subjective process of estimating underground accumulations of oil and gas that cannot be measured in an exact manner. The accuracy of any reserve, contingent resources and prospective resources estimate is a function of a number of variable factors and assumptions many of which are beyond our control, including the quality of available data and of 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 necessarily limited nature of reservoir data and the inherently imprecise nature of reserves, contingent resources and prospective resources estimates, the initial reserve, contingent resources and prospective resources estimates are often different from the quantities of oil and 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, contingent resources and prospective resources reports prepared by Senergy and Novas to predict actual reserves, contingent resources and prospective 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 commercial reserves and contingent resources information set forth herein. In addition, except to the extent that we acquire additional properties containing proved and probable reserves or conduct successful exploration and development activities, or both, our proved and probable reserves will decline as reserves are produced.

Potential investors should note that neither the Senergy Report nor the Novas Report has calculated estimated proved and probable reserves under the standards of reserves measurement applied by the SEC (the “SEC basis”) for any of the relevant periods reviewed in the Offering Memorandum, or otherwise. The SEC basis differs from PRMS.

Presentation in the Senergy Report

Senergy is an independent firm of petroleum engineers, geologists, geophysicists and petrophysicists; it does not own an interest in our properties and is not employed on a contingent fee basis. The Senergy Report includes assessment of our interests in OMLs 4, 38, 41, 13 and 14 in the Niger Delta as of December 31, 2013, and has reviewed and incorporated only field studies and data that were available as of those dates in relation to the assets covered by the report. **The Senergy Report was prepared using oil and gas prices and cost parameters specified by the Company.** The oil price is based on a Brent price of \$100.00 per barrel and is

adjusted for quality, transportation fees, and a regional price differential. Gas prices used in the Senergy Report are based on a volume weighted average of prices under our two gas sales contracts and are adjusted for energy content.

The technical personnel responsible for preparing the reserve estimates at Senergy 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 SPEE. Dr. Barry James Squire, Regional Head of Reserves, is a professional petroleum geologist. Dr. Squire has a PhD in sedimentary geochemistry and has more than 25 years of experience. Robert Harrison, Global Technical Head of Reservoir Engineering, is a petroleum engineer with more than 25 years of experience.

Presentation in the Novas Report

Novas is an independent firm of petroleum engineers, geologists, geophysicists and petrophysicists; it does not own an interest in our properties and is not employed on a contingent fee basis. Novas has prepared assessments of OPL 905 as of August 31, 2013, and has reviewed and incorporated only field studies and data that were available as of those dates in relation to the assets covered by the report. **The Novas Report was prepared solely on a technical basis and, as such, does not make any economic valuation of the relevant assets.** The reported recoveries in the Novas Report, therefore, represent technical recoveries, defined as the total estimated remaining petroleum to be produced from the fields without considering the expiry of license rights, the economics of recovery or other commercial factors.

The technical personnel responsible for preparing the reserve estimates at Novas 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 SPEE. Philip Clarke, Managing Director since 2005 is a Chartered Geologist with more than 30 years of international oil and gas experience with BP and as an independent consultant.

Commercial partners

In this Offering Memorandum, when we describe activities in relation to licenses and assets in which we hold interests, references to “we”, “our” and similar words mean, depending on the context, we and our subsidiaries (including subsidiaries in which we hold a minority interest) and the commercial partners with interests in such licenses and assets.

Definitions

Unless otherwise specified or the context requires otherwise in this Offering Memorandum:

- “Accugas” refers to Accugas Limited, our wholly owned subsidiary that owns the Uquo Gas Processing Facility and certain of our midstream assets;
- “Accugas I Facility” refers to the \$60 million loan facility under a facility agreement dated June 24, 2010, which was utilized to fund infrastructure development around the Uquo Field and was refinanced in 2013 with the Accugas II Facility;
- “Accugas Facilities” refers to the Accugas II Facility and Accugas III Facility, collectively;
- “Accugas II Facility” refers to the \$225 million syndicated loan facility under an amended and restated facility agreement dated as of June 27, 2013, as amended from time to time, which was utilized to refinance the Accugas I Facility and to finance the construction of the Uquo to Oron pipeline, as described more fully under “Description of certain financing arrangements—Accugas II Facility”;
- “Accugas III Facility” refers to the \$170 million syndicated loan facility (of which \$160 million is committed) under a facility agreement dated as of March 25, 2014, as may be amended from time to time, which was utilized for the acquisition of EHG, as described more fully under “Description of certain financing arrangements—Accugas III Facility” and “The Acquisitions”;

- “Acquisitions” refers to our acquisitions of East Horizon Gas Company Limited, and SRL 905 Holdings Limited, each as described more fully under “The Acquisitions”;
- “Actis Loan Notes” refers to an interest bearing loan note with Actis GOGÉ (Mauritius) Limited to which we assumed as part of our acquisition of Seven Energy (BVI) and that was repaid in February 2012 with proceeds from the issuance of \$44.6 million in convertible bonds;
- “Akwa Ibom State Loan” refers to the Naira 1,555.0 million term loan, which was utilized for the development of the Stubb Creek Field;
- “April 2014 Equity Raise” refers to the April 2014 equity investment by Temasek, the IFC and the IFC ALAC Fund of \$255.0 million of which we have received \$146.0 million with the remainder subject to certain conditions which we expect will be satisfied upon closing of this Offering and the application of the proceeds therefrom;
- “Arcadia” refers to Arcadia Upstream Assets Limited, our former contractual counter-party pursuant to the SAA Funding Agreement;
- “Atlantic Energy” refers to Atlantic Energy Drilling Concepts Ltd;
- “Bank of Industry Loan” refers to a Naira 10,344.5 million loan that we assumed as part of the EHGC Acquisition, as described more fully under “Description of certain financing arrangements—Bank of Industry Loan (PAIF Facility)”;
- “BVI” refers to the British Virgin Islands;
- “CAGR” refers to compound annual growth rate;
- “Calabar NIPP power station” refers to the Calabar National Integrated Power Project power station;
- “CBN” refers to the Central Bank of Nigeria;
- “CEGC” refers to Calabar Electricity Generation Company Limited;
- “Chorus Energy” refers to Chorus Energy Limited, the operator of the Matsogo Field;
- “CIT” refers to the Nigerian Companies Income Tax;
- “CITA” refers to the Companies Income Tax Act Chapter C21 Laws of the Federation of Nigeria, 2004 (as amended);
- “Collateral” refers to the security interests in the collateral as described in “Description of Notes—Notes Security”;
- “Convertible Bonds” refers to the convertible bonds due December 31, 2014 that we intend to repay in connection with the Refinancing, as described more fully under “Summary—Recent developments—Convertible Bond redemption”;
- “CPI” refers to consumer price index;
- “CSR” refers to corporate social responsibility;
- “Discount House Loan” refers to the Naira 3,900.0 million loan facility that we assumed as part of the EHGC Acquisition;
- “DPR” refers to the Nigerian Department of Petroleum Resources;

- “DSRA” refers to debt service reserve account;
- “East Horizon pipeline” refers to the 128 km pipeline running from Ukanafun to Mfamosing, near Calabar, which we acquired as part of the EHGC Acquisition and now operate;
- “EHGC” refers to East Horizon Gas Company Limited, which we acquired on March 31, 2014;
- “EHGC Acquisition” refers to our acquisition of the East Horizon Gas Company Limited on March 31, 2014. See “The Acquisitions”;
- “EIA” refers to Environmental Impact Assessment;
- “Energy 905” refers to Energy 905 Suntera Limited;
- “Exoro Energy” refers to Exoro Energy Limited, a Nigerian company with which we merged in 2007;
- “ExxonMobil” refers to ExxonMobil Corporation or ExxonMobil Sales and Supply LLC;
- “FCPA” refers to the US Foreign Corrupt Practices Act;
- “FIRS” refers to the Nigerian Federal Inland Revenue Service;
- “Forcados Pipeline” refers to the Trans-Forcados Pipeline;
- “Frontier Oil” refers to Frontier Oil Limited;
- “FUN Manifold” refers to an oil collection manifold operating through a joint venture between Frontier Oil, Universal Energy and Network;
- “Gas Flaring Act” refers to the Nigerian Associated Gas Reinjection Act (Cap A25 Laws of the Federation, 2004), as described more fully under “Legal and regulatory”;
- “Gas Master Plan” refers to the Nigerian government’s guide for the commercial exploitation and management of Nigeria’s gas sector, which was approved on February 13, 2008, as described more fully under “Legal and regulatory”;
- “GOGE” refers to Gulf of Guinea Energy Limited, which was subsequently renamed Seven Energy (BVI) Limited;
- “GTPL” refers to Gas Transmission and Power Limited;
- “HMRC” refers to Her Majesty’s Revenue and Customs of the United Kingdom;
- “Ibom Power” refers to Ibom Power Company Limited, a Nigerian state-owned power company;
- “Ibom Power station” refers to the 190 MW power station owned and operated by Ibom Power;
- “ICLN” refers to irredeemable convertible loan notes issued by Seven Energy, which a holder may convert into our ordinary shares at any time, but which must be converted upon certain mandatory trigger events (including an IPO) as per the convertible loan note agreements, as described more fully under “Principal equity holders”;
- “Ideal Oil” refers to Ideal Oil & Gas Limited, one of our commercial partners in connection with OPL 905;

- “IFC” refers to the International Finance Corporation;
- “IFC ALAC Fund” refers to the IFC African, Latin American and Caribbean Fund;
- “IFC Performance Standards” refers to the IFC Performance Standards on Social & Environmental Sustainability dated January 1, 2012;
- “IFRS” refers to International Financial Reporting Standards as adopted by the European Union;
- “Indenture” refers to the indenture governing the Notes, to be dated as of the Issue Date among, *inter alios*, the Issuer, the Guarantors and the Trustee;
- “Intercreditor Agreement” refers the intercreditor agreement to be dated on or about the Issue Date between, *inter alios*, Seven Energy as parent, Seven Energy Finance Limited as the company, the debtors named therein as original debtors, the Trustee and the Security Agent;
- “IOC” refers to international oil companies;
- “Issuer” refers to Seven Energy Finance Limited;
- “JOA” refers to joint operating agreement;
- “Local Content Act” refers to the Nigerian Oil and Gas Industry Content Development Act 2010;
- “Marginal Field Guidelines” refers to Guidelines for Farm-out and Operation of Marginal Fields 2013, as described more fully under “Legal and regulatory”;
- “Matsogo Field” refers to the Matsogo Field contained within OML 56 onshore Nigeria;
- “MPN” refers Mobil Producing Nigeria Unlimited, a subsidiary of ExxonMobil;
- “MPR” refers to the Nigerian Ministry of Petroleum Resources;
- “MPR Minister” refers to the Nigerian Minister of Petroleum Resources;
- “NDPHC” refers to Niger Delta Power Holding Company Limited;
- “Network” refers to Network Exploration & Production Nigeria Limited;
- “NGC” refers to the Nigerian Gas Company Limited;
- “NNPC” refers to Nigerian National Petroleum Corporation;
- “Novas” refers to Novas Consulting Limited;
- “Novas Report” refers to the opinion letter prepared by Novas dated August 31, 2013 regarding our contingent and prospective resources with respect to OPL 905 as of August 31, 2013;
- “NPDC” refers to Nigerian Petroleum Development Company;
- “NSIA” refers to the Nigeria Sovereign Investment Authority, a Nigerian statutory corporation established by the Nigerian National Assembly under the Nigeria’s Sovereign Investment Authority (Establishment, etc.) Act 2011 and charged *inter alia* with the management of the sovereign wealth fund of the Federal Republic of Nigeria;

- “NSIA Notes” refers to a \$100.0 million note that we agreed to issue to the NSIA on or around the Issue Date and that will have covenants substantially the same as those governing the Notes. See “Description of certain financing arrangements—NSIA Notes”;
- “NSIA Guarantees” refers to guarantees in support of the NSIA Notes. See “Description of certain financing arrangements—NSIA Notes”;
- “Oanda” refers to OANDA Corporation;
- “Oando” refers to Oando PLC;
- “OML” refers to Oil Mining Lease;
- “OMLs” refers to our contractual interest in OMLs 4, 38 and 41 pursuant to the Strategic Alliance Agreement;
- “OMLs 4, 38 and 41” refers to Oil Mining Leases 4, 38 and 41, Delta State onshore in Nigeria, in which we have a contractual interest pursuant to the Strategic Alliance Agreement;
- “OPEC” refers to Organization for Petroleum Exporting Countries;
- “OPL” refers to Oil Prospecting Lease;
- “OPL 905” refers to Oil Prospecting Lease 905, Anambra basin onshore Nigeria;
- “OPL 905 Acquisition” refers to the acquisition of SRL 905 Holdings Limited and its 40% interest in OPL 905;
- “Paying Agent” refers to Deutsche Bank AG, London Branch, the principal paying agent;
- “Petrofac” refers to Petrofac Limited and/or its affiliates, as the context requires;
- “Petroleum Act” refers to the Petroleum Act, Cap P10, Laws of the Federation, 2004;
- “PIB” refers to the Nigerian Petroleum Industry Bill, as described more fully under “Legal and regulatory”;
- “PPT” refers to the Nigerian Petroleum Profits Tax, as described more fully under “Legal and regulatory”;
- “PPTA” refers to the Nigerian Petroleum Profits Tax Act Cap P13, Laws of the Federation, 2004;
- “PRMS Standard” refers to the 2007 SPE/AAPG/WPC/SPEE Petroleum Resources Management System;
- “Proceeds Loan” refers to one or more loans to be entered into on the Issue Date, pursuant to which the Issuer will on-lend the proceeds from the Refinancing to Seven Energy International Limited;
- “QHSSE” refers to quality, health and safety, security and environment;
- “Qua Iboe export terminal” refers to ExxonMobil’s Qua Iboe oil export terminal operated by MPN;
- “Reserve Based Lending Facility” refers to a \$350.0 million reserve based loan facility under a facility agreement dated May 3, 2011, as amended from time to time, among, *inter alios*, Seven Exploration as borrower and the lenders party thereto, which was used to fund the

development of the OMLs. We intend to use a portion of the net proceeds of the Refinancing to fully repay and cancel outstanding amounts under the Reserve Based Lending Facility, see “Use of proceeds”;

- “Refinancing” refers to the issuance of the Notes and the NSIA Notes on the Issue Date and the use of proceeds therefrom, see “Use of proceeds”;
- “SAA Funding Agreement” refers to the agreement entered into in November 2010 pursuant to which Arcadia agreed to fulfill 30% of our funding obligations under the Strategic Alliance Agreement;
- “SDRA” refers to stamp duty reserves accounts;
- “SEC” refers to the United States Securities and Exchange Commission;
- “Security Agent” refers to The Law Debenture Trust Corporation p.l.c., other than as to security documents governed by the laws of Mauritius, for which Security Agent refers to Standard Chartered Bank;
- “Second Equity Tranche” refers to the \$109.0 million in equity funding remaining from the April 2014 Equity Raise that we have a contractual right to receive upon redemption of the Convertible Bonds and certain other customary closing conditions;
- “Senergy” refers to Senergy (GB) Limited;
- “Senergy Report” refers to the report prepared by Senergy dated January 17, 2014 on our reserves and contingent and prospective resources with respect to OMLs 4, 38, 41, 13 and 14 as of December 31, 2013;
- “Seplat” refers to Seplat Petroleum Development Company Limited;
- “Seven Energy”, the “Company”, the “Group”, “we”, “us” and “our” refers to Seven Energy International Limited, together with its subsidiaries from time to time, except where otherwise specified or clear from the context;
- “Seven Energy (BVI)” refers to Seven Energy (BVI) Limited;
- “Seven Energy (Jersey)” refers to Seven Energy (Jersey) Limited;
- “Seven Exploration” refers to Seven Exploration and Production Limited (formerly Septa Energy Nigeria Ltd);
- “Shell” refers to Shell Petroleum Development Company of Nigeria Limited or Shell Western Supply and Trading Limited;
- “Sinopec” refers to Sinopec International Petroleum Exploration and Production Company Nigeria Limited;
- “SRL 905 Holdings” refers to Seven Energy (Jersey) Limited (formerly SRL 905 Holdings Limited);
- “Strategic Alliance Agreement” refers to the strategic alliance agreement dated September 15, 2010 between Seven Exploration and NPDC relating to the OMLs which became effective from November 2011, see “Our business—Material agreements relating to our assets”;
- “Stubb Creek Field” refers to Stubb Creek Marginal Field, contained within OPL 276 (formerly OML 14);

- “SUGL” refers to Seven Uquo Gas Limited;
- “Temasek” refers to Normanton Investments Pte, an indirect wholly owned subsidiary of Temasek Holdings (Private) Limited;
- “Trustee” refers to Law Debenture Trustees Limited;
- “UK” or “United Kingdom” refers to the United Kingdom of Great Britain and Northern Ireland;
- “UniCem” refers to United Cement Company of Nigeria Ltd;
- “Universal Energy” refers to Universal Energy Resources Limited, our 62.5% owned subsidiary;
- “Uquo Field” refers to Uquo Marginal Field contained within OML 13;
- “Uquo Gas Processing Facility” refers to the gas processing facilities located at the Uquo Field;
- “US”, “U.S.” or “United States” refers to the United States of America, any state thereof and the District of Columbia;
- “Weatherford International” refers to Weatherford International Ltd; and
- “Working Capital Facility” refers to the \$40.0 million working capital facility under a facility agreement dated March 23, 2012, as amended from time to time, among, *inter alios*, Seven Exploration, as borrower and the lenders party thereto. We intend to use a portion of the net proceeds of the Refinancing to fully repay and cancel outstanding amounts under the Working Capital Facility, see “Use of proceeds”.

INDUSTRY AND OTHER INFORMATION

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 internal surveys, market research, governmental and other publicly available information, independent industry publications and reports prepared by industry consultants including:

- BP Energy Outlook;
- BP Statistical Review of World Energy;
- CIA World Factbook;
- Institute for Chartered Accountants of Nigeria;
- International Monetary Fund;
- NNPC;
- OPEC;
- Organisation for Economic Cooperation and Development;
- Poten & Partners;
- Presidency of the Federal Republic of Nigeria; and
- US Department of Energy.

Certain market and industry data used in this Offering Memorandum was commissioned on our behalf. 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. 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. This third-party information has been accurately reproduced and that as far as we are aware and is able to ascertain from information published by that third party, no facts have been omitted which would render the reproduced information inaccurate or misleading.

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 and 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.

EXCHANGE RATE INFORMATION

We present our consolidated financial statements in US dollars and the financial statements of EHGC in Naira. We have set forth in the following table, for the periods and dates indicated, period average, high, low and end exchange rates of Naira per \$1.00 as published by Bloomberg Generic London. The exchange rate on September 30, 2014 was Naira 163.65 = \$1.00. The exchange rates presented elsewhere in this Offering Memorandum have been calculated using exchange rates provided by Oanda. This third-party information has been accurately reproduced and that as far as we are aware and is able to ascertain from information published by that third party, no facts have been omitted which would render the reproduced information inaccurate or misleading.

	Naira per \$1.00			
	Period end	Average	High	Low
Year				
2009.....	149.50	149.84	158.57	136.55
2010.....	152.00	151.07	154.83	149.05
2011.....	162.30	155.90	164.98	151.65
2012.....	156.15	158.79	163.19	156.15
2013.....	160.00	159.25	163.90	156.13
Month				
March 2014.....	164.92	164.71	165.19	163.80
April 2014.....	160.60	162.27	164.85	160.55
May 2014.....	162.76	161.89	163.10	158.70
June 2014.....	162.95	162.95	163.75	162.08
July 2014.....	161.90	162.22	163.11	161.74
August 2014.....	162.45	162.01	162.75	160.81
September 2014 (through September 30, 2014).....	163.65	163.03	163.90	162.08

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SUMMARY

*This summary highlights selected information about us and the Refinancing contained in this Offering Memorandum. This summary is not complete and does not contain all the information you should consider before investing in the Notes. **The proved and probable reserves data and contingent resource data presented in this section have been audited at our request by Senergy and estimated at our request by Novas in accordance with PRMS guidelines and definitions. Estimated proved and probable reserves and contingent resources presented herein may differ from reserves and resources that might be estimated according to definitions used by other companies in the industry or in other companies' filings made with the SEC. See "Presentation of financial and other information".** The following summary should be read in conjunction with the more detailed information included in this Offering Memorandum, including our consolidated financial statements, and the related notes thereto, the financial statements of EHGC and the related notes thereto and the unaudited Pro Forma condensed combined financial information. **Our legal interest and effective working interest, as applicable, in the relevant fields and license areas are separately disclosed. See "Our business—Overview of our assets".** See also "Our business—Material agreements relating to our assets" for a more detailed discussion of the terms of the agreements governing our interests. You should carefully read the entire Offering Memorandum to understand our business, the nature and terms of the Notes and the Guarantees and the tax and other considerations which are important to your decision to invest in the Notes and the Guarantees, including the risks discussed under the caption "Risk factors".*

Overview

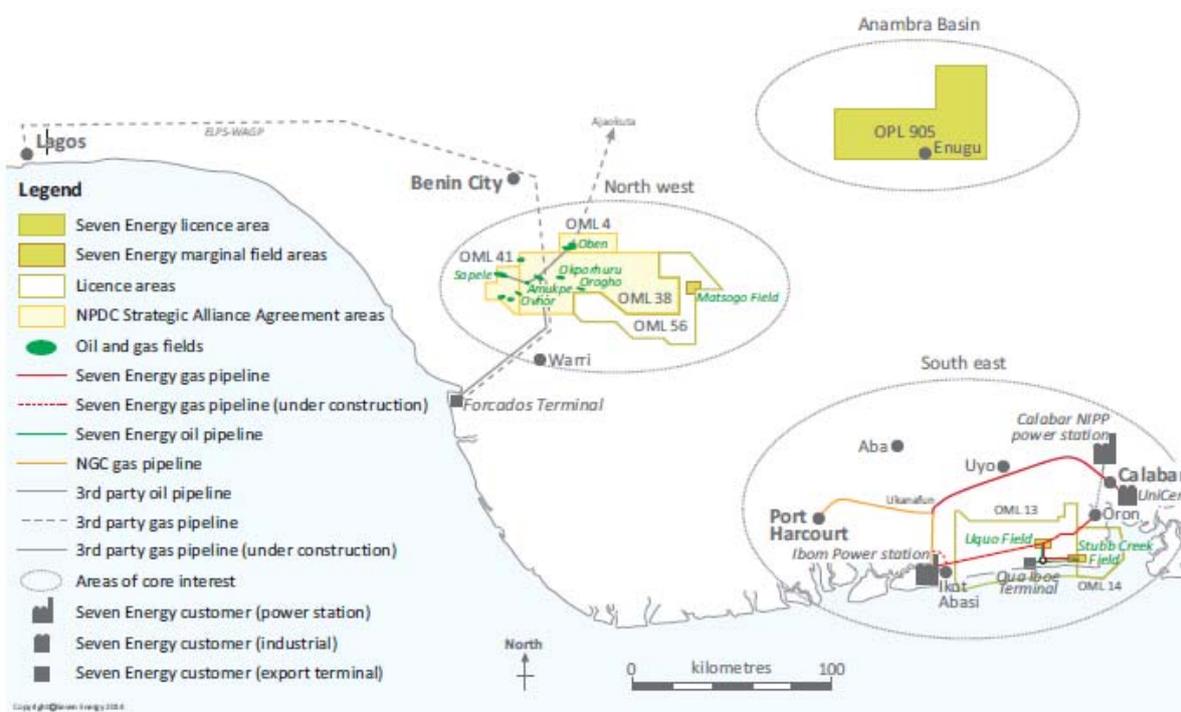
We are an indigenous Nigerian oil and gas exploration, development and production company with a focus on supplying gas to the domestic market. Our business consists of two types of operations onshore in Nigeria: (i) upstream oil and gas exploration, appraisal, development and production operations and (ii) midstream gas processing and distribution operations. In the twelve months ended June 30, 2014, we generated *Pro Forma* revenue of \$398.6 million and *Pro Forma* Adjusted EBITDAX of \$254.6 million.

Although Nigeria possesses the largest proven gas reserves in Africa with 179.4 Tcf as of December 31, 2013, and the second largest oil reserves in Africa with 37.1 Bnbbbl as of December 31, 2013, the country imports the substantial majority of its consumed petroleum products. In 2013, approximately \$17.5 billion was spent on diesel imports for power generation. To attempt to address this domestic demand, the Nigerian government has adopted policies designed to encourage the development of the local energy market with the stated goal of displacing the reliance on imported diesel and of expanding domestic power generation from 6 GW to 40 GW by 2020. For example, the Gas Master Plan, developed by the Nigerian government in 2008, aims to unlock Nigeria's gas potential and meet growing domestic energy demand by driving power capacity growth. The Gas Master Plan calls for the construction of new cost-competitive gas infrastructure, including the construction of pipelines and central processing facilities across the country. We believe we are positioned to capitalize on these trends in the Nigerian domestic energy market with our diversified portfolio of onshore gas interests and processing and distribution assets transporting gas from our assets to areas of high demand, underpinned by our oil interests for export.

Our primary assets are located in relatively secure areas of south east Nigeria, including in the Niger Delta and the Anambra Basin. As a domestic producer with long-term gas sales agreements in place to supply the Nigerian domestic energy market, we believe we will be able to use our integrated asset base, long-term commercial partnerships and broad experience in Nigeria to achieve our goal of becoming the leading supplier of gas to the Nigerian domestic market.

Our business began in 2004 as a division of Weatherford International, the New York Stock Exchange listed oil services company, pursuing upstream oil and gas opportunities in Nigeria, in partnership with Exoro Energy, a Nigerian company. In 2007, the division was sold by Weatherford International and merged with Exoro Energy to establish an independent company. Since then, we have grown both organically and through strategic acquisitions. Our equity holders include a number of blue-chip international institutional and strategic equity investors, who have supported our vision and long-term strategy by providing us with significant financing. Most recently, in April 2014, Temasek, the IFC and the IFC ALAC Fund invested \$255.0 million in aggregate for approximately 26% of our equity interests, of which we have received \$146.0 million with the remainder subject to certain conditions which we expect will be satisfied upon closing of this Offering. See "Capitalization" and "Principal equity holders".

Our assets include a portfolio of four upstream assets located in the north west and south east Niger Delta and the Anambra Basin and midstream assets located in the south east Niger Delta. The following map presents the location of each of our primary assets.



Upstream assets

Our portfolio of upstream assets includes interests in four onshore oil and gas assets. Our contractual interests in OMLs 4, 38 and 41 (such contractual interests, the “OMLs”) in the north west Niger Delta account for the significant majority of our gross production and cash flow. The Uquo Field in the south east Niger Delta began commercial gas production in early 2014. We also have a legal interest in the Stubb Creek Field, located near the Uquo Field in the south east Niger Delta, which is scheduled to begin oil production by the end of 2014. In January 2014, we acquired a license interest in OPL 905 in the Anambra Basin, north of the Niger Delta, which includes two discovered but undeveloped gas fields.

The OMLs

Production from the OMLs has contributed substantially all of our revenue since we entered into a contractual agreement (the “Strategic Alliance Agreement”) to share in a percentage of the incremental production revenue of these assets with NPDC. NPDC is a wholly-owned subsidiary of NNPC, the state oil corporation through which the Nigerian government regulates and participates in the country’s petroleum industry.

Under the Strategic Alliance Agreement, we agree to pay all of NPDC’s costs in connection with development of OMLs 4, 38 and 41 and to provide technical services in exchange for a share of NPDC’s production from its 55% license interests in the OMLs. Until we recover our costs under this agreement, we receive 60% of any profit attributable to incremental production, reducing to 35% following cost recovery. See “Management’s discussion and analysis of financial condition and results of operations— Significant factors affecting results of our operations—Strategic Alliance Agreement—Our entitlement under the Strategic Alliance Agreement”.

Seplat, the operator of OMLs 4, 38 and 41, owns the remaining 45% interest in the OMLs. Since we began operating under the Strategic Alliance Agreement, we have met \$735.1 million in cash calls, and average monthly gross production at the OMLs has increased by 138% from November 2010 to August 2014. We sell

oil lifted under the Strategic Alliance Agreement to Shell at the Forcados Export Terminal. Average gross oil production at OMLs 4, 38 and 41 was 51,600 bopd for the year ended December 31, 2013, of which our average entitlement was 10,400 bopd during the same period. Our revenue for the year ended December 31, 2013 was \$345.0 million, which included \$1.1 million in revenue from gas production. All of our revenue for this period was derived from our entitlement to production at the OMLs. For the six months ended June 30, 2014, the average gross oil production from OMLs 4, 38 and 41 was 46,400 bopd, of which our average entitlement for the period was 11,000 bopd. Our revenue from the OMLs for the six months ended June 30, 2014 was \$149.3 million.

Uquo Field

The Uquo Field is primarily a gas field, which lies in close proximity to areas of significant gas demand. We began commercial deliveries of gas from the Uquo Field in January 2014. Our operating partner in the field is Frontier Oil. We provide technical expertise and financing pursuant to our role as capital project partner. For the six months ended June 30, 2014, the Uquo Field delivered 12.1 MMcfpd and generated \$4.4 million of revenue.

Stubb Creek Field

The Stubb Creek Field, near the Uquo Field, is initially being developed to produce oil, while we plan to develop the gas resources and tie in to our midstream gas infrastructure over the medium term. Oil production at the Stubb Creek Field is scheduled to commence by the end of 2014. We hold our interest in the Stubb Creek Field through our majority-owned subsidiary, Universal Energy, and our commercial partner in the field is Sinopec.

OPL 905

We also hold a license interest in OPL 905, a block covering 2,600 km² and containing two undeveloped gas discoveries. This block is near identified demand areas, including potential industrial and power generation customers. The other interests in OPL 905 are held by Ideal Oil and GTPL, the operator of the field. As of August 31, 2013, the contingent gas resources for OPL 905 were estimated to be 425 Bcf.

The following table sets forth a summary of our oil and gas assets (excluding OPL 905), 2P reserves and 2C contingent resources as of December 31, 2013. This third-party information has been accurately reproduced and that as far as we are aware and is able to ascertain from information published by that third party, no facts have been omitted which would render the reproduced information inaccurate or misleading.

	As of December 31, 2013		
Reserves (2P)	Oil (MMbbl)	Gas (Bcf)	Total (MMboe)
OMLs 4, 38 and 41			
Proved + probable (2P).....	75.3	408.0	143.3
Uquo Field			
Proved + probable (2P).....	0.8	484.9	81.6
Stubb Creek Field			
Proved + probable (2P).....	6.9	0.0	6.9
Total			
Proved + probable (2P).....	83.0	892.9	231.8
	As of December 31, 2013		
Contingent resources (2C)	Oil (MMbbl)	Gas (Bcf)	Total (MMboe)
OMLs 4, 38 and 41			
Contingent resources (2C).....	44.5	188.8	75.9
Uquo Field			
Contingent resources (2C).....	0.0	13.6	2.3
Stubb Creek Field			
Contingent resources (2C).....	0.0	262.1	43.7
Total			

Contingent resources (2C)	As of December 31, 2013		
	Oil (MMbbl)	Gas (Bcf)	Total (MMboe)
Contingent resources (2C)	44.5	464.5	121.9

Source: Senergy Report effective as of December 31, 2013.

The following table sets forth a summary of field type, working interest and gross production for the years ended December 31, 2012 and 2013 and for the twelve months ended June 30, 2014. This third-party information has been accurately reproduced and that as far as we are aware and is able to ascertain from information published by that third party, no facts have been omitted which would render the reproduced information inaccurate or misleading.

Asset	Field type	Working interest	Production		
			Year ended December 31, 2013		Twelve months ended June 30
			2012	2013	2014
OMLs 4, 38 and 41	Oil and gas	Indirect interest to NPDC's 55% interest			
Oil (bopd)			33,300	51,600	49,300
Gas (MMcfd)			—	64.9	69.4
Uquo Field	Oil and gas	40% legal interest			
Gas (MMcfd)			—	—	12.1 ⁽¹⁾
Stubb Creek Field	Oil and gas	51% legal interest through Universal Energy	—	—	—
OPL 905	Gas	40% license interest	—	—	—

(1) Represents average production for the six months ended June 30, 2014, as production began at the Uquo Field in January 2014.

Midstream assets

Our midstream operations process and distribute gas to the growing domestic power consumption market in Nigeria. In order to meet existing and growing demand, we recently expanded our midstream operations with the EHGC Acquisition. Our primary midstream assets are located in the south east Niger Delta, linking our upstream gas assets, the Uquo Field and Stubb Creek Field, to our existing customers, which are located in a region with significant demand from power stations and industry. Our primary midstream assets consist of a 200 MMcfd gas processing facility located at the Uquo Field (the "Uquo Gas Processing Facility"), as well as 227 km of main gas pipelines connecting the Uquo Field and Stubb Creek Field to areas of demand in the region, comprised of a 62 km pipeline from Uquo to Ikot-Abasi, the newly acquired, 128 km East Horizon pipeline from the Ukanafun Junction to Mfamosing, near Calabar, and the near-complete 37 km pipeline from Uquo to Oron to service the Calabar NIPP power station.

We have three long-term take-or-pay gas sales agreements with established customers, and are making gas deliveries under two of these agreements. The general terms of the agreements are as follows, as further described under "Our business—Material agreements relating to our assets":

- a ten-year, 100% take-or-pay gas sales agreement with Ibom Power, a Nigerian state-owned power company, to supply 43.5 MMcfd to the 190 MW Ibom Power station near Ikot Abasi, under which we began deliveries in January 2014;

- a 20-year, 80% take-or-pay gas sales agreement with UniCem, to supply the UniCem cement plant with up to 25.0 MMcfd, which we acquired on March 31, 2014 in connection with the EHGC Acquisition and pursuant to which EHGC delivered 17.0 MMcfd during the three months following the acquisition, contributing to \$10.7 million in revenue during this period (we anticipate that the contracted delivery volume will increase to 50.0 MMcfd (as provided for under the agreement) upon completion of a planned expansion of the UniCem cement plant which is scheduled to occur in January 2016); and
- a 20-year, 80% take-or-pay gas sales agreement with NDPHC and CEGC to supply 131.0 MMcfd to the 560 MW Calabar NIPP power station, located near Calabar, under which we expect deliveries to begin by the end of 2014, initially via the Ikot Abasi to Ukanafun and East Horizon pipelines until completion of NDPHC's pipeline from Oron to the Calabar NIPP power station.

Our integrated business model allows us to produce gas from the Uquo Field, process that gas at our Uquo Gas Processing Facility and transport the gas to our customers under long-term gas sales agreements via our pipelines. As our additional upstream and midstream assets in the south east Niger Delta come online, scheduled during the course of 2014 and 2015, we expect to continue to service customers and existing demand, at which point our pipeline network will have 600 MMcfd of distribution capacity, providing scope and capacity to contract out distribution to third-party gas suppliers, as well as to accommodate future growth in our production.

Our strengths

We believe the following strengths will allow us to continue to develop our existing assets and achieve our goal of becoming the leading gas supplier in the Nigerian domestic market:

Indigenous Nigerian business with an integrated and productive asset portfolio

We are an established participant in the domestic energy market in Nigeria, and we believe we have strong and significant ties to the country. The OMLs and the Uquo Field provide us with a broad base of reserves, production and cash flows, while our midstream assets allow us to deliver gas from our upstream gas assets to areas of strong and growing demand. Nigerian law affords several significant advantages to Nigerian oil and gas companies, including minimal local content requirements and mandatory participation of domestic companies in certain working interests held by international oil companies. Having focused our efforts on acquiring, exploring and developing oil and gas assets in Nigeria, we believe that we have built up the experience and knowledge that allow us to navigate complex community and environmental obstacles that face energy companies operating in the onshore Nigerian energy market. We believe we are well-positioned to continue to grow our customer base using our existing assets and to serve additional customers by offering an alternative to costly imported petroleum products.

Strong cash generation from oil producing fields via the Strategic Alliance Agreement with NPDC

Our share of oil lifting revenue under the Strategic Alliance Agreement generates significant cash flows. For the twelve months ended June 30, 2014, our share of liftings provided us with total oil revenue of \$366.5 million. OMLs 4, 38 and 41 have a long track record of consistent production, starting in 1971. Working with our commercial partner, NPDC and the operator, Seplat, we have significantly increased production at these fields, from an average of 27,700 bopd in November 2010, to an average of 62,500 bopd in June 2014. We provide all of NPDC's share of expenses and therefore are not dependent on NPDC funding for further development of the OMLs. Seplat funds its proportionate share of funding for development, and as a result of the commercial benefits of its ownership interest, we believe Seplat will continue to do so. Given that the arrangement is structured to be beneficial for all parties, there is an incentive to maximize liftings through efficiency gains and improvements. We believe we continue to have a strong relationship with Seplat. We also actively participate in the decision-making process with NPDC through our voting rights under the Strategic Alliance Agreement and in our role as NPDC's technical advisor. We sell oil lifted from the OMLs into the global oil market via the Forcados Export Terminal through our offtake agreements with Shell. Through this arrangement, the effects of bunkering on our liftings are significantly reduced, because our liftings occur at the time of export after being transported from the oil fields, rather than at the time of production. We also have a back-up transmission route for oil produced from the OMLs to a refinery in Warri if for any reason the Forcados Pipeline or the Forcados Export Terminal are unavailable.

Integrated upstream and midstream gas assets provide strong competitive position as an early entrant in the developing domestic gas market

Over the long term, we believe that there is significant demand and significant government support in Nigeria, in particular under the Gas Master Plan, for a domestic alternative to costly imported fuel, in particular in the industrialized region near our midstream infrastructure. Our integrated gas assets consist of significant gas reserves and resources, primarily at our producing Uquo Field, and our already-built midstream processing and distribution assets that deliver gas to our customers. Significant historic investments have enabled us to establish a dynamic gas processing and distribution infrastructure system in the south east Niger Delta, linking our upstream assets to our customers' facilities, including the Ibom Power station, Calabar NIPP power station and UniCem cement plant. These customers purchase or will purchase once transportation pipelines are complete our gas under long-term, take-or-pay gas sales agreements that provide for stable payments whether or not gas is consumed. As our infrastructure is already largely in place, and we are already delivering from producing fields, we believe we are well-positioned to continue to capitalize on growing demand and to benefit from supportive government policies. We believe the integrated nature of our gas production, processing and distribution operations also provides us with a competitive advantage over providers who only operate upstream or midstream assets. In addition, having this network of midstream infrastructure also allows us to decrease costs by eliminating the need to contract with third-party infrastructure owners for the distribution of our oil and gas production.

Primary assets located in relatively secure areas

Our operations are located in relatively secure parts of the Niger Delta, and our assets are not concentrated in any one location in the region. Our operations are primarily based in rural areas with established settlements that historically have proven less volatile than riverine areas populated by transitory communities. Due to our domestic presence and as a result of our significant community outreach, we believe we have good relations with the communities in which we operate. Geographic diversification of our assets within the Niger Delta also enables us to minimize risk and disruption to our business in the event operations at one of our upstream or midstream assets is interrupted. For example, OMLs 4, 38 and 41 are situated in the north west Niger Delta, while our other operations, the Uquo Field and Stubb Creek Field and the related midstream assets, are located in the south east Niger Delta. We have experienced virtually no bunkering affecting our gas pipelines as it is extremely difficult for gas distribution networks to be tapped and relevant product collected. Although liftings from the OMLs have been impacted in the past by shutdowns of the Forcados Pipeline and the Forcados Export Terminal due to bunkering and sabotage (including in the first quarter of 2014), there now is a back-up transmission route via a pipeline to a refinery in Warri for liftings from the OMLs.

Highly experienced management team with a proven track record in Nigeria and strong shareholder support from blue-chip investors

Our senior management team has significant oil and gas experience, including in the regions in which we operate and considerable on-the-ground experience in Nigeria. We believe this combination of industry and regional expertise has allowed us to develop constructive working relationships with the Nigerian federal and state governments, local agencies, other operators and communities. Our Chairman, Chief Executive Officer, Chief Financial Officer, Chief Operating Officer and Chief Technical Officer have over 100 years of combined oil and gas experience, including a long history of managing and financing oil and gas operations in Africa. Our Chief Executive Officer, Phillip Ihenacho, is a Nigerian national with extensive experience in founding and running Nigeria-focused businesses. Our senior management team has extensive industry experience, having worked for a diverse range of international oil and gas companies, including Royal Dutch Shell, Weatherford International, ConocoPhillips and JKC Oil & Gas. Our Chairman, Dr. Andrew Jamieson, also has significant experience, including at Shell as Executive Vice President of Gas and Projects of Shell Gas and Power International BV and Managing Director of Nigeria LNG. We complement our highly experienced management team with our strong presence in Nigeria; our offices in Lagos, Abuja, Benin City, Calabar, Enugu, Port Harcourt and Uyo provide us with direct insight into local issues, and allow us to effectively manage our projects and collaborate with our commercial partners.

We also benefit from the strong support of our blue-chip international equity investors, who have supported our vision and long-term strategy by providing us with significant financing. In April 2014, Temasek, the IFC and the IFC ALAC Fund invested \$255.0 million for approximately 26% of our equity interests. We have received \$146.0 million through this investment with the remainder subject to certain conditions which we

expect will be satisfied upon closing of this Refinancing and the application of proceeds therefrom. For a further description of our key equity holders, see “Principal equity holders”.

Our strategy

Our strategy is to maximize the value of our existing assets and develop and grow in line with the development of the domestic energy market. To achieve this goal, we intend to pursue the following strategies:

Leverage and develop our integrated business model to supply the domestic market

Our vision is to become the leading supplier of gas to the Nigerian domestic market for power generation and industrial consumption. We intend to achieve this objective by capitalizing on our first mover advantage as a supplier to the Nigerian domestic gas market by using our existing midstream infrastructure for distribution of our producing upstream gas assets. Using our existing midstream infrastructure, including the Uquo Gas Processing Facility and our network of pipelines, we will serve our existing customers under our three long-term gas sales agreements, and we aim to increase volumes distributed as our customers’ capacity grows. We also intend to seek to enter into new take-or-pay gas sales agreements with creditworthy customers in the power sector, manufacturing, fertilizer and cement industries and other low-volume, high-priced light industrial customers in and around the regional demand centers that are close to our midstream infrastructure. We believe that this strategy will benefit from significant Nigerian government support, including the Nigerian government’s stated target to increase power generation capacity by nearly seven times by 2020, and our established presence as a domestic player in the market.

Maintain strong cash flows through further development of existing assets and infrastructure

We have two producing upstream assets and brought our Uquo Gas Processing Facility and gas pipelines online at the beginning of 2014. Our ongoing projects in the south east Niger Delta are scheduled to be completed over the remainder of 2014 and the course of 2015, and upon completion, all of our infrastructure will be in place to service customers without the need for significant additional development. For more details on our capital expenditure plans, see “Management’s discussion and analysis of financial condition and results of operations—Capital expenditures”. We intend to continue to further develop our existing upstream assets by continuing to meet our funding obligations under the Strategic Alliance Agreement and by continuing to develop both oil and gas assets at the Uquo Field and at the Stubb Creek Field through appraisal and exploration drilling data. On OPL 905, we intend to undertake strategic gas exploration, with the acquisition of and interpretation of additional seismic data and appraisal drilling. We also intend to install a central oil processing facility at the Stubb Creek Field to increase the oil production capacity from approximately 2,000 bopd to 8,000 bopd. We believe that these projects will be immediately value accretive, as the core infrastructure is or will be over the course of 2014 and 2015, with the exception of OPL 905, already in place.

Prudent cash management and leverage

We intend to maintain our financial flexibility and a prudent financial profile, enabling us to generate significant amounts of operating cash flow. We have stable sources of cash flows, which we intend to reinvest in our business and use to service our existing debt obligations. To date, we have relied on equity and debt financings including credit facilities and convertible bonds to fund both our operations and our infrastructure development projects. Our Accugas II Facility and Accugas III Facility, which are secured by our midstream gas assets, mature in 2019 and 2020, respectively, and will be repaid through amortization payments from cash flows generated by our midstream assets. We have no near-term debt maturities, other than those being repaid with proceeds from this Offering. We expect that our stable cash flows under the Strategic Alliance Agreement and our long-term take-or-pay gas sales agreements will help us maintain a low net leverage ratio, as we intend to maintain a prudent level of indebtedness to suit our financial profile.

Continue to develop relationships and partners in Nigeria

We believe we have strong existing relationships with our commercial partners on all our assets, and with NPDC in respect of the OMLs, and we intend to continue to foster these relationships. These relationships are underpinned by our significant and established on-the-ground presence in Nigeria, and our outreach to local communities and the federal and local government in Nigeria. We believe we adhere to high standards of quality, health and safety, security, environmental and corporate social responsibility. Because of this, we benefit from long-term community buy-in, which supports the development of our existing assets and

opportunities for growth. We have worked to develop positive relationships with the communities near our assets that we believe are crucial to the stability and long-term success of our operations. To strengthen these relationships, we seek out and enter into agreements that help provide employment and equipment to local communities. We meet frequently with the leaders of communities who have agreed to support our operations and have an interest in our success, with a view of promoting harmonious relations. For example, during 2013, we worked directly with local communities impacted by our 37 km Uquo to Oron gas pipeline project to ensure we addressed local needs and concerns. We also maintain an open dialogue with representatives of impacted communities and contribute to local community projects. For example, we are working to complete the renovation and construction of community projects, including at the National High School in Etebi and Esit Ekey, the Ubodung community secondary school, and the completion of a rural electrification project.

Recent developments

Press reports and an official report by the Governor of the Central Bank of Nigeria (the “CBN”) have alleged that the Strategic Alliance Agreement was obtained unlawfully and is a vehicle for NNPC to divert public oil revenue into private hands

Since our entry into the Strategic Alliance Agreement in 2010, a number of press reports and speculation in online fora have alleged that the process for awarding the Strategic Alliance Agreement violated due process and was the result of illicit payments made to Nigerian government officials or their associates by us. As further described below, in February 2014, then-Governor of the CBN, Mr. Lamido Sanusi, alleged in a memorandum presented to the Committee on Finance of the Nigerian Senate (the “Finance Committee”) that our Strategic Alliance Agreement was granted without due process, was unconstitutional and was designed and used as an illegal vehicle to transfer state-owned revenue to private hands. Mr. Sanusi made these allegations against one of our subsidiaries, Seven Exploration (using its former name, Septa Energy Nigeria Limited).

We have publicly refuted these allegations, as further described below. Moreover, on May 28, 2014, the Finance Committee released a report based on its investigation into Mr. Sanusi’s allegations, finding that our Strategic Alliance Agreement is lawful, and in connection therewith, the Attorney-General and Minister of Justice of Nigeria submitted a letter concluding that NNPC can legitimately transfer its participating interest in oil mining leases to NPDC and need only remit its net revenue to the Federation Account after defraying its expenses. The following description is a summary of the events related to these allegations, as derived from publicly available press reports.

Entry into the Strategic Alliance Agreement

After the 2008 launch of the Gas Master Plan, a Nigerian government-led plan for the commercial development and management of Nigeria’s gas sector, the Nigerian government encouraged investment in gas projects. Our entry into the Strategic Alliance Agreement began with discussions with the MPR under a joint program called the Accelerated Gas Plan. The Accelerated Gas Plan was a multi-ministry project to partner in the development of indigenous gas fields for the Nigerian domestic market. As part of this, we were part of a group that developed a supply and demand model for Nigerian gas incorporating the macro analysis of the Gas Master Plan and further developing the analysis to a geographic database.

Rilwan Lukman, the then-Minister of Petroleum Resources, authorized the establishment of a working group consisting of MPR and us, for which a formal memorandum of understanding was signed in June 2009. The concept was to identify gas fields which we could access and develop for supply to the Nigerian domestic market. The focus of this work became fields in the central and western region of the Niger Delta near the Escravos to Lagos pipeline, including fields around the Oben area and OMLs 4, 38, 41. Discussions were ongoing with Shell when Shell divested its 45% interests in OMLs 4, 38 and 41 to Seplat, at which point we sought involvement in all or part of NNPC’s 55% interests, using the Shell 45% divestment as the valuation benchmark. The outcome of these discussions was that NNPC transferred its 55% interest, in OMLs 4, 38 and 41 to NPDC, and we entered into the Strategic Alliance Agreement with NPDC, which became effective in November 2010. The Strategic Alliance Agreement was closely modeled on similar agreements that had been entered into by NNPC with other companies including AGIP and Sinopec, though we believe the agreements with AGIP and Sinopec were entered into in connection with a public tender process, whereas our Strategic Alliance Agreement was not.

The OMLs have contributed substantially all of our revenue since the Strategic Alliance Agreement became effective. For the year ended December 31, 2013, revenue generated from the OMLs represented all of

our revenue, and for the six months ended June 30, 2014 represented the significant majority of our revenue. We expect that the OMLs will continue to have a significant impact on our results of operations, even as our other assets are scheduled to come online in 2014 and 2015. The primary credit support for the Notes is derived from our rights in these assets.

CBN investigation into non-remittance of oil revenue and the Sanusi Memorandum

In September 2013, Mr. Sanusi wrote a letter to Nigerian President, Mr. Goodluck Jonathan, alleging that NNPC had failed to remit to the treasury account of the federal government of Nigeria (the “Federation Account”) approximately \$50 billion in oil revenue from liftings during the period from January 2012 to July 2013. Following these allegations, the Finance Committee commenced an investigation into the alleged non-remittance. In connection with this investigation, Mr. Sanusi presented a memorandum dated February 3, 2014 (the “Sanusi Memorandum”), to the Finance Committee detailing his allegations and illustrating the ways in which NNPC, in his view, diverted revenue from oil liftings that otherwise should have been remitted to the Federation Account.

In the Sanusi Memorandum, Mr. Sanusi pointed to four acts of alleged malfeasance that contributed to the difference between the value of oil lifted by NNPC and the amount repatriated into the Federation Account: (i) fraud in the fuel subsidy regime; (ii) crude oil swaps; (iii) the transfer of assets from NNPC to NPDC and to private companies through strategic alliance agreements; and (iv) illegal bunkering. The only allegation that referred to us or the Strategic Alliance Agreement was the third allegation.

Mr. Sanusi’s third allegation related to NNPC’s transfer of certain onshore oil fields to its subsidiary, NPDC, which transferred interests in such assets to counterparties under strategic alliance agreements, in some cases without a public, competitive bidding process. Mr. Sanusi first challenged the legality of the transfer from NNPC (which is legally required to remit its net revenue to the Federation Account) to NPDC (a subsidiary of NNPC, which is not subject to such requirements). Mr. Sanusi called into question the legality and constitutionality of the process by which the strategic alliance agreements were awarded (i.e., without a competitive, public bidding process), as well as the arrangements constituted thereunder. Specifically, Mr. Sanusi alleged that: (i) NPDC has retained oil lifting revenue due to the Federation Account for its own use; (ii) the strategic alliance agreements have been improperly classified as financing agreements, and as such have not resulted in the payment of Petroleum Profits Tax (“PPT”); (iii) NPDC transferred its interests in the OMLs (the assets that are subject to our Strategic Alliance Agreement) absent fair consideration; and (iv) therefore the strategic alliance agreements are unconstitutional. Mr. Sanusi presented three legal opinions supporting his proposition that the strategic alliance agreements in question (including our Strategic Alliance Agreement) are unconstitutional.

The Sanusi Memorandum specifically named Seven Exploration and another company, Atlantic Energy Drilling Concepts Ltd. (“Atlantic Energy”), as two counterparties to such allegedly unconstitutional strategic alliance agreements. According to Mr. Sanusi, both counterparties lacked experience in oil production, and lacked the capital to partner with NPDC prior to the award of these strategic alliance agreements. However, once these strategic alliance agreements had been awarded, these companies were able to leverage the assets granted thereunder as collateral for financing from Nigerian banks; such financing, Mr. Sanusi alleges, would have been available to NPDC had it not transferred the assets. The implication of this allegation was that these strategic alliance agreements were not entered into for any economic benefit to NPDC. Mr. Sanusi also alleged that the complex accounting mechanics contained in these strategic alliance agreements limited the transparency of such oil lifting and cost and profit sharing arrangements. Mr. Sanusi also implied that Seven Exploration and Atlantic Energy were related, and cited a confidential review by the Banking Supervision Department of the CBN that found that both companies were jointly and secretly owned through Swiss nominees by the current co-CEOs of Atlantic Energy.

Though not explicitly stated, the implication of Mr. Sanusi’s allegations against NNPC, NPDC, Seven Exploration and Atlantic Energy was that these strategic alliance agreements, including our Strategic Alliance Agreement, were designed as vehicles for government officials and their associates to divert oil revenue otherwise due to the Federation Account to themselves. The effect of these arrangements, according to the Sanusi Memorandum, was the diversion from the Federation Account of approximately \$6.0 billion.

Refutation of allegations and our clarifying news release

We believe Mr. Sanusi's allegations in respect of Seven Exploration are unfounded, and strongly refute these allegations.

In response to the adverse publicity and inaccurate reporting following the release of the Sanusi Memorandum, we issued a news release on February 11, 2014, clarifying the following key points:

- **Due process/fair consideration (technical competence)** – The Strategic Alliance Agreement was a result of arm's length negotiations over a three-year period with NNPC and the MPR and pre-dates the current MPR administration. Initially, discussions began on the basis of our interest in potential gas assets and our expertise in developing such resources. OMLs 4, 38 and 41 contain significant quantities of gas and are in a key location that is close to the Escravos to Lagos gas pipeline. Our discussion was predicated on the Nigerian government's desire to accelerate development of gas fields for the domestic market. A key part of the next phase of development of these fields is to increase the gas production and reserves of the fields, an area in which we have particular expertise. The development plans involve the expansion of gas facilities and pipelines to transform the Oben area into a gas processing hub that is expected to be a major provider of gas for the power sector. We entered into the Strategic Alliance Agreement to develop a long-term, mutually beneficial partnership with NPDC, which we hoped would facilitate the development and funding of gas projects, and allow us to deploy our capital and technical resources.
- **Fair consideration (capital resources)** – Under the terms of the Strategic Alliance Agreement, our subsidiary, Seven Exploration, has funded all of NPDC's 55% cash call obligations for the Seplat/NPDC joint venture on OMLs 4, 38 and 41. These cash call obligations have amounted to approximately \$500 million (and since our news release on February 11, 2014, we have made approximately \$200 million of additional cash calls), which has been invested directly in the development of the OMLs. Our funds have been used for workover and drilling of over 30 wells, upgrading of gas compressors and facilities, repair work to pipelines, a new logistics base and maintaining a full operating team to run and support the work on these licenses. By our calculations, we believe these investment activities have more than doubled the net revenue of NPDC from the OMLs (after taking into account our costs), and significantly increased the royalties and taxes the Nigerian government receives from these blocks versus the expected receipt without investment.

At the time of our clarifying news release, we had raised equity capital of over \$750 million and invested over \$1.2 billion of capital in Nigeria. Subsequently, we have raised additional equity capital of \$255 million (\$146 million of which we have received and the balance of which we expect to receive after the Refinancing) from three investors, Temasek, the IFC and the IFC ALAC Fund. See "Our equity holders". Our investors and funding partners include large and reputable local and international financial institutions. In addition to the Strategic Alliance Agreement, with operations in the north west Niger Delta, we have invested over \$600 million in the south east Niger Delta and constructed over 125 km of gas pipeline infrastructure and a 200 MMcfpd gas processing facility, which represents the largest independent gas processing capacity in sub-Saharan Africa.

- **PPT relief** – Our lifting entitlement is calculated after accounting for royalty and PPT, so that we only lift an after tax entitlement volume and have no responsibility for ensuring remittance of PPT by NPDC, if applicable. Thus, by operation of the Strategic Alliance Agreement, all of our entitlements and lifts permit us to lift only what is contractually due to us after full deduction of all taxes associated with production.
- **Transparency and documentation** – All of our cash calls and lifts of our oil entitlements are fully reconciled and documented with NPDC; all our expenditure and every barrel that we have lifted is fully accounted for and matches the terms of our the Strategic Alliance Agreement. Both we and NPDC maintain records of each cash call and each lift, and perform regular full reconciliations that are documented and available for inspection by our respective auditors. This approach has been fundamental to our relationship with NPDC and ensures that

we have complete and accurate accounts that allow our auditors to match our revenue and costs to our contractual entitlements and obligations.

- **Constitutionality of the Strategic Alliance Agreement** – We have undertaken legal reviews of the Strategic Alliance Agreement and we are confident of its legality. As a result of the constraints of NPDC to fund cash calls, service contracts and modified carry arrangements have been in place in Nigeria for many years with many of the IOCs. The Strategic Alliance Agreement’s structure and terms are based on long established precedents in Nigeria and other countries.

Finally, we are not affiliated with Atlantic Energy, despite incorrect press reports to the contrary. Atlantic Energy is a company reportedly co-founded by Mr. Kola Aluko. Mr. Aluko served as our deputy chief executive officer and as a director on our board of directors from 2007 to 2011, during which time his primary role with us was business development. He was involved in discussions related to our entry into the Strategic Alliance Agreement. According to our share register and to the best of our knowledge, Mr. Aluko is a direct and beneficial owner of approximately one percent of our equity interests on a fully diluted basis primarily from his management equity stake in Exoro Energy, with which we merged in 2007. In 2007, when Mr. Aluko was our employee, he borrowed \$2.0 million from us to fund the purchase of equity interests in us. This loan remains outstanding in the amount of \$2.2 million (as of June 30, 2014), including accrued interest. See also “Our business—Our corporate history”. Mr. Scott Aitken, Atlantic Energy’s current co-chief executive officer, also previously served as our chief executive officer from 2007 to 2011. We believe Mr. Aitken holds a small amount of our equity interests through a private company.

Senate hearing and NNPC denial of Mr. Sanusi’s allegations

On February 13, 2014, NNPC sought to challenge Mr. Sanusi’s allegations, with NNPC’s Group Managing Director, Mr. Andrew Yakubu, appearing at an additional hearing before the Finance Committee. At this hearing, Mr. Yakubu, denied Mr. Sanusi’s allegations, and stated that the strategic alliance agreements constituted third-party financing arrangements similar to other agreements found in various joint venture projects NNPC has with several major oil companies. He also challenged Mr. Sanusi and the CBN’s understanding of the oil and gas industry and the technical aspects of these agreements. After the hearing, the Nigerian Finance and Economy Minister, Ms. Ngozi Okonjo-Iweala, announced an independent, forensic audit of NNPC’s accounts. The audit, which was initially intended to be overseen by the Nigerian Senate, has been outsourced to the independent consulting and financial advisory firm, PricewaterhouseCoopers Limited (“PwC”).

Events following the Sanusi Memorandum

In late February 2014, President Jonathan suspended Mr. Sanusi as Governor of the CBN. Following his suspension, Mr. Sanusi initiated a series of legal actions challenging President Jonathan’s legal authority to unilaterally suspend him. President Jonathan has denied that Mr. Sanusi’s suspension, whose term was due to expire in June 2014, was in response to his allegations of mismanagement of NNPC and non-remittance of oil revenue, and President Jonathan has also initiated a separate investigation into alleged “financial recklessness” and “far-reaching irregularities” during Mr. Sanusi’s time at the CBN. In addition, the Nigerian government has commissioned a forensic audit of the accounts and activities of NNPC to be carried out by the Auditor-General of Nigeria and PwC, as well as an official investigation into Mr. Sanusi’s allegations. It is generally acknowledged that President Jonathan and Mr. Sanusi are political opponents, and it has been reported that Mr. Sanusi may participate as a candidate for the opposition in the February 2015 Presidential elections.

On May 20, 2014, the Federal High Court of Abuja ruled that it lacked jurisdiction over Mr. Sanusi’s lawsuit challenging his suspension and transferred the matter to the National Industrial Court, which is responsible for hearing labor-related disputes. Both sides have appealed this ruling, but regardless of the outcome of the appeals, Mr. Sanusi cannot be reinstated as Governor of the CBN, as Mr. Sanusi’s official term expired and a new Governor, Mr. Godwin Emefiele, was sworn in as Governor on June 2, 2014.

The Finance Committee report rejects Mr. Sanusi’s allegations, but finds certain amounts owed by NNPC

On May 28, 2014, the Finance Committee presented a report to the Senate detailing its probe into Mr. Sanusi’s allegations. The Finance Committee’s investigation included a series of public hearings and analysis of various memoranda and documents from certain ministries and officials, including NNPC, NPDC,

CBN, the Auditor General for Nigeria, the Attorney-General and Minister of Justice of Nigeria. The Finance Committee report did not accuse us of any wrongdoing.

In its report, the Finance Committee rejected Mr. Sanusi's claim that NNPC had failed to remit \$50.0 billion to the Federation Account, stating that certain of Mr. Sanusi's allegations were "misleading" and "incorrect". However, the Finance Committee did find that NNPC had failed to properly reconcile \$20.0 billion owed to the Federation Account; the vast majority of this amount was unrelated to either the strategic alliance agreements or us.

As to the allegations related to the strategic alliance agreements, the Finance Committee found that these agreements are lawful, as submitted by Mr. Mohammed Bello Adoke, the Attorney General and Minister of Justice of Nigeria. It also noted that NNPC could legitimately transfer its license interest in OMLs 4, 38 and 41 to NPDC under the Petroleum Act, the NNPC Act and pursuant to joint operating agreements with Shell. The Attorney General and Minister of Justice of Nigeria did make a reconciliation as to whether due process was followed by NPDC engaging strategic partners under strategic alliance agreements due to a lack of information, but asked that consideration be suspended until the requested information was received.

While these transfers of interests and the strategic alliance agreements were lawful, the Finance Committee found that NNPC and NPDC had failed to remit certain funds to the Federation Account generated from cumulative oil liftings from approximately 20 oil and gas assets in which NNPC has direct or indirect interests, including assets related to these strategic alliance agreements. The Finance Committee found that NPDC has failed to reconcile \$448 million of revenue, representing the amount of royalty and PPT payments that had not been remitted.

As part of its report, the Finance Committee recommended that NNPC should remit these missing or unsubstantiated funds to the Federation Account. The Finance Committee has also asked the Auditor-General of Nigeria and PwC to provide the forensic audit of NNPC. It also recommended that in the future, any transfers of interests in OMLs from NNPC to NPDC that may in turn be transferred to third parties, should be conducted in a transparent and competitive manner and should not include revenue concessions.

Current operating impact

The operations and activities at the OMLs have continued in the ordinary course during the period of these allegations and the resulting controversy, and our interactions with NPDC have also continued as usual and in line with the Strategic Alliance Agreement. On July 3, 2014, we received a letter from NNPC, stating that the Strategic Alliance Agreement remains valid, is being conducted in accordance with its terms and that neither NNPC nor NPDC are aware of any default thereunder. For the six months ended June 30, 2014, gross average oil production from the OMLs was 46,400 bopd, but average production levels were impacted by the shutdown of the Forcados Pipeline for more than four weeks in March and April 2014 as a result of repairs to a subsea pipeline following bunkering theft and related damage. Monthly meetings between Shell, the operator of the Forcados Export Terminal, and NPDC to determine oil liftings to take place have continued as customarily scheduled. We have continued to be paid our proceeds of lifting based on our estimated cost oil and share of profit oil.

As we have communicated publicly, and to the best of our knowledge, Mr. Sanusi's allegations with respect to the Strategic Alliance Agreement are without merit. We cannot assure you, however, that speculation as to these allegations related to us or the Strategic Alliance Agreement, NNPC's alleged failure to account for oil revenue or allegations related to Atlantic Energy or Atlantic Energy's co-founder, Mr. Kola Aluko, will not continue to affect us or that the Finance Committee hearings or forensic audits related to these matters will not continue to have an adverse impact on our image, business reputation and results of operations and may affect the willingness of customers, suppliers, commercial partners in oil and gas ventures, financial institutions, stock exchange regulators and other relevant parties to do business with us. See "Risk factors—Risk factors relating to the Strategic Alliance Agreement and certain allegations thereto—Allegations that the Strategic Alliance Agreement was entered into as a result of illegal or improper conduct, or that the Strategic Alliance Agreement is unconstitutional or unlawful may continue to damage our reputation, divert management attention and affect our ability to conduct our business".

Our equity holders

Since 2006, we have issued \$1.0 billion in equity interests, including \$255.0 million in equity investments and conditional commitments made in April 2014 by three investors (Temasek, the IFC and the IFC ALAC Fund) (the “April 2014 Equity Raise”). Following these investments and conditional commitments, Temasek, the IFC and the IFC ALAC Fund hold approximately 26% of our equity, collectively, on a fully diluted basis. We have received \$146.0 million through this investment and expect to receive the remaining \$109.0 million, which we have a contractual right to receive upon redemption of the Convertible Bonds and certain other customary closing conditions. See “Use of proceeds”. For a further description of our key equity holders as of June 2014, see “Principal equity holders”.

Mr. Aluko was a founder of Exoro Energy, and upon our merger with Exoro Energy in 2007, became deputy chief executive officer and a director on the combined board of directors. In November 2011, Mr. Aluko’s employment with us and his directorship ended, though he remained in a transitional consulting role until November 2012 to provide advisory services in relation to business development, business intelligence and regulatory reform in the Nigerian oil and gas sector. Mr. Aluko continues to directly and beneficially hold approximately one percent of our equity interests on a fully diluted basis. He also is the borrower under a loan made by us to enable the purchase of our equity, in an amount of \$2.2 million (as of June 30, 2014), including accrued interest. Notwithstanding this limited ownership, press reports frequently and inaccurately describe Seven Energy as “Kola Aluko’s company” and the Sanusi Memorandum alleged that Seven Energy and Atlantic Energy were jointly owned through Swiss nominees controlled by Mr. Aluko.

Acquisitions

EHGC Acquisition

On March 31, 2014, we completed the acquisition of the entire issued share capital of EHGC, a Nigerian gas distribution and marketing company, from Oando, for a purchase price (including contingent deferred consideration) not to exceed \$250.0 million (adjusted for net liabilities). EHGC is a gas distribution and marketing company that operates the 128 km East Horizon pipeline through Akwa Ibom and Cross Rivers states in south east Nigeria. This acquisition enhances our position as a leading gas marketing and distribution company in south east Nigeria, expanding the reach of our main gas pipeline network in this growing market to 227 km, diversifying our customer base across another key sector of the Nigerian economy and increasing long-term contracted gas sales volumes to approximately 200 MMcfpd.

EHGC earns revenue from its gas sales agreement with UniCem, under which EHGC supplies gas to the second largest cement plant in Nigeria, with a production capacity of 2.5 million metric tons per year. EHGC is the primary supplier of gas to UniCem. We supply up to 25 MMcfpd, under a 20-year gas sales agreement that expires in 2032. We anticipate that the contracted delivery volume will increase to 50 MMcfpd upon completion of a planned expansion of the UniCem cement plant, which is scheduled for January 2016.

The aggregate consideration of up to \$250.0 million is payable by way of: (i) an initial payment of \$100.0 million in cash; (ii) the assumption of existing liabilities of EHGC, including \$54.3 million of outstanding indebtedness, primarily under the Bank of Industry Loan; and (iii) a contingent deferred payment to be satisfied by a combination of cash and the issuance of up to \$45.0 million of ICLNs. The initial \$100.0 million cash payment and the assumption of EHGC’s indebtedness have both been satisfied. The operational and contractual conditions that would result in the payment of the aforementioned contingent deferred payment have been partially satisfied and accordingly, in July 2014, we paid \$30.0 million of the contingent deferred payment. The remaining operational and contractual conditions are expected to be satisfied by the end of 2014. Both payments were funded by a drawing of \$130.0 million under the Accugas III Facility.

OPL 905 Acquisition

On January 31, 2014, we acquired a 40% license interest in OPL 905, a gas asset located in the Anambra Basin north of the Niger Delta, upon our acquisition of SRL 905 Holdings. The total consideration for purchase of this license interest was \$15.0 million in cash and the issuance of \$33.0 million in ICLNs. On the same day, we also entered into a conditional share purchase agreement to acquire a further 50% license interest in OPL 905, through the acquisition of the entire issued share capital of GTPL for consideration of \$27.0 million, funded by \$1.1 million in cash with the remainder being satisfied by way of the issuance of

additional ICLNs. The GTPL acquisition has not yet been completed. The gross 2C contingent gas resources on OPL 905 are estimated at 425 Bcf as of August 31, 2013.

OPL 905 is located to the north of the Niger Delta, in the Anambra Basin. The field is located close to identified areas of demand, and we intend to evaluate opportunities to develop the field for eventual gas sales to the local light industrial and potential power generation customers in the area. Under the terms of the production sharing contract with NNPC, we are committed to acquire and process 2D and 3D seismic data and to drill a minimum of four exploration or appraisal wells by April 2017. See “Our business—Material agreements relating to our assets—OPL 905 production sharing contract”.

Financial and operating performance for the two months ended August 31, 2014

For the two months ended August 31, 2014, our total revenue was \$50.4 million. Average gross production for the two months ended August 31, 2014 was approximately 54,800 bopd, as compared to 46,400 bopd for the six months ended June 30, 2014. During the two months ended August 31, 2014, we lifted 0.4 MMbbl of oil under the Strategic Alliance Agreement, at an average price of \$108.0 per barrel, generating revenue of approximately \$44.8 million.

Total revenue generated from gas sales for the two months ended August 31, 2014 was approximately \$5.6 million. Gas production from the Uquo Field averaged 17.1 MMcfpd for the two months ended August 31, 2014, contributing approximately \$1.4 million to revenue for the period. EHGC’s average gas deliveries to the UniCem cement plant for the two months ended August 31, 2014 were 12.1 MMcfpd, contributing approximately \$4.2 million to revenue for the period.

The above information is based on preliminary results and is not intended to be a comprehensive statement of our financial or operational results for the two months ended August 31, 2014. This information has been prepared by, and is the responsibility of, management, and has not been audited, reviewed or verified by our statutory auditors. Our preliminary results are based on a number of assumptions that are subject to inherent uncertainties and subject to change. In addition, while we believe these assumptions are reasonable, over the course of the next few weeks we will be completing our financial information for the two months ended August 31, 2014, and our actual results may vary from our preliminary results above. These variations could be material. As such, you should not place undue reliance on the preliminary information set forth above. See “Risk factors” for a more complete discussion of certain of the factors that could affect our future performance and results of operations

Accugas Facilities waivers

We obtained waivers and consents from the requisite lenders under the Accugas Facilities with respect to certain provisions of the Accugas Facilities that restricted certain of our subsidiaries and affiliates from guaranteeing the Notes and providing security over their assets. The waivers and consents obtained permit the issuance of senior secured notes in one or more offerings with an initial offering anticipated to be in a principal amount of approximately \$500.0 million for the purpose of amongst other things and without limitation, redeeming all of our outstanding Convertible Bonds due 2014 and repaying and cancelling each of the Reserve Based Lending Facility and the Working Capital Facility. The initial issuance would include the Notes and the NSIA Notes. The amendments required the consent of 66.67% of the lenders under each of the Accugas II Facility and the Accugas III Facility.

In consideration of the agreement by the Accugas II lenders to the consents and waivers we have agreed to procure that, in respect of the portion of the gas pipeline from Oron to Calabar NIPP (i.e. 26 km to 50 km) that is proposed to be constructed: (a) such construction shall be funded from sources other than from the Accugas II Lenders or the Accugas III Lenders; and (b) will, from commencement of construction, be subject to security granted by Accugas in favour of the lenders under the Accugas II Facility and Accugas III Facility on a first ranking basis.

See “Description of certain financing arrangements—Accugas II Facility” and “Description of certain financing arrangements—Accugas III Facility”.

Convertible Bond redemption

Seven Energy Ltd. will on or about the date hereof notify holders of its Convertible Bonds guaranteed by us and Seven Energy (BVI) (the “Convertible Bonds”) that, conditional upon the successful completion of the Refinancing (the “Condition”), it will redeem all of the outstanding Convertible Bonds upon closing of this Offering or shortly thereafter (the “Conditional Redemption”) for an amount in cash of \$1,121 per \$1,000 principal amount of the Convertible Bonds together with accrued and unpaid interest up to, but not including, the settlement date. The satisfaction of the Condition shall be determined by us in our sole discretion.

Use of proceeds

On the Issue Date, the Issuer will issue the Notes and the NSIA Notes. We intend to use the proceeds from the Notes, the NSIA Notes and the Second Equity Tranche (i) to redeem all of our outstanding Convertible Bonds due 2014, (ii) to repay and cancel each of (a) the Reserve Based Lending Facility, (b) the Working Capital Facility and (c) the Discount House Loan (including, in each case, any termination fees related thereto), (iii) to fund capital expenditures related to construction of our gas pipelines and associated facilities, (iv) to pay fees and expenses incurred in connection with the Refinancing (as defined below) and (v) for general corporate purposes. We collectively refer to these transactions as the “Refinancing”.

- (2) The NSIA Notes will be general, senior obligations of the Issuer and will benefit from guarantees from each of the Guarantors (the “NSIA Guarantees”). Each NSIA Guarantee will be a general, senior obligation of the respective Guarantor, ranking *pari passu* in right of payment with any existing and future indebtedness of such Guarantor that is not expressly contractually subordinated in right of payment to such NSIA Guarantee (including the Guarantees). The NSIA Guarantee of a Guarantor will be effectively subordinated to any existing and future indebtedness of such Guarantor, to the extent such indebtedness is secured by liens senior to the liens securing that Guarantor’s NSIA Guarantee, or secured by property and assets that do not secure such NSIA Guarantee, including in the case of Seven Energy and Seven Exploration all obligations under the Accugas II Facility and Accugas III Facility, to the extent of the value of the property and assets securing such indebtedness.
- (3) Subject to the terms of the security documents, the Notes, the NSIA Notes, the Guarantees and the NSIA Guarantees will be secured by contractual first priority liens over: (i) the capital stock or shares of Seven Energy Ltd., Seven Energy (BVI), the Issuer, Seven Exploration, SUGL, Energy 905 and Seven Energy (Jersey); (ii) the assets of the Issuer (including receivables under the Proceeds Loan), Seven Energy (BVI) and Seven Energy Ltd. pursuant to English law debentures; (iii) the assets of Seven Energy (subject to certain exceptions including for assets pledged to secure the Accugas Facilities) pursuant to a Mauritian law floating charge; (iv) the assets of Seven Exploration (subject to certain exceptions including for assets pledged to secure the Accugas Facilities and shares of Accugas) pursuant to a Nigerian law debenture; and (v) the assets of Seven Energy (Jersey) pursuant to a Jersey law general security agreement.
- (4) The Issuer and the Guarantors represented 97.9% of our 1P reserve base as of December 31, 2013, 45.1% of our property plant and equipment – oil and gas assets as of June 30, 2014 and 100% of our current production and 96.2% of our combined *pro forma* EBITDAX as of and for the twelve months ended June 30, 2014, after giving effect to the EHGC Acquisition as if it occurred on January 1, 2013 (the percentage of *pro forma* EBITDAX has been calculated to include only entities with positive EBITDAX). The Guarantees and the Collateral will be subject to contractual and legal limitations under relevant local laws and may be released under certain circumstances. The Notes will be structurally subordinated to all existing and future indebtedness and other liabilities (including trade payables) of our subsidiaries that are not Guarantors or the Issuer and effectively subordinated to any existing and future indebtedness and other liabilities of the Issuer and the Guarantors to the extent such indebtedness or other liabilities are secured by property and assets that do not secure the Notes, to the extent of the value of such property and assets.
- (5) The Issuer will lend the gross proceeds from the Notes and the NSIA Notes to Seven Energy pursuant to one or more proceeds loan agreements (the “Proceeds Loan”) to be dated as of the Issue Date. Receivables under the Proceeds Loan are pledged to secure obligations under the Notes and the Guarantees and the NSIA Notes and the NSIA Guarantees. See “Description of Notes—Proceeds Loan”.
- (6) Refers to the \$225.0 million Accugas II Facility, a project finance facility used to fund Accugas processing and pipeline infrastructure projects, entered into by Accugas as borrower, Exoro Holdings B.V. and SUGL as guarantors, Exoro Holding B.V. and Seven Exploration as shareholders and Seven Energy as sponsor, on June 24, 2010, as amended and restated on March 27, 2013. As of June 30, 2014, \$225.0 million was drawn under the Accugas II Facility. See “Description of certain financing arrangements—Accugas II Facility”.
- (7) Refers to the \$170.0 million Accugas III Facility, an acquisition financing facility used to fund the EHGC Acquisition and its pipeline infrastructure, entered into by Accugas as borrower and Seven Energy as guarantor on March 25, 2014. As of June 30, 2014, \$100.0 million was drawn under the Accugas III facility. See “Description of certain financing arrangements—Accugas III Facility”.
- (8) Refers to the Bank of Industry Loan, acquired in connection with the EHGC Acquisition. The facility provides for Naira 10,344.5 million of borrowings and as of June 30, 2014, Naira 7,185.0 million was drawn, thereunder. Based on the exchange rate of Naira 163.1405 to \$1.00, which was the exchange rate as of June 30, 2014, the Bank of Industry Loan provides for \$62.8 million of borrowings, of which \$44.0 million was outstanding as of June 30, 2014. See “Description of certain financing arrangements—Bank of Industry Loan (PAIF Facility)”.
- (9) Refers to a term loan provided by Akwa Ibom Investment and Industrial Promotion Council for the Stubb Creek Field development. The loan is in the amount of Naira 1,555 million. As of June 30, 2014, Naira 1,555.0 million was outstanding on the Akwa Ibom State Loan. Based on the exchange rate of Naira 164.820 to \$1.00, which was the exchange rate as of June 30, 2014, the Akwa Ibom State Loan provides for \$9.9 million of borrowings. As of June 30, 2014, we had \$9.9 million of borrowings drawn under the Akwa Ibom State Loan.
- (10) We directly own 62.5% of the issued share capital of Universal Energy.

THE OFFERING

The following is a brief summary of certain terms of this Offering of Notes. It may not contain all the information that is important to you. For additional information regarding the Notes and the Guarantees, see “Description of Notes”.

Issuer	Seven Energy Finance Limited, a company incorporated under the laws of the British Virgin Islands.
Notes Offered	\$300,000,000 million aggregate principal amount of 10¼% senior secured notes due 2021 (the “Notes”).
Issue Date	October 10, 2014.
Issue Price	98.781% (plus accrued and unpaid interest from the Issue Date).
Maturity Date	October 11, 2021.
Interest Payment Dates and Rate	We will pay interest on the Notes semi-annually in arrears on April 11 and October 11, beginning April 11, 2015, at a rate of 10.250% per annum. Interest will accrue from the Issue Date.
Denomination and Form	The Issuer will issue the Notes on the Issue Date in global form in a minimum denomination of \$200,000 and in 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 general obligations of the Issuer and will: <ul style="list-style-type: none">• be secured by the Collateral;• be effectively subordinated to any existing and future indebtedness of the Issuer, to the extent such indebtedness is secured by liens senior to the liens securing the Notes, or secured by property and assets that do not secure the Notes, including obligations under the Accugas II Facility and Accugas III Facility, to the extent of the value of the property and assets securing such indebtedness;• rank <i>pari passu</i> in right of payment with all existing and future indebtedness of the Issuer that is not expressly contractually subordinated in right of payment to the Notes, including the NSIA Notes;• rank senior in right of payment to any future indebtedness of the Issuer that is expressly contractually subordinated in right of payment to the Notes;• be fully and unconditionally guaranteed on a senior basis by the Guarantors, subject to limitations under applicable law as described under the caption “Description of Notes—The Guarantees”;• be subject to collateral sharing provisions with certain creditors under any future indebtedness that is permitted to share the Collateral, including indebtedness that is entitled to receive priority with respect to certain proceeds received upon any enforcement over any Collateral pursuant to the terms of the Intercreditor Agreement; and

- be structurally subordinated to all obligations of the Company’s subsidiaries (other than the Issuer) that are not Guarantors, including under the Accugas Facilities, the Akwa Ibom State Loan and the Bank of Industry Loan.

Guarantors

The Notes initially will be guaranteed on a senior basis by the following Guarantors:

- Seven Energy;
- Seven Energy (BVI);
- Seven Energy (Jersey);
- Seven Energy Ltd.;
- Seven Exploration; and
- SUGL.

The Guarantors represented 97.9% of our 1P reserve base as of December 31, 2013, 45.1% of our property plant and equipment – oil and gas assets as of June 30, 2014 and 100% of our current production and 96.2% of our combined *pro forma* EBITDAX as of and for the twelve months ended June 30, 2014, after giving effect to the EHGC Acquisition as if it occurred on January 1, 2013 (percentage of pro forma EBITDAX calculation includes only entities with positive EBITDAX).

Ranking of the Guarantees

The Guarantee of each Guarantor will be a general obligation of the Guarantor and will:

- be secured on the Collateral on the terms described under the caption “Description of Notes—Notes Security”;
- be effectively subordinated to any existing and future indebtedness of such Guarantor, to the extent such indebtedness is secured by liens senior to the liens securing that Guarantor’s Guarantee, or secured by property and assets that do not secure such Guarantee, including all obligations under the Accugas II Facility and Accugas III Facility, to the extent of the value of the property and assets securing such indebtedness;
- rank *pari passu* in right of payment with any existing and future indebtedness of such Guarantor that is not expressly contractually subordinated in right of payment to such Guarantee, including the NSIA Guarantees;
- rank senior in right of payment to any future indebtedness of such Guarantor that is expressly contractually subordinated in right of payment to such Guarantee; and
- be subject to collateral sharing provisions with certain creditors under any future indebtedness that is permitted to share the Collateral, including indebtedness that is entitled to receive priority with respect to certain proceeds received upon any enforcement over any Collateral pursuant to the

terms of the Intercreditor Agreement.

The obligations of the Guarantors will be full and unconditional but will be contractually limited under the applicable Guarantees to reflect limitations under applicable law, including, but not limited to, with respect to maintenance of share capital, corporate benefit, fraudulent conveyance and other legal restrictions applicable to the Guarantors and their respective shareholders and directors. In addition, enforcement of a Guarantee of any Guarantor organized in Nigeria will result in a 10% withholding tax on payments under such Guarantee. See “Description of Notes—The Guarantees”, “Risk factors—Risks relating to our structure and the Notes—The proceeds of any enforcement of the Guarantee of a Nigerian company or of security interests secured on shares or assets of a Nigerian company or assets located in Nigeria will be subject to a 10% withholding tax by Nigerian tax authorities” and “Certain insolvency law considerations”.

Indebtedness..... As of June 30, 2014, after giving *pro forma* effect to the Refinancing therefrom on a *pro forma basis*:

- we would have had \$744.6 million of total borrowings, of which \$300.0 million is represented by the Notes;
- in addition to the Notes, we would have had \$369.0 million of secured principal indebtedness; and
- our non-Guarantor subsidiaries would have had \$378.9 million of principal indebtedness, including \$369.0 million of secured indebtedness.

Although the Indenture governing the Notes will contain limitations on the amount of additional indebtedness that we will be allowed to incur, the amount of such additional indebtedness could be substantial.

Security..... Subject to the terms of the security documents, the Notes and the Guarantees will be secured by contractual first priority liens or charges over (i) the capital stock or shares of Seven Energy Ltd., Seven Energy (BVI), the Issuer, Seven Exploration, SUGL, Energy 905 and Seven Energy (Jersey); (ii) the assets of the Issuer (including receivables under the Proceeds Loan), Seven Energy (BVI) and Seven Energy Ltd. pursuant to English law debentures; (iii) the assets of Seven Energy (subject to certain exceptions including for assets pledged to secure the Accugas Facilities) pursuant to a Mauritian law debenture; (iv) the assets of Seven Exploration (subject to certain exceptions including for assets pledged to secure the Accugas Facilities and shares of Accugas Limited) pursuant to a Nigerian law debenture; and (v) the assets of Seven Energy (Jersey) pursuant to a Jersey law general security agreement.

The security interests will not extend to (a) assets, including bank accounts, held jointly with our commercial partners, (b) assets of Seven Energy and Seven Exploration pledged to secure the Accugas Facilities and (c) shares of Accugas and Universal Energy, Domestic Gas Development Company Limited, Septa Oil Trading Company Limited, EHGC, Seven Energy (UK) Limited, Exoro Energy Limited and Exoro Holdings B.V. For a description of the Accugas Facilities, see “Description of certain financing Arrangements—Accugas II

Facility” and “Description of certain financing arrangements—Accugas III Facility”.

For further details, see “Description of notes—Notes security”.

The assets comprising the Collateral primarily consist of the OMLs under the Strategic Alliance Agreement. Our midstream assets are held by non-Guarantor subsidiaries, and none of our midstream or gas assets secure the Notes. We expect that over the life of the Notes the contribution to our revenue and EBITDAX from the OMLs, will decline (both absolutely and as a percent of our total revenue and EBITDAX), and we expect contracted liftings under the Strategic Alliance Agreement to have been fulfilled by 2019 (subject to renewal upon meeting certain conditions precedent). As a result, we expect the percentage of our reserve base, assets, revenue and EBITDAX represented by the Guarantors to decline over time. See “Risk factors—Risk factors relating the structure and the Notes—The Notes and each Guarantee will be structurally subordinated to the liabilities and any preferred stock of our non-guarantor subsidiaries”.

Also see “Risk factors—Risk factors relating to our structure and the Notes—The primary Collateral securing the Notes will not be perfected or enforceable for the full amount of the indebtedness thereby secured unless and until full stamp duties and registration fees are paid in respect thereof by or on behalf of the holders of the Notes” and “Legal and regulatory—Nigeria—Enforcement of security under Nigerian law”.

Use of Proceeds We intend to use the proceeds from the sale of the Notes and the NSIA Notes (i) to redeem all of our outstanding Convertible Bonds due 2014, (ii) to repay and cancel each of (a) the Reserve Based Lending Facility, (b) the Working Capital Facility and (c) the Discount House Loan, (including, in each case, any termination fees related thereto) , (iii) to pay fees and expenses incurred in connection with the Refinancing and (iv) for general corporate purposes.

Additional Amounts Any payments made by the Issuer or any Guarantor with respect to the Notes will be made without withholding or deduction for taxes unless required by law. If such withholding or deduction is required by law in any “relevant taxing jurisdiction”, the Issuer or the relevant Guarantor, as applicable, will pay the additional amounts necessary so that the net amounts received by the holders of Notes after the withholding or deduction is not less than the amount that they would have received in the absence of the withholding or deduction, subject to certain exceptions. See “Description of Notes—Additional Amounts”.

Optional Redemption for Tax Reasons In the event of certain developments affecting taxation that become effective after the Issue Date, the Issuer may redeem the Notes in whole, but not in part, at any time, 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 “Description of Notes—Redemption for Changes in Taxes”.

Optional Redemption Prior to October 11, 2018, the Issuer may redeem all or a portion of the Notes at a redemption price equal to 100% of the principal amount of such Notes plus a “make-whole” premium set forth in this Offering Memorandum, plus accrued and unpaid interest, if any, to the redemption date.

On or after October 11, 2018, the Issuer may redeem all or a portion

of the Notes at the redemption prices set forth in this Offering Memorandum under the caption “Description of Notes—Optional Redemption” plus accrued and unpaid interest, if any, to the redemption date.

In addition, on or prior to October 11, 2018, the Issuer may redeem up to 35% of the original principal amount of each of the Notes with the net cash proceeds from specified equity offerings at a redemption price equal to 110.250% of the principal amount thereof plus accrued and unpaid interest, if any, to the redemption date provided that at least 65% of the original principal amount of the Notes remain outstanding after the redemption. See “Description of Notes—Optional Redemption”.

Change of Control Upon the occurrence of certain change of control events, the Issuer 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 and Additional Amounts, if any, to the date of the purchase. See “Description of Notes—Repurchase at the Option of Holders—Change of Control”.

Certain Covenants The Indenture will limit, among other things, our ability to:

- incur additional indebtedness;
- pay dividends on, redeem or repurchase our capital stock;
- make certain restricted payments and investments;
- create certain liens;
- impose restrictions on the ability of subsidiaries to pay dividends or other payments to the Company;
- transfer or sell assets;
- merge or consolidate with other entities;
- impair the security interests in the Collateral; and
- enter into transactions with affiliates.

Each of the covenants is subject to a number of important exceptions and qualifications. See “Description of Notes—Certain covenants”.

Transfer Restrictions The Notes and the Guarantees have not been registered under the U.S. Securities Act or the securities laws of any other jurisdiction and will not be so registered. The Notes are subject to restrictions on transferability and resale. See “Notice to investors”. Holders of the Notes will not have the benefit of any exchange or registration rights.

No Prior Market The Notes will be new securities for which there is no market. The Initial Purchasers are not obligated to make a market in the Notes. Accordingly, the Issuer and 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 Official List of the Irish Stock Exchange and to trading on the Global Exchange Market thereof. We expect that that the application will be approved as of the Issue Date, and the issuance of the Notes is

conditioned on obtaining the listing. The Global Exchange Market is not a regulated market for the purposes of Directive 2004/39/EC.

Governing Law The Indenture, the Notes and the Guarantees will be governed by the laws of the State of New York. The security documents will be governed by Nigerian law, BVI law, Bermuda law, Jersey law, Mauritian law and English law, as applicable, as described under the caption “Description of Notes—Notes Security”, and the Intercreditor Agreement will be governed by English law”.

Trustee Law Debenture Trustees Limited

Security Agent The Law Debenture Trust Corporation p.l.c., other than as to the Security Documents under the laws of Mauritius where the Security Agent is Standard Chartered Bank

Paying Agent Deutsche Bank AG, London Branch

Registrar and Transfer Agent Deutsche Bank Luxembourg S.A.

Irish Listing Agent Arthur Cox Listing Services Limited

Security Codes:

Reg. S ISIN XS1093755194

Reg. S Common Code 109375519

144A ISIN XS1093754387

144A Common Code 109375438

Risk Factors Investing in the Notes involves substantial risks. Please see the “Risk factors” section for a description of certain of the risks you should carefully consider before investing in the Notes.

SUMMARY HISTORICAL CONSOLIDATED FINANCIAL AND OTHER DATA

The following tables present Seven Energy's consolidated financial and other data as of and for the years ended December 31, 2011, 2012 and 2013, which has been derived from our audited consolidated financial statements, included elsewhere in this Offering Memorandum. The following tables also present Seven Energy's financial data as of June 30, 2014 and for the six months ended June 30, 2013 and 2014, which have been derived from our unaudited condensed consolidated financial statements included elsewhere in this Offering Memorandum.

We also present the summary financial and other data for EHGC as of and for the years ended December 31, 2012 and 2013, which have been derived from EHGC's audited financial statements included elsewhere in this Offering Memorandum. We also present EHGC's financial and other data for each of the three and nine months ended March 31, 2013 and 2014, which have been derived from EHGC's unaudited condensed financial statements, included elsewhere in this Offering Memorandum. We have not included financial data for EHGC on a stand-alone basis for any period subsequent to March 31, 2014, the date from which the results of operations of EHGC were included in our consolidated financial statements.

The summary historical consolidated financial and other data for the twelve months ended June 30, 2014, have been derived by adding the summary historical consolidated financial and other data for the six months ended June 30, 2014 to the summary historical consolidated financial and other data for the year ended December 31, 2013 and subtracting the summary historical consolidated financial and other data for the six months ended June 30, 2013. The summary financial information for the twelve months ended June 30, 2014 presented herein is not required by or presented in accordance with IFRS or any other generally accepted accounting principles, has been prepared for illustrative purposes only and is not necessarily representative of our results for any future period or our financial condition at any such date. This compilation has not been audited or reviewed.

Due to the accounting impact of certain acquisitions, including the consolidation of the operating results of acquired businesses, and the termination of the SAA Funding Agreement as described in "Management's discussion and analysis of financial condition and results of operations—Significant factors affecting results of our operations—Strategic Alliance Agreement", our financial results for future periods will not be directly comparable to our historical financial results.

The tables below also present certain non-IFRS measures used by our management to evaluate, monitor and manage our business. Such non-IFRS measures 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. These terms may not be comparable to similar terms used by competitors or other companies. See "Presentation of financial and other information—Non-IFRS financial measures".

We have also presented *Pro Forma* information for the twelve months ended June 30, 2014, which gives *pro forma* effect to the EHGC Acquisition as if it had occurred on January 1, 2013. For further information of the *pro forma* financial data as of and for the twelve months ended June 30, 2014 presented below, see "Unaudited *pro forma* financial information".

This Offering Memorandum presents certain "as adjusted" financial information, which gives effect to the Refinancing and the receipt of \$109.0 million in equity funding that we have a contractual right to receive upon redemption of the Convertible Bonds and certain other customary closing conditions (the "Second Equity Tranche"), as if each had occurred on June 30, 2014 (with respect to as adjusted net debt) and on July 1, 2013 (with respect to as adjusted *Pro Forma* interest expense).

The following summary historical consolidated financial and other data set forth below should be read in conjunction with "Use of proceeds", "Capitalization", "Selected financial data", "Unaudited *pro forma* financial information", "Management's discussion and analysis of financial condition and results of operations" and the financial statements and notes thereto included elsewhere in this Offering Memorandum.

Seven Energy consolidated statement of comprehensive income statement data

	Year ended December 31,			Six months ended June 30,		Twelve months ended June 30,
	2011	2012	2013	2013	2014	2014
<i>(in millions of \$)</i>						
Revenue	86.8	102.4	345.0	127.8	165.4	382.6
Cost of sales						
Production expenses.....	(46.3)	(64.5)	(171.4)	(49.9)	(90.0)	(211.4)
Increase/(decrease) in Underlift	–	23.6	70.9	(4.5)	51.5	126.9
Depletion	(12.0)	(17.5)	(67.7)	(19.2)	(40.7)	(89.2)
Gross profit/(loss)	28.6	44.0	176.7	54.3	86.2	208.9
Depreciation and amortization expenses.....	(2.1)	(2.7)	(2.1)	(1.0)	(1.4)	(2.5)
Impairment charge.....	–	–	(5.8)	–	–	(5.8)
Other operating expenses.....	(4.8)	(1.7)	(0.5)	(0.9)	(1.7)	(1.3)
Administrative expenses.....	(28.1)	(25.9)	(42.6)	(19.0)	(28.9)	(52.5)
Operating profit/(loss)	(6.3)	13.6	125.7	33.5	54.2	146.8
Investment revenue.....	0.2	1.4	1.5	–	–	1.5
Finance costs	(6.8)	(18.7)	(38.1)	(20.9)	(24.1)	(41.3)
Foreign exchange gains	0.7	(1.1)	(1.0)	0.6	(0.8)	(2.4)
Profit/(loss) before tax	(12.3)	(4.8)	88.2	13.2	29.3	104.6
Tax (expense)/credit	(14.7)	(1.8)	(48.8)	(11.2)	(2.7)	(40.3)
Profit/(loss) for the period	(26.9)	(6.6)	39.4	2.0	26.6	64.3

Seven Energy consolidated balance sheet data

	As of December 31,			As of June 30,
	2011	2012	2013	2014
<i>(in millions of \$)</i>				
Non current assets.....	538.8	741.6	1,162.3	1,712.2
Current assets.....	86.6	130.9	213.8	382.7
Total assets	625.4	872.5	1,376.1	2,094.9
Current liabilities	(175.1)	(259.4)	(675.1)	(829.5)
Non-current liabilities.....	(173.4)	(263.0)	(305.2)	(530.5)
Total liabilities	(348.6)	(522.4)	(980.3)	(1,360.0)
Net assets	276.8	350.1	395.8	735.0
Share capital	0.005	0.005	0.005	0.005
Share premium.....	95.3	94.9	95.3	95.7
Irredeemable convertible loan notes ⁽¹⁾	535.3	612.7	612.6	895.5
Retained deficit.....	(408.0)	(414.4)	(373.6)	(346.2)
Equity reserves	30.5	33.3	39.4	68.6
Equity attributable to owners of the Company	253.1	326.5	373.7	713.6
Non-controlling interests	23.8	23.6	22.1	21.3
Total equity	276.8	350.1	395.8	735.0

(1) Seven Energy's equity capital structure consists of ordinary shares and irredeemable convertible loan notes ("ICLNs"). ICLNs are distinct from Convertible Bonds. All of the outstanding ICLNs are treated as equity. The ICLNs have conversion rights which entitle the ICLN holder to convert its ICLNs into ordinary shares at a predetermined conversion price at any time upon election by the holder of the ICLN, or upon mandatory conversion pursuant to the occurrence of

certain events, including an initial public offering, sale, or liquidation/administration of us, as described more fully under “Principal equity holders”.

Seven Energy consolidated cash flow statement data

<i>(in millions of \$)</i>	Year ended December 31,			Six months ended June 30,		Twelve months ended June 30,
	2011	2012	2013	2013	2014	2014
Net cash (used in) provided by operating activities	(34.6)	77.8	171.9	44.2	64.4	192.1
Net cash used in investing activities	(171.2)	(186.2)	(324.1)	(136.4)	(297.1)	(484.4)
Net cash provided by financing activities	150.8	128.6	171.5	93.1	220.8	299.2
Cash and cash equivalents at the end of the period.....	12.7	32.2	50.4	33.3	37.7	37.7

Seven Energy other financial data

<i>(in millions of \$)</i>	Year ended December 31,			Six months ended June 30,		Twelve months ended June 30,
	2011	2012	2013	2013	2014	2014 ⁽¹⁾
Seven Energy EBITDAX ⁽¹⁾	7.7	33.9	195.6	53.5	96.4	238.5
Seven Energy Adjusted EBITDAX ⁽¹⁾	13.4	36.7	207.8	57.4	97.2	247.6

- (1) Seven Energy EBITDAX and Seven Energy Adjusted EBITDAX are non-IFRS measures. See “Presentation of financial and other information—Non-IFRS financial measures” for a description of the calculation of each measure and a discussion of how management uses such measures to evaluate operating performance. EBITDAX is defined as profit or loss before finance costs, investment revenue, foreign exchange gains or losses, taxes, depreciation, depletion, and amortization and exploration costs. Adjusted EBITDAX is defined as EBITDAX, less impairment charges or reversals of oil and gas assets and share based payments charges.

The following table provides a reconciliation of our (loss)/profit to Seven Energy EBITDAX and Seven Energy Adjusted EBITDAX for the periods indicated.

<i>(in millions of \$)</i>	Year ended December 31,			Six months ended June 30,		Twelve months ended June 30,
	2011	2012	2013	2013	2014	2014
(Loss)/profit for the period.....	(26.9)	(6.6)	39.4	2.0	26.6	64.3
Tax expense.....	14.7	1.8	48.8	11.2	2.7	40.3
Investment revenue	(0.2)	(1.4)	(1.5)	-	-	(1.5)
Finance costs	6.8	18.7	38.1	20.9	24.1	41.3
Foreign exchange gains/(losses)	(0.7)	1.1	1.0	(0.6)	0.8	2.4
Depreciation, depletion and amortization	14.1	20.2	69.8	20.2	42.1	91.7
Seven Energy EBITDAX ^(a)	7.7	33.9	195.6	53.5	96.4	238.5
Share based payments charge ^(b)	5.7	2.8	6.4	3.9	0.8	3.3
Impairment charge ^(c)	-	-	5.8	-	-	5.8
Seven Energy Adjusted EBITDAX	13.4	36.7	207.8	57.4	97.2	247.6

- (a) Reflects exploration costs of nil for all periods presented.

- (b) We have a share-based payment arrangement for our employees, have previously issued warrants to a contractor and have also issued share options in connection with the purchase of the Gulf of Guinea Energy Limited group of companies in 2009. In addition, in 2013, we awarded fully paid up shares to a member of our Executive Committee as part of his employment arrangements.
- (c) Impairment charge or reversals of oil and gas assets include exploration and evaluation expenditures written off as part of losses from joint ventures. During 2013, we accepted an offer of \$7.0 million for our 49% license interest in the Matsogo field. Consequently, the asset was written down to fair value less costs of sale, which resulted in a \$5.8 million impairment.

Unaudited Pro Forma combined and as adjusted other financial data

The following table sets forth certain other financial data of Seven Energy as of and for the twelve months ended June 30, 2014, giving *pro forma* effect to the EHGC Acquisition as if it had occurred on January 1, 2013. For additional information regarding the unaudited *pro forma* financial data as of and for the twelve months ended June 30, 2014 presented below, see “Unaudited pro forma financial information”. The following table also gives effect to the Refinancing and the receipt of the Second Equity Tranche, as if each had occurred on June 30, 2014 (with respect to as adjusted net debt) and on January 1, 2013 (with respect to as adjusted *Pro Forma* interest expense).

<i>(in millions of \$ except ratios)</i>	As of and for the twelve months ended June 30, 2014
<i>Pro Forma</i> EBITDAX ⁽¹⁾	245.5
<i>Pro Forma</i> Adjusted EBITDAX ⁽¹⁾	254.6
As adjusted net debt ⁽²⁾	606.4
As adjusted <i>Pro Forma</i> interest expense ⁽³⁾	83.3
Ratio of Adjusted net debt to <i>Pro Forma</i> Adjusted EBITDAX.....	2.4x
Ratio of <i>Pro Forma</i> Adjusted EBITDAX to As adjusted <i>Pro Forma</i> interest expense.....	3.1x

- (1) The following table sets forth certain unaudited *pro forma* financial information of the Company and EHGC, adjusted to give effect to the EHGC Acquisition as if it had occurred on January 1, 2013. This unaudited *pro forma* financial information has been prepared based on the assumptions and adjustments described in the notes to the unaudited *pro forma* condensed combined financial information and does not purport to represent what our actual results or financial position would have been had the EHGC Acquisition occurred on January 1, 2013, nor does it purport to project our results of operations for any future period or our financial condition at any future date. See “Unaudited *pro forma* financial information” and “—Unaudited *pro forma* condensed combined income statement”.

<i>(in millions of \$)</i>	Pro Forma For the twelve months ended June 30, 2014
Profit for the period.....	60.7
Tax expense.....	32.1
Investment revenue.....	(1.5)
Finance costs.....	52.2
Foreign exchange gains/(losses).....	2.4
Depreciation, depletion and amortization.....	99.6
<i>Pro Forma</i> EBITDAX.....	245.5
Share based payments charge.....	3.3
Impairment charge.....	5.8
<i>Pro Forma</i> Adjusted EBITDAX.....	254.6

- (2) As adjusted net debt assumes an issuance of \$300.0 million in aggregate principal amount of Notes, issuance of the NSIA Notes and the use of proceeds therefrom as well as the receipt of the Second Equity Tranche as if each had occurred on June 30, 2014. As adjusted net debt represents as adjusted total borrowings (\$744.6 million) less as adjusted cash and cash equivalents (\$138.2 million). See “Capitalization”.
- (3) As adjusted *Pro Forma* interest expense represents our estimated annualized interest expense (including charges for amortized fees) as if the EHGC Acquisition had occurred on January 1, 2013 as further adjusted to give effect to the Refinancing and the receipt of the Second Equity Tranche, as if each had occurred on January 1, 2013.

EHGC income statement data

<i>(in millions of \$)</i>	Year ended		Three months		Twelve
	December 31,		ended March 31,		months
	2012	2013	2013	2014	ended
Revenue	142.5	44.7	13.3	6.3	March 31,
Cost of sales.....	(68.5)	(43.8)	(11.9)	(7.4)	2014
Gross profit.....	74.0	0.9	1.4	(1.1)	37.7
Administrative expenses.....	(1.2)	(1.4)	(0.1)	(0.2)	(39.3)
Other operating income	—	—	—	—	(1.6)
Operating profit/(loss)	72.8	(0.5)	1.3	(1.3)	(1.5)
Investment revenue.....	—	—	—	—	—
Finance costs	(25.3)	(19.9)	(5.1)	(4.1)	(18.9)
Profit/(loss) before tax	47.5	(20.4)	(3.8)	(5.4)	(22.0)
Tax credit.....	—	6.1	1.3	1.7	6.5
Profit/(loss) for the period ⁽¹⁾	47.5	(14.3)	(2.5)	(3.7)	(15.5)

- (1) EHGC reports its results in Naira, and we have converted those results into US dollars for each of the years ended December 31, 2012 and 2013, and the three months ended March 31, 2013 and 2014, based on the average exchange rate during the relevant period calculated using the exchange rate at the close of trading of each day during the relevant period. The rates for the relevant periods are: Naira 158.8063 to \$1.00 and Naira 159.2885 to \$1.00 for the years ended December 31, 2012 and 2013, respectively; Naira 157.5058 to \$1.00 and Naira 162.8368 to \$1.00 for the three months ended March 31, 2013 and 2014, respectively; and Naira 160.0664 to \$1.00 for the twelve months ended March 31, 2014. As a result, the financial data derived by using EHGC results for the period January 1, 2012 to March 31, 2014 may not represent the results that would have been achieved had EHGC reported its financial results in US dollars. The financial information for EHGC for the twelve months ended March 31, 2014 has been derived from management accounts and has not been audited or reviewed. See “Risk factors—Risks factors relating to our business—Our strategy of expansion may not be successful and anticipated benefits of acquisitions may not be realized”.

EHGC other financial data

<i>(in millions of \$)</i>	Year ended		Three months		Twelve
	December 31,		ended March 31,		months
	2012	2013	2013	2014	ended
EHGC EBITDAX ⁽¹⁾	88.5	14.3	5.0	2.3	March 31,
					2014
					11.6

- (1) EHGC EBITDAX is a non-IFRS measure. See “Presentation of financial and other information—Non-IFRS financial measures” for a description of the calculation and a discussion of how management uses such measure to evaluate operating performance. EBITDAX is defined as profit or loss before interest finance costs, investment revenue, foreign exchange gains or losses, taxes, depreciation, depletion, and amortization and exploration costs. The following table provides a reconciliation of EHGC’s profit or loss to EBITDAX for the periods indicated. EBITDAX is a non-IFRS measure. See “Non-IFRS financial measures” within the “Presentation of financial and other information” for a description of the calculation of each measure and a discussion of how management uses such measures to evaluate operating performance.

<i>(in millions of \$)^(a)</i>	Year ended		Three months		Twelve
	December 31,		ended March 31,		months
	2012	2013	2013	2014	ended
(Loss)/profit for the period	47.5	(14.3)	(2.5)	(3.7)	March 31,
Tax expense	—	(6.1)	(1.3)	(1.7)	2014
Investment revenue.....	—	—	—	—	—

<i>(in millions of \$)</i> ^(a)	Year ended		Three months		Twelve
	December 31,		ended March 31,		months
	2012	2013	2013	2014	ended
Finance costs	25.3	19.9	5.1	4.1	18.9
Foreign exchange gains/(losses)	—	—	—	—	—
Depreciation, depletion and amortization	15.7	14.8	3.7	3.6	14.7
EHGC EBITDAX	88.5	14.3	5.0	2.3	11.6

(a) EHGC reports its results in Naira, and we have converted those results into US dollars for each of the years ended December 31, 2012 and 2013, and the three months ended March 31, 2013 and 2014, based on the average exchange rate during the relevant period calculated using the exchange rate at the close of trading of each day during the relevant period. The rates for the relevant periods are: Naira 158.8063 to \$1.00 and Naira 159.2885 to \$1.00 for the years ended December 31, 2012 and 2013, respectively; Naira 157.5058 to \$1.00 and Naira 162.8368 to \$1.00 for the three months ended March 31, 2013 and 2014, respectively; and Naira 160.0664 to \$1.00 for the twelve months ended March 31, 2014. As a result, the financial data derived by using EHGC results for the period January 1, 2012 to March 31, 2014 may not represent the results that would have been achieved had EHGC reported its financial results in US dollars. The financial information for EHGC for the twelve months ended March 31, 2014 has been derived from management accounts and has not been audited or reviewed. See “Risk factors—Risks factors relating to our business—Our strategy of expansion may not be successful and anticipated benefits of acquisitions may not be realized”.

UNAUDITED PRO FORMA CONDENSED COMBINED INCOME STATEMENT

The following table sets forth unaudited *Pro Forma* financial information comprised of the unaudited *pro forma* condensed combined income statements for the year ended December 31, 2013, the six months ended June 30, 2013 and 2014, and the last twelve months (“LTM”) ended June 30, 2014, in each case adjusted to give effect to the EHGC Acquisition as if had occurred on January 1, 2013. The following table does not give effect to the Refinancing or the receipt of the Second Equity Tranche. The unaudited *Pro Forma* financial information for the twelve months ended June 30, 2014, is calculated by adding results for the six months ended June 30, 2014 to the results for the year ended December 31, 2013, and subtracting the results for the six months ended June 30, 2013.

The unaudited *Pro Forma* financial information for the six months ended June 30, 2014 is calculated by combining our results for the six months ended June 30, 2014 with EHGC’s results for the three months ended March 31, 2014, subject to certain pro forma adjustments. We have not included financial data for EHGC on a stand-alone basis for any period subsequent to March 31, 2014, the date from which the results of operations of EHGC were included in our consolidated financial statements. See “Unaudited *pro forma* financial information”.

	Six months ended June 30,	Year ended December 31,	Six months ended June 30,	Twelve months ended June 30,
<i>(in millions of \$)</i>	2014	2013	2013	2014
Revenue	169.6	375.6	146.6	398.6
Cost of sales				
Production expenses	(92.0)	(188.2)	(58.9)	(221.3)
Increase/(decrease) in Underlift	51.5	70.9	(4.5)	126.9
Depletion	(43.3)	(78.3)	(24.5)	(97.1)
Gross profit	85.8	180.0	58.7	207.1
Depreciation and amortization				
expenses	(1.4)	(2.1)	(1.0)	(2.5)
Impairment	-	(5.8)	-	(5.8)
Other operating expenses	(1.7)	(0.5)	(0.9)	(1.3)
Administrative expenses	(28.3)	(42.8)	(19.5)	(51.6)
Operating profit/(loss)	54.4	128.8	37.3	145.9
Investment revenue	-	1.5	-	1.5
Finance costs	(27.2)	(54.9)	(29.9)	(52.2)
Foreign exchange gains/(losses)	(0.8)	(1.0)	0.6	(2.4)
Profit/(loss) before tax	26.4	74.4	8.0	92.8
Tax expense	(0.8)	(39.0)	(7.1)	(32.1)
Profit/(loss) for the period	26.2	35.4	0.9	60.7

SUMMARY RESERVE, RESOURCE AND OPERATING DATA

The following table sets forth our estimated proved reserves (“1P”), proved and probable reserves (“2P”) and contingent resources (“2C”) and future revenue related to our interest in the fields described below. The following information has been extracted without material adjustment from the Senergy Report effective as of December 31, 2013. The information in the following table does not give any effect to or reflect our commodity hedges. For convenience, aggregate totals are also provided for our estimated 1P and 2P reserves and 2C contingent resources at each of our interests in the Uquo Field, the Stubb Creek Field and OMLs 4, 38 and 41. This information has been accurately reproduced and that as far as we are aware and is able to ascertain from information published by that third party, no facts have been omitted which would render the reproduced information inaccurate or misleading.

Oil reserves – 1P and 2P as of December 31, 2013

Area/Field/Category ⁽³⁾	Our effective working interest reserves before royalty	Net entitlement reserves ⁽¹⁾	Future net revenue (in millions of \$) ⁽²⁾
	Oil & condensate (MMstb)	Oil & condensate (MMstb)	NPV at 10%
OMLs 4, 38 and 41			
Proved (1P)	49.1	22.4	365.1
Proved + Probable (2P)	75.3	31.3	512.6
Uquo Field			
Proved (1P)	0.3	0.0	0.0
Proved + Probable (2P)	0.8	0.1	0.0
Stubb Creek Field			
Proved (1P)	3.4	2.2	72.4
Proved + Probable (2P)	6.9	3.6	140.2
Total			
Proved (1P)	52.8	24.6	437.5
Proved + Probable (2P)	83.0	35.0	652.8

Oil contingent resources – 2C as of December 31, 2013

Area/Field/Category	Our effective working interest contingent resources before royalty	Net entitlement contingent resources ⁽¹⁾	Future net revenue (in millions of \$) ⁽²⁾
	Oil & condensate (MMstb)	Oil & condensate (MMstb)	NPV at 10%
OMLs 4, 38 and 41			
Contingent (2C)	44.5	14.0	197.2
Uquo Field			
Contingent (2C)	–	–	–
Stubb Creek Field			
Contingent (2C)	–	–	–
Total			
Contingent (2C)	44.5	14.0	197.2

Source: Senergy (GB) Limited

- (1) Net entitlement reserves or contingent resources are post tax and royalty.
- (2) Future net revenue are after tax and royalty at a discount rate of 10%. Future net revenue are subject to cost and oil price assumptions and there can be no assurances that we will earn these revenue. For further details, see “Presentation of financial and other information – Certain reserves and production information”.
- (3) 1P and 2P reserves have been prepared in accordance with the definitions and guidelines set forth in 2007 by PRMS.

Gas reserves – 1P and 2P as of December 31, 2013

Area/Field/Category ⁽³⁾	Our effective working interest reserves before royalty	Net entitlement reserves ⁽¹⁾	Future net revenue (in millions of \$) ⁽²⁾
	Gas (Bscf)	Gas (Bscf)	NPV at 10%
OMLs 4, 38 and 41			
Proved (1P)	284.0	200.4	219.0
Proved + Probable (2P)	408.0	286.5	296.0
Uquo Field			
Proved (1P)	371.2	305.7	434.0
Proved + Probable (2P)	484.9	391.5	729.0
Stubb Creek Field			
Proved (1P)	–	–	–
Proved + Probable (2P)	–	–	–
Total			
Proved (1P)	655.2	506.1	653.0
Proved + Probable (2P)	892.9	678.0	1,025.0

Gas contingent resources – 2C as of December 31, 2013

Area/Field/Category ⁽³⁾	Our effective working interest contingent resources before royalty	Net entitlement contingent resources ⁽¹⁾	Future net revenue (in millions of \$) ⁽²⁾
	Gas (Bscf)	Gas (Bscf)	NPV at 10%
OMLs 4, 38 and 41			
Contingent (2C)	188.8	131.5	130.6
Uquo Field			
Contingent (2C)	13.6	12.3	5.8
Stubb Creek Field			
Contingent (2C)	262.1	185.7	72.0
Total			
Contingent (2C)	464.5	329.5	208.4

Source: Senergy (GB) Limited

- (1) Net entitlement reserves or contingent resources are post tax and royalty.
- (2) Future net revenue are after tax and royalty at a discount rate of 10%. Future net revenue are subject to cost and oil price assumptions and there can be no assurances that we will earn these revenue. For further details, see “Presentation of financial and other information – Certain reserves and production information”.
- (3) 1P and 2P reserves have been prepared in accordance with the definitions and guidelines set forth in 2007 by PRMS.

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. Additional risks and uncertainties of which we are not aware or that we currently believe are immaterial may also adversely affect our business, financial condition and results of operations. If any of the possible events described below were to occur, our business, results of operations, cashflows, financial condition and prospects 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.

Risk factors relating to the Strategic Alliance Agreement and certain allegations related thereto

The OMLs are our primary revenue-generating assets and constitute a substantial portion of our reserves, resources and production, and our interests therein constitute the primary credit support for the Notes.

For the year ended December 31, 2013, all of our revenue was derived from our entitlement to production at the OMLs, in which we have an indirect interest via the Strategic Alliance Agreement, and our future results of operations and our ability to generate profits and cash flows are expected to depend significantly on such future entitlement to production from the OMLs, even as our other assets come online in 2014 and 2015. The OMLs also constitute a substantial portion of our reserves and resources and all of our lifted oil prior to 2014. The primary credit support for the Notes is based on our rights in the OMLs. In an enforcement scenario, holders of the Notes will not have direct recourse to the Uquo Field, the Stubb Creek Field or any of our midstream assets, but would only have direct recourse to the assets of Seven Exploration, including our rights under the Strategic Alliance Agreement. For these reasons, the risks associated with the OMLs and the Strategic Alliance Agreement are particularly salient to our business and our ability to make payments on our indebtedness, including the Notes. A partial or total loss of our entitlements under the Strategic Alliance Agreement would have severe consequences for the recoverability of an investment in the Notes. The occurrence of any such loss would have a material adverse effect on our business, results of operations, cash flows, financial condition and prospects.

The Strategic Alliance Agreement may expire in 2019 and the lease through which we indirectly hold contractual interests in the OMLs expires in 2019 and may not be renewed.

The Strategic Alliance Agreement will terminate upon the cumulative production from OMLs 4, 38 and 41 reaching 165 MMbbl and 900 Bcf of gas, which, based on current levels of production, we expect to occur in 2019. We have the option to renew the Strategic Alliance Agreement if contingent resources are developed and we make a payment of \$26.6 million, after which the agreement will terminate upon the production of 100 MMbbl and 357 Bcf of gas, which, based on current levels of production, is expected to occur in 2023.

The Strategic Alliance Agreement may also be terminated if NPDC loses its lease interests under which it maintains OMLs 4, 38 and 41. This lease interest is up for renewal in 2019. While we have no reason to believe that it will not be renewed, the loss of the lease interests held by the NPDC, or our failure to develop contingent resources or to renew the Strategic Alliance Agreement, could have a material adverse effect on our business, results of operations, cash flows, financial condition and prospects.

Allegations that the Strategic Alliance Agreement was entered into as a result of illegal or improper conduct, or that the Strategic Alliance Agreement is unconstitutional or unlawful may continue to damage our reputation, divert management attention and affect our ability to conduct our business.

On February 3, 2014, the then Governor of the CBN, Mr. Sanusi, alleged that NNPC had failed to remit a material amount of approximately \$20 billion in oil revenue during the 19 month period from January 2012 to July 2013. Of the four factors cited by Mr. Sanusi for this non-remittance, one factor was alleged to have resulted from strategic alliance agreements entered into by NNPC's subsidiary, NPDC, with us and with Atlantic Energy. See "Summary—Recent developments—Press reports and an official report by the Governor

of the Central Bank of Nigeria (the “CBN”) have alleged that the Strategic Alliance Agreement was obtained unlawfully and is a vehicle for NNPC to divert public oil revenue into private hands”.

Set forth below are Mr. Sanusi’s allegations of improper or unlawful conduct relating to the Strategic Alliance Agreement:

Mr. Sanusi first challenged the legality of the transfer of certain onshore oil fields from NNPC (which is legally required to remit revenue to the Federation Account) to NPDC (a subsidiary of NNPC, which is not subject to such requirements), which transferred interests in such assets to counterparties under strategic alliance agreements without due process of a public, competitive bidding process. Mr. Sanusi called into question the legality and constitutionality of the process by which the strategic alliance agreements were awarded, as well as the arrangements constituted thereunder. Specifically, Mr. Sanusi alleged that: (i) NPDC has retained oil lifting revenue due to the Federation Account for its own use; (ii) the strategic alliance agreements have been improperly classified as financing agreements, and as such have not resulted in the payment of PPT; (iii) NPDC transferred its interests in OMLs 4, 38 and 41 absent fair consideration; and (iv) therefore the strategic alliance agreements are unconstitutional. Mr. Sanusi presented three legal opinions supporting his proposition that the strategic alliance agreements in question (including our Strategic Alliance Agreement) are unconstitutional.

According to Mr. Sanusi, we lacked experience in oil production, and lacked the capital to partner with NPDC prior to the award of the Strategic Alliance Agreement. However, once the Strategic Alliance Agreement had been awarded, we were able to leverage the assets granted thereunder as collateral for financing from Nigerian banks. Mr. Sanusi also alleged that the complex accounting mechanics contained in the Strategic Alliance Agreement limited the transparency of oil lifting and cost and profit sharing arrangements thereunder.

Though not explicitly stated, the implication of Mr. Sanusi’s allegations against NNPC, NPDC and Seven Exploration was that the Strategic Alliance Agreement was designed as a vehicle for government officials and their associates to divert oil revenue otherwise due to the Federation Account to themselves. The effect of these arrangements, according to the Sanusi Memorandum (taking into account the Strategic Alliance Agreement and Atlantic Energy’s strategic alliance agreement), was the diversion from the Federation Account of approximately \$6.0 billion.

We believe that these allegations in relation to us and the Strategic Alliance Agreement are without merit.

Press reporting on Mr. Sanusi’s allegations is likely to continue at least for the duration of the various court cases, hearings before the Finance Committee and the forensic audit of NNPC, and may grow in frequency as the February 2015 Nigerian presidential election approaches. We cannot predict the duration of continued scrutiny and speculation or the investigations that may result from these allegations. However, negative publicity related to these allegations (and related hearings or forensic audits) may continue to damage our reputation, divert management attention and affect the willingness of customers, suppliers, commercial partners, financial institutions, stock exchange regulators and other relevant parties to do business with us, which could have a material adverse effect on our business, results of operations, cash flows, financial condition and prospects.

The validity of our interests under the Strategic Alliance Agreement may be questioned in the future by government authorities.

The Nigerian government authorities may in the future attempt to revoke or significantly alter the contractual arrangements, entitlements, authorizations, permits, approvals and consents held by us under the Strategic Alliance Agreement. Alternatively, government officials may not agree to renew or extend our rights under the Strategic Alliance Agreement. The Strategic Alliance Agreement remains in force until the cumulative production from the fields since inception of the agreement in November 2010 reaches 165 MMbbl and 900 Bcf, which, based on current estimates, is expected to occur in 2019, after which the Strategic Alliance Agreement may be extended upon the development of contingent resources and our payment of an additional fee of \$26.6 million. However, government authorities may not agree to extend the term of the Strategic Alliance Agreement. In addition, the license interest under which NPDC maintains OMLs 4, 38 and 41, which our Strategic Alliance Agreement relates to, is up for renewal in 2019. These risks to the Strategic Alliance Agreement may be exacerbated by the allegations made by Mr. Sanusi in the Sanusi Memorandum, particularly if Mr. Sanusi’s political party were to come to power as a result of the Nigerian presidential election in February 2015. If these risks are realized, we could lose our lifting entitlements or, ultimately, our interests in the

Strategic Alliance Agreement, which would have a material adverse effect on our business, financial condition and results of operations, and which would likely result in our inability to make payments on our debt obligations, including the Notes. For other risks related to politics in Nigeria and internal security as they relate to our assets, see “—Risk factors relating to operating in Nigeria—Political instability, religious differences, ethnicity, regionalism and internal security in Nigeria pose risks that impact Nigerian oil and gas production”.

Claims that we are a related party to Atlantic Energy, and allegations of unlawful transactions and activities by Atlantic Energy and Mr. Aluko, may continue to damage our reputation and divert senior management attention.

The Sanusi Memorandum specifically named Seven Exploration and another company, Atlantic Energy, as two counterparties that have entered into allegedly unconstitutional strategic alliance agreements. Mr. Sanusi also implied that Seven Exploration and Atlantic Energy were related, and cited a confidential review by the Banking Supervision Department of the CBN that found that both companies were jointly and secretly owned through Swiss nominees by the current co-CEOs of Atlantic Energy. Certain publications have also questioned the link between us and Atlantic Energy.

Atlantic Energy’s reported co-founder and co-chief executive officer is Mr. Aluko, who previously served as deputy chief executive officer and as a member of our board of directors, remains a minority holder of approximately one percent of our equity interests on a fully diluted basis and is the borrower under a loan made by us to enable him to purchase shares when he was still our employee (under which \$2.2 million was outstanding as of June 30, 2014). See “Certain relationships and related party transactions”. Moreover, Mr. Scott Aitken, Atlantic Energy’s current chief executive officer, previously served as our chief executive officer.

Notwithstanding these limited links to our past executives, we are not under common control with Atlantic Energy and to our knowledge do not have any significant equity holders (on a fully diluted basis) in common with Atlantic Energy. To the extent that Atlantic Energy may continue to be implicated by Mr. Sanusi’s allegations, our public image and business may be negatively impacted due to the continuing misperception that we are a related party to Atlantic Energy. To the extent that these negative misperceptions continue, this could have a material adverse effect on our business, results of operations, cash flows, financial condition and prospects.

Our primary revenue-generating assets, the OMLs, are geographically concentrated.

The proximity of the OMLs to each other means that our primary revenue-generating assets are relatively concentrated geographically, and so more likely to all be affected by the same risks at the same time. Moreover, OMLs 4, 38 and 41 are located in the Niger Delta. The Niger Delta is a location known to experience instability, bunkering, sabotage and community unrest. In the past, the Niger Delta has also experienced militant activity. See “—Risk factors relating to operating in Nigeria”. For example, in March and April 2014, the Forcados Pipeline and the Forcados Export Terminal, which, at that time, were the only means for selling oil produced at the OMLs, were closed, negatively affecting our results in the six months ended June 30, 2014. Any event that might reduce, shut down or otherwise negatively affect production at one of the wells at OMLs 4, 38 and 41 is more likely to have an impact on the field’s other wells, and thereby have a material adverse effect on our business, results of operations, cash flows, financial condition and prospects.

A change in the relationship with our primary oil offtaker or its inability to meet its obligations to us may adversely affect our financial results

All our sales from our entitlement to production from the OMLs pursuant to the Strategic Alliance Agreement, have been to Shell. This concentration may impact our overall credit risk in that Shell may be similarly affected by various economic and other conditions, including the recent global and domestic economic and financial downturn. The inability or failure of Shell to meet its obligations to us or its insolvency or liquidation may adversely affect our financial results. We are, therefore, subject to the risk of delayed payment for delivered production volumes or counterparty default. Any scarcity of competitors for the purchase of oil produced or lifted by us may expose us to adverse pricing or other contractual terms. Such delays, defaults, difficulties or adverse pricing or other contractual terms could adversely affect our business, results of operations and cash flows.

Our contract with Shell is due to expire in 2016. We may seek to renew the contract with Shell, and, even if we are able to renew the contract, the terms of the new contract may be less advantageous to us than the current contract. If we decide to sell all or part of our product on the open market, we may not obtain favorable terms and our lack of experience with such operations may put us at a disadvantage. Accordingly, we may experience delays, difficulties and lower sales and margins as a result of any future open market sales or any sales arrangement with Shell or another counterparty.

The interpretation and operational application of certain provisions in the Strategic Alliance Agreement requires discussion with, and the agreement of, NPDC.

Our contractual interest in the OMLs entitles us to a share of the production attributable to NPDC's 55% license interests in OMLs 4, 38 and 41 in return for which we are required to fund NPDC's share of the operating costs and capital expenditure for the fields. The other 45% license interests in OMLs 4, 38 and 41 are held by Seplat. We recover our costs and achieve profit only if oil production is achieved.

The Strategic Alliance Agreement provides the framework for NPDC and our respective rights and obligations in connection with the OMLs. Following entry into the Strategic Alliance Agreement, it was necessary for us to agree upon a methodology with NPDC to calculate our share of production under the agreement. Initially, we each used different methodologies, and it took until February 2013 to agree a model to calculate our entitlement to production from the effective date of the Strategic Alliance Agreement of November 24, 2010 to December 31, 2012 (together with a monthly lift schedule for 2013) which required agreement between the parties as to the baseline, incremental production, profit splits and the applicable tax rate. Thereafter, we have agreed that discussions will take place on an annual basis, or more often as requested by us or NPDC. The 2013 preliminary reconciliation, including the agreed 2014 monthly lift schedule, was signed in February 2014. There may be another prolonged process to reach agreement in respect of key development and operational decisions and economic rights under the agreement or that, even if the parties believe they have reached agreement on a particular matter, a party may subsequently seek to re-open such discussions. Furthermore, we do not have in our records the annex to the Strategic Alliance Agreement, which sets forth the geographic coordinates for the OMLs. While we have requested a copy of this annex from NPDC, to the extent that a dispute were to arise regarding the specific location of the OMLs, we may be unable to establish the exact coordinates of the licensed area.

While we expect to come to an agreement on the reconciliation process by the end of 2014, in the event that we and NPDC are unable to reach agreement in respect of the interpretation of any aspects of the Strategic Alliance Agreement, we may seek to enforce our contractual rights against NPDC. We may not be successful in any enforcement action, such action may take time to resolve and we may face greater difficulties in seeking to enforce our rights by virtue of NPDC's indirect ownership by the Nigerian government.

Any failure to reach, or any prolonged delay in reaching agreement in respect of the interpretation of the Strategic Alliance Agreement, or any inability to enforce our contractual rights in a timely fashion, or at all, could have a material adverse effect on our business, results of operations, cash flows, financial condition and prospects.

We do not hold a direct interest in the OMLs and, as a result, we are reliant on our rights under the Strategic Alliance Agreement and our ability to advise and cooperate with NPDC and Seplat in respect of developmental and operational matters relating to the OMLs.

Under the terms of the Strategic Alliance Agreement, decisions between us and NPDC in respect of NPDC's 55% license interests in OMLs 4, 38 and 41 are taken by a management committee consisting of four members (two of which are appointed by NPDC and two by us). All decisions taken by the management committee require a unanimous vote of the members of the committee. In addition, we attend, in practice rather than pursuant to any contractual right, technical subcommittee and finance subcommittee meetings between NPDC and Seplat, the operator of OMLs 4, 38 and 41, in our capacity as technical adviser and funding partner to NPDC. The technical subcommittee and finance subcommittee are advisory bodies, their purposes being to review and discuss the operator's proposals in respect of work programs and budgets and make recommendations to the joint operating committee, which is made up of at least four members from each of NPDC and Seplat. We also attend meetings of the joint operating committee where our representative is permitted as a non-voting participant as provided for under the Strategic Alliance Agreement. Pursuant to the Strategic Alliance Agreement, NPDC is required to exercise our vote at the joint operating committee in accordance with the decisions reached with us at a preceding management committee meeting.

While the Strategic Alliance Agreement provides a framework for how certain decisions are to be reached between us and NPDC and governs, in general terms, the relationship between the two parties, the agreement does not expressly dictate expectations with respect to day-to-day activities in respect of the development of the OMLs. The decision-making process requires us to engage in continual discussions with NPDC and Seplat. We are also reliant on the ongoing cooperation of NPDC and Seplat in order to implement our proposals in respect of the development of the OMLs. On August 1, 2014, NNPC announced personnel changes at the Group Managing Director and Group Executive Director level of NNPC. It also announced the appointment of a new Managing Director of NPDC. Although we do not expect these appointments to result in any changes to working our relationship with NPDC, these or future personnel changes at any of the entities associated with NNPC or Seplat may result in a change to our ongoing relationships and our ability to participate in and influence decisions with respect to the development of the OMLs and other operational activities, including the timings of liftings.

If we are unable to influence the development of the OMLs in a manner which is consistent with our overall business strategy or, in the event that NPDC and Seplat become uncooperative or are in disagreement or are delayed in reaching agreement, our business, results of operations, cash flows, financial condition and prospects may be materially adversely affected. See “—Risk factors relating to operating in Nigeria”.

Risk factors relating to operating in Nigeria

As our operations are located in Nigeria, our business, results of operations, cash flows, financial condition and prospects are substantially dependent on the economic and political conditions prevailing in Nigeria.

We face logistical and operational difficulties as a result of carrying out our 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. Infrastructure in the north west Niger Delta, the south east Niger Delta and the Anambra Basin is therefore limited and unreliable. Rail and road networks are poor and restrict the movement of people and goods within those regions, thereby increasing the time it takes to mobilize workforces and deliver supplies or equipment.

The Nigerian power sector suffers from numerous problems, such as limited access to infrastructure, low connection rates, inadequate power generation capacity, lack of capital for investment, insufficient transmission and distribution facilities, high technical losses and vandalism. These problems contributed to Nigeria ranking as the 185th most difficult country in which to obtain access to electricity. (*Source*: World Bank 2013). Many businesses rely on alternative electricity and water supplies, adding to overall business costs. Nigeria initiated the privatization of its electricity sector in 2013 with the sale of successor companies unbundled from the main power utility company, Power Holding Company of Nigeria Plc, to multiple consortia of private investors. This transition may further disrupt generation of an adequate electricity supply. There can be no assurance that this privatization will continue or will not be reversed. The unstable pricing, and possible scarcity, of fuel for power generation in Nigeria also increases the operational challenges businesses face, adding to the potential volatility in overhead costs.

Furthermore, the Niger Delta periodically experiences adverse weather conditions and natural disasters, mainly in the form of floods, which further limit the use of available infrastructure, particularly during the rainy season, from March to November, when the likelihood of delays increases. In addition, flooding in the Niger Delta has also led to outbreaks of disease which, coupled with the ongoing security concerns in relation to the region (see “—Militant activity could destabilize oil production in Nigeria and adversely affect our operations and Nigeria’s economy”), may affect our ability to staff our operations with qualified Nigerian and overseas individuals if such individuals were deterred from relocating to the Niger Delta, or to Nigeria more generally, as a result of health or security concerns.

The lack of reliable infrastructure also limits our ability, and that of our commercial partners, contractors, customers and suppliers, to respond quickly to unforeseen situations, which can lead to delays and production stoppages. We may also face operational and logistical challenges as a result of outbreaks of infectious diseases in Western Africa, including Ebola hemorrhagic fever, which has been reported in Nigeria in 2014. The occurrence of any of the above could have a material adverse effect on our business, results of operations, financial condition, cash flows 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 PIB, first submitted to the National Assembly in 2008, has since undergone a number of iterations and challenges with the current iteration of the PIB prepared by a committee set up by the MPR and approved by the Federal Executive Council on July 11, 2012. This draft seeks to overhaul and restructure the entire Nigerian petroleum industry, unbundling NNPC into three successor companies, providing for the incorporation into limited liability entities of existing commercial partnerships and providing for a new legal regime for the exploitation of gas developments. This PIB was re-introduced to the 2011-2015 session of the National Assembly by the Nigerian President on July 18, 2012 and is being considered. The PIB has not been passed by either house of the National Assembly, and the timing and implementation of any of the reforms proposed in the PIB remain uncertain.

While the PIB has yet to be passed into 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. In a bid to give effect to the Gas Master Plan, the Nigerian Minister of State for Energy (Gas) issued the National Domestic Gas Supply and Pricing Policy and the National Domestic Gas Supply and Pricing Regulations. The National Domestic Gas Supply and Pricing Policy recognizes a “domestic reserves obligation”, and the National Domestic Gas Supply and Pricing Regulations imposes a “domestic gas supply obligation”. The effect of both of these obligations is 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. For a summary of certain risks related to the Gas Master Plan, see “—Risk factors relating to our business—Expected levels of growth in Nigerian domestic demand for gas may not materialize” and “—Risk factors relating to the oil and gas industry—Gas prices may fluctuate and could be subject to substantial increase or decrease”.

The risks associated with the PIB and related efforts to reform the Nigerian oil and gas industry are such that:

- no assurance can be given as to when the PIB will be enacted or whether it will be enacted at all, or that the final form of the PIB ultimately enacted will not differ significantly from the current proposal, all of which prevents a proper assessment of the potential impact of the current draft of the PIB on our business and operations and on the wider oil and gas industry in Nigeria;
- 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 effect 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 effect on our midstream gas operations;
- the initiatives designed to promote gas production may prove ineffective; and
- the PIB may fail to adequately address the concerns of communities in the Niger Delta region or create new grounds for further conflict.

For a summary of certain other risks related to the PIB, see “—Risk factors relating to our business—Our operations in marginal fields are subject to indigenous ownership restrictions” and “—The taxation and customs systems in Nigeria may be subject to changes and the rules of those systems may be subject to different interpretation”.

For an overview of the Nigerian oil and gas regulatory regime, including a description of the PIB, Gas Master Plan and the Local Content Act, see “Legal and regulatory”.

Any changes to the National Domestic Gas Supply and Pricing Policy, the National Domestic Gas Supply and Pricing Regulations, the Local Content Act and the implementation of new policies and initiatives pursuant to the PIB, may have a material adverse effect on our business, results of operations, cash flows, financial condition and prospects.

Difficulty in obtaining good title to license or contractual rights in or legal interests may result in title disputes or challenges.

Our right to explore and exploit our license or legal interests is subject to holding good title to such license or legal interests. While we seek to ensure that we have good title to the license or legal interests that we purport to own, 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 strictly comply with contractual and/or statutory procedures and time periods prescribed and poor record keeping. Any successful challenge to our title to or contractual rights in assets may result in us being required to halt development activities or production or, ultimately, in the loss of such assets which, in each case, could have a material adverse effect on our business, results of operations, cash flows, financial condition and prospects.

Political instability, religious differences, ethnicity, regionalism and internal security concerns in Nigeria pose risks that impact Nigerian oil and gas production.

With the adoption of a new presidential constitution in May 1999, Nigeria is experiencing its longest period of civilian rule since obtaining independence from the United Kingdom in 1960. Following the death of former President Umaru Musa Yar’Adua in May 2010, Goodluck Jonathan was sworn in as President and he was re-elected in the general election that concluded in April 2011. The months leading up to President Jonathan’s election were marked by increasing political tension and violence. Increases in political tensions and incidences, including civilian bomb attacks and shootings, have been seen around the time of, or leading up to, previous elections held in Nigeria, and there can be no assurance that similar incidents will not take place in relation to future elections. The next general election is due to be held in February 2015.

In the past, results of elections in Nigeria have been subject to criticism by both opposition candidates and international election observers, and have led to civil unrest. For example, on the completion of the April 2011 general election, some candidates criticized the result of the polls, and post-election violence initially spread in northern Nigeria, as a result of dissatisfaction from supporters of an opposition party. Although such unrest and violence subsequently subsided, there can be no assurance the results of the 2015 general election will not be subject to challenge or result in further outbreaks of violence and discontent. Further, if there are allegations of fraud or other irregularities in connection with the presidential elections and such allegations are not handled in an orderly manner, such allegations may undermine the legitimacy of the new administration.

The outcome of elections may have a significant impact on Nigeria’s political stability and may adversely affect its economy, and no assurance can be given that the reforms and policies that are proposed or taking place will continue. Any post-election administration may pursue different policies and priorities, alter or reverse certain reforms or take actions (including expropriation or nationalization and breach or abrogation of project agreements) that make domestic and foreign investment in Nigeria less attractive or lead to protests, violence or other unrest. 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, and reforms in the power, banking or oil and gas sectors, may have negative effects on the economy, Nigerian government revenue or foreign reserves and, as a result, a material adverse effect on our business, results of operations, cash flows, financial condition and prospects.

Apart from the People’s Democratic Party and the All Progressives Congress, many of Nigeria’s political parties continue to be largely based upon ethnic allegiance. At the same time, these divisions are reinforced by religious differences, particularly between the mainly Muslim north and broadly Christian south. Certain northern states have adopted Sharia law since the return to civilian rule in 1999, which has resulted in further alienation of the Christian minorities in these states. Over the past two years, hundreds of lives have been lost in a series of terrorist attacks, primarily by way of bombings carried out by religious militia groups against both civilians and state institutions such as police headquarters, army barracks and immigration offices.

In addition to bomb attacks, religious militia groups have carried out armed attacks and kidnappings against foreigners working in Nigeria.

Boko Haram, a militant Islamist group operating in northern Nigeria, has steadily escalated insurgency attacks since the beginning of 2011 and has become increasingly active in 2014. In April 2014, Boko Haram kidnapped over 250 school girls from Chibok in northern Nigeria, sparking international media attention and domestic protest over the Nigerian government's handling of the kidnappings. From June and August 2014, suspected members of Boko Haram conducted raids on several villages in the northeastern Borno state of Nigeria, reportedly killing hundreds of civilians. In July 2014, Boko Haram militants reportedly engaged in cross-border attacks in Cameroon and kidnapped the wife of Cameroon's vice prime minister. Suspected members of the group have reportedly conducted kidnappings and attacks in the northeastern part of the country and the Federal Capital Territory.

While terrorist attacks linked to religious and/or ethnic differences have in the past primarily been carried out in the north of the country, no assurances can be given that such violence will not spread to the southern Nigeria where our operations are based. In May 2013, a state of emergency was declared in three states in northern Nigeria. The Nigerian parliament approved an extension of this state of emergency several times, including most recently in May 2014, where it agreed to another six month extension. These conflicts may adversely affect Nigeria's political stability which may, in turn, affect our business, results of operations, cash flows, financial condition and prospects.

The Nigerian government has significant influence over, and dependency upon, Nigeria's oil and gas industry, exposing us to adverse sovereign action by the Nigerian government.

In 2013, oil accounted for over 96% of Nigeria's exports and accounted for approximately 40% of the Nigerian government's revenue. (Source: US Department of Energy, Energy Information Administration, Country Analysis Briefs – Nigeria, December 2013). The Nigerian government's ownership of Nigeria's mineral wealth is reinforced by an array of laws and regulations, including the Petroleum Act, which gives the MPR the authority to issue petroleum exploration and mining licenses and approve to a great extent the ownership, operatorship and holding of interests of OPLs and OMLs. In addition, NNPC is a government-controlled corporation that directly participates in joint ventures for the exploration and production of hydrocarbon reserves and facilitates participation in the oil and gas industry. As a consequence, the Nigerian government plays a key role in determining the extent to which anyone participates in the Nigerian oil and gas industry. There can be no assurance that we will benefit from the support of the Nigerian government, which could have a material adverse effect on our business, results of operations, cash flows, financial condition and prospects.

Accordingly, petroleum companies in Nigeria face the risks of expropriation or re-nationalization, breach or abrogation of project agreements, application to such companies of laws and regulations from which they were intended to be exempt, denials of required permits and approvals, increases in royalty rates and taxes that were intended to be stable, application of exchange or capital controls, and other risks. Possible future changes in the Nigerian government, major policy shifts or increased security arrangements in Nigeria could have, to varying degrees, a material adverse effect on our business, results of operations, cash flows, financial condition and prospects.

Militant activity could destabilize oil production in Nigeria and adversely affect our operations and Nigeria's economy.

Militant activity, violence and civil disturbances have, in the past, 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. For instance, Nigeria's main militant group in the Niger Delta, the Movement for the Emancipation of the Niger Delta, has been conducting guerrilla attacks on oil pipelines and other related infrastructure, kidnapping oil and gas workers for ransom and generally disrupting the activities of oil and gas companies with operations in the Niger Delta, and more broadly throughout Nigeria in recent years. Militant activity has, in the past, caused companies to decrease production, change their operations or discontinue their operations in Nigeria as a result of attacks on, or threats to, their operations and staff. For example, since 2009, IOCs began divesting onshore assets, and shifted their focus from onshore projects to offshore exploration and production, where there is a lower security risk.

In northern Nigeria, Boko Haram has steadily escalated insurgency attacks since the beginning of 2011 and has become increasingly active in 2014. Although the group's activity is in the northern part of the country away from the Niger Delta, their activities could have a destabilizing impact on the rest of the country. See "— Political instability, religious differences, ethnicity, regionalism and internal security concerns in Nigeria pose risks that impact Nigerian oil and gas production".

There is a risk that, in the future, and in spite of the Nigerian government's efforts (which have included offering an amnesty to militants who surrender their weapons), militant acts in the Niger Delta may continue to be directed at oil and gas industry participants and there is no assurance that militant acts will not occur in the future.

If we, our employees or employees of our operating partners are the subject of any attacks, kidnappings or other security threats, our operations and production of oil and gas in the Niger Delta could be materially adversely affected. In particular, the Forcados Pipeline, through which oil produced from the OMLs transits, is in a hazardous area of the Niger Delta and has been subject to tampering and disruption in the past. Unrest in the Niger Delta region may lead to lower Nigerian oil and gas production, deter foreign direct investment, lead IOCs to curtail their operations in Nigeria or lead to increased political instability and unrest, and such unrest could have a material adverse effect on Nigeria's economy. The fear of militant attacks could have an adverse effect on our ability to adequately staff and/or manage our operations, and could substantively increase the costs of doing so. In addition, any militant action against our assets or operations could result in significant damage to the environment, negatively impact our relationships with local communities and result in a temporary or permanent closure of all or part of those facilities.

The occurrence of any of the above could have a material adverse effect on our business, results of operations, cash flows, financial condition and prospects.

Oil production in Nigeria has been subject to theft in the past, which may continue in the future.

Oil companies operating in Nigeria have in the past suffered significant losses as a result of oil theft (commonly known as "bunkering" in Nigeria), and it is estimated that on average 100,000 barrels per day were bunkered from facilities on land, in swamps and in shallow water during the first quarter of 2013. (*Source: Chatham House – Nigeria's Criminal Crude: International Options to Combat the Export of Stolen Oil, 2013*). 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. For example, the Forcados Pipeline was closed for extended periods in March and April 2014 as a result of repairs to a subsea pipeline after damage caused by oil bunkering activities. In addition, many IOCs, such as Shell, are reportedly seeking to withdraw their operations from the Niger Delta area or divest certain assets due to theft, security and other similar problems related to onshore oil production. If we, or the infrastructure that we use, are, in the future, targeted by criminals carrying out bunkering activities, the associated consequences could have a material adverse effect on our business, results of operations, cash flows, financial condition and prospects.

Failure to adequately address actual and perceived risks of corruption may adversely affect Nigeria's economy and ability to attract foreign direct investment and we may be exposed to liability under anti-corruption and anti-bribery legislation, including the UK Bribery Act and the FCPA.

Although Nigeria has implemented and is pursuing major initiatives to prevent and fight corruption and unlawful enrichment, corruption remains a significant issue in Nigeria. Nigeria is ranked 144 out of 177 countries in Transparency International's 2013 Corruption Perceptions Index and placed 147 out of 189 in the World Bank's Doing Business 2014 report, which covers the period from June 2012 to June 2013.

There have been a number of high profile convictions for corruption, including that of a former Inspector General of the Police. For example, on July 31, 2014, Afren plc announced that its board of directors had temporarily suspended pending further investigation its chief executive officer, Osman Shahenshah, and chief operating officer, Shahid Ullah because of their alleged receipt of unauthorized payments to their personal benefit related to certain transactions. On August 28, 2014, Afren also suspended two associate directors for their alleged receipt of unauthorized payments linked to the previously identified payments for the benefit of the chief executive officer and chief operating officer. In addition, a number of ministers and judges have been dismissed and a number of ex-state governors are facing corruption charges. In addition, customary practices in Nigeria, such as the giving of significant gifts at important life events such as marriages or funerals, may be

potentially used as a way to influence our employees, agents, intermediaries or consultants or may raise a perception of illegal activity even when none exists. Failure to address these issues, continued corruption in the public sector and any future allegations, or perceived risk, of corruption in Nigeria could have an adverse effect on the Nigerian economy and may have a negative effect on Nigeria's ability to attract foreign investment.

The Nigerian government is conducting corruption investigations into the country's oil industry. In particular, the Nigerian government has reviewed historical taxes of exploration and production companies, investigated production costs and generally re-negotiated license and lease renewals. In some cases holders were required to pay additional amounts for the renewal of their licenses. The Nigerian government also ordered a forensic audit of NNPC's accounts and has sought to make the oil and gas industry and its operations more transparent. The Nigerian government also inaugurated the Petroleum Revenue Special Task Force, a body set up primarily to investigate, verify and recover all upstream and downstream petroleum revenue accruing and payable to the Nigerian government. This task force is also charged with the responsibility of developing a system to determine and monitor all oil production and exportation in Nigeria. The UK government is also pursuing separate corruption investigations into the oil industry in Nigeria. For example, in July 2013, UK police began a money laundering investigation surrounding the Nigerian government's sale of an offshore block to another oil and gas company.

Apart from the proposed audit of NNPC following the Sanusi allegations and an investigation by the House of Representatives regarding the legality of certain concessions, exemptions and waivers, we are not aware of any current or threatened investigations or any legitimate grounds that could give rise to any investigations relating to us or any existing adverse findings against us, our directors, officers, employees or joint venture partners, but 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.

We are subject to anti-corruption and anti-bribery legislation and regulations, including the UK Bribery Act, the FCPA and other laws and regulations that prohibit companies and their intermediaries from making improper payments or offers of payments to foreign governments and their officials and political parties, or others for the purpose of obtaining or retaining business and other benefits. By doing business in Nigeria, we could face, directly or indirectly, corrupt demands by officials, militant groups or private entities. Consequently, we face the risk that one or more of our employees, agents, intermediaries or consultants may make or receive unauthorized payments given that such persons may not always be subject to our control. In addition, it is possible that we could be held liable for successor liability for FCPA violations committed by companies in which we have invested or acquired or may invest or acquire. Although we have policies and procedures designed to ensure that we, our employees, agents, intermediaries and consultants comply with the UK Bribery Act, the FCPA and all applicable Nigerian anti-corruption legislation, there is no assurance that such policies or procedures will work effectively all of the time or protect us against liability under any such legislation for actions taken by our agents, employees, intermediaries and consultants with respect to our business. If we are not in compliance with the UK Bribery Act, the FCPA or other laws governing the conduct of business with Nigerian government entities (including local laws), we may be subject to criminal and civil penalties and other remedial measures.

Furthermore, any remediation measures taken in response to potential or alleged violations of the UK Bribery Act, the FCPA or other anti-corruption or anti-bribery laws, including any necessary changes or enhancements to our procedures, policies and controls and potential personnel changes and/or disciplinary actions, may result in increased compliance costs.

Any such findings, or any alleged or actual involvement in corrupt practices or other illegal activities by us or our commercial partners or anyone with whom we conduct business could damage our reputation and our ability to do business, including by affecting our rights and title to assets or by the loss of key personnel, and together with any increased compliance costs, could adversely affect our business, results of operations, cash flows, financial condition and prospects.

Uncertainties in the interpretation and application of laws and regulations may affect our ability to comply with such laws and regulations, which may increase the risks of investment and business activity.

Nigerian law is predicated on the common law system, which was derived from the English legal system. 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 adjudicated. As a result, effective

legal redress may be difficult to obtain and there is a high degree of uncertainty due to the discretion of the Nigerian 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, relevant local authorities, and such interpretation may differ from the advice given to us by local lawyers.

There can be no assurance that contracts, joint ventures, licenses, license applications or other legal arrangements will not be adversely affected by the actions of Nigerian government authorities and the effectiveness and enforcement of such arrangements in Nigeria. A number of the asset and joint venture documents to which we are a party are not standard form documents, which makes interpretation of disputed provisions less certain. These and other issues arising out of Nigeria's legal system subject our business to greater risks and uncertainties than if our operations were conducted in jurisdictions with a more mature legal system.

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 the Nigerian government's policies and regulations on, and laws relating to, taxation, customs and excise duties may change from time to time as considered necessary for the development of the economy. Our tax liabilities and revenue may be affected by changes in such policies, laws or regulation. In particular, the proposed PIB will, if enacted, change the taxation regime applicable to oil and gas companies and may affect the existing tax rates and the amount of tax payable by us and by our commercial partners (which will, in certain circumstances, affect the amount of our profits). See "Legal and regulatory— Nigeria—Petroleum Industry Bill".

Further, although subject to definitive decisions by the courts, the FIRS interpretation of, and 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 FIRS could result in additional tax becoming due or payable in the future. We are contesting several tax treatments asserted by the FIRS which we and our tax advisers do not consider should result in any additional taxes becoming payable by us. One such item relates to a recent claim by FIRS of additional tax of \$55 million payable by Accugas comprising VAT and withholding tax allegedly not accounted for on certain expenditure by the company, and penalties and interest thereon. Our tax advisers consider that this claim is without merit and, as such, no provision or reserve for any amount in respect of this item is considered necessary. However, in the event of a finding to the contrary, significant additional tax liabilities may become payable by us.

Changes in applicable policies on taxation, customs and excise duties, as well as differences in interpretation of and decisions relating to tax laws, may have an adverse effect on our business, results of operations, financial position, cash flows, and prospects and on the tax liability of noteholders.

Emerging markets such as Nigeria are subject to greater risks than more developed markets, and financial turmoil in any emerging market could 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. 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. Emerging markets such as Nigeria are subject to rapid change and that the information set forth herein may become outdated relatively quickly.

Financial turmoil in any emerging market country tends to adversely affect companies operating within those markets, 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 foreign investment in Nigeria and adversely affect the Nigerian economy. In addition, during such times of loss of market confidence, companies that operate in emerging markets can face severe liquidity constraints as foreign funding sources are withdrawn.

As a result of our operations in Nigeria, we may be particularly susceptible to disruptions in the capital markets and the reduced availability of credit or increased cost of debt, which could result in us experiencing financial difficulty. In addition, the availability of credit to entities operating within emerging markets is significantly influenced by levels of investor confidence in such markets as a whole and thus any factors that impact market confidence (for example, a decrease in credit ratings, state or central bank intervention or foreign funding sources being withdrawn) could negatively affect the price or availability of funding to us.

In addition, 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.

Nigeria is a federal state, and our operations are located across five states, exposing us to varying, potentially adverse, state and local government policies.

Our operations are located across five states of Nigeria, all of which have their own governments. Within those states, there are also multiple local government authorities within our areas of operation. In addition, we presently contract with certain state-owned entities, such as Ibom Power, which is owned by Akwa Ibom State. Each of these states has a varying political dynamic. In addition, political changes at the state and local level can affect our contracts with these local governments or entities they own or control, including the potential risk of expropriation. Further, while the powers of the various tiers of government to levy and collect taxes are set forth in the Nigerian constitution, it is not unusual for state and local government agencies to seek to levy and collect taxes that they are not constitutionally authorized to levy and collect. These factors, combined with potential conflicts between federal, state and local governments, could have a material adverse effect on our business, results of operations, financial position, cash flows and prospects. See also “—Political instability, religious differences, ethnicity, regionalism and internal security concerns in Nigeria pose risks that impact Nigerian oil and gas production”.

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. 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 effect on our business, prospects, results of operations, cash flows, financial condition and prospects.

Risk factors relating to our business

Our future revenue depends on certain contractual relationships with key customers, and the loss of any of our key customers, their failure to fulfil their obligations or our inability to obtain additional or replacement customers, could adversely affect our financial results.

We have entered into three long-term take-or-pay gas sales agreements, one with Ibom Power to supply gas to the Ibom Power station, another with NDPHC and CEGC to supply gas to the Calabar NIPP power station and a third to supply gas to the UniCem cement plant. The take-or-pay provisions bind our contractual counterparties to pay for certain quantities of gas even when undelivered, from the date on which the gas is available for delivery. We expect these three agreements will contribute a significant portion of our future revenue. The inability of our key contractual counterparties to meet their obligations to us or failure to make timely payments may affect our financial results. For example, under the Ibom Power gas sales agreement, Ibom Power is obligated pay to us an advance payment of \$63.5 million, of which \$20.2 million remains outstanding. We continue to work with Ibom Power to receive payment for the outstanding amount, but to the extent they are unable to repay this outstanding amount, this could adversely affect our financial results. See “Management’s discussion and analysis of financial condition and results of operations—Credit risk”.

In addition, we may be in position to deliver gas when the Ibom Power station, the Calabar NIPP power station or the UniCem cement plant are not ready or able to receive gas, which may result in deferred revenue. The take-or-pay provisions in the gas sales agreements bind the purchaser to pay for certain quantities

of gas even when undelivered, from the date on which the gas is available for delivery. However, title to gas sold only passes on the date of delivery and, as the risk of ownership only transfers upon delivery, revenue from the sale of the gas is recognized only on a delivered basis. In circumstances which we receive payments pursuant to take-or-pay provisions and gas is not delivered to our contractual counterparty, we are unable to recognize this income as revenue for accounting purposes and instead accrue it as deferred revenue. For example, in March 2013, we formally notified Ibom Power that we were ready to commence commercial deliveries of gas. Ibom Power acknowledged the notification, and the take-or-pay provisions in the gas sales agreement to supply the Ibom Power station, that bind Ibom Power to pay for certain quantities of gas even when undelivered, were activated. At the time, Ibom Power was unable to accept any gas due to a nine-month program of repairs and maintenance. In December 2013, deliveries of gas commenced for testing purposes and, in January 2014, commercial deliveries of gas began, but for less than the take-or-pay contracted volumes as the Ibom Power station is only operating at around half its capacity. When these deliveries commenced, we began to recognize revenue under the gas sales agreement to supply the Ibom Power station.

In the event that Ibom Power, NDPHC and CEGC or UniCem do not fulfil their obligations to us under the respective gas sales agreements or in the event that any of these entities become insolvent or subject to liquidation, we may seek to enforce the terms of the agreements, including the regional state government guarantee (provided in respect to the Ibom Power gas sales agreement) or the NDPHC letter of credit and World Bank Partial Risk Guarantee (due to be provided, but which are not yet in place for the Calabar NIPP gas sales agreement) in connection with these gas sales agreements. There can be no assurance as to how long an enforcement action may take, or whether at the time of such enforcement, the relevant guarantor will be able to meet its obligations. In addition, in the event that any of our customers change ownership, the contractual obligations of the other counterparties may transfer to the new owner and may expose us to different payment and credit risks.

We expect to enter into further gas sales agreements for any current or future gas reserves and resources in which we have either an indirect or direct interest. However, we may be unable to find sufficient creditworthy customers to purchase such reserves and resources or we may be unable to extend existing contracts or procure required state guarantees, letters of credit or bank guarantees. Similarly, such additional customers and guarantors may fail to meet their obligations to us or may become insolvent.

In addition to the gas purchased from us, these customers also use our transportation infrastructure to source further gas needs. See “Our business—Midstream operations”. We may also be unable to find replacement customers to utilize our transportation infrastructure in the event that Ibom Power, NDPHC, CEGC or UniCem do not meet their contractual obligations, become insolvent or upon the termination of the relevant gas sales agreement. In particular, the sale and transportation of our gas to the Ibom Power station and the Calabar NIPP power station is dependent on the availability of specific pipelines and processing and other infrastructure facilities that enable us to supply these particular customers with gas at specified locations, or for such customers to transport some electricity that they may generate. Should we enter into gas sales agreements with new customers in the future, our existing transportation infrastructure may not reach locations specified by any new customers and new customers may require less gas than our existing customers. Any requirement to install new infrastructure in order to obtain alternative customers will likely require further capital expenditure that may not be available to us. Furthermore, we believe Calabar NIPP power station is in the process of being privatized, and if this process is completed we will need to work with the new owner in serving our gas sales agreement. The failure of a new owner’s ability to fulfill the obligations under the Calabar gas sales agreement could have a significant impact on our interests.

The occurrence of any of the above could have a material adverse effect on our business, results of operations, cash flows, financial condition and prospects.

Operational impediments or damage to, or the shut-down of, current or planned processing and transport infrastructure may hinder our access to oil and gas markets or delay or cease our production.

Our ability to provide a marketable product to oil and gas markets depends on a number of factors, including the proximity of production sites to processing and transportation facilities and infrastructure. Our ability to market our future production depends substantially on the availability and capacity of pipelines and processing facilities, some of which are owned and operated by third parties.

We are also reliant on our Uquo Gas Processing Facility to process our gas pursuant to existing contractual arrangements. Any sudden loss of, or significant delay or interruption to, processing at the Uquo

Gas Processing Facility or the transportation of gas through the pipelines that we use could result in us being unable to maximize plant processing, pipeline utilization or capacity or cause us to default on contractual deliveries. A significant interruption to gas processing at the facilities could occur if any essential piece of equipment for which we lack a replacement should break down for a substantial period of time or if multiple breakdowns were to occur at the same time. Furthermore, there can be no assurance that we will be able to find a replacement or arrange necessary repairs on a timely or cost-effective basis.

We may also be required to shut-in wells due to a lack of demand or inadequacy or unavailability of a gas pipeline, gathering system or processing capacity. If a shut-in were to occur, we would be unable to realize revenue from those wells until suitable arrangements were made to transport and market that production.

Furthermore, we are also reliant on third-party owned or operated infrastructure for our oil operations, including (i) the transport of our oil from the Uquo Field to the Qua Iboe oil export terminal operated by ExxonMobil for export; (ii) the oil pipeline network linking OMLs 4, 38 and 41 to the Forcados Pipeline or its alternative transmission route to an oil refinery in Warri; (iii) the transport of oil from OMLs 4, 38 and 41 to the Forcados Export Terminal using the Forcados Pipeline; and (iv) the operation of Qua Iboe export terminal, Forcados Export Terminal or Warri oil refinery. In addition, we expect to transport our oil from Uquo to the Qua Iboe export terminal using the oil pipeline operated by our joint venture partner, Frontier Oil and we expect to transport gas from Uquo to the Calabar NIPP power station using the Oron to Creek Town pipeline which is under construction. The inadequacy or unavailability of such oil pipeline capacity and infrastructure could require us to shut-in wells, preventing us from realizing revenue from sales of oil to the export market from shut-in wells until suitable alternative transportation arrangements are made.

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, harm our reputation and cause us to be liable for breach of contract for a failure to meet our contractual obligations. The occurrence of any of these events could have a material adverse effect on our business, results of operations, cash flows, financial condition and prospects.

We are susceptible to risks associated with growing our business, including the inability to obtain necessary funds for new projects and delays and deviations from completion deadlines in connection with the construction of our own or third party pipelines, gathering systems and processing facilities, which may prevent us from producing or delivering certain oil and gas supplies when expected or at all.

We intend to grow our midstream gas operations, which may include the construction of new or third-party pipelines, gathering systems and processing facilities. Such construction requires the expenditure of significant amounts of capital, which may exceed our plans, projections and expectations. If, in the longer term, we are unable to obtain sufficient financing on acceptable terms, or we are required to incur significant amounts of capital expenditure beyond our expectations, our profitability, expansion, development plans and free cash available to service our indebtedness could be adversely affected.

We may also rely on estimates of reserves in making a decision to construct new pipelines, gathering systems and processing facilities, and these estimates may prove to be inaccurate because of numerous uncertainties inherent in estimating quantities of reserves or because the reserves subsequently become uneconomic to produce. As a result, we may produce insufficient gas and/or be unable to source and process or transport sufficient gas produced by third parties to achieve our expected investment return for investments in new processing facilities and related transport infrastructure.

Furthermore, we are subject to the risk of delays in construction, including those of third parties, in particular, where we will connect to such third party pipelines. These risks may arise by virtue of the difficult operating environment and climate in Nigeria, cost overruns, delays and difficulties in acquiring land and title disputes arising in connection with land acquisitions, obtaining necessary permits, consents or rights of way to access land on which a project will be constructed, as well as compliance with applicable laws and regulations. For example, completion of the 62 km pipeline from Uquo and Ikot Abasi overran due to delays in obtaining rights of way and acquiring land, which caused construction of the pipeline to extend over two dry seasons rather than one.

Delays in completion, and cost increases as a result of a delay in the construction of new pipelines, gathering systems or processing facilities, could occur in the future, which could impact our ability to comply with the covenants contained in our project financing credit facilities, including covenants relating to the completion of projects and delivery of gas to certain locations on certain prescribed dates. For example, our

\$225 million Accugas II Facility contains a long-stop date of January 1, 2015 for the completion of the Uquo to Oron pipeline, which we are required to build in order to be able to meet the full contract volume under the gas sales agreement to supply the Calabar NIPP power station. For further information on the Accugas II Facility, see “—Risk factors relating to our financial profile—Our debt levels and covenants and restrictions governing our indebtedness may limit our flexibility in obtaining additional financing and in pursuing other business opportunities” and “Description of certain financing arrangements—Accugas II Facility”.

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

We operate in a capital-intensive industry and increasing our gas transportation and processing infrastructure, reserves and production will require additional funding to meet both expected and unanticipated costs, which we may not be able to raise.

Our business requires significant capital expenditures for appraisal, development, maintenance, production, processing infrastructure and transportation and, in the future, we may seek additional financing to fund our future exploration, development, acquisition and/or construction plans beyond our current committed and planned expenditures.

In the short-to-medium-term, we intend to fund our planned capital expenditures from the Refinancing, cash flows generated by our operations and from credit facilities that will remain in place following the issuance of the Notes or entered into thereafter. There can be no assurance that we will be able to generate or raise sufficient funds to meet our capital expenditures in the longer term or to do so at a reasonable cost. Moreover, in circumstances where such funding is not available, we may be required to amend our appraisal, development and other capital expenditure plans.

Our ability to arrange future financing, and the cost of financing generally, will depend on many factors, including: political, economic and capital markets conditions; commodity prices for oil and gas; investor confidence in the oil and gas industry in Nigeria and in us; our business performance; regulatory developments, including provisions of tax and securities laws that are conducive to raising capital; and credit available from banks and other lenders.

Furthermore, the ability of many companies to arrange financing and the cost of financing are subject to events affecting the global financial markets. Also, the cost of and terms and conditions on which future funding or financing may be made available may not be acceptable or funding or financing may not be available at all and any additional debt financing may involve re-financing costs including prepayment fees or restrictive covenants and ratios that could limit or affect our operational flexibility.

Our inability in the longer term to procure sufficient financing could adversely affect our ability to expand our business and meet our production targets, may result in unexpected costs and delays in relation to the implementation of our project development and/or construction plans or may result in an inability to implement our plans as currently contemplated, and, if the reductions in financing levels are severe enough, they could adversely affect our ability to maintain our production at current levels and limit our free cash available to service our indebtedness.

If our revenue or reserves decline, we may be unable to raise additional funds (or 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. Currently, we do not have sufficient cash flow to finance such expenditures. If we are unable to finance such expenditures through debt, equity or other forms of finance then we may be required to downsize, curtail or abandon certain projects.

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

Our operations are subject to 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 Nigerian governmental authorities for exploration, development,

construction, operation, production, marketing, pricing, transportation and storage of oil and gas. The relevant legislation 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 our 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. It may, from time to time, be difficult to ascertain whether we have complied with our obligations under production sharing contracts and licenses as the extent of such obligations may be unclear or ambiguous and regulatory authorities in jurisdictions in which we do business may not be forthcoming with confirmatory statements that work obligations have been fulfilled, which can lead to further operational uncertainty.

In addition, we, our indigenous partners or commercial partners, as applicable, have obligations to develop the fields in accordance with the specific requirements under certain licenses and related agreements, field development plans, laws and regulations. If we, or they, were to fail 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 does from time to time, carry out inspections to verify compliance by us, our indigenous partners or commercial partners, as applicable, with relevant laws and the licenses or the agreements pursuant to which we operate. Furthermore, our legal interests in the Uquo Field and the Stubb Creek Field are pursuant to farm-out agreements that may require further clarification from the DPR, MPR or the counterparties. To the extent that these parties are unresponsive to our inquiries, our interests may be at risk. There can be no assurance that their views regarding the development of the fields that we, our indigenous partners or commercial partners 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.

The legal interests relating to the Uquo Field, the Stubb Creek Field and the Matsogo Field were awarded by the MPR for an initial five-year term, which was subsequently extended by the MPR in March 2011 for an additional four years. If production is not attained at a marginal field by March 2015, the MPR may, pursuant to applicable legislation, elect not to renew the term of the marginal field when it expires. With respect to the Matsogo Field, we and Chorus Energy, as operator, have not prepared development plans, and as such there is no scheduled date for production for the Matsogo Field. There can be no assurance that the MPR (or any successor thereto) will change its current policy for renewing the term of a marginal field when it expires, and as such, the terms of the Uquo Field, the Stubb Creek Field or the Matsogo Field may not be renewed.

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

Our operations in marginal fields are subject to indigenous ownership restrictions.

The Uquo Field, the Stubb Creek Field and the Matsogo Field, in which we hold legal interests, 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 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. On the basis that our issued ordinary shares are more than 51% owned by Nigerian nationals, we are of the view that we and each of our subsidiaries qualify as "substantially" Nigerian. Our capital structure does, however, include ICLNs issued to non-Nigerian entities, such instruments do not categorically constitute equity, unless converted. However, our indigenous status may be subject to interpretation or disagreement by others in the future.

Universal Energy, a 62.5% owned subsidiary, operates the Stubb Creek Field and has a 51% legal interest in that field. We consider Universal Energy to be an indigenous company that is "substantially Nigerian" by virtue of it being registered in Nigeria with more than 51% of its shares beneficially owned by Nigerian persons. However, any determination now or in the future that Universal Energy is not "substantially Nigerian" for the purposes of the Marginal Field Guidelines, or any uncertainty surrounding its status for the purposes of the Marginal Field Guidelines, could require Universal Energy, absent a reorganization of the shareholder register so as to remedy any such adverse determination, to relinquish both the legal interest in, and

the operatorship of, the Stubb Creek Field. 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 we undertake would be sufficient, valid or effective in ensuring Universal Energy's status as a substantially Nigerian indigenous company.

Furthermore, it is expected that the PIB will formalize the applicable criteria for a company to be considered indigenous. However, the proposed PIB is 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 Universal Energy or, more broadly, we are not indigenous or, if any material uncertainty around such classification, including any challenge to Universal Energy or our qualification by a competitor, or any reorganization to ensure Universal Energy's or our indigenous status is deemed to be insufficient, invalid or ineffective, could result in Universal Energy, or more broadly us, to be required to relinquish our legal interest in, or our operatorship of any marginal field and may prevent us, whether through Universal Energy or otherwise, 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. For further information, 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”, “Legal and regulatory—Nigeria—Petroleum Industry Bill”.

Similarly, we have no control over any change in ownership of Frontier Oil or Chorus Energy, the respective third-party operators of the Uquo Field and the Matsogo Field, as a result of a third-party acquisition, sale or otherwise, which may result in the loss of their indigenous status. For example, Chorus Energy was recently acquired by Swift Oil Limited, a downstream player in the Nigerian oil and gas industry. Furthermore, Frontier Oil and Chorus Energy may be required to relinquish their legal interests in, and their operatorship of, their respective marginal fields should either of them lose their indigenous status. Consequently, any new operator will be required to enter into a novation of the existing JOA, which could impact the development and production of the applicable marginal field. See “—We are subject to risks involving third-party operators, 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”. For further information about our oil and gas interests, see “Our business—Overview of our assets”.

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

We are subject to risks involving third-party operators, partners and other project participants and any disagreements with, or the exercise of termination rights by, any of the third-party operators, partners and other project participants may result in delays or additional costs.

While we, through our majority-owned subsidiary Universal Energy, are the operator of the Stubb Creek Field, all of our other assets are operated by third-party operators. For further information about our oil and gas interests, see “Our business—Overview of our assets”. Both we and our commercial partners are required to comply with the terms of the applicable JOAs, farm-out agreements and other arrangements governing our respective relationships including the Strategic Alliance Agreement related to the OMLs. We may experience delays or disruptions on existing or future projects if we or our contractual counterparties fail to cooperate or comply with the contractual terms governing our existing or future projects.

The JOA in respect to the Uquo Field, which is operated by Frontier Oil, requires unanimous voting for the joint operating committee to take action, thereby we are both required to vote in favor of certain matters before the joint operating committee can act. Similarly, under the JOA in respect of the Matsogo Field (another field we are not operating), actions taken by the joint operating committee require the affirmative votes of two or more unaffiliated parties collectively holding at least a 75% legal interest in the field. Interests in the Matsogo Field are held by Chorus Energy (recently acquired by Swift Oil Limited) and two of our wholly owned subsidiaries. This voting provision effectively requires consensus between Chorus Energy and us before the joint operating committee can act. Any failure to obtain the requisite votes for the respective joint operating committees to act under either the Uquo Field or Matsogo Field JOAs could result in delays or disruptions to our operations and projects.

Under the relevant agreements related to our assets, we have certain rights that provide us with the ability to influence operations at the fields in which we have interests, including through our participation on various committees. See, “Our business—Material agreements relating to our assets”. However, we ultimately

rely on third-party operators to carry out the day-to-day management and operation of the assets that they operate. We also depend and rely upon these third-party operators to implement the decisions and actions that have been agreed to among the participants of each asset. Any mismanagement of an asset by the operator may result in delays, disruptions or increased costs with respect to exploration, appraisal, development or production activities. We also may disagree with actions proposed to be taken by the operator and may be exposed to liability for actions taken by any operator. While the terms of operating agreements generally impose standards and requirements in relation to the operator's activities and provide us with recourse for the respective operator's breach of those agreements, there can be no assurance that the operator will observe such standards or requirements.

We may suffer unexpected costs or other losses if a partner does not meet its obligations. For example, other participants in the fields in which we have indirect or direct interests may experience financial or other difficulties or otherwise default in their obligations to meet capital or other funding obligations in relation to assets in which we have interests. Furthermore, any failure by a third-party operator to carry out its obligations with respect to a field could put the license for that asset at risk. In addition, certain of our contractual arrangements may permit our commercial partners to terminate the relationship under certain circumstances. Any loss of a third-party operator, and any resulting loss of a license to the field operated by such operator, could also impact our ability to develop the field in accordance with development plans, or at all, which could impact oil and gas production at a given field and we could be unable to deliver gas to customers in accordance with our contractual obligations.

Further, operators, partners and other project participants that own interests in assets in which we have interests 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 may limit our ability to explore, appraise or develop such assets as planned. While there have been instances of misalignment of interests or objectives in the past which were successfully resolved among the relevant parties, no assurance can be given that further instances of any such misalignment of interests or objectives will not arise and if they should arise, no assurances can be given that they will not result in project delays, additional costs or disagreements.

Furthermore, from time to time, delays have occurred in the decision making process leading up to the development of fields and in the development of fields themselves with respect to the quality and experience of the contractors used by third-party operators and partners and, in some cases, contractors were appointed that we did not wish to fulfil such roles. In circumstances where third-party operators and partners have the right to appoint contractors, no assurance can be given that similar delays or quality issues will not occur in the future.

The occurrence of any of these risks related to third-party operators, partners and other project participants could have a material adverse effect on our business, results of operations, cash flows, financial condition and prospects.

Our contractual counterparties may bring legal proceedings against us for violations of non-disclosure obligations in certain of our material agreements.

Certain of our operating agreements and other contracts establishing our rights in relation to the OMLs and other assets contain non-disclosure obligations that prohibit us from publicly disclosing the terms of the agreement or contract or information obtained during the course of performing the agreement or contract. Our contractual rights are in certain cases derived from sub-contracts and assignments from contracts to which we are not a party and which may also contain non-disclosure obligations that apply to us. Such non-disclosure obligations may, but do not always, contain exceptions for disclosure made with the prior consent of counterparties, when the information disclosed is already publically available and such availability was not the result of a violation of the non-disclosure obligations and where required by law.

We disclose the Strategic Alliance Agreement and certain other contracts on our website. In addition, this Offering Memorandum discloses certain information regarding the terms of our material contracts and information obtained during the course of performing contracts that contain non-disclosure obligations. Certain of the disclosures on our website are required by our equity holders, including IFC. We have not obtained specific consent for such disclosures based on our course of dealings with our counterparties and the fact that our disclosure of information regarding certain terms of contracts and information obtained during the course of performing contracts has been public for some time and none of our contractual counterparties have notified us of any intent to bring legal proceedings against us for violation of non-disclosure obligations. Notwithstanding

our course of dealings with our counterparties, there is a possibility under the terms of the SAA and other related contracts that they may do so in the future.

If our contractual counterparties bring legal proceedings against us for violation of non-disclosure obligations, we may face interruptions in the performance of our agreements or our exercise of our rights thereunder, including potential termination of such agreement. In addition, we may be ordered to pay damages in relation to disputes arising from such disclosure. The occurrence of any such interruption, terminations or order to pay damages could have a material adverse effect on our reputation and on our business, results of operations, cash flows, financial condition and prospects.

Expected levels of growth in Nigerian domestic demand for gas may not materialize.

A key part of our business strategy is to develop domestic gas assets to meet the expected level of demand for energy within Nigeria. While we believe that utilization of domestic gas in Nigeria will be important in solving Nigeria's shortage of domestic power, the expected growth in demand for domestic gas may be less or slower than anticipated. In particular, if the Nigerian government's Gas Master Plan is not successful in promoting the development and utilization of gas in Nigeria and improving electric power generation and supply by ensuring sufficient: (i) numbers of new gas-fired power stations are built; and, (ii) domestic gas is supplied to such new gas-fired power stations, or if the Nigerian government decides to amend its stated policy so as to move away from domestic gas as a key component of tackling Nigeria's shortage of domestic energy, expected growth in demand for domestic gas could be materially impacted.

We have contracted to sell all of our current gas reserves and resources in the south east Niger Delta under various long-term gas sales agreements to the Ibom Power station and Calabar NIPP power station. Seplat, on behalf of ourselves and NPDC, sells some of the gas reserves and resources at OMLs 4, 38 and 41 to NGC. Although the gas sales agreements with NGC terminated in June 2012, pursuant to a side letter dated June 2012, sales continue on the same terms as the expired contract, but with pricing following regulated gas prices. Seplat has also entered into a gas sales agreement to supply the Azura-Edo Independent Power Project, which is under construction on the outskirts of Benin City, Edo State. The power project is being developed by third parties and there can be no assurances that these facilities will be developed on the timeline anticipated or at all. EHGC is contracted to supply the UniCem cement plant with gas under a long-term gas sales agreement. However, the ability to sell any of the remaining existing gas reserves and resources in the north west Niger Delta or in the Anambra Basin and any future gas reserves and resources, generally, will depend to a large extent on the success of the Gas Master Plan and whether certain factors, including expected demand resulting from new power station capacity and the conversion by commercial and industrial businesses from using diesel fuel to gas, materialize. If such demand does not materialize, development and production of any existing gas reserves and resources not already contracted for sale, and any future gas reserves and resources, could become uncommercial.

Further, no assurance can be given that our competitors will not be more successful than us in monetizing their gas reserves or will not shift the focus of their operations to gas production to meet such expected demand in gas, either of which could lead to an increase in the supply of, and a consequent decline in the price of, gas in Nigeria. In such event, we could be required to place more reliance on our oil reserves and production operations to generate our revenue. Consequently, a decline in the actual or anticipated levels of gas demand in Nigeria, or any downwards pressure on its price, in the future may have a material adverse effect on our business, results of operations, cash flows, financial condition and prospects.

Furthermore, we intend to continue to expand our midstream gas operations by targeting third-party gas producers as users of our midstream infrastructure, leveraging our ability to meet the obligation imposed by the National Domestic Gas Supply and Pricing Regulations on all oil and gas exploration and production companies to dedicate a specific volume of gas towards gas demand requirement for strategic sectors within Nigeria. The Nigerian government has announced that it will sanction companies that fail to meet their domestic gas supply obligations. In light of feedback from some international companies and other key operators that the domestic gas prices prescribed by the Nigerian government are not sufficiently attractive, there is a risk that oil and gas exploration and production companies may choose not to comply with their supply obligations and instead choose to pay a fine. In the event that oil and gas exploration and production companies that are subject to such domestic supply obligations choose not to comply with them, or in the event that the domestic supply obligations prescribed by the National Domestic Gas Supply and Pricing Regulations are removed or amended or are otherwise not enforced, the expected demand for our midstream infrastructure from third-party gas producers may not materialize, which could impact our envisaged revenue generated from our midstream gas

operations and could have a material adverse effect on our business, results of operations, cash flows, financial condition and prospects.

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

Unless we conduct successful development, utilization and exploration 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. Producing oil and gas reservoirs are generally characterized by declining production rates that vary depending upon reservoir characteristics and other factors. For example, the contribution from the OMLs to Adjusted EBITDAX is driven by the underlying production from these oil and gas fields which, in the short term, are anticipated to increase production, followed by a natural production decline as the oil and gas is produced. This is expected to lead to a decline in Adjusted EBITDAX from the OMLs.

Our future 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 and utilizing our current reserves and resources and discovering or acquiring additional recoverable reserves and resources at acceptable costs. In addition, the gas sales agreement under which our midstream subsidiary, Accugas, has agreed to purchase gas from Frontier Oil and SUGL is for 15 years. However, Accugas has agreed to supply the Calabar NIPP power station for a term of 20 years. Thus, we, through Accugas, are exposed for the final five-year period of gas sales under the gas sales agreement. Having sufficient reserves to supply the Calabar NIPP power station for the duration of the agreement will depend on our ability to extend the agreement with Frontier Oil or finding additional reserves and resources. For further information on our material contracts, see “Our business—Sales and marketing” and “Our business—Material agreements relating to our assets”.

We may not be able to develop, utilize, find 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 effect on our business, results of operations, cash flows, financial condition and prospects.

Any expansion via acquisition may not be successful and anticipated benefits of acquisitions may not be realized.

We have in the past undertaken acquisitions and may enter into future acquisitions, particularly to increase our oil and gas reserves and resources through acquisitions of interests in further oil and gas assets that have significant resource potential and are near high demand areas. Any such future 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. 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 acquisitions or do so on commercially acceptable terms. In particular, as the demand for and value of oil assets in Nigeria is increasing, our ability to acquire gas assets on commercially acceptable terms may be limited. See “—Risk factors relating to the oil and gas industry—We operate in a highly competitive industry”.

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. In connection with our assessments, we perform a due diligence review of all potential acquisition targets. However, such a review will not necessarily reveal all existing or potential problems or liabilities. In addition, our review may not permit us to become sufficiently familiar with target assets to fully assess their deficiencies and capabilities. For example, we do not inspect every well prior to an acquisition and even when we inspect a well, we may not always discover structural, subsurface, environmental or other problems that may exist or arise. Further, it is unlikely that we will be entitled to contractual indemnification for pre-closing liabilities, including environmental liabilities in connection with acquisitions. The failure to perform adequate due diligence on assets to be acquired or acquisitions that prove to be worth less than we anticipate could have a material adverse effect on our business, results of operations, cash flows, financial condition and prospects.

Accounting standards may require us to recognize impairment of assets that we acquire. An adverse development in our business activities may require us to recognize impairment charges and write-off all or part of the carrying amount in acquired assets. For further details on how impairment is calculated, see “Management’s discussion and analysis of financial condition and results of operations—Explanation of statement of comprehensive income items—Impairment”.

Furthermore, we could encounter difficulties integrating acquired assets, including operations, systems, management and other personnel and technology associated with such acquired assets with our own. Such difficulties could disrupt our ongoing business, distract our management and employees and/or increase our expenses.

The failure to complete attractive acquisitions and integrate acquired assets or businesses into our existing operations in a timely and efficient manner could have a material adverse effect on our business, results of operations, cash flows, 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 our key senior management and our technical, financial, operational and marketing personnel. In addition, the personal connections and relationships our key senior management has 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.

In addition, 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 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. See “Legal and regulatory—Nigeria—Government regulations”. 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.

A failure to retain the services of existing key members of senior management or skilled personnel, or an inability to attract and retain new and additional senior management or skilled personnel could have a material adverse effect on our business, results of operations, cash flows, financial condition and prospects.

The taxes applicable to our operations may change to our detriment.

The taxes we pay on our oil and gas production may increase if the Nigerian government modifies its tax laws or application of these laws. Under Nigerian law for oil production, we are subject to a PPT tax rate of 65.75% for the first five years of production and 85.0% thereafter. Gas production benefits from a 30.0% tax rate by virtue of incentives included in the PPT law. A lower rate of 55.0% was proposed for marginal fields but has not been enacted or applied in practice. The law may change and any change, or any alternative legal position that may arise in the future, could have a material adverse effect on our operating results, financial condition and prospects.

We are in the process of applying for pioneer status for our upstream Uquo Field project. We also intend to apply for pioneer status for our other upstream project, the Stubb Creek Field. Given current practice of the Nigerian tax authorities, we believe this status will be granted notwithstanding possible gaps in the legislative framework. We believe that the Nigerian tax authorities will accept pioneer certificates and allow relief from taxes for up to five years for upstream projects with the relevant certificate. However, we believe that this practice of granting pioneer status to upstream oil companies is under review. Pioneer status may not be granted or Nigerian tax authorities may not allow this relief or, if allowed at first, an alternative legal position may not arise in the future which may result in the relief being forfeit *ab initio*.

Additionally, we may be unable to deduct, as anticipated, certain expenses in the calculation of PPT or other tax computations. For example, we expect to benefit from the deductibility of interest on inter-company loans and the deductibility of charges for technical and management services provided to such companies in the calculation of taxable income. Nevertheless, the FIRS has, in certain instances, argued against the deductibility of interest on loans from related parties. In addition, the pending PIB legislation may limit the deduction of charges for services provided from outside Nigeria in the calculation of the proposed Nigerian hydrocarbon tax. For a summary of certain risks related to the PIB, 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”. There can be no assurance that we will benefit from such deductions, which could have a material adverse effect on our operating results, financial condition and prospects.

We may be required to pay higher levels of withholding tax on dividend payments by our Nigerian subsidiaries if Nigerian law or practice were to change or if pioneer relief were to cease to apply to certain of our activities. Withholding tax on the payment of dividends in Nigeria depends on whether the profit distributed was derived from upstream oil or gas activities or whether the profits have been eligible for pioneer relief. Withholding tax will not be chargeable on the dividends from income derived from petroleum operations as provided in section 55 of the PPTA or from profits paid out of profits exempted from tax under pioneer relief. The Nigerian withholding rate on dividends is generally 10.0%, but Nigeria grants unilaterally a reduced rate of 7.5% where the recipient is in a country that has a double taxation treaty with Nigeria. There can be no assurance that we will benefit from reductions in withholding tax rates, which could have a material adverse effect on our business, results of operations, cash flows, financial condition and prospects.

Any actual or perceived failures to address community issues or negative publicity could impact our business reputation, which is important to our continued viability and could materially and adversely affect our business.

Our reputation is important to our business for reasons including, but not limited to, finding commercial partners for business ventures, securing licenses with governments, procuring contracts, attracting contractors and employees and negotiating favorable terms with suppliers.

Oil and gas companies face increasing demands, from the global community generally and from lenders and 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 the pipeline. Any failure to address concerns raised by NGOs and the communities in which we operate could have a material adverse effect on our business, prospects, financial condition and results of operations.

Furthermore, we have in the past been subject to negative media coverage. For example, in June 2011, a Nigeria based newspaper alleged that: (i) due process was not followed when we entered into the Strategic Alliance Agreement; (ii) illicit payments were made to Nigerian government officials or associates of such officials in order to secure the entry into of the Strategic Alliance Agreement; and, (iii) other transactions at less than true market value were entered into in connection with securing and entering into the Strategic Alliance Agreement. More recently, we have also been subject to negative media coverage as a result of the Sanusi Memorandum. See “—Risk factors relating to the Strategic Alliance Agreement and certain allegations thereto—Allegations that the Strategic Alliance Agreement was entered into as a result of illegal or improper conduct, or that the Strategic Alliance Agreement is unconstitutional or unlawful may continue to damage our reputation, divert management attention and affect our ability to conduct our business” and “Recent developments—Press reports and an official report by the Governor of the Central Bank of Nigeria (the “CBN”) have alleged that the Strategic Alliance Agreement was obtained unlawfully and is a vehicle for NNPC to divert public oil revenue into private hands”.

We publicly denied and wholly refute all of these allegations. There can be no assurance that other negative publicity will not arise and harm our reputation with our operating partners, other project participants, existing customers (some of whom are state-owned), prospective customers, regulators, suppliers, the wider Nigerian oil and gas industry, lenders and shareholders, regardless of the inaccuracy of, or lack of grounds for, any such negative publicity. For example, when we initially began developing our oil and gas assets in the south east Niger Delta, we contracted with SPOG Petrochemicals Limited, a company owned by Nigerian

businessman Jide Omokore (who is also reportedly a shareholder of Atlantic Energy), to assist us with developing relationships with the local communities and various other services. Subsequent to our entry into this contract, certain online media outlets reported that Mr. Omokore had been involved in unlawful activity, including illicit payments to government officials. In 2010, we terminated our contract with SPOG Petrochemical Limited. Because of the prior contractual relationship, the press frequently and inaccurately reports that Mr. Omokore is one of our shareholders or directors, but he is not and has never been one of our directors and, to the best of our knowledge, he has never been, and is not, one of our shareholders. Since the termination of the SPOG contract, we have repeatedly denied any current relationship with Mr. Omokore, but we may still be subject to an inaccurate perception that Mr. Omokore is involved or represents our interests.

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, we may be subject to litigation and our reputation may be adversely affected, which could impact our ability to acquire land for the purposes of laying new pipelines or building new facilities and to build such new pipelines or facilities where to do so requires the support of local communities. In addition, our ability to successfully bid for new licenses or marginal field awards may be adversely impacted.

The occurrence of any of these events, whether arising from litigation, regulatory, supervisory or enforcement actions, matters affecting our financial reporting or compliance with administrative agencies in the jurisdictions in which we do business, negative publicity, including from environmental activists, or the conduct of our business or otherwise, could have a material adverse effect on our reputation, as well as our business, results of operations, cash flows, financial condition and prospects.

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

Our operations, as well as those of our commercial partners, are often potentially hazardous, and are subject to laws, regulations and the 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. In the past, we have had non-material oil spills that required us to follow environmental regulations and processes. Any failure to comply with such requirements may give rise to significant liabilities.

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 on us or our officers.

Furthermore, we incur, and expect to continue to incur, substantial costs in order to comply with the laws, regulations and contractual obligations that apply to us and our operations. New laws and regulations, the imposition of more onerous compliance requirements, 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 our 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 to remedy past infringements. Any

such decisions, requirements or sanctions may restrict our ability to conduct our operations or to do so profitably.

In addition, our operations are also associated with the emission of “greenhouse gases”. There is continued political attention on issues concerning climate change, the impact of human activity on climate change and potential mitigation through regulation. Ongoing international, national and regional negotiations aiming to limit greenhouse gas emissions may result in the introduction of new regulations, which may have an adverse impact on our operations. Such regulation may result in substantial capital, compliance, operating and maintenance costs. 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.

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

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

We are required under the Local Content Act to hire and train local workers in our oil and gas operations, and it is possible that such workers may organize into one or more trade unions. Certain workers at Universal Energy are represented by trade unions and there is a collective bargaining agreement in place. Additionally, we hire contractors who, in turn, have their own employees, some of whom may be similarly organized into trade unions. We have in the past been subject to strikes from both workers at Universal Energy and workers hired by contractors, and there can be no assurance that we will not be subject to strikes in the future.

The collective bargaining agreement for Universal Energy, signed in October 2013, will expire in October 2015. Similarly, our contractors may be parties to collective bargaining agreements with members of their workforce who are members of relevant trade unions. Such collective bargaining agreements will need to be renewed from time to time. Universal Energy and our contractors may not be able to negotiate acceptable new collective bargaining agreements or future restructuring agreements, which could result in labor unrest or disputes.

Furthermore, broader social and labor unrest within Nigeria may result in services or commodities utilized by us being unavailable or subject to delays. For example, our operations have been impacted in the past by general labor strikes resulting in the closure of the Nigerian ports.

Any labor disputes, unrest or strike activity at any of our oil and gas operations or at, or affecting, the operations of any third-party which we utilize for business, could adversely affect our ongoing operations and our ability to explore for, produce and market our oil and gas production or cause cost increases or additional work rules imposed by agreements with trade unions. All of these factors could adversely affect our business, results of operations, cash flows, financial condition and prospects.

Our operations are subject to the risk of litigation.

From time to time, we may be subject to litigation arising out of our operations. Damages claimed under such litigation may be material or may be indeterminate, and the outcome of such litigation may materially impact our business, results of operations, cash flows, financial condition and prospects. While we assess the merits of each lawsuit and defend accordingly, we may be required to incur significant expenses or devote significant resources to defending against such litigation. In addition, the adverse publicity surrounding such claims may have a material adverse effect on our business, results of operations, cash flows, financial condition and prospects.

Our website and internal systems may be subject to intentional and unintentional disruption, and our confidential information may be misappropriated, stolen or misused, which could adversely impact our reputation and our ability to operate as a business.

We could be a target of cyber-attacks designed to penetrate our network security or the security of our internal systems, misappropriate proprietary information and/or cause interruptions to our services. Such attacks

could include hackers obtaining access to our systems, the introduction of malicious computer code or denial of service attacks. If an actual or perceived breach of our network security occurs, it could adversely affect or impair our ability to operate our business, and may expose us to the loss of information, litigation and possible liability. Such a security breach could also divert the efforts of our technical and management personnel.

In addition, confidential information that we maintain may be subject to misappropriation, theft and deliberate or unintentional misuse by current or former employees, third-party contractors or other parties who have had access to such information. Any such misappropriation or misuse of our information could result in us, among other things, being in breach of certain data protection and related legislation. We expect that we will need to continue closely monitoring the accessibility and use of confidential information in our business, educate our employees and third-party contractors about the risks and consequences of any misuse of confidential information and, to the extent necessary, pursue legal or other remedies to enforce our policies and deter future misuse.

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

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 insurance cover for a broad range of eventualities, however, for reasons described below, we are not insured against all risks. In particular, we do not carry insurance for business interruption and war and terrorism risk. Consequently, there can be no assurance that our insurance will be adequate to cover any losses arising as a result of the occurrence of an adverse event affecting our business or operations.

We may also be unable 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 effect on our business, results of operations, cash flows, financial condition and prospects.

The audit reports of our independent auditor on our consolidated financial statements as of and for the years ended December 31, 2011, 2012 and 2013 have included a going concern emphasis of matter paragraph, which may significantly impact our ability to raise new capital.

For the past three years, the audit reports of our independent auditor on our consolidated financial statements have included a going concern emphasis of matter. This type of emphasis of matter paragraph typically would indicate that due to uncertainties relating to the sufficiency of funds to sustain operations, that at the time of the issue of the relevant audit report, there was substantial doubt about our ability to continue as a going concern. Such inclusion of a going concern emphasis of matter paragraph in the audit opinion of our independent auditor may materially and adversely affect our trading and our ability to raise new capital that is needed to fund operations. The Refinancing will address the immediate funding concerns by allowing us to redeem our Convertible Bonds, repay and cancel our Reserve Based Lending Facility, Working Capital Facility and EHGC's Discount House Loan, but we may continue to face similar difficulties in the future. If we become unable to continue as a going concern, we could have to liquidate our assets, which means that we are likely to receive significantly less for those assets than the values at which such assets are carried on our consolidated financial statements. Any shortfall in the proceeds from the liquidation of our assets would directly reduce the amounts, if any, that holders of the Notes could receive in liquidation.

Exposure to currency exchange rate and inflation fluctuations may impact our cash flows and operating results.

We operate internationally and have exposure to currency risk on purchases, sales, cash and cash equivalents that are denominated in currencies other than US dollars, which is the currency of most of our receivables and the currency of most of the cash balances that we maintain. The currencies giving rise to this are principally the British pound sterling and Naira. Certain of our costs, including labor and employee costs, are also incurred in local currencies. Exchange rates between the US dollar, Naira and pound sterling have fluctuated significantly in the past and may do so in the future. Consequently, construction, exploration, development, administration and other costs may be higher in US dollar terms than we anticipate.

We may engage in hedging activities from time to time that would expose us to losses should markets move against our hedged position.

The nature of our operations provides a certain element of exposure to commodity prices. We use financial instruments and physical delivery contracts to hedge our exposure to any such risks that have been identified and may continue to do so in future. If we engage in hedging we will be exposed to credit related losses in the event of non-performance by counterparties to the associated financial instruments. Additionally, if product prices increase above those levels specified in any future hedging agreements, we could lose the cost of floors or ceilings or a fixed price could limit us from receiving the full benefit of commodity price increases. If we enter into hedging arrangements, we may suffer financial loss if we are unable to commence operations on schedule or are unable to produce sufficient quantities of oil to fulfill our obligations. In addition, we may not be able to find pricing for hedging on suitable terms.

Our method of accounting for investments in oil and gas properties may result in a further impairment of asset value.

We follow a method of accounting for oil and gas operations whereby the costs to acquire mineral investments in oil and gas properties, to drill successful exploratory wells, to drill and equip development wells, and to install production facilities are capitalized pending the results of evaluations to determine the presence of commercially producible quantities of reserves. See “Management’s discussion and analysis of financial condition and results of operations—Critical accounting policies—Upstream and infrastructure oil and gas assets”. Following a positive determination, continued capitalization is subject to further exploration or appraisal activity in that either drilling of additional exploratory wells is under way or firmly planned for the near future, or other activities are being undertaken to sufficiently progress in assessing reserves and the economic and operating viability of the project. If there is a change in one of these conditions in any period, then the related capitalized exploration costs may be expensed in that period, resulting in an impairment loss to the statement of comprehensive income.

For the year ended December 31, 2013, we incurred an impairment loss of \$5.8 million. We also may have losses expensed in the future due to the lack of activity on our projects or a change in the assessment of the commercially producible production quantities which can be generated from these projects.

Risk factors relating to the oil and gas industry

Our level of reserves and resources, their quality and production volumes may be lower than estimated or expected.

Unless stated otherwise, the hydrocarbon reserves and resources set forth in this Offering Memorandum represent estimates only and are based on reports prepared by technical experts, namely Senergy and Novas, and do not reflect events and activities subsequent to the relevant report dates. 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 availability, quality and reliability of this data can vary.

Estimates of the value and quantity of economically recoverable oil and gas reserves and resources, and consequently the rates of production and net present value of future cash flows 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 royalties;
- the expiry of licenses in OMLs 4, 38 and 41 in 2019;
- new discoveries and extensions of existing fields as well as the application of improved recovery techniques;
- the level of capital expenditures that a given producer is willing or able to make at any given time; and
- assumptions concerning future operating costs, taxes and/or royalties on the extraction of commercial minerals, 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, appraisal and development expenditures; and
- future oil and gas sales prices.

The reserves, resources and production 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 assembled by us (with assistance from other operators). The estimates may prove to be incorrect and potential investors should not place undue reliance on reserves, resources and production data contained herein concerning our reserves and resources or production levels. Potential investors should not put undue reliance on any specific field, reservoir, fluid or production profile or reserve estimate.

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, resources and cash flows based on the same available data. Actual production, oil and gas prices, revenue, 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 will be successfully implemented. There can be no assurance that our actual capital expenditure will not vary significantly from current estimates or that we will be able to implement our capital expenditure strategy in a timely manner. 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 interests may be unable to recover and produce the estimated levels or quality of hydrocarbons we anticipate, which could, in turn, prevent us from complying with our gas supply obligations under our long-term gas sales agreements, and our business, results of operations, cash flows, financial condition and prospects could be materially adversely affected. 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.

We operate in a highly competitive industry.

The oil and gas industry is highly competitive in all phases. Competition is particularly intense in Nigeria for the acquisition of oil and gas assets and exploration and production licenses. Our competitive position depends on our geological, geophysical and engineering expertise, our integrated business model, our management expertise, our financial resources, our ability to develop our assets on time and on budget, our ability to select, acquire and develop economically viable reserves and our ability to foster and maintain relationships with national, regional and local governments in Nigeria. We face the following key competitive challenges:

- acquisition of exploration and production licenses, including the acquisition of other companies that may already own licenses or existing hydrocarbon producing assets and/or by participating in future licensing rounds;
- access to, or acquisition of, infrastructure to supply or distribute our oil and gas;
- securing additional gas sales agreements;
- securing contracts with third parties, including our potential competitors in other aspects of the oil and gas industry, for the acquisition of, or the processing and transport of, third parties' gas;
- engagement of third-party service providers, including construction and drilling contractors, whose capacity to provide key services may be limited;
- 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 indigenous Nigerian oil and gas companies and other industries supplying energy and fuel in connection with the marketing and sale of oil and gas to transporters, distributors and end-users, including industrial, commercial and individual consumers. Some of these companies possess, or 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, 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 and prospects, or, if we are able to do so, that we will be able to acquire such assets and prospects on economically viable terms.

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 restrictions on the availability of equipment or services, as well as potentially unfair business practices.

In addition, our ability to remain competitive will require, among other things, management's continued focus on reducing unit costs, improving efficiency and maintaining long-term growth in our reserves and production through continued technological innovation.

Our failure to compete effectively could have a material adverse effect on our business, results of operations, cash flows, financial condition and prospects.

Oil prices are volatile and could be subject to a substantial or extended decline.

Our future revenue, results of operations, cash flows, financial condition and prospects depend substantially on the prices we receive for our oil production and may impact our ability to finance the construction of any additional infrastructure assets or undertake exploration, appraisal or drilling activities as well as the value of our oil assets.

Under the Strategic Alliance Agreement, our revenue comprises cost recovery oil and a share of NPDC's profit oil. Our cost recovery oil is recovered as an agreed dollar amount converted into a number of barrels using the prevailing oil price at the time of each lifting. Any difference between the agreed dollar cost recovery amount and the actual dollar cost recovery amount received upon the sale of the liftings as a result of fluctuations in oil prices between the time of the conversion and the actual lifting is taken into account in the annual reconciliation undertaken between NPDC and ourselves. In particular, our profit oil under the Strategic Alliance Agreement and any oil produced at the Uquo Field and Stubb Creek Field are exposed to oil price fluctuations, subject to the cost recovery oil provisions in place for these fields. Any oil produced by us is sold under oil sales agreements, which are principally determined by reference to the Platts Crude Oil Marketwire (which generally moves in line with the prevailing global spot price for oil). See "Our business—North west Niger Delta - The OMLs" for further details of our revenue generated under the Strategic Alliance Agreement.

Historically, oil prices have been highly volatile and are likely to continue to be volatile in the future. For example, such volatility was particularly pronounced during the year ended December 31, 2012, as Brent prices fluctuated between a high of \$125.96 per barrel in March 2012 and a low of \$90.30 per barrel in June 2012. For the year ended December 31, 2013, prices fluctuated between a high of \$118.70 per barrel in February 2013 and a low of \$98.53 per barrel in April 2013. For the six months ended June 30, 2014, prices fluctuated between a high of \$114.92 per barrel in June 2014 and a low of \$104.7 per barrel in April 2014. Oil prices worldwide have increased significantly over the past ten years, but there can be no assurance that such increases, or the existing price levels, will be maintained in the future and it is possible that oil could fall significantly. The market for oil is a global commodities market, and as such, oil prices depend on a variety of global and macroeconomic factors beyond our control, including, but not limited to:

- global supply of, and demand for, oil and petroleum products and expectations regarding future global supply and demand;
- costs of exploring for, developing and producing oil and petroleum products, together with commodity processing, gathering and transportation availability, and the availability of refining capacity;
- the ability of the members of OPEC and other oil producing nations to agree to and maintain oil prices and production controls;
- governmental regulations and taxes;
- discovery, availability and increased use of shale oil and gas reserves;
- prices of demand for and availability of alternative fuel sources (for example, hydro or other "green" forms of energy);
- weather conditions and natural disasters;
- political conditions or hostilities, acts of terrorism, civil wars or other military conflicts in oil producing regions;
- technological advances affecting energy consumption;
- currency valuations and fluctuations, particularly of the US dollar; and
- worldwide economic conditions and geopolitical events.

If any of these events were to occur, it could have a material adverse effect on our business, results of operations, cash flows, financial condition and prospects.

Gas prices may fluctuate and could be subject to substantial increase or decrease.

All of our current gas reserves and resources in the south east Niger Delta are contracted under long-term gas sales agreements, the price of which is based on a fixed price that is subject to adjustment for inflation. In addition, in connection with the EHGC Acquisition, we have entered into a long-term agreement to supply gas to the UniCem cement plant on agreed fixed prices. Consequently, if the market price for gas increases beyond the levels set forth in such gas sales agreements, we will not benefit from such increased prices due to our contractually agreed positions. In the event that any of the remaining existing gas reserves and resources in the north west Niger Delta or in the Anambra Basin, which are not under contract, or any future reserves and resources in circumstances in either case where the price is not fixed, a decline in gas prices would have a similar detrimental impact as a decline in oil prices.

If any of these events were to occur, it could have a material adverse effect on our business, results of operations, cash flows, financial condition and prospects.

See “Our business—Material agreements relating to our assets” for further details of our long-term gas sales agreements and oil sales agreements.

Drilling for and producing oil and gas are high-risk activities with many uncertainties which may result in increased costs, decreased cash flows and not achieving our planned production targets.

Our future success partially depends on our ability to develop our existing project inventory in a timely and cost-effective manner and achieve our production targets. As part of our strategy, we intend to pursue the further development of our existing assets, which include undeveloped reserves and resources and prospective resources. This is expected to be achieved by drilling and capitalizing on our existing fields, which we believe will enable us to grow our reserves and production levels. In particular, the aggregate volume of gas contracted to be sold under our long-term gas sales agreements to supply the Ibom Power station and the Calabar NIPP power station, represents all of the gas reserves discovered at the Uquo Field and the Stubb Creek Field and will require us to drill additional wells in the future at the Stubb Creek Field in order to access gas reserves and resources to meet our supply obligations under those long-term gas sales agreements.

Our oil and gas activities are subject to numerous risks, including the risk that drilling will not result in commercially viable oil and gas production, not only from wells where no oil and/or gas is discovered (a “dry well”) but also from wells that are productive but do not produce sufficient net revenue to return a profit after drilling, operating and other costs.

Our decisions to purchase, explore, develop or otherwise exploit 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.

The costs of drilling, completing, equipping and operating wells are often uncertain before drilling commences. Overruns in budgeted expenditure is a common risk that can make a particular project uneconomical.

Further, we may be required to curtail, delay, suspend or cancel drilling operations and production because of a variety of operational and economic factors, which could, among other things, impact our ability to meet our 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;

- 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;
- security concerns or incidences;
- reductions in oil and gas prices (other than in circumstances where such drilling operations are required in connection with our obligations pursuant to the terms of any long-term gas sales agreement which contains a fixed minimum price);
- surface access restrictions;
- access to and/or land ownership restrictions;
- lease problems; and
- limitations in the market for oil and gas.

In the event that any of these circumstances, which among other things, would impact our ability to meet our gas supply obligations under our long-term gas sales agreements, were to occur, it may have a material adverse effect on our business, results of operations, cash flows, financial condition and prospects.

There are significant uncertainties in connection with exploration, appraisal and development activities, which may require further funding or further licenses and may not result in economically viable production.

Exploration activities are capital-intensive and their successful outcome cannot be assured. We undertake exploration activities and incur significant costs with no guarantee that such expenditure will result in the discovery of commercially deliverable oil or gas.

The results of any appraisal of oil and gas discoveries are also uncertain and the appraisal and development activities we undertake may require additional funding if we decide to appraise and develop the discovery further. No assurance can be given, however, that any such expenditure will result in the discovery of commercially recoverable oil or gas. Appraisal and development activities may require obtaining additional permits and consents. These may be subject to delay or onerous requirements by reason of governmental, regional or local consultation, approvals or other considerations or requirements.

The success of our appraisal and development operations depends on our ability to find and commercially develop discoveries of oil and gas, including our ability to acquire land on which to build pipelines, processing plants and other equipment in a timely and cost-effective manner. Our failure to succeed in these endeavors may mean that we may not be able to make a return on investment.

In addition, our operations are inherently subject to risks associated with drilling, including blow-outs, explosions or fires, which may impact our operations or create environmental pollution, biodiversity loss or habitat destruction. We are exploring in geographic areas where environmental conditions are challenging and costs can be high. The costs of drilling, completing and operating wells are often uncertain. As a result, we may incur cost overruns or may be required to curtail, delay or cancel drilling operations because of many factors, including unexpected drilling conditions, pressure or irregularities in geological formations, equipment

failures or accidents, adverse weather conditions, compliance with environmental regulations, governmental requirements and shortages or delays in the availability of drilling rigs and the delivery of equipment.

We will continue to gather data about our new venture opportunities and other projects. Additional information which comes to light could cause us to alter our schedule or determine that a new venture opportunity or project should not be pursued, which could adversely affect our prospects. Under our production sharing contracts and other similar agreements, we finance exploration, development and operations and the related facilities and equipment and will only recover our costs if there is successful production in accordance with the terms of these agreements.

Any of the above could have a material adverse effect on our business, results of operations, cash flows, financial condition and prospects.

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

Unless stated otherwise, the contingent resources and prospective resources data set forth in this Offering Memorandum has been extracted without material adjustment from reports prepared by technical experts, namely Senergy and Novas. Additional uncertainties exist with respect to the estimation of contingent resources and prospective resources over and above 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. Prospective resources are those quantities of resources estimated, as of a given date, to be potentially recoverable from undiscovered accumulations by application of future development projects. Development of contingent resources and prospective 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 and prospective resources will be economically recoverable is considerably lower than that for proved and probable reserves. Volumes and values associated with contingent resources and prospective resources should be considered highly speculative and there can be no assurance that we will be able to develop these resources commercially.

We may not be able to keep pace with technological developments in our industry.

The oil and gas industry is characterized by rapid and significant technological advancements and introductions of new products and services using new technologies. As others use or develop new technologies, we may be placed at a competitive disadvantage or may be forced by competitive pressures to implement those new technologies at substantial costs. In addition, other oil and gas companies may have greater financial, technical and personnel resources that allow them to enjoy technological advantages and that may in the future allow them to implement new technologies before we can. We may not be able to respond to these competitive pressures or implement new technologies on a timely basis or at an acceptable cost. If one or more of the technologies we use now or in the future were to become obsolete, our business, financial condition and results of operations could be materially adversely affected. In addition, any new technology that we implement may have unanticipated or unforeseen adverse consequences, such as increasing the supply of and lowering the price of oil and gas, either to our business or the industry as a whole.

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.

As with other companies in the oil and gas industry, our oil and gas exploration, development and production activities, as well as those of our commercial partners and third-party operators, are directly or indirectly heavily dependent 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. In Nigeria, such equipment and services may not be readily available at the times and places required by us, our commercial partners or third-party operators or at costs that are commercially reasonable, which might impact the execution of our exploration, development and production programs or those of our commercial partners or third-party operators of assets in which we have interests.

We rely heavily on external contractors to carry out maintenance of our assets and infrastructure. As a result, we are dependent on such 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. Continuing high prices for oil or gas may result in a substantial increase in regional exploration and development activities, which could further exacerbate the scarcity of equipment and services in Nigeria 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 commercial partners or third-party operators of assets in which we have interests.

Some of the services and equipment required by us, our commercial partners or third-party operators are currently only available on commercially reasonable terms from one or a limited number of providers. For example, there are currently a limited number of pipeline contractors and civil engineering contractors in Nigeria. Our operations and developments may be interrupted or otherwise adversely affected by failure to supply, or delays in the supply of, equipment or services that meet our quality requirements or those of our commercial partners or third-party operators of assets in which we have interests. If we, or any of our commercial partners or a third-party operator of assets in which we have interests, 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 it 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 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 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 revenue or increase costs, each of which in turn could have a material adverse effect on our business, results of operations, cash flows, financial condition and prospects.

Any gas flaring in violation of the Gas Flaring 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, approximately 2 Bcf per day 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 "Gas Flaring Act", generally prohibits gas flaring, it empowers the MPR Minister to permit flaring subject to certain conditions, including the payment of a fee prescribed from time to time for each standard cubic meter of gas flared. The current draft of the PIB proposes to repeal, among other things, the Gas Flaring Act and the prohibition of gas flaring, and provides for penalties for unauthorized flaring. In its current form, however, the PIB does not specify any fine for gas flaring, but merely provides that penalties for unauthorized flaring will be as determined by the MPR, from time to time but shall not be less than the value of the gas flared.

Gas flaring at OMLs 4, 38 and 41 is routinely carried out by Seplat for its operational needs in accordance with the requirements of the Gas Flaring Act. If an operator performs gas flaring without the requisite permits, the Gas Flaring Act provides for the imposition of financial penalties and/or forfeiture of the license for the field, as well as the withholding of all or part of any of its entitlements to be put towards the cost of completion or implementation of a desirable re-injection scheme, or repair or restoration of any reservoir in the field in accordance with good oil-field practice. Furthermore, while such powers of penalties and forfeiture primarily apply to the person committing the offence, they also extend to those parties who are bound by such person's actions, which would include for example, the holders of any license interests. Accordingly, if gas flaring at OMLs 4, 38 and 41, or at any other asset in which we hold a license interest or operatorship, either now or in the future, is not carried out in accordance with the requirements of the Gas Flaring Act or any future legislation amending or reforming the Gas Flaring Act (such as the PIB), then we, our commercial partners or third-party operators of assets in which we are interested could face such adverse consequences. Furthermore, if we desired to flare gas, we may be unable to obtain a permit to flare at all. Any such incidence could have a material adverse effect on our business, results of operations, financial condition and prospects.

Risk factors relating to our structure and the Notes

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 Guarantees.

As of June 30, 2014, after giving *pro forma* effect to the Refinancing, we would have had total borrowings of \$744.6 million of debt outstanding, of which \$300.0 million would have been represented by the Notes.

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

- making it more difficult for us to satisfy our obligations with respect to the Notes or our 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 payment of principal of, and interest on, indebtedness, thereby reducing the availability of such cash flow for other uses;
- limiting our ability to obtain additional financing to fund working capital, capital investments, acquisitions, other 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;
- placing us at a competitive disadvantage compared to our competitors that have lower leverage or greater financial resources than we have;
- negatively impacting credit terms with our creditors; and
- limiting our ability to borrow additional funds and subjecting us to financial and other restrictive covenants.

These consequences could have a material adverse effect on our business, prospects, financial condition and results of operations and on our ability to satisfy our obligations under the Notes.

Despite our current level of indebtedness, we may still be able to incur substantially more debt in the future, including at 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, including secured indebtedness and indebtedness that is guaranteed by, or secured by assets of, our subsidiaries that do not guarantee or secure the Notes. Although the Indenture and the terms of the NSIA Notes 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 Guarantees” and elsewhere in these “Risk factors”, could increase. In addition, neither the Indenture nor the terms of the NSIA Notes will 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, or if the assets of our non-Guarantor subsidiaries secure such debt, 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 Guarantees will be structurally subordinated to the liabilities 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”.

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 our 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 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 the Indenture and our other debt agreements, including the terms of the NSIA Notes, 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 debt under the Accugas II Facility, the Accugas III Facility, the Bank of Industry Loan and Akwa Ibom State Loan. 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 the Notes, the NSIA Notes, the Accugas II Facility, the Accugas III Facility, the Bank of Industry Loan and Akwa Ibom State Loan limit, and 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 triggering of cross-default or cross-acceleration provisions in our debt obligations (including the Notes); and
- our being forced into bankruptcy or liquidation, which could result in you losing your investment in the Notes.

Our debt levels and covenants and restrictions governing our indebtedness may limit our flexibility to obtain additional financing and pursue other business opportunities.

As of June 30, 2014, we would have total borrowings of \$744.6 million after giving effect to the Refinancing.

We have historically used, and intend to continue to use, debt financing to fund our future operations and projects, subject to the limitations on indebtedness imposed on us as specified in the Notes, the NSIA Notes and our existing credit facilities. Consequently, our indebtedness may increase from time to time in the future for various reasons, including as a result of capital expenditures, fluctuations in operating results or potential acquisitions or joint ventures. Risks related to our level of indebtedness, together with the financial and other restrictive covenants contained in agreements governing such indebtedness, include:

- a limitation or impairment of our ability to obtain further debt financing, refinance any such indebtedness, sell assets or raise equity on commercially reasonable terms or at all, which could cause us to default on existing obligations and/or materially impair our liquidity;
- a reduction in our flexibility to respond to changing business and economic conditions or to take advantage of business opportunities that may arise; and
- the dedication of a portion of our cash flow from operations to service interest payments on our indebtedness calculated primarily by reference to LIBOR rates plus an applicable margin, which amount would increase if prevailing LIBOR rates rise. Such dedicated cashflows are therefore not available for other purposes.

In the longer term, our ability to comply with financial and other covenants and conditions of our financing agreements, make scheduled payments of principal and interest, or refinance existing borrowings will depend on our future operational and business performance, which is subject to economic, financial, competitive and other factors. Our credit facilities contain customary financial covenants, including restrictions on the ability to incur other indebtedness, to dispose of assets and/or the free use of available cash deposits, which limit our flexibility to conduct our operations and may create a risk of default in the longer term if we cannot comply with such covenants. If our operating results decrease or we were to fail to comply with our operational covenants, we may have to request waivers or amendments to such covenants and restrictions. For example, due to delays in the production of gas from the Uquo Field, our subsidiary, Accugas, was unable to comply with certain covenants in the Accugas II Facility and Accugas was required to seek and obtain a waiver in respect of such covenants. The Accugas II Facility contains a covenant that requires us to meet specified deadlines, including a long-stop date for delivery of gas to the Calabar NIPP power station. Consequently, if the construction of the near-complete Uquo to Oron pipeline is delayed beyond the contractually-applicable long-stop date of January 1, 2015, absent a waiver, we would be in default. There can be no assurance that we will be able to obtain relief from default should it be needed.

A breach of any covenant or restriction or a failure to make scheduled payments of principal or interest on any such indebtedness, including under the Indenture of the NSIA Notes, could result in a default that would permit our creditors to declare all amounts borrowed to be due and payable, together with accrued and unpaid interest, and the commitments of the relevant senior lenders to make further extensions of credit could be terminated. In addition, since certain of our financing arrangements are secured by various security agreements, such as pledges over shares of certain subsidiaries, any enforcement action taken by our lenders could include the sale by such lenders of the property securing such debt if we are unable to pay the outstanding debt immediately. Accordingly, payment default or covenant breaches and the subsequent exercise by the relevant lenders of their rights under the various financing agreements could have a material adverse effect on our business, results of operations, cash flows, financial condition and prospects.

The Issuer is a newly formed entity with no revenue-generating operations of its own and no assets other than the obligations under the Proceeds Loan, and the Issuer is completely dependent on payments under the Proceeds Loan to service its obligations under the Notes.

The Issuer is a newly formed entity organized as a company limited by shares under the laws of the British Virgin Islands for the purpose of issuing the Notes, with no operations or assets of its own (other than receivables under the Proceeds Loan). The Issuer's cash flow and ability to service its debt, including the Notes, will depend entirely on the ability of the Company, the obligor under the Proceeds Loan, to make payments on

the Proceeds Loan. The Company will not be obligated to make any other payments or capital contribution to the Issuer other than those required under the Proceeds Loan. The Company is a holding company with no revenue-generating business operations and its only significant asset is the equity interests it holds in its subsidiaries. The Company will be dependent on the cash flows from its subsidiaries in the form of dividends or other distributions or payments to meet its obligations, including its obligations under the Proceeds Loan and, therefore, the ability of the Company to make payments under the Proceeds Loan, and the ability of the Issuer to make payments under the Notes, will depend primarily on the operating performance and financial condition of our operating subsidiaries. The operating performance and financial condition of our operating subsidiaries and the ability of such subsidiaries to provide funds to the Company by way of dividends or otherwise will, in turn, depend, to some extent, on general economic, financial, competitive, market and other factors, many of which are beyond the Issuer's control. The subsidiaries of the Company may not generate income and cash flow sufficient to enable the Company to meet its payment obligations on the Proceeds Loan.

Various regulations and current or future agreements in respect of our subsidiaries may restrict, and in some cases prohibit, the ability of our subsidiaries from to distribute cash to the Company. Such restrictions include those created by the Intercreditor Agreement and other debt obligations of the Company and its subsidiaries. See "*Description of certain financing arrangements*". Applicable laws and regulations, including local corporate laws, tax laws, foreign exchange controls and regulatory capital requirements, may also limit the amounts that the subsidiaries of the Company are permitted to pay as dividends or distributions to the Company. For example, a substantial portion of the proceeds of the Notes will be on-lent by Seven Energy to Seven Exploration for repayment of the Reserve Based Lending Facility. This intercompany loan from Seven Energy to Seven Exploration will be a "moratorium loan" under Nigerian law, and so no payments will be allowed thereunder for the first two years of such moratorium loan. Any restrictions on distributions by such subsidiaries could adversely affect the ability of the Company to make payments on the Proceeds Loan and, consequently, on the ability of the Issuer to make payments on the Notes. In addition, financial assistance restrictions may prevent upstream loans from being made to the Company by its subsidiaries to enable the Company to service its obligations under the Proceeds Loan and the Issuer to service its obligations under the Notes. Although the Indenture and the terms of the NSIA Notes will limit the ability of our subsidiaries to enter into future consensual restrictions on their ability to pay dividends and make other payments to the Company, there are significant qualifications and exceptions to these limitations.

Goodwill impairment and other non-cash charges in our consolidated income statement, as well as charges recognized directly in equity, such as actuarial losses, foreign exchange rate adjustments and losses on hedges, if incurred, could potentially reduce our subsidiaries' reserves available for distribution and thus reduce or prevent upstream dividend payments to allow the Company and the Issuer to service their indebtedness.

The Indenture and the terms of the NSIA Notes will permit us to make unlimited investments in oil and gas businesses.

The covenants in the Indenture and the terms of the NSIA Notes relating to restricted payments will not prohibit us from making investments (including minority investments) in oil and gas businesses, which are broadly defined to include direct or indirect ownership of hydrocarbon properties, rigs and equipment and operating agreements, joint ventures and other agreements common in the oil and gas industry. As such, neither the Indenture nor the terms of the NSIA Notes will limit the amount of our cash that we may use to enter into such investments, which may limit the amount of our cash available for debt service, including payment of the Notes. Such investments may not be successful or profitable, and are subject to the risks described under "Risk factors related to our business— Any expansion via acquisition may not be successful and anticipated benefits of acquisitions may not be realized".

We are subject to restrictive debt covenants that may limit our ability to finance our future operations and capital needs and to pursue business opportunities and activities.

The Indenture and the terms of the NSIA Notes will restrict, among other things, our ability 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 make other payments to the Company;
- make certain investments or loans;
- sell, lease or transfer certain assets, including shares of any of our restricted subsidiaries;
- in the case of the Indenture, guarantee certain types of our other indebtedness without also guaranteeing the Notes;
- expand into unrelated businesses;
- consummate a change of control;
- merge or consolidate with other entities, or make certain asset sales; and
- enter into certain transactions with affiliates.

All of these limitations are subject to significant exceptions and qualifications. See “Description of Notes—Certain Covenants”. The covenants to which we are subject could limit our ability to finance our future operations and capital needs and our ability to pursue business opportunities and activities that may be in our interest.

In addition, we are subject to affirmative and negative covenants contained in the Accugas II Facility, the Accugas III Facility, the Bank of Industry Loan and Akwa Ibom State Loan. See “Description of certain financing arrangements”. Our ability to meet financial ratios and tests can be affected by events beyond our control, and we cannot assure you that we will meet them. A breach of any of those covenants, ratios, tests or restrictions could result in an event of default under the indebtedness, as applicable. Upon the occurrence of any event of default under any of our credit facilities, subject to applicable cure periods and other limitations on acceleration or enforcement, the relevant creditors could cancel the availability of the facilities and elect to declare all amounts outstanding, together with accrued interest, immediately due and payable. Furthermore, we may be limited in or prohibited from withdrawing funds from bank accounts that consist of amounts that we have received in connection with certain assets or any disposal of such assets or of any subsidiary that holds, whether directly or indirectly, any such asset. In addition, any default under the Accugas II Facility, the Accugas III Facility, the Bank of Industry Loan and Akwa Ibom State Loan could lead to an event of default and acceleration under other debt instruments that contain cross-default or cross-acceleration provisions, including the Indenture and the Notes. If our creditors, including the creditors under the Accugas II Facility, the Accugas III Facility, the Bank of Industry Loan and Akwa Ibom State Loan, accelerate the payment of those amounts, we cannot assure you that our cash flow or our assets and the assets of our subsidiaries would be sufficient to repay in full those amounts, to satisfy all other liabilities of our subsidiaries which would be due and payable and to make payments to enable us to repay the Notes. If we are unable to repay those amounts, our creditors could proceed against the collateral that secures the debt under the Accugas II Facility and the Accugas III Facility.

In addition, if an unexpected change to accounting standards occurs or we fail to correctly interpret a new or modified accounting standard, we may be unable to comply with our maintenance covenants.

Claims of creditors benefitting from security interests in assets that do not secure the Notes or the Guarantees will have priority with respect to their collateral over the claims of holders of the Notes, to the extent of the value of the assets securing such indebtedness.

Claims of creditors benefitting from security interests in assets that do not secure the Notes or the Guarantees (including obligations with respect to the Accugas II Facility and the Accugas III Facility) will have priority with respect to the assets securing their indebtedness over the claims of holders of the Notes. As such, the Notes and Guarantees will be effectively subordinated to any secured indebtedness and other secured obligations of the Issuer or the relevant Guarantor to the extent of the value of the assets securing such indebtedness or other obligations. In the event of any foreclosure, dissolution, winding up, liquidation,

reorganization, administration or other bankruptcy or insolvency proceeding of the Issuer or any Guarantor that has secured obligations, holders of secured indebtedness will have priority claims to the assets of the Issuer or such Guarantor that constitute their collateral. Subject to the limitations referred to under the caption “—Each Guarantee will be subject to certain limitations on enforcement and may be limited by applicable laws or subject to certain defenses that may limit its validity and enforceability”, the holders of the Notes will participate ratably with all holders of the unsecured indebtedness of the Issuer or the relevant Guarantor, and potentially with all of their other general creditors, based upon the respective amounts owed to each holder or creditor, to the extent of the value of assets securing such indebtedness but not securing the Notes or the Guarantees. If any of the indebtedness of the Issuer or the relevant Guarantor secured by assets that do not secure the Notes or the relevant Guarantee becomes due or the creditors thereunder proceed against such assets that secure such indebtedness, the assets remaining after repayment of that secured indebtedness may not be sufficient to repay all amounts owing in respect of the Notes or the relevant Guarantee. In particular, our midstream assets (and pledges of the shares of the companies that hold such midstream assets) secure indebtedness under our Accugas II Facility and Accugas III Facility, but do not secure the Notes or the Guarantees.

The primary Collateral securing the Notes will not be perfected or enforceable for the full amount of the indebtedness thereby secured unless and until full stamp duties and registration fees are paid in respect thereof by or on behalf of the holders of the Notes.

In Nigeria, significant stamp duties are imposed on certain instruments creating security over a company’s assets and, in the case of instruments creating registrable charges under the Companies and Allied Matters Act Cap C20 LFN 2004 (the “CAMA”), significant registration fees are imposed in addition to such stamp duties. In order to minimize transaction costs, creditors in certain large financings in Nigeria customarily agree, at the request of the relevant obligors, to “understamp”, or pay stamp duties in respect of only a fraction of the indebtedness secured by such collateral. In practice, the creditors or their agents retain custody of corporate authorizations, forms and other relevant documents to enable such creditors or their agents to “upstamp”, or pay the additional stamp duty and registration fees owed, to ensure that the collateral securing the relevant indebtedness is perfected and enforceable for the full amount of indebtedness thereby secured in the event of an enforcement of such collateral.

Such stamp duties and registration fees are generally payable in respect of certain security interests governed by Nigerian law or over assets located in, or granted by, a Nigerian entity. The security documents meeting such criteria, including the pledge of the shares of Seven Exploration and the debenture securing the assets of Seven Exploration (the “Nigerian Security Documents”) pursuant to which the Collateral will be granted will be subject to such stamp duties and registration fees. The Nigerian Security Documents are or will be stamped and registered for only a fraction of the amount of indebtedness purported to be secured thereby. To the extent that the relevant Security Agent or the holders of Notes seek to enforce the Nigerian Security Documents and in other circumstances contemplated by the terms of the Indenture and, to the extent applicable, the Intercreditor Agreement, the Nigerian Security Documents would need to be upstamped for the portion of the indebtedness that was not initially stamped and registered for the remaining portion of the relevant collateral to be perfected and enforceable. Stamp duties and registration fees could, based on current rates, amount to 1.375% of the debt secured minus the amount of the stamp duties and registration fees initially paid. The Issuer has agreed pursuant to the Indenture to pay \$1.0 million in stamp duty and registration fees on the Security Documents, meaning that in the event of enforcement of the Nigerian Security Documents, holders of the Notes (or their agent) and the NSIA Notes would need to pay an additional \$5.875 million to “upstamp” the Nigerian Security Documents so that they would be perfected and enforceable for the full amount of the Notes. If holders of the Notes do not upstamp the Nigerian Security Documents, the holders of the Notes will in effect be unsecured to the extent of any portion of indebtedness purported to be secured by the Nigerian Security Documents for which the full stamp duties and registration fees have not been paid. Nigerian authorities may increase the rates of stamp duties and registration fees and apply such increases to security documents on which stamp duty and registration fees were not initially paid in full. Because the Nigerian Security Documents secure both the Notes and the NSIA Notes, amounts paid to upstamp the Nigerian Security Documents will be applied pro rata to stamp duties and registration fees in respect of both the Notes and the NSIA Notes. For example, a portion of stamp duties and registration fees paid by holders of the Notes would benefit holders of the NSIA Notes (and such portion would not benefit holders of the Notes) to the extent holders of the NSIA Notes do also not fund their pro rata portion of stamp duties and registration fees.

In addition, any subsequent third-party security interest over assets secured pursuant to the Nigerian Security Documents which is perfected (i.e., by means of paying the full amount of stamp duty and registration fees associated with such subsequent security interest) prior to the payment by or on behalf of the holders of the

Notes of the full amount of stamp duty and registration fees in respect of the Nigerian Security Documents would rank ahead of the unstamped portion of the security created pursuant to the Nigerian Security Documents. Although creditors may agree to terms regulating the timing of permitted upstamping, and such terms are included in the Intercreditor Agreement, any breach of intercreditor arrangements related thereto would result only in a contractual or equitable claim against the breaching creditor and no other right at law to the relevant collateral.

Furthermore, any “upstamping” payment made, whether by the debtor or the creditor, within the three months preceding the insolvency or winding-up of a Nigerian entity could be deemed in certain circumstances to be a fraudulent preference under the provisions of section 495(1) of the CAMA and void against the liquidator of such entity. In the event of the Nigerian entity’s insolvency, the noteholders may therefore be effectively secured only in respect of the amounts for which stamp duties and registration fees had been paid initially, but unsecured in respect of any amounts for which stamp duties and registration fees remain unpaid, and the enforcement of any Nigerian Security Documents in respect of such unpaid amounts could be impaired or challenged.

The proceeds of any enforcement of the Guarantee of a Nigerian company or of security interests secured on shares or assets of a Nigerian company or assets located in Nigeria will be subject to a 10% withholding tax by Nigerian tax authorities.

Proceeds from the enforcement of certain guarantees of Nigerian companies and security interests granted over the shares and assets of Nigerian companies and assets located in Nigeria are subject to a 10% withholding tax. Substantially all of our assets are located in Nigeria and held by Nigerian companies. As a result, holders of the Notes should expect that upon the realization of any proceeds of enforcement of the guarantees, the amount of such proceeds will be reduced by 10%, which will effectively reduce the recovery of creditors in any liquidation of our assets by 10%. This tax may be increased in the future, with such increase applied retroactively to guarantees and security interests already in place.

The Notes and each Guarantee will be structurally subordinated to the liabilities and any preferred stock of our non-guarantor subsidiaries.

Some, but not all, of our subsidiaries will guarantee the Notes. Unless a subsidiary is a Guarantor, our subsidiaries do not have any obligation to pay amounts due on the Notes or to make funds available for that purpose. Accordingly, you should only rely on the guarantees of the Notes to provide credit support in respect of payments of principal or interest on the Notes.

Our operating subsidiaries are separate and distinct legal entities and those of our subsidiaries that do not guarantee the Notes (including Universal Energy (which holds our interest in the Stubb Creek Field) and Accugas and EHGC (which hold our midstream assets), among others) have no obligation, contingent or otherwise, to pay any amounts due pursuant to the Notes or to make any funds available therefor, whether by dividends, loans, distributions or other payments, and do not guarantee the payment of interest on, or principal of, the Notes. Generally, claims of creditors of a non-guarantor subsidiary, including trade creditors, and claims of any preferred stockholders of the subsidiary, will have priority with respect to the assets and earnings of the subsidiary over the claims of creditors of its parent entity, including claims by noteholders under the Guarantees. In the event of any foreclosure, dissolution, winding-up, liquidation, reorganization, administration or other bankruptcy or insolvency proceeding of any of our non-guarantor subsidiaries, the creditors of the Guarantors (including the holders of the Notes) will have no right to proceed against such subsidiary’s assets and holders of their indebtedness and their trade creditors will generally be entitled to payment in full of their claims from the assets of those subsidiaries before any Guarantor, as direct or indirect shareholder, will be entitled to receive any distributions from such subsidiary. As such, the Notes and each Guarantee thereof will be structurally subordinated to the creditors (including trade creditors) and any preferred stockholders of our non-guarantor subsidiaries. After giving effect to the Refinancing, debt at non-guarantor subsidiaries as of June 30, 2014 included (i) \$325 million outstanding under the Accugas Facilities; (ii) \$9.9 million outstanding under the Akwa Ibom State Loan; and (iii) \$44.0 million outstanding under the Bank of Industry Loan. See “Description of certain financing arrangements” and “Capitalization”.

The Issuer and the Guarantors represented 97.9% of our 1P reserve base as of December 31, 2013, 45.1% of our property plant and equipment – oil and gas assets as of June 30, 2014 and 100% of our current production and 96.2% of our combined *pro forma* EBITDAX as of and for the twelve months ended June 30,

2014, after giving effect to the EHGC Acquisition as if it occurred on January 1, 2013 (percentage of pro forma EBITDAX calculation includes only entities with positive EBITDAX).

Enforcement of the Guarantees across multiple jurisdictions may be difficult.

We are incorporated under the laws of the British Virgin Islands. The Notes will be issued by us and guaranteed by the initial and any additional Guarantors, which are organized or incorporated under the laws of Bermuda, the British Virgin Islands, Jersey, Mauritius and Nigeria. In the event of bankruptcy, insolvency or a similar event, proceedings could be initiated in any of these jurisdictions and in the jurisdiction of organization of a future Guarantor. The rights under the Guarantees will thus be subject to the laws of a number of jurisdictions, and it may be difficult to effectively enforce such rights in multiple bankruptcy, insolvency and other similar proceedings. Moreover, such multi-jurisdictional proceedings are typically complex and costly for creditors and often result in substantial uncertainty and delay in the enforcement of creditors' rights. In addition, the bankruptcy, insolvency, administration and other laws of our jurisdiction of organization and the jurisdiction of organization of the Guarantors may be materially different from, or in conflict with, one another, including creditors' rights, priority of creditors, the ability to obtain post-petition interest and the duration of the insolvency proceeding. The application of these various laws in multiple jurisdictions could trigger disputes over which jurisdictions' law should apply and could adversely affect the ability to realize any recovery under the Notes and the Guarantees.

Your ability to enforce on the security granted over our assets, particularly our Nigerian assets and shares of our Nigerian subsidiaries, may be limited.

As security for our obligations under the Notes, certain of our subsidiaries will grant security interests to the Security Agent for the benefit of the noteholders over all or substantially all of their assets and/or shares in certain of our subsidiaries directly owned by them.

The Notes and the Guarantees will be secured by contractual first priority liens over the following assets (together, the "Collateral"): (i) the capital stock or shares of Seven Energy Ltd., Seven Energy (BVI) Limited, Seven Energy Finance Limited, Seven Exploration, SUGL, Energy 905 and Seven Energy (Jersey); (ii) the assets of Seven Energy Finance Limited (including receivables under the Proceeds Loan), Seven Energy (BVI) and Seven Energy Ltd. pursuant to English law debentures; (iii) the assets of Seven Energy (subject to certain exceptions including for assets pledged to secure the Accugas Facilities) pursuant to a Mauritian law floating charge; (iv) the assets of Seven Exploration (subject to certain exceptions including for assets pledged to secure the Accugas Facilities and shares of Accugas) pursuant to a Nigerian law debenture; and (v) the assets of Seven Energy (Jersey) pursuant to a Jersey law general security agreement.

The security interests will not extend to (a) assets, including bank accounts held jointly with our commercial partners; (b) assets of Seven Energy and Seven Exploration pledged to secure the Accugas Facilities and (c) shares of Accugas and Universal Energy, Domestic Gas Development Company Limited, Septa Oil Trading Company Limited, EHGC, Seven Energy (UK) Limited, Exoro Energy Limited and Exoro Holdings B.V. For a description of the Accugas Facilities, see "Description of Certain Financing Arrangements—Accugas II Facility" and "Description of Certain Financing Arrangements—Accugas III Facility".

Enforcement of security interests in hydrocarbon-related assets in Nigeria by international creditors is untested, and there is therefore no precedent as to how enforcement would be implemented in practice. Generally, any enforcement of collateral in Nigeria may be delayed due to factors, including, but not limited to, bureaucratic court procedures, congested court systems and delaying tactics by counsel. In particular, it is difficult to predict whether any enforcement of rights under the Strategic Alliance Agreement, the counterparty to which is NPDC, the subsidiary of a Nigerian government agency, would ultimately be successful. We will agree to use our commercially reasonable endeavors to obtain the consent of NPDC to the assignment of our interests under the Strategic Alliance Agreement. However, there is a significant probability that such consent will not be received, or if received will not be enforceable. In the absence of such consent the assignment of our interests under the Strategic Alliance Agreement may not be legally enforceable. A change of control of Nigerian companies holding hydrocarbon assets such as would occur upon any enforcement by creditors of pledges of shares of a holding company of Seven Exploration, SUGL or Energy 905 may require the consent of the MPR or other government agencies in Nigeria, and such consent may be delayed or not granted. Any delay resulting therefrom may affect the sale value of the assets over which the security is enforced. Moreover, the subordination of claims of the shareholders in a Nigerian insolvency proceeding is untested. Therefore, in the

event of enforcement, holders of the Notes may not recover the full value of assets in Nigeria. See also “Legal and Regulatory—Nigeria—Enforcement of Security under Nigerian Law”.

Any enforcement of collateral, whether under Nigerian, Bermuda, BVI, Mauritian or Jersey law, remains subject to relevant insolvency laws and regulations, and recovery of the value of any assets on insolvency may be limited or constrained by application of these laws and regulations.

The value of the Collateral securing the Notes and the Guarantees may not be sufficient to satisfy the Issuer’s and the Guarantors’ obligations under the Notes and the Guarantees, and the Collateral securing the Notes may be reduced or diluted under certain circumstances.

The Notes and the Guarantees will be secured by security interests in the Collateral described in this Offering Memorandum. This Collateral will also secure the NSIA Notes and the NSIA Guarantees and, may also secure significant amounts of future indebtedness. In the event of foreclosure on the Collateral, the proceeds from the sale of the Collateral may not be sufficient to satisfy the obligations under the Notes. No appraisals of any of the Collateral have been prepared by us or on our behalf in connection with the Refinancing. The value of the Collateral and the amount to be received upon a sale of such Collateral will depend upon many factors, including, among others, whether or not our business is sold as a going concern, the condition of the Collateral and the industry in which we operate, the ability to sell the Collateral in an ordinary sale, the condition of the international, national and local economies and the availability of buyers. The book value of the Collateral should not be relied upon as a measure of realizable value for such assets. By their nature, portions of the Collateral, including any pledged capital stock or shares of any of our subsidiaries and contractual rights, may be illiquid and may have no readily ascertainable market value. Moreover, the primary asset constituting the Collateral, Seven Exploration’s interests in the OMLs under the Strategic Alliance Agreement, is, according to internal projections, expected to decline in terms of its absolute and proportionate contributions to our revenue and EBITDAX. In addition, the security interests securing Seven Exploration’s interest in the Strategic Alliance Agreement may be difficult to enforce. See “—Your ability to enforce on the security granted over our assets, particularly our Nigerian assets and shares of our Nigerian subsidiaries, may be limited”.

The Collateral will be subject to any and all exceptions, defects, encumbrances, liens and other imperfections as may be accepted by the relevant Security Agent and any creditors that also have the benefit of liens on the Collateral from time to time, whether on or after the date the Notes are issued. The existence of any such exceptions, defects, encumbrances, liens and other imperfections could adversely affect the value of the Collateral as well as the ability of the relevant Security Agent to realize or foreclose on such Collateral.

In addition, the Indenture and the terms of the NSIA Notes will permit the granting of certain liens, other than those in favor of the holders of the Notes, on assets constituting Collateral. To the extent that holders of other secured indebtedness or third parties hold liens, including statutory liens, whether or not permitted by the Indenture or the security documents governing the Collateral, such holders or third parties may have rights and remedies with respect to all or a portion of the Collateral that, if exercised, could reduce the proceeds available to satisfy our obligations under the Notes. Moreover, if we issue additional Notes under the Indenture, holders of such additional Notes will benefit from the same Collateral and Guarantees as the holders of the Notes being offered, effectively diluting your ability to benefit from the liens on the Collateral and the Guarantees.

There are circumstances other than repayment or discharge of the Notes under which the Collateral securing the Notes and the Guarantees will be released automatically without your consent or the consent of the Trustee.

Under various circumstances, the Collateral securing the Notes and the Guarantees will be released automatically, including:

- in connection with any sale, assignment, transfer, conveyance or other disposition of such property or assets that does not violate the provisions set forth under “Description of Notes—Repurchase at the Option of Holders—Asset Sales”;
- in the case of a Guarantor that is released from its Guarantee pursuant to the terms of the Indenture, the release of the property and assets, and Capital Stock, of such Guarantor;

- if the Company designates any of its restricted subsidiaries to be an unrestricted subsidiary in accordance with the applicable provisions of the Indenture, the release of the property and assets of such restricted subsidiary;
- upon repayment in full of the Notes or upon legal defeasance, covenant defeasance or satisfaction and discharge as described under the captions “Description of Notes—Legal Defeasance and Covenant Defeasance” and “Description of Notes—Satisfaction and Discharge”;
- as described under “Description of Notes—Amendment, Supplement and Waiver”;
- upon the release and discharge of the initial lien giving rise to the obligation to provide such lien as described under “Description of Notes—Certain covenants—Liens”; and
- as otherwise permitted in accordance with the Indenture.

In addition, the Guarantees will be subject to release as contemplated under the Intercreditor Agreement. Unless consented to, the Intercreditor Agreement provides that the Security Agent or certain creditors named therein shall not, in an enforcement scenario, exercise their rights to release the relevant Guarantees unless, with respect to the relevant sale or disposal:

- the proceeds of such sale or disposal are in cash (or substantially in cash);
- all present and future obligations owed to the creditors under certain senior finance documents by a member of our group are unconditionally released and discharged or sold or disposed of concurrently with such sale; and
- such sale or disposal (including any sale or disposal of any claim) is made:
 - pursuant to a public auction; or
 - where an independent investment bank or an internationally recognized firm of accountants selected by such security trustee has delivered an opinion to the trustee of the Notes 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 and the circumstances giving rise to such sale.

Upon any release of a Guarantee by a Guarantor in connection with an enforcement sale as described above, the creditors of such Guarantor would be entitled to be paid in full before any payment may be made to the holders of the equity of such Guarantor, if at all.

The insolvency laws of Bermuda, Mauritius, the British Virgin Islands and Jersey may not be as favorable to you as insolvency laws of jurisdictions with which you may be familiar and may preclude holders of the Notes from recovering payments due on the Notes.

A number of separate procedures are available to interested parties upon the insolvency of a company in Bermuda, Mauritius, the British Virgin Islands or Jersey. These procedures may differ from the procedures available in other jurisdictions, as to the remedies available to interested parties, the powers granted to liquidators or other insolvency officials, as to the priority of the rights of creditors and government entities, the duration of proceedings and the ability to pay interest.

Certain of the Guarantors are organized in Nigeria, and therefore an insolvency or winding up of such Guarantors will be subject to Nigerian insolvency laws, which may not be as favorable to you as those of another jurisdiction with which you may be familiar.

Nigerian law empowers Nigerian courts in certain circumstances to appoint a receiver or manager for a Nigerian company. A court may, on the application of a debenture holder, trustee or person interested, appoint a receiver or manager if the court is satisfied that a debenture holder “has become entitled to realize its security” or the security or property of the company is in jeopardy. Alternatively, the holder of a debenture or trustee may

appoint a receiver or manager out of court, provided such debenture has become enforceable and the debenture empowers the holder thereof to appoint a receiver or manager. In this case, there is no requirement under the CAMA to show that the company is, or is likely to become, insolvent. The purpose of appointing a receiver is to work towards paying outstanding debt or redeeming security or freeing property from some jeopardy for the benefit of creditors and debenture holders on whose behalf the appointment is made.

In addition to appointing a receiver or manager, the Nigerian courts have power under Nigerian law to, upon the petition of any creditor, the company, the directors of the company or any of the company's shareholders, wind-up a company that is unable to pay its debts (under section 408 of the CAMA). Any disposition of the company's property and any transfer of shares after commencement of the winding-up are void unless sanctioned by the court. Once a winding-up of a company has commenced, a stay on all proceedings against the company may be imposed. No legal action may be continued or commenced against the company without leave of the court.

Alternatively, the shareholders and creditors of a company have the power to appoint a liquidator to the company where the company is insolvent. There is no automatic stay on proceedings against the company, however a liquidator (or creditor or shareholder) may apply to the court for such a stay.

A liquidator has the power to disclaim any onerous property, which is any unprofitable contract and any other property of the company that cannot be sold, readily sold or may give rise to a liability to pay money or perform any other onerous act. A contract may be unprofitable if it gives rise to prospective liabilities and imposes continuing financial obligations on the company that may be detrimental to creditors. However, this power does not apply to an executed contract nor can it be used to disturb accrued rights and liabilities. The effect of liquidation is to bring the company's business to an end (except as far as it is needed to continue as part of the winding-up process), and ensure that the assets of the company are used to pay off its debts and that creditors in the same class are treated equally.

Under Nigerian insolvency law, the liquidator may, among other things, apply to the court to unwind a transaction entered into by such company, if such company was unable to pay its debts (as defined in section 409 of the CAMA) at the time of, or as a result of, the transaction. If the liquidator can show that any of our Nigerian Guarantors has given "preference" to any creditor within three months of the onset of liquidation, a court has the power, among other things, to void the preferential transaction. For these purposes, a company gives preference to a person if that person is one of the company's creditors (or a surety or guarantor for any of the company's debts or liabilities) and the company takes an action which has the effect of putting that person into a position which, in the event of the company going into insolvent liquidation, will be better than the position that person would have been in if that thing had not been done. The court may not make an order avoiding a preferential transaction unless it is satisfied that the company was influenced by a desire to put that person in a better position, as described above.

Each Guarantee will be subject to certain limitations on enforcement and may be limited by applicable laws or subject to certain defenses that may limit its validity and enforceability.

Any guarantee, indemnity, obligation and/or liability granted, incurred, undertaken, assumed or otherwise agreed by a Nigerian company must be premised on a power to do so under the company's memorandum of association. Furthermore, the liability of each Nigerian Guarantor under its Guarantee will be limited to the amount that will result in such Guarantee not constituting a preference, fraudulent conveyance or improper corporate distribution or otherwise being set aside. There is a possibility that the entire Guarantee may be set aside, in which case the entire liability may be extinguished, if it is found by a court to have been given in any of the foregoing situations. If a court were to decide that a Guarantee was a fraudulent preference or conveyance and holds that such Guarantee is void, or unenforceable for any reason, the Noteholders may cease to have any claim in respect of a relevant Nigerian Guarantor and would be creditors solely of the Issuer and, if applicable, of any other Guarantor under the relevant Guarantee which has not been declared void.

In relation to any guarantee or undertaking granted by a Mauritius company, its obligations and liabilities shall be limited by the provision of the Mauritius Companies Act regulating (i) unlawful financial assistance within the meaning of Section 81 of the Mauritius Companies Act (ii) disclaimer of onerous property (Sub-Parts III of the Insolvency Act 2009) (iii) voidable transactions (Sub-Parts IV of the Insolvency Act 2009) and distribution of assets in accordance with Sub-Parts V of the Insolvency Act 2009.

As of the Issue Date, the Guarantors will guarantee the payment of the Notes on a senior secured basis. Each Guarantee will provide holders of the Notes with a direct claim against the relevant Guarantor. However, the Indenture will provide that each Guarantee will be limited to the maximum amount that can be guaranteed by the relevant Guarantor without rendering the relevant Guarantee voidable or otherwise limited or ineffective under applicable law or causing the officers of the Guarantor to incur personal civil or criminal liability, and enforcement of each Guarantee will be subject to certain generally available defenses. These laws and defenses include those that relate to corporate purpose or benefit, fraudulent conveyance or transfer, voidable preference, insolvency or bankruptcy challenges, financial assistance, preservation of share capital, thin capitalization, related third-party transactions, capital maintenance or similar laws, regulations or defenses affecting the rights of creditors generally. If one or more of these laws and defenses are applicable, a Guarantor may have no liability or decreased liability under its Guarantee depending on the amounts of its other obligations and applicable law. Limitations on the enforceability of judgments obtained in New York courts in such jurisdictions could limit the enforceability of any Guarantee against any Guarantor.

Although laws differ among jurisdictions, in general, under bankruptcy or insolvency law and other laws, a court could (i) avoid or invalidate all or a portion of a Guarantor's obligations under its Guarantee; (ii) direct that the holders of the Notes return any amounts paid under a Guarantee to the relevant Guarantor or to a fund for the benefit of the Guarantor's creditors; or (iii) take other action that is detrimental to you, typically if the court found that:

- the relevant Guarantee was incurred with actual intent to give preference to one creditor over another, hinder, delay or defraud creditors or shareholders of the Guarantor or, in certain jurisdictions, when the granting of the Guarantee has the effect of giving a creditor a preference or when the recipient was aware that the Guarantor was insolvent when it granted the relevant Guarantee;
- the Guarantor did not receive fair consideration or reasonably equivalent value or corporate benefit for the relevant Guarantee and the Guarantor; (i) was insolvent or rendered insolvent because of the relevant Guarantee; (ii) was undercapitalized or became undercapitalized because of the relevant Guarantee; or (iii) intended to incur, or believed that it would incur, indebtedness beyond its ability to pay at maturity;
- the relevant Guarantee was not validly established or authorized or otherwise contravenes the relevant Guarantor's articles of association;
- the relevant Guarantee was held to exceed the corporate objects of the Guarantor or not to be in the best interests or for the corporate benefit of the Guarantor; or
- the amount paid or payable under the relevant Guarantee was in excess of the maximum amount permitted under applicable law.

These or similar laws may also apply to any future guarantee granted by any of our subsidiaries pursuant to the Indenture.

We cannot assure you which standard a court would apply in determining whether a Guarantor was "insolvent" at the relevant time or that, regardless of the method of valuation, a court would not determine that a Guarantor was insolvent on that date, or that a court would not determine, regardless of whether or not a Guarantor was insolvent on the date its Guarantee was issued, that payments to holders of the Notes constituted preferences, transactions at an undervalue, fraudulent transfers or conveyances on other grounds.

The measures of insolvency for purposes of fraudulent transfer laws vary depending upon applicable law. Generally, an entity would be considered insolvent if, at the time it incurred indebtedness:

- the sum of its debts, including contingent liabilities, is greater than the fair value of all its assets;
- the present fair saleable value of its assets is less than the amount required to pay the probable liability on its existing debts and liabilities, including contingent liabilities, as they become due; or

- it cannot pay its debts as they become due.

The liability of each Guarantor under its Guarantee will be limited to the amount that will result in such Guarantee not constituting a preference, transaction at an undervalue, fraudulent conveyance or improper corporate distribution or otherwise being set aside. There can be no assurance, however, as to what standard a court will apply in making a determination of the maximum liability of each Guarantor. There is a possibility that the entire Guarantee may be set aside, in which case the entire liability may be extinguished.

If a court decided that a Guarantee was a preference, transaction at an undervalue, fraudulent transfer or conveyance and voided such Guarantee, or held it unenforceable for any other reason, you may cease to have any claim in respect of a relevant Guarantor and would be a creditor solely of the Issuer and, if applicable, of any other Guarantor under the relevant Guarantee which has not been declared void. If any Guarantee is invalid or unenforceable, in whole or in part, or to the extent the agreed limitation of the Guarantee obligations apply, the Notes would be effectively subordinated to all liabilities of the applicable Guarantor.

Restrictions applicable within the period immediately preceding the insolvency of the Guarantors may adversely impact the enforceability of security provided for the Notes.

In insolvency proceedings, it is possible that the appointed liquidator or receiver of a Nigerian Guarantor may challenge the validity and enforceability of security interests created in respect of the Notes as fraudulent transfers or conveyances occurring within a “twilight period” (i.e. three months prior to commencement of winding up) within which any transfers or conveyances which seek to prefer one creditor to others are void and unenforceable under applicable laws in Nigeria. If in the winding up of any Nigerian Guarantor, it is determined that any security interests in respect of the Notes were created at a time that the Nigerian Guarantor had entered the “twilight period” the security may on the application of the liquidator of the Nigerian Guarantor be set aside and declared void. In such a situation, the Noteholders may not have recourse to the assets of the Nigerian Guarantor to satisfy debts owed to them.

There is a risk that any future debt incurred by a British Virgin Islands company may be incurred during certain vulnerability periods; meaning that (subject to exceptions) if it is incurred at a time when a British Virgin Islands company is insolvent or the taking on of the debt causes that British Virgin Islands company to become insolvent, it may (in the case of a British Virgin Islands company) be regarded as a voidable transaction and a court in the British Virgin Islands may (subject to certain protections for persons who acquire an interest in an asset in good faith and for value) make an order including, to set aside the transaction, restore the position or vary the terms of the transaction. Under the laws of the British Virgin Islands, a voidable transaction is one that is regarded as an unfair preference, an undervalue transaction or an extortionate credit transaction or includes the granting of a voidable floating charge.

There is also a risk that any future debt incurred by a Bermuda company may be incurred during certain vulnerability periods, meaning that if it is incurred at a time when a Bermuda company is insolvent or the taking on of the debt causes that Bermuda company to become insolvent, the transaction may be set aside on the grounds that it is a fraudulent preference or could be voidable on the grounds that it is a transaction at an undervalue or includes the granting of a floating charge.

Under Mauritius laws, liquidators have extensive powers of investigating the affairs of the company and to pursue certain actions in court against persons who are directly or indirectly responsible for the reduction in value of the company’s assets prior to winding up, e.g. directors and persons who have benefitted from voidable preferences or transactions at an undervalue.

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” of the Company. Upon the occurrence of 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 in the terms of the NSIA Notes, the Accugas II Facility, the Accugas III Facility, the Bank of Industry Loan and Akwa Ibom State Loan, the Intercreditor Agreement or our other then-existing contractual obligations would allow us to

make such required repurchases. A change of control may result in an event of default under, or acceleration of, the NSIA Notes, the Accugas II Facility, the Accugas III Facility, the Bank of Industry Loan and Akwa Ibom State Loan and other indebtedness. 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. The ability of the Company to receive cash from its subsidiaries to allow it to make payments on the Proceeds Loan and to allow the Issuer 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 by the Issuer 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 NSIA Notes, the Accugas II Facility, the Accugas III Facility, the Bank of Industry Loan and the Akwa Ibom State Loan. 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 the Issuer to offer to repurchase or redeem the Notes in the event of a reorganization, restructuring, merger, recapitalization or similar transaction.

In addition, the change of control provision of the Indenture may be amended or waived by the holders of a majority of the Notes.

The term “all or substantially all” in the context of a change of control has no clearly established meaning under the relevant law and is subject to judicial interpretation such that it may not be certain that a change of control has occurred or will occur.

The definition of “change of control” in the Indenture will include (with certain exceptions) a disposition of all or substantially all of the assets of the Company and its restricted subsidiaries, 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 the Company’s 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 the Issuer is required to make an offer to repurchase the Notes.

You may face currency exchange risks or adverse tax consequences by investing in the Notes, which may be denominated in a currency other than your reference currency.

The Notes will be denominated and payable in US dollars. If you are a pounds sterling, Naira or other non-US 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 US dollar to pounds sterling, Naira or other relevant currencies because of economic, political or other factors over which we have no control. Depreciation of the US dollar against pounds sterling, 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.

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

The Notes and the Guarantees have not been, and will not be, registered under the US 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 US 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 US 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”.

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

Unless and until Notes in definitive registered form, or definitive registered Notes are issued in exchange for book entry interests (which may occur only in very limited circumstances), owners of book-entry interests will not be considered owners or holders of Notes. The common depository (or its nominee) for Euroclear and Clearstream will be the sole registered holder of the Global Notes. Payments of principal, interest and other amounts owing on or in respect of the relevant Global Notes representing the Notes will be made to Deutsche Bank AG, London Branch as Paying Agent, which will make payments to Euroclear/Clearstream. Thereafter, these payments will be credited to participants’ accounts that hold book entry interests in the Global Notes representing the Notes and credited by such participants to indirect participants. After payment to the Paying Agent, which in turn makes payments to Euroclear/Clearstream, we will have no responsibility or liability for the payment of interest, principal or other amounts to the owners of book-entry interests. See “Taxation”. Accordingly, if you own a book-entry interest in the relevant Notes, you must rely on the procedures of Euroclear/Clearstream or, if you are not a participant in Euroclear/Clearstream, on the procedures of the participant through which you own your interest, to exercise any rights and obligations of a holder of the Notes under the Indenture.

Unlike the holders of the Notes themselves, owners of book-entry interests will not have any direct rights to act upon any 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 Euroclear/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 matters or timely basis.

Similarly, upon the occurrence of an event of default under the Indenture, unless and until the relevant 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 Euroclear/Clearstream. We cannot assure you that the procedures to be implemented through Euroclear/Clearstream will be adequate to ensure the timely exercise of rights under 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.

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

Credit ratings may not reflect all risks, are not recommendations to buy, sell or hold securities and may be subject to revision, suspension or withdrawal at any time.

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 the structure, market, additional risk factors discussed herein 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 subject to revision, suspension or withdrawal 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.

Investors in the Notes may have limited recourse against the independent auditors.

The audit reports of Deloitte LLP and PwC relating to the consolidated financial statements reproduced herein, in accordance with guidance issued by the Institute of Chartered Accountants in England and Wales, state: "To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed".

The SEC would not permit such limiting language to be included in a registration statement or a prospectus used in connection with an offering of securities registered under the U.S. Securities Act or in a report filed under the U.S. Securities Exchange Act of 1934, as amended (the "U.S. Exchange Act"). If a U.S. court (or any other court) were to give effect to the language above, the recourse that holders of the Notes may have against the independent auditors, based on their reports or the consolidated financial statements to which they relate, could be limited.

Receipt of funds expected from the Second Equity Tranche is dependent on third parties.

Temasek, the IFC and the IFC ALAC Fund agreed pursuant to the investment agreements entered into in connection with the April 2014 Equity Raise to provide us with the remaining \$109.0 million of their equity investment upon the earlier to occur of: (i) the fifth business day following a request from us notifying such investors that the refinancing of the Convertible Bonds has become wholly unconditional and complete in all material respects; (ii) the fifth business day following a request from the respective investors to deliver the remaining proceeds prior to the refinancing of the Convertible Bond; or (iii) December 1, 2014. We expect to refinance the Convertible Bonds using the proceeds from the Notes and the NSIA Notes and to request the Second Equity Tranche on the Issue Date or shortly thereafter. Absent termination of the investment agreements by such investors due to certain insolvency events, we therefore expect to receive the \$109.0 million in the Second Equity Tranche within five business days of the Issue Date or shortly thereafter. However, we will not on the Issue Date have access to the funds from the Second Equity Tranche, and delivery of such funds is dependent on Temasek, the IFC and the IFC ALAC Fund delivering such funds to us in accordance with the terms of their respective investment agreements. If funds from the Second Equity Tranche are not delivered to us, these funds would not be available for our use, which would reduce the amount of funds available to us for general corporate purposes and the payment of transaction costs. Such circumstances would result in a reduction in the amount of cash available for general corporate purposes and would require us to use cash on hand to pay transaction costs. See "Use of Proceeds".

Certain of our principal equity holders or their affiliates may purchase Notes in the Offering.

Certain of our principal equity holders or their affiliates may purchase Notes in the Offering at a purchase price per Note equal to the issue price set forth on the cover page of this Offering Memorandum. The Purchase Agreement between the Issuer, the Guarantors and the Initial Purchasers will not restrict the ability of our principal equity holders or their affiliates to buy or sell the Notes in the future, and as a result, such principal equity holders or their affiliates may buy or sell Notes in open market transactions at any time following the consummation of the Offering. As a result, the Notes sold pursuant to Rule 144A under the U.S. Securities Act (“Rule 144A”) may only be sold or transferred (a) to the Issuer, the Guarantors or any subsidiary thereof, (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, (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. See “Notice to Investors”.

Payments of interest in respect of the NSIA Notes may be subject to United Kingdom withholding tax, which may cause us to incur substantial additional costs in relation to the NSIA Notes

United Kingdom law requires that an amount must be withheld from payments of interest on the NSIA Notes on account of United Kingdom income tax at the basic rate (currently 20%), unless relief or an exemption is available under applicable law or under an applicable double taxation treaty (see “Taxation—Certain United Kingdom tax considerations”). Under the terms and conditions of the NSIA Notes, if we are required to withhold or deduct an amount for, or on account of, tax from interest payments on the NSIA Notes then, subject to certain limitations and exceptions, we will be required to pay additional amounts with respect to the NSIA Notes.

It is anticipated that the NSIA, as an instrumentality of the government of Nigeria, will benefit from sovereign immunity from United Kingdom tax and/or qualify for full or partial exemption from United Kingdom tax on interest arising in the United Kingdom pursuant to Article 11 (Interest) of the Agreement between the Government of the United Kingdom of Great Britain and Northern Ireland and the Government of the Federal Republic of Nigeria for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion with respect to Taxes on Income and Capital Gains dated 9 June 1987 and coming into force 21 December 1987 (the “Nigeria-United Kingdom Tax Treaty”). However, HM Revenue and Customs (“HMRC”) have published limited guidance on sovereign immunity and certain conditions will need to be satisfied to obtain exemption from United Kingdom tax on interest arising in the United Kingdom pursuant to Article 11 (Interest) of the Nigeria-United Kingdom Tax Treaty. Therefore, HMRC may not be satisfied that sovereign immunity applies to the NSIA, or that the conditions outlined in Article 11(3) (Interest) of the Nigeria-United Kingdom Tax Treaty will be met with respect to interest payments on the NSIA Notes.

In addition, payments of interest on the NSIA Notes may be made without withholding or deduction for, or on account of, United Kingdom income tax provided that the Notes continue to be listed on a “recognised stock exchange” within the meaning of section 1005 of the United Kingdom Income Tax Act 2007 (see “Taxation— Certain United Kingdom tax considerations”). If the NSIA does not qualify for full or partial exemption from United Kingdom tax under the Nigeria-United Kingdom Tax Treaty or sovereign immunity from United Kingdom tax, the Issuer intends to list the NSIA Notes on such a “recognised stock exchange”. However, no assurance is made that such a listing can be obtained or maintained.

If the NSIA do not benefit from sovereign immunity from United Kingdom tax or do not qualify for full exemption from United Kingdom tax on interest arising in the United Kingdom pursuant to the Nigeria-United Kingdom Tax Treaty, or if the NSIA Notes are not listed on a “recognised stock exchange” within the meaning of section 1005 of the United Kingdom Income Tax Act 2007, we may be subject to substantial additional costs in relation to the NSIA Notes. These substantial additional costs may materially affect our results of operations, cash flows and financial condition.

We are not subject to the supervision of the Financial Services Commission of the British Virgin Islands and so holders of the Notes are not protected by any regulatory inspections in the British Virgin Islands.

The Issuer is not an entity subject to any regulatory supervision in the British Virgin Islands by the British Virgin Islands Financial Services Commission. As a result, investors are not protected by any regulatory supervision or inspections by any regulatory agency in the British Virgin Islands.

THE ACQUISITIONS

EHGC Acquisition

On March 31, 2014, we completed the acquisition of the entire issued share capital of EHGC, a Nigerian gas distribution and marketing company, from Oando, for a purchase price (including contingent deferred consideration) not to exceed \$250.0 million (adjusted for net liabilities). EHGC is a gas distribution and marketing company that operates the 128 km East Horizon pipeline through Akwa Ibom and Cross Rivers states in south east Nigeria. This acquisition enhances our position as a leading gas marketing and distribution company in south east Nigeria, expanding the reach of our main gas pipeline network in this growing market to 227 km, diversifying our customer base across another key sector of the Nigerian economy and increasing long-term contracted gas sales volumes to approximately 200 MMcfpd.

EHGC earns revenue from its gas sales agreement with UniCem, under which EHGC supplies gas to the second largest cement plant in Nigeria, with a production capacity of 2.5 million metric tons per year. EHGC is the primary supplier of gas to UniCem. We supply up to 25 MMcfpd, under a 20-year gas sales agreement that expires in 2032. We anticipate that the contracted delivery volume will increase to 50 MMcfpd upon completion of a planned expansion of the UniCem cement plant, which is scheduled for January 2016.

The aggregate consideration of up to \$250.0 million is payable by way of: (i) an initial payment of \$100.0 million in cash; (ii) the assumption of existing liabilities of EHGC, including \$54.3 million of outstanding indebtedness, primarily under the Bank of Industry Loan; and (iii) a contingent deferred payment to be satisfied by a combination of cash and the issuance of up to \$45.0 million of ICLNs. The initial \$100.0 million cash payment, and the assumption of EHGC's indebtedness have both been satisfied. The operational and contractual conditions that would result in the payment of the aforementioned contingent deferred payment have been partially satisfied and as a result, in July 2014, we paid \$30.0 million of the contingent deferred payment. The remaining operational and contractual conditions are expected to be satisfied by the end of 2014. Both payments were funded by a drawing of \$130.0 million under the Accugas III Facility.

OPL 905 Acquisition

On January 31, 2014, we acquired a 40% license interest in OPL 905, a gas asset located in the Anambra Basin north of the Niger Delta, upon our acquisition of SRL 905 Holdings. The total consideration for purchase of this license interest was \$15.0 million in cash and the issuance of \$33.0 million in ICLNs. On the same day, we also entered into a conditional share purchase agreement to acquire a further 50% license interest in OPL 905, through the acquisition of the entire issued share capital of GTPL for consideration of \$27.0 million, funded by \$1.1 million in cash with the remainder being satisfied by way of the issuance of additional ICLNs. The GTPL acquisition has not yet been completed. The gross 2C contingent gas resources on OPL 905 are estimated at 425 Bcf as of August 31, 2013.

OPL 905 is located to the north of the Niger Delta, in the Anambra Basin. The field is located close to identified areas of demand, and we intend to evaluate opportunities to develop the field for eventual gas sales to the local light industrial and potential power generation customers in the area. Under the terms of the production sharing contract with NNPC, we are committed to acquire and process 2D and 3D seismic data and to drill a minimum of four exploration or appraisal wells by April 2017. See "Our business—Material agreements relating to our assets—OPL 905 production sharing contract".

USE OF PROCEEDS

We intend to use the proceeds from the Notes, the NSIA Notes and the Second Equity Tranche (i) to redeem all of our outstanding Convertible Bonds, (ii) to repay and cancel each of (a) the Reserve Based Lending Facility, (b) the Working Capital Facility and (c) the Discount House Loan (including, in each case, any termination fees related thereto), (iii) to fund capital expenditures related to construction of our gas pipelines and associated facilities, (iv) to pay fees and expenses incurred in connection with the Offering and the NSIA Notes and (v) for general corporate purposes. The proceeds will initially be used by the Issuer to make one or more proceeds loans (“Proceeds Loan”) to Seven Energy pursuant to a Proceeds Loan Agreement to be entered into on the Issue Date, pursuant to which the Issuer will on-lend the proceeds from the Notes and NSIA Notes to Seven Energy, which will then use the proceeds as described below.

The following table contains the estimated sources and uses of funds from the issuance of the Notes, the NSIA Notes and the Second Equity Tranche. Actual amounts may vary from estimated amounts depending on several factors, including differences from our estimates of fees and expenses and break fees, if any, as well as the timing of payments.

For descriptions of our indebtedness, see “Description of certain financing arrangements”. See also “Capitalization”.

Sources of Funds	(in millions of \$)	Uses of Funds	(in millions of \$)
Proceeds from the Notes offered hereby ⁽¹⁾	296.3	Redeem Convertible Bonds ⁽³⁾	183.4
NSIA Notes ⁽²⁾	100.0	Repay Reserve Based Lending Facility ⁽⁴⁾	176.9
Second Equity Tranche ⁽³⁾	109.0	Repay Working Capital Facility ⁽⁵⁾	24.7
		Repay Discount House Loan ⁽⁶⁾	2.8
		Cash for general corporate purposes.....	100.5
		Transaction costs ⁽⁷⁾	17.0
Total sources	505.3	Total uses	505.3

(1) Represents proceeds from the Offering.

(2) Represents the proceeds from the issuance of the NSIA Notes. See “Description of certain financing arrangements—NSIA Notes”.

(3) Represents the expected proceeds from the Second Equity Tranche. Temasek and the IFC ALAC Fund agreed pursuant to the investment agreements entered into in connection with the April 2014 Equity Raise to provide us with the remaining \$109.0 million of their equity investment upon the earlier to occur of: (i) the fifth business day following a request from us notifying such investors that the refinancing of the Convertible Bonds has become wholly unconditional and complete in all material respects; (ii) a request from the respective investors to deliver the remaining proceeds prior to the refinancing of the Convertible Bond; or (iii) December 1, 2014. We expect to refinance the Convertible Bonds using the proceeds from the Notes and the NSIA Notes and to request the Second Equity Tranche on the Issue Date or shortly thereafter. Absent termination of the investment agreements by such investors due to certain insolvency events, we therefore expect to receive the \$109.0 million in the Second Equity Tranche within five business days of the Issue Date or shortly thereafter. We will not on the Issue Date have access to the funds from the Second Equity Tranche. The delivery of such funds is dependent on Temasek and the IFC ALAC Fund delivering such funds to us in accordance with the terms of their respective investment agreements. If funds from the Second Equity Tranche are not delivered to us, these funds would not be available for our use, which would reduce the amount of funds available to us for general corporate purposes and the payment of transaction costs. Such circumstances would result in a reduction in the amount of cash available for general corporate purposes and would require us to use cash on hand to pay transaction costs. See “Risk factors—Risk factors relating to our structure and the Notes—Receipt of funds expected from the Second Equity Tranche is dependent on third parties”.

(4) Represents (i) the redemption of \$150.0 million in aggregate principal amount of Convertible Bonds at a redemption price equal to 121% thereof, plus (ii) the payment of an expected \$2.5 million in accrued but unpaid interest as of August 31, 2014, net of (iii) \$0.6 million held in a stamp duty reserve account (“SDRA”) which will be released in connection with the redemption of the Convertible Bonds and applied to amounts payable under (i) and (ii).

(5) Represents (i) the repayment of \$200.3 million in aggregate principal amount outstanding, plus (ii) the payment of an expected \$3.1 million in accrued but unpaid interest as of August 31, 2014, net of (iii) \$24.6 million held in a debt service reserve account

(“DSRA”) and \$1.9 million held in a SDRA which will be released in connection with the repayment and cancellation of the Reserve Based Lending Facility and applied to amounts payable under (i) and (ii).

- (6) Represents (i) the repayment of \$25.0 million in aggregate principal amount outstanding, which represents \$10.0 million outstanding as of June 30, 2014 and an additional \$15.0 million drawn thereunder on July 3, 2014, plus (ii) the payment of an expected \$0.2 million in accrued but unpaid interest as of August 31, 2014, net of (iii) \$0.5 million held in a SDRA which will be released in connection with the repayment and cancellation of the Working Capital Facility and applied to amounts payable under (i) and (ii).
- (7) Represents (i) the repayment of Naira 453.6 million (\$2.8 million, using an exchange rate of 163.1405 Naira to \$1.00, which was the exchange rate at the close of trading on June 30, 2014) in aggregate principal amount outstanding under the Discount House Loan, which represents Naira 684.2 million (\$4.2 million, using the exchange rate referenced above) outstanding as of June 30, 2014 less a principal repayment in August 2014 of \$1.4 million (equivalent).
- (8) Represents the estimated transaction fees and expenses, including the Initial Purchasers’ commissions, other fees and commissions, financing fees, advisory fees, and other transaction costs and professional fees relating to the Refinancing. The transaction fees also includes \$1.0 million of stamp duty and registration fees on the Security Documents. For further details, see “Risk factors—Risk factors relating to our structure and the Notes—The primary Collateral securing the Notes will not be perfected or enforceable for the full amount of the indebtedness thereby secured unless and until full stamp duties and registration fees are paid in respect thereof by or on behalf of the holders of the Notes” and “Legal and regulatory—Nigeria—Enforcement of security under Nigerian law”.

CAPITALIZATION

The following table sets forth our cash and cash equivalents and consolidated capitalization as of June 30, 2014, on an actual basis and as adjusted to give effect to the issuance of the Notes and the NSIA Notes and receipt of the proceeds from the Second Equity Tranche.

You should read the following table in conjunction with “Summary—Historical consolidated financial and other data”, “Selected financial data”, “Unaudited *pro forma* financial information”, “Management’s discussion and analysis of financial condition and results of operations” and the financial statements for us and for EHGC, and the related notes thereto, included elsewhere in this Offering Memorandum.

<i>(in millions of \$)</i>	Actual as of June 30, 2014	As adjusted as of June 30, 2014
Cash and cash equivalents⁽¹⁾	<u>37.7</u>	<u>138.2</u>
Borrowings		
Convertible Bonds	150.0	-
Reserve Based Lending Facility ⁽²⁾	200.3	-
Working Capital Facility ⁽³⁾	10.0	-
Discount House Loan ⁽⁴⁾	4.2	-
Notes offered hereby	-	300.0
NSIA Notes ⁽⁵⁾	-	100.0
Accugas II Facility ⁽⁶⁾	225.0	225.0
Accugas III Facility ⁽⁷⁾	100.0	100.0
Bank of Industry Loan ⁽⁸⁾	44.0	44.0
Akwa Ibom State Loan ⁽⁹⁾	9.9	9.9
Other ⁽¹⁰⁾	(6.7)	(34.3)
Total borrowings	<u>736.7</u>	<u>744.6</u>
Equity		
Equity attributable to equity holders of the parent ⁽¹¹⁾	713.6	702.2
Equity attributable to non controlling interests	21.3	21.3
Total equity	<u>734.9</u>	<u>723.5</u>
Total capitalization⁽¹²⁾	<u>1,471.6</u>	<u>1,468.1</u>

- (1) Cash and cash equivalents in the as adjusted column have been adjusted for (i) \$100.5 million in cash for general corporate purposes expected to be generated from the proceeds of the issuance of the Notes, the NSIA Notes and the Second Equity Tranche. See “Summary—Recent developments—Our equity holders”, “Principal equity holders” and “Risk factors—Risk factors relating to our structure and the Notes—Receipt of funds expected from the Second Equity Tranche is dependent on third parties”.
- (2) As of June 30, 2014, we had \$200.3 million outstanding under the Reserve Based Lending Facility (excluding unamortized debt issuance costs of \$10.5 million).
- (3) As of June 30, 2014, we had \$10.0 million in aggregate principal amount outstanding under the Working Capital Facility (excluding unamortized debt issuance costs of \$0.3 million). In July 2014, we drew an additional \$15.0 million, which will be repaid with the proceeds of the Refinancing.
- (4) As of June 30, 2014, we had Naira 684.2 million (or \$4.2 million based on an exchange rate of 163.1405 Naira to \$1.00, which was the exchange rate at the close of trading on June 30, 2014) outstanding under the Discount House Loan. The Discount House Loan provides for aggregate borrowings of up to Naira 3,900.0 million (\$23.9 million, based on an exchange rate of Naira 163.1405 to \$1.00, which was the exchange rate at the close of trading on June 30, 2014). Subsequent to June 30, 2014, we repaid \$1.4 million equivalent under the Discount House Loan. The Discount House Loan will be repaid with the proceeds of the Refinancing.
- (5) We expect to issue the NSIA Notes on or about the Issue Date. See “Description of certain financing arrangements—NSIA Notes”.

- (6) As of June 30, 2014, the \$225.0 million Accugas II Facility was fully drawn. Unamortized debt issuance costs related to the Accugas II Facility were \$10.4 million as of June 30, 2014. See “Description of certain financing arrangements—Accugas II Facility”.
- (7) As of June 30, 2014, we had \$100.0 million outstanding under the \$170.0 million Accugas III Facility. Unamortized debt issuance costs related to the Accugas III Facility were \$7.9 million as of June 30, 2014. See “Description of certain financing arrangements—Accugas III Facility”. On July 21, 2014, we borrowed \$30.0 million under the Accugas III Facility to fund a portion of the contingent deferred payment for the EHGC Acquisition. See “The Acquisitions—EHGC Acquisition.”
- (8) As of June 30, 2014, we had Naira 7,185.0 million (\$44.0 million based on an exchange rate of 163.1405 Naira to \$1.00, which was the exchange rate at the close of trading on June 30, 2014) outstanding under the Bank of Industry Loan. We assumed the Naira 10,344.5 million Bank of Industry Loan as part of the EHGC Acquisition. See “Description of certain financing arrangements—Bank of Industry Loan (PAIF Facility)”.
- (9) As of June 30, 2014, we had \$9.9 million outstanding under the Akwa Ibom State Loan. The Akwa Ibom State Loan provides for aggregate borrowings of up to Naira 1,555.0 million or \$9.9 million, based on an exchange rate of Naira 163.1405 to \$1.00, which was the exchange rate at the close of trading on June 30, 2014. See “Description of certain financing arrangements—Akwa Ibom State Loan”.
- (10) Other reflects the premium on the convertible bonds in the amount of \$21.9 million as of June 30, 2014, plus net fair value loan adjustments in the amount of \$0.7 million as of June 30, 2014, less unamortized deferred financing costs in the amount of \$29.3 million as of June 30, 2014. The as adjusted position reflects the elimination of unamortized deferred financing costs and the redemption premium of \$11.4 million and \$21.9 million respectively, upon repayment of the Reserve Based Lending Facility and the convertible bond, the elimination of the fair value adjustment on the repayment of the Discount House Loan of \$0.1 million, and the addition of \$15.0 million of estimated deferred financing costs incurred in connection with the issuance of the Refinancing.
- (11) Total equity attributable to equity holders of the parent includes the ICLNs. See “Principal equity holders”. See “Summary—Recent developments—Our equity holders”. This amount has been adjusted to reflect the impact on equity of the elimination of the unamortized deferred financing costs on the Reserve Based Lending Facility and the Convertible Bonds, the fair value adjustment on the Discount House Loan and the redemption premium on the Convertible Bonds.
- (12) Total capitalization reflects total equity plus total borrowings.

SELECTED FINANCIAL DATA

The following tables present Seven Energy's consolidated financial and other data as of and for the years ended December 31, 2011, 2012 and 2013, which has been derived from our audited consolidated financial statements, included elsewhere in this Offering Memorandum. The following tables also present Seven Energy's financial data as of June 30, 2014 and for the six months ended June 30, 2013 and 2014, which have been derived from our unaudited condensed consolidated financial statements included elsewhere in this Offering Memorandum.

We also present the summary financial and other data for EHGC as of and for the years ended December 31, 2012 and 2013, which have been derived from EHGC's audited financial statements included elsewhere in this Offering Memorandum. We also present EHGC's financial and other data for each of the three months ended March 31, 2013 and 2014, which have been derived from EHGC's unaudited condensed financial statements, included elsewhere in this Offering Memorandum. We have not included financial data for EHGC on a stand-alone basis for any period subsequent to March 31, 2014, the date from which the results of operations of EHGC were included in our consolidated financial statements.

Due to the accounting impact of certain acquisitions, including the consolidation of the operating results of acquired businesses, and the termination of the SAA Funding Agreement as described in "Management's discussion and analysis of financial condition and results of operations—Significant factors affecting results of our operations—Strategic Alliance Agreement", our financial results for future periods will not be directly comparable to our historical financial results.

The following summary historical consolidated financial and other data set forth below should be read in conjunction with "Use of proceeds", "Capitalization", "Selected financial data", "Unaudited pro forma financial information", "Management's discussion and analysis of financial condition and results of operations" and the financial statements and notes thereto included elsewhere in this Offering Memorandum.

Seven Energy consolidated statement of comprehensive income statement data

<i>(in millions of \$)</i>	Year ended December 31,			Six months ended June 30,	
	2011	2012	2013	2013	2014
Revenue	86.8	102.4	345.0	127.8	165.4
Cost of sales					
Production expenses.....	(46.3)	(64.5)	(171.4)	(49.9)	(90.0)
Increase/(decrease) in Underlift	-	23.6	70.9	(4.5)	51.5
Depletion	(12.0)	(17.5)	(67.7)	(19.2)	(40.7)
Gross profit/(loss)	28.6	44.0	176.7	54.3	86.2
Depreciation and amortization expenses	(2.1)	(2.7)	(2.1)	(1.0)	(1.4)
Impairment charge.....	-	-	(5.8)	-	-
Other operating expenses.....	(4.8)	(1.7)	(0.5)	(0.9)	(1.7)
Administrative expenses.....	(28.1)	(25.9)	(42.6)	(19.0)	(28.9)
Operating profit/(loss)	(6.3)	13.6	125.7	33.5	54.2
Investment revenue.....	0.2	1.4	1.5	-	-
Finance costs	(6.8)	(18.7)	(38.1)	(20.9)	(24.1)
Foreign exchange gains	0.7	(1.1)	(1.0)	0.6	(0.8)
Profit/(loss) before tax	(12.3)	(4.8)	88.2	13.2	29.3
Tax (expense)/credit	(14.7)	(1.8)	(48.8)	(11.2)	(2.7)
Profit/(loss) for the period	(26.9)	(6.6)	39.4	2.0	26.6

Seven Energy consolidated balance sheet data

<i>(in millions of \$)</i>	As of December 31,			As of June 30,
	2011	2012	2013	2014
Non current assets.....	538.8	741.6	1,162.3	1,712.2
Current assets.....	86.6	130.9	213.8	382.7
Total assets	625.4	872.5	1,376.1	2,094.9
Current liabilities	(175.1)	(259.4)	(675.1)	(829.5)
Non-current liabilities.....	(173.4)	(263.0)	(305.2)	(530.5)
Total liabilities	(348.6)	(522.4)	(980.3)	(1,360.0)
Net assets	276.8	350.1	395.8	735.0
Share capital	0.005	0.005	0.005	0.005
Share premium.....	95.3	94.9	95.3	95.7
Irredeemable convertible loan notes ⁽¹⁾	535.3	612.7	612.6	895.5
Retained deficit.....	(408.0)	(414.4)	(373.6)	(346.2)
Equity reserves	30.5	33.3	39.4	68.6
Equity attributable to owners of the Company	253.1	326.5	373.7	713.6
Non-controlling interests	23.8	23.6	22.1	21.3
Total equity	276.8	350.1	395.8	735.0

(1) Seven Energy's equity capital structure consists of ordinary shares and irredeemable convertible loan notes ("ICLNs"). ICLNs are distinct from Convertible Bonds. All of the outstanding ICLNs are treated as equity. The ICLNs have conversion rights which entitle the ICLN holder to convert its ICLNs into ordinary shares at a predetermined conversion price at any time upon election by the holder of the ICLN, or upon mandatory conversion pursuant to the occurrence of certain events, including an initial public offering, sale, or liquidation/administration of us, as described more fully under "Principal equity holders".

Seven Energy consolidated cash flow statement data

<i>(in millions of \$)</i>	Year ended December 31,			Six months ended June 30,	
	2011	2012	2013	2013	2014
Net cash (used in) provided by operating activities	(34.6)	77.8	171.9	44.2	64.4
Net cash used in investing activities	(171.2)	(186.2)	(324.1)	(136.4)	(297.1)
Net cash provided by financing activities	150.8	128.6	171.5	93.1	220.8
Cash and cash equivalents at the end of the period.....	12.7	32.2	50.4	33.3	37.7

EHGC income statement data

<i>(in millions of \$)</i>	Year ended December 31,		Three months ended March 31,		Twelve months ended March 31,
	2012	2013	2013	2014	2014
Revenue	142.5	44.7	13.3	6.3	37.7
Cost of sales.....	(68.5)	(43.8)	(11.9)	(7.4)	(39.3)
Gross profit.....	74.0	0.9	1.4	(1.1)	(1.6)
Administrative expenses.....	(1.2)	(1.4)	(0.1)	(0.2)	(1.5)
Other operating income	—	—	—	—	—
Operating profit/(loss)	72.8	(0.5)	1.3	(1.3)	(3.1)
Investment revenue.....	—	—	—	—	—
Finance costs	(25.3)	(19.9)	(5.1)	(4.1)	(18.9)
Profit/(loss) before tax	47.5	(20.4)	(3.8)	(5.4)	(22.0)
Tax credit.....	—	6.1	1.3	1.7	6.5
Profit/(loss) for the period ⁽¹⁾	47.5	(14.3)	(2.5)	(3.7)	(15.5)

- (1) EHGC reports its results in Naira, and we have converted those results into US dollars for each of the years ended December 31, 2012 and 2013, and the three months ended March 31, 2013 and 2014, based on the average exchange rate during the relevant period calculated using the exchange rate at the close of trading of each day during the relevant period. The rates for the relevant periods are: Naira 158.8063 to \$1.00 and Naira 159.2885 to \$1.00 for the years ended December 31, 2012 and 2013, respectively; Naira 157.5058 to \$1.00 and Naira 162.8368 to \$1.00 for the three months ended March 31, 2013 and 2014, respectively; and Naira 160.0664 to \$1.00 for the twelve months ended March 31, 2014. As a result, the financial data derived by using EHGC results for the period January 1, 2012 to March 31, 2014 may not represent the results that would have been achieved had EHGC reported its financial results in US dollars. The financial information for EHGC for the twelve months ended March 31, 2014 has been derived from management accounts and has not been audited or reviewed. See “Risk factors—Risks factors relating to our business—Our strategy of expansion may not be successful and anticipated benefits of acquisitions may not be realized”.

UNAUDITED PRO FORMA FINANCIAL INFORMATION

The unaudited *pro forma* condensed combined financial information has been prepared to give effect to the EHGC Acquisition.

The unaudited *pro forma* financial information is comprised of the unaudited *pro forma* condensed combined income statements for the year ended December 31, 2013, the six months ended June 30, 2014 and 2013, and the last twelve months (“LTM”) ended June 30, 2014, in each case adjusted to give effect to the EHGC Acquisition, as if it had occurred on January 1, 2013.

The unaudited *pro forma* condensed combined financial information is based on the historical financial statements of Seven Energy and EHGC, included elsewhere herein. Historical financial information for Seven Energy has been extracted without adjustment from our audited consolidated financial statements as of and for the year ended December 31, 2013, which have been prepared in accordance with IFRS, and our unaudited condensed consolidated interim financial statements as of June 30, 2014 and for the six months ended June 30, 2014 and 2013, which have been prepared in accordance with IAS 34. Historical financial information for EHGC has been extracted without material adjustment from the EHGC audited financial statements as of and for the year ended December 31, 2013, and the EHGC unaudited condensed interim financial statements as of and for the three months ended March 31, 2014 and the six months ended June 30, 2013. EHGC stand-alone financial statements are only available through March 31, 2014 at which date EHGC was acquired and the results of operations are consolidated into Seven Energy. Historical financial information for EHGC has been translated into US dollars using the methodology and the exchange rates noted below.

The unaudited *pro forma* condensed combined income statement for the LTM ended June 30, 2014 has been calculated by adding the unaudited *pro forma* condensed combined income statement for the year ended December 31, 2013 and the unaudited *pro forma* condensed combined income statement for the six months ended June 30, 2014 and subtracting the unaudited *pro forma* condensed combined income statement for the six months ended June 30, 2013.

The unaudited *pro forma* financial information has been prepared based on the assumptions and adjustments described in the notes to the unaudited *pro forma* condensed combined financial information and does not purport to represent what our actual results or financial position would have been had the EHGC Acquisition occurred on January 1, 2013, nor does it purport to project our results of operations for any future period or our financial condition at any future date. As a result, it does not reflect future events that may occur after the EHGC Acquisition, including the potential realization of any cost savings from expected operating synergies and administrative cost savings that could result from the combination of us and EHGC. The actual results may differ significantly from those reflected in the unaudited *pro forma* financial information for a number of reasons, including, but not limited to, differences between the assumptions used to prepare the *pro forma* financial information and actual amounts. The Offering Memorandum contains additional financial measures other than those in accordance with IFRS that are prepared on a *pro forma* basis and should not be considered in isolation from or as a substitute for our historical financial statements. See “Presentation of financial and other information—Financial information—Unaudited *pro forma* financial information”.

The unaudited *pro forma* combined financial information has not been prepared in accordance with Article 11 of Regulation S-X under the U.S. Securities Act, the Prospectus Directive or any generally accepted accounting standards. The unaudited *pro forma* financial information has been prepared in accordance with the basis of preparation described in “—Notes to the unaudited *pro forma* condensed combined financial information”.

The unaudited *pro forma* condensed combined financial information should be read together with the information contained in “Use of proceeds”, “Capitalization”, “Selected financial data”, “Management’s discussion and analysis of financial condition and results of operation” and the historical financial statements included elsewhere in this Offering Memorandum.

Unaudited *pro forma* condensed combined income statement for the six months ended June 30, 2014

	SEIL IFRS	EHGC IFRS⁽¹⁾	EHGC IFRS	Pro forma adjustment	Notes	Pro forma
	<i>(in millions of \$)</i>	<i>(in millions of ¥)</i>	<i>(in millions of \$)</i>	<i>(in millions of \$)</i>		<i>(in millions of \$)</i>
Revenue	165.4	1,015.5	6.3	(2.1)	(a)	169.6
Cost of sales						
Production expenses	(89.9)	(1,211.1)	(7.4)	5.3	(b)	(92.0)
Increase/(decrease) in underlift	51.5	-	-	-		51.5
Depletion	(40.7)	-	-	(2.6)	(c)	(43.3)
Gross profit/(loss)	86.3	195.6	(1.1)	0.6		85.8
Depreciation and amortization expenses	(1.4)	-	-	-		(1.4)
Impairment charge	-	-	-	-		-
Other operating expenses	(1.7)	-	-	-		(1.7)
Administrative expenses	(28.9)	(40.3)	(0.2)	0.8	(e)	(28.3)
Operating profit/(loss)	54.3	(235.9)	(1.3)	1.4		54.4
Investment revenue	-	-	-	-		-
Finance costs	(24.1)	(665.8)	(4.1)	1.0	(d), (f)	(27.2)
Foreign exchange gains/(losses)	(0.8)	-	-	-		(0.8)
Loss before tax	29.4	(901.7)	(5.4)	2.4		26.4
Tax credit/(expense)	(2.7)	270.5	1.7	0.8	(g)	(0.8)
Profit/(loss) for the period	26.7	(631.2)	(3.7)	3.2		26.2

(1) EHGC stand-alone financial statements are through March 31, 2014 at which date EHGC was acquired, and the results of operations are consolidated into Seven Energy as at and from that date.

The accompanying notes are an integral part of this financial information.

Unaudited *pro forma* condensed combined income statement for the six months ended June 30, 2013

	SEIL IFRS	EHGC IFRS	EHGC IFRS	Pro forma adjustment	Notes	Pro forma
	<i>(in millions of \$)</i>	<i>(in millions of ¥)</i>	<i>(in millions of \$)</i>	<i>(in millions of \$)</i>		<i>(in millions of \$)</i>
Revenue	127.8	4,213.6	26.6	(7.8)	(a)	146.6
Cost of sales						
Production expenses	(49.9)	(3,823.7)	(24.2)	15.2	(b)	(58.9)
Increase/(decrease) in underlift	(4.5)	-	-	-		(4.5)
Depletion	(19.2)	-	-	(5.3)	(c)	(24.5)
Gross profit/(loss)	54.2	389.9	2.4	2.1		58.7
Depreciation and amortization expenses	(1.0)	-	-	-		(1.0)
Impairment charge	-	-	-	-		-
Other operating expenses	(0.9)	-	-	-		(0.9)
Administrative expenses	(19.0)	(76.5)	(0.5)	-	(e)	(19.5)
Operating profit/(loss)	33.3	313.4	1.9	2.1		37.3
Investment revenue	-	-	-	-		-
Finance costs	(20.9)	(1,654.7)	(10.5)	1.5	(d), (f)	(29.9)
Foreign exchange gains/(losses)	0.6	-	-	-		0.6
Loss before tax	13.0	(1,341.3)	(8.6)	3.6		8.0
Tax credit/(expense)	(11.2)	402.4	2.5	1.6	(g)	(7.1)
Loss for the period	1.8	(938.9)	(6.1)	5.2		0.9

The accompanying notes are an integral part of this financial information.

Unaudited *pro forma* condensed combined income statement for the year ended December 31, 2013

	SEIL IFRS	EHGC IFRS	EHGC IFRS	Pro forma adjustment	Notes	Pro forma
	<i>(in millions of \$)</i>	<i>(in millions of ¥)</i>	<i>(in millions of \$)</i>	<i>(in millions of \$)</i>		<i>(in millions of \$)</i>
Revenue	345.0	7,111.0	44.7	(14.1)	(a)	375.6
Cost of sales						
Production expenses	(171.4)	(6,967.0)	(43.8)	27.0	(b)	(188.2)

	SEIL IFRS	EHGC IFRS	EHGC IFRS	Pro forma adjustment	Notes	Pro forma
	<i>(in millions of \$)</i>	<i>(in millions of ₦)</i>	<i>(in millions of \$)</i>	<i>(in millions of \$)</i>		<i>(in millions of \$)</i>
Increase/(decrease) in underlift	70.9	–	–	–		70.9
Depletion	(67.7)	–	–	(10.6)	(c)	(78.3)
Gross profit	176.7	144.0	0.9	2.3		180.0
Depreciation and amortization expenses	(2.1)	–	–	–		(2.1)
Impairment charge	(5.8)	–	–	–		(5.8)
Other operating (expenses)/income	(0.5)	2.0	–	–		(0.5)
Administrative expenses	(42.6)	(230.4)	(1.4)	1.2	(e)	(42.8)
Operating profit/(loss)	125.7	(84.4)	(0.5)	3.5		128.8
Investment revenue	1.5	6.3	–	–		1.5
Finance costs	(38.1)	(3,165.0)	(19.9)	3.1	(d), (f)	(54.9)
Foreign exchange gains/(losses)	(1.0)	–	–	–		(1.0)
Profit/(loss) before tax	88.2	(3,243.1)	(20.4)	6.6		74.4
Tax credit/(expense)	(48.8)	973.5	6.1	3.7	(g)	(39.0)
Profit/(loss) for the period	39.4	(2,269.6)	(14.3)	10.3		35.4

The accompanying notes are an integral part of this financial information.

Unaudited pro forma condensed combined income statement for the LTM ended June 30, 2014

	Pro forma condensed combined income statement			
<i>(in millions of \$)</i>	Six months ended June 30, 2014	Year ended December 31, 2013	Six months ended June 30, 2013	LTM June 30, 2014
Revenue	169.6	375.6	146.6	398.6
Cost of sales				
Production expenses	(92.0)	(188.2)	(58.9)	(221.3)
Increase/(decrease) in Underlift	51.5	70.9	(4.5)	126.9
Depletion	(43.3)	(78.3)	(24.5)	(97.1)
Gross profit	85.8	180.0	58.7	207.1
Depreciation and amortization expenses	(1.4)	(2.1)	(1.0)	(2.5)
Impairment	-	(5.8)	-	(5.8)
Other operating expenses	(1.7)	(0.5)	(0.9)	(1.3)
Administrative expenses	(28.3)	(42.8)	(19.5)	(51.6)
Operating profit/(loss)	54.4	128.8	37.3	145.9
Investment revenue	-	1.5	-	1.5
Finance costs	(27.2)	(54.9)	(29.9)	(52.2)
Foreign exchange gains/(losses)	(0.8)	(1.0)	0.6	(2.4)
Profit/(loss) before tax	26.4	74.4	8.0	92.8
Tax expense	(0.8)	(39.0)	(7.1)	(32.1)
Profit/(loss) for the period	26.2	35.4	0.9	60.7

The accompanying notes are an integral part of this financial information.

Notes to the unaudited pro forma condensed combined financial information

Basis of presentation

EHGC has historically reported its financial information in its local currency, Naira. In order to present the unaudited pro forma condensed combined financial information in US dollars, EHGC's income statement data have been translated using the average rate for the applicable period. The average rates are as follows:

- For the three months ended March 31, 2014, the average rate was Naira 162.8368 to \$1.00.
- For the six months ended June 30, 2013, the average rate was Naira 158.1662 to \$1.00.
- For the year ended December 31, 2013, the average rate was Naira 159.2885 to \$1.00.

Unaudited *pro forma* adjustments to the condensed combined income statements

The unaudited *pro forma* condensed combined financial information gives effect to the EHGC Acquisition as if occurred on January 1, 2013 as follows:

- (a) Included within EHGC's revenue is concession income derived from a 'build, operate and transfer' ("BOT") arrangement between EHGC and NGC. This income represents cost recovery from NGC for the construction of the East Horizon pipeline. Subsequent to the acquisition of EHGC, it has been concluded that this BOT arrangement is no longer in place and therefore, in accordance with the accounting policies of the Company, the East Horizon Pipeline has been accounted for as a tangible asset (see notes (b) and (c) below). As such, concession revenue of \$2.1 million, \$7.8 million and \$14.1 million in the three months ended March 31, 2014, the six months ended June 30, 2013 and the year ended December 31, 2013, respectively, has been eliminated.
- (b) Included within EHGC's production expenses is the associated expenditure related to the cost recovery credit as described in note (a) above. As explained in note (a) above, in accordance with the accounting policies of the Company, the East Horizon Pipeline has been accounted for as the acquisition of a tangible asset at fair value. As such there is a decrease in production expenses of \$1.7 million, \$7.8 million and \$12.2 million in the three months ended March 31, 2014, six months ended June 30, 2013 and the year ended December 31, 2013 respectively.

Additionally, within EHGC's production expenses is an amortization charge related to the BOT concession arrangement which was recognized as an intangible asset. As explained in note (a) above, in accordance with the accounting policies of the Company, the East Horizon Pipeline has been accounted for as the acquisition of a tangible asset at fair value. As such, there is a reduction in production expenses of \$3.6 million, \$7.4 million and \$14.8 million in the three months ended March 31, 2014, six months ended June 30, 2013 and the year ended December 31, 2013 respectively, in relation to the removal of this amortization charge.

- (c) As described in note (b) above, the pipeline is recognized as a tangible fixed asset and therefore would incur a depreciation charge, disclosed as part of depletion. We fair valued the pipeline on the date of acquisition at \$264.1 million, with a useful economic life of 25 years (in accordance with our accounting policy). Based on this value, the increase in depletion would be \$2.6 million, \$5.3 million and \$10.6 million in the three months ended March 31, 2014, the six months ended June 30, 2013 and the year ended December 31, 2013 respectively.
- (d) The pipeline has been recognized as a tangible asset, and therefore, has a constructive obligation to decommission it at the end of its useful economic life. Therefore, a discounted decommissioning provision of \$9.0 million has been recognized, together with an associated accretion charge related to the unwinding of this discount. As such the impact on the *pro forma* condensed combined income statement would be a charge of \$0.1 million, \$0.1 million and \$0.2 million in the three months ended March 31, 2014, the six months ended June 30, 2013 and the year ended December 31, 2013 respectively, recognized in finance costs.
- (e) Transaction costs recognized in relation to the EHGC Acquisition totaled \$0.8 million, \$0.0, and \$1.2 million in the three months ended March 31, 2014, the six months ended June 30, 2013 and the year ended December 31, 2013. As there is no continuing impact from these costs, all of these transaction costs have been reversed from administrative expenses as *pro forma* adjustments in such periods described.
- (f) Included within finance costs of EHGC is interest charged on loans held from its previous parent, Oando, which were cancelled as part of the Acquisition. As a result, interest charges of \$3.4 million, \$6.3 million and \$12.7 million in three months ended March 31, 2014, six months ended June 30, 2013 and the year ended December 31, 2013 respectively, has been excluded from finance costs above.

We borrowed \$100.0 million under the Accugas III Facility to complete the EHGC Acquisition, which carries an interest rate of LIBOR plus a margin (approximately 9.4% per

annum). A *pro forma* adjustment to interest expense of \$2.3 million, \$4.7 million and \$9.4 million in three months ended March 31, 2014, six months ended June 30, 2013 and the year ended December 31, 2013, respectively, has been recognized in finance costs above.

The net impact to finance costs is a reduction of \$1.1 million, \$1.6 million and \$3.3 million in the three months ended March 31, 2014, six months ended June 30, 2013 and the year ended December 31, 2013, respectively.

- (g) Reflects the estimated net tax benefit on the pro forma adjustments (based on statutory tax rates in the various jurisdictions where these adjustments are reasonably expected to occur).

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" of this Offering Memorandum.

Overview

Overview

We are an indigenous Nigerian oil and gas exploration, development and production company with a focus on supplying gas to the domestic market. Our business consists of two types of operations onshore in Nigeria: (i) upstream oil and gas exploration, appraisal, development and production operations and (ii) midstream gas processing and distribution operations. In the twelve months ended June 30, 2014, we generated *Pro Forma* revenue of \$398.6 million and *Pro Forma* Adjusted EBITDAX of \$254.6 million.

Although Nigeria possesses the largest proven gas reserves in Africa with 179.4 Tcf as of December 31, 2013, and the second largest oil reserves in Africa with 37.1 Bnbbbl as of December 31, 2013, the country imports the substantial majority of its consumed petroleum products. In 2013, approximately \$17.5 billion was spent on diesel imports for power generation. To attempt to address this domestic demand, the Nigerian government has adopted policies designed to encourage the development of the local energy market with the stated goal of displacing the reliance on imported diesel and of expanding domestic power generation from 6 GW to 40 GW by 2020. For example, the Gas Master Plan, developed by the Nigerian government in 2008, aims to unlock Nigeria's gas potential and meet growing domestic energy demand by driving power capacity growth. The Gas Master Plan calls for the construction of new cost-competitive gas infrastructure, including the construction of pipelines and central processing facilities across the country. We believe we are positioned to capitalize on these trends in the Nigerian domestic energy market with our diversified portfolio of onshore gas interests and processing and distribution assets transporting gas from our assets to areas of high demand, underpinned by our oil interests for export.

Our primary assets are located in relatively secure areas of south east Nigeria, including in the Niger Delta and the Anambra Basin. As a domestic producer with long-term gas sales agreements in place to supply the Nigerian domestic energy market, we believe we will be able to use our integrated asset base, long-term commercial partnerships and broad experience in Nigeria to achieve our goal of becoming the leading supplier of gas to the Nigerian domestic market.

Our business began in 2004 as a division of Weatherford International, the New York Stock Exchange listed oil services company, pursuing upstream oil and gas opportunities in Nigeria, in partnership with Exoro Energy, a Nigerian company. In 2007, the division was sold by Weatherford International and merged with Exoro Energy to establish an independent company. Since then, we have grown both organically and through strategic acquisitions. Our equity holders include a number of blue-chip international institutional and strategic equity investors, who have supported our vision and long-term strategy by providing us with significant financing. Most recently, in April 2014, Temasek, the IFC and the IFC ALAC Fund invested \$255.0 million in aggregate for approximately 26% of our equity interests, of which we have received \$146.0 million with the remainder subject to certain conditions which we expect will be satisfied upon closing of this Offering. See "Capitalization" and "Principal equity holders".

Our assets include a portfolio of four upstream assets located in the north west and south east Niger Delta and the Anambra Basin and midstream assets located in the south east Niger Delta. The following map presents the location of each of our primary assets.

Upstream assets

Our portfolio of upstream assets includes interests in four onshore oil and gas assets. Our contractual interests in OMLs 4, 38 and 41 (such contractual interests, the “OMLs”) in the north west Niger Delta account for the significant majority of our gross production and cash flow. The Uquo Field in the south east Niger Delta began commercial gas production in early 2014. We also have a legal interest in the Stubb Creek Field, located near the Uquo Field in the south east Niger Delta, which is scheduled to begin oil production by the end of 2014. In January 2014, we acquired a license interest in OPL 905 in the Anambra Basin, north of the Niger Delta, which includes two discovered but undeveloped gas fields.

The OMLs

Production from the OMLs has contributed substantially all of our revenue since we entered into a contractual agreement (the “Strategic Alliance Agreement”) to share in a percentage of the incremental production revenue of these assets with NPDC. NPDC is a wholly-owned subsidiary of NNPC, the state oil corporation through which the Nigerian government regulates and participates in the country’s petroleum industry.

Under the Strategic Alliance Agreement, we agree to pay all of NPDC’s costs in connection with development of OMLs 4, 38 and 41 and to provide technical services in exchange for a share of NPDC’s production from its 55% license interests in the OMLs. Until we recover our costs under this agreement, we receive 60% of any profit attributable to incremental production, reducing to 35% following cost recovery. See “Management’s discussion and analysis of financial condition and results of operations— Significant factors affecting results of our operations—Strategic Alliance Agreement—Our entitlement under the Strategic Alliance Agreement”.

Seplat, the operator of OMLs 4, 38 and 41, owns the remaining 45% interest in the OMLs. Since we began operating under the Strategic Alliance Agreement, we have met \$735.1 million in cash calls, and average monthly gross production at the OMLs has increased by 138% from November 2010 to August 2014. We sell oil lifted under the Strategic Alliance Agreement to Shell at the Forcados Export Terminal. Average gross oil production at OMLs 4, 38 and 41 was 51,600 bopd for the year ended December 31, 2013, of which our average entitlement was 10,400 bopd during the same period. Our revenue for the year ended December 31, 2013 was \$345.0 million, which included \$1.1 million in revenue from gas production. All of our revenue for this period was derived from our entitlement to production at the OMLs. For the six months ended June 30, 2014, the average gross oil production from OMLs 4, 38 and 41 was 46,400 bopd, of which our average entitlement for the period was 11,000 bopd. Our revenue from the OMLs for the six months ended June 30, 2014 was \$149.3 million.

Uquo Field

The Uquo Field is primarily a gas field, which lies in close proximity to areas of significant gas demand. We began commercial deliveries of gas from the Uquo Field in January 2014. Our operating partner in the field is Frontier Oil. We provide technical expertise and financing pursuant to our role as capital project partner. For the six months ended June 30, 2014, the Uquo Field delivered 12.1 MMcfpd and generated \$4.4 million of revenue.

Stubb Creek Field

The Stubb Creek Field, near the Uquo Field, is initially being developed to produce oil, while we plan to develop the gas resources and tie in to our midstream gas infrastructure over the medium term. Oil production at the Stubb Creek Field is scheduled to commence by the end of 2014. We hold our interest in the Stubb Creek Field through our majority-owned subsidiary, Universal Energy, and our commercial partner in the field is Sinopec.

OPL 905

We also hold a license interest in OPL 905, a block covering 2,600 km² and containing two undeveloped gas discoveries. This block is near identified demand areas, including potential industrial and

power generation customers. The other interests in OPL 905 are held by Ideal Oil and GTPL, the operator of the field. As of August 31, 2013, the contingent gas resources for OPL 905 were estimated to be 425 Bcf.

The following table sets forth a summary of our oil and gas assets (excluding OPL 905), 2P reserves and 2C contingent resources as of December 31, 2013. This third-party information has been accurately reproduced and that as far as we are aware and is able to ascertain from information published by that third party, no facts have been omitted which would render the reproduced information inaccurate or misleading.

As of December 31, 2013			
Reserves (2P)	Oil (MMbbl)	Gas (Bcf)	Total (MMboe)
OMLs 4, 38 and 41			
Proved + probable (2P).....	75.3	408.0	143.3
Uquo Field			
Proved + probable (2P).....	0.8	484.9	81.6
Stubb Creek Field			
Proved + probable (2P).....	6.9	0.0	6.9
Total			
Proved + probable (2P).....	83.0	892.9	231.8
As of December 31, 2013			
Contingent resources (2C)	Oil (MMbbl)	Gas (Bcf)	Total (MMboe)
OMLs 4, 38 and 41			
Contingent resources (2C).....	44.5	188.8	75.9
Uquo Field			
Contingent resources (2C).....	0.0	13.6	2.3
Stubb Creek Field			
Contingent resources (2C).....	0.0	262.1	43.7
Total			
Contingent resources (2C).....	44.5	464.5	121.9

Source: Senergy Report effective as of December 31, 2013.

The following table sets forth a summary of field type, working interest and gross production for the years ended December 31, 2012 and 2013 and for the twelve months ended June 30, 2014. This third-party information has been accurately reproduced and that as far as we are aware and is able to ascertain from information published by that third party, no facts have been omitted which would render the reproduced information inaccurate or misleading.

Asset	Field type	Working interest	Production		
			Year ended December 31, 2013		Twelve months ended June 30
			2012	2013	2014
OMLs 4, 38 and 41					
	Oil and gas	Indirect interest to NPDC's 55% interest			
Oil (bopd)			33,300	51,600	49,300
Gas (MMcfd)			-	64.9	69.4
Uquo Field					
	Oil and gas	40% legal interest			
Gas (MMcfd)			-	-	12.1 ⁽¹⁾
Stubb Creek Field					
	Oil and gas	51% legal interest through Universal Energy			
			-	-	-

Asset	Field type	Working interest	Production		
			Year ended December 31, 2013		Twelve months ended June 30
			2012	2013	2014
OPL 905.....	Gas	40% license interest	—	—	—

(1) Represents average production for the six months ended June 30, 2014, as production began at the Uquo Field in January 2014.

Midstream assets

Our midstream operations process and distribute gas to the growing domestic power consumption market in Nigeria. In order to meet existing and growing demand, we recently expanded our midstream operations with the EHGC Acquisition. Our primary midstream assets are located in the south east Niger Delta, linking our upstream gas assets, the Uquo Field and Stubb Creek Field, to our existing customers, which are located in a region with significant demand from power stations and industry. Our primary midstream assets consist of a 200 MMcfd gas processing facility located at the Uquo Field (the “Uquo Gas Processing Facility”), as well as 227 km of main gas pipelines connecting the Uquo Field and Stubb Creek Field to areas of demand in the region, comprised of a 62 km pipeline from Uquo to Ikot-Abasi, the newly acquired, 128 km East Horizon pipeline from the Ukanafun Junction to Mfamosing, near Calabar, and the near-complete 37 km pipeline from Uquo to Oron to service the Calabar NIPP power station.

We have three long-term take-or-pay gas sales agreements with established customers, and are making gas deliveries under two of these agreements. The general terms of the agreements are as follows, as further described under “Our business—Material agreements relating to our assets”:

- a ten-year, 100% take-or-pay gas sales agreement with Ibom Power, a Nigerian state-owned power company, to supply 43.5 MMcfd to the 190 MW Ibom Power station near Ikot Abasi, under which we began deliveries in January 2014;
- a 20-year, 80% take-or-pay gas sales agreement with UniCem, to supply the UniCem cement plant with up to 25.0 MMcfd, which we acquired on March 31, 2014 in connection with the EHGC Acquisition and pursuant to which EHGC delivered 17.0 MMcfd during the three months following the acquisition, contributing to \$10.7 million in revenue during this period (we anticipate that the contracted delivery volume will increase to 50.0 MMcfd (as provided for under the agreement) upon completion of a planned expansion of the UniCem cement plant which is scheduled to occur in January 2016); and
- a 20-year, 80% take-or-pay gas sales agreement with NDPHC and CEGC to supply 131.0 MMcfd to the 560 MW Calabar NIPP power station, located near Calabar, under which we expect deliveries to begin by the end of 2014, initially via the Ikot Abasi to Ukanafun and East Horizon pipelines until completion of NDPHC’s pipeline from Oron to the Calabar NIPP power station.

Our integrated business model allows us to produce gas from the Uquo Field, process that gas at our Uquo Gas Processing Facility and transport the gas to our customers under long-term gas sales agreements via our pipelines. As our additional upstream and midstream assets in the south east Niger Delta come online, scheduled during the course of 2014 and 2015, we expect to continue to service customers and existing demand, at which point our pipeline network will have 600 MMcfd of distribution capacity, providing scope and capacity to contract out distribution to third-party gas suppliers, as well as to accommodate future growth in our production.

Significant factors affecting results of our operations

The following is a description of the principal factors that affected our results of operations and our financial condition during the periods under review and, save as detailed below, that we expect will continue to affect our results of operations and financial condition in the future. Certain risks and other factors which may affect our business are discussed in the section entitled “Risk factors” of this Offering Memorandum.

Strategic Alliance Agreement

One of the key factors affecting our operations and financial results is our Strategic Alliance Agreement with NPDC, which became effective in November 2010 and gives us an indirect, contractual interest in OMLs 4, 38 and 41. The Strategic Alliance Agreement gives us a contractual entitlement to a share of NPDC’s production from its joint venture interest in OMLs 4, 38 and 41, in return for providing technical services to NPDC and for funding NPDC’s 55% share of the joint venture’s operating and capital expenditure costs. See “Our business—North west Niger Delta - The OMLs”.

At the same time as entering into the Strategic Alliance Agreement, we entered into the SAA Funding Agreement, pursuant to which our funding partner agreed to provide funding for 30% of our obligations under the Strategic Alliance Agreement in exchange for 30% of our production entitlement. This agreement was terminated on March 13, 2013. We accounted for a 70% interest in the Strategic Alliance Agreement up to the date of termination of the SAA Funding Agreement and 100% thereafter. Consequently, our results of operations for the year ended December 31, 2013, the six months ended June 30, 2014 and for future periods will not be directly comparable to historical periods when the SAA Funding Agreement was in place, as our revenue, depletion and costs of sales now include this additional interest. See “Material agreements relating to our assets—SAA Funding Agreement”.

Production volumes under the Strategic Alliance Agreement

Production volumes underpin our results of operation associated with the Strategic Alliance Agreement. They directly impact entitlement, revenue (in the form of profit oil and cost oil), cost of sales and depletion, and also have a direct impact on our taxable profits. Further details of how our production volumes affect each of the aforementioned is presented below.

Our entitlement under the Strategic Alliance Agreement

Our oil entitlement or share of NPDC’s oil production under the Strategic Alliance Agreement consists of cost oil and profit oil and is directly linked to the production volumes of oil at the OMLs.

Pursuant to the Strategic Alliance Agreement, cost oil is oil in quantities sufficient to reimburse our operating costs and capital expenditure incurred. Non capital costs (which includes operating costs and certain capital expenditures of an intangible nature) are recoverable in the period in which they are incurred and capital costs (which consist of any other remaining capital expenditures) are recoverable over a five-year period.

We also receive a portion of NPDC’s profit oil from liftings at OMLs 4, 38 and 41. First, we receive 10% of all profit oil attributable to baseline production. Baseline production is the production from the fields at the time we entered into the Strategic Alliance Agreement, which was set at an initial production level of 27,000 bopd, adjusted for reconciliation imposed by the terminal operator to account for pipeline losses and water content. Thereafter, the baseline production level decreases by 15% per annum, which is consistent with the rate of decline of wells in the area (though production at the OMLs has increased over the period since we entered into the Strategic Alliance Agreement). Second, we receive 60% of any profit attributable to incremental production (which consists of total production less baseline production). The 60% of any profit attributable to incremental production reduces to 35% once our costs have been recovered.

Revenue recognition and calculation under the Strategic Alliance Agreement

Revenue under the Strategic Alliance Agreement is not recognized on the basis of entitlement, but rather on an actual invoiced basis for the value of oil at the time we lift and sell the physical volumes of oil, which include both cost oil and profit oil. Any difference between lifted volumes and our entitlement is recognized in cost of sales. If lifted volumes are greater than our entitlement, the difference between our entitlement and the actual lifted amount is considered an “overlift”, and if lifted volumes are less than our

entitlement, the difference is considered an “underlift”. See “—Results of operations—Cost of sales—Increase/(decrease) in underlift”. Our entitlement is calculated on a monthly basis, entitlement being a function of our entitlement to recover costs plus our share of the profit oil. We pay cash calls monthly and payment of these leads to a right to cost recovery. The calculation of profit oil is performed retrospectively each month and can be calculated once the quantum of costs is known and when actual production volumes for the month are delivered. The revenue generated under the Strategic Alliance Agreement is impacted by a number of factors, including: timing of field development and aggregate production volumes from the OMLs; the quantum of operating and capital expenditure we fund on behalf of NPDC and the timing of liftings compared to when entitlement arises. However, the total amount of profit oil available varies on a period-to-period basis because it is calculated as the amount of oil available from gross production after costs have been recovered; thus from month to month, as expenditure and production move so our net entitlement to profit oil varies.

In each of the years ended December 31, 2011, 2012 and 2013, all of our revenue was derived from the Strategic Alliance Agreement. In the six months ended June 30, 2014, 90.3% of our revenue was derived from the Strategic Alliance Agreement.

Since 2011, the aggregate production volumes from the OMLs have increased significantly as a result of increasing activity and development of the fields, including the successful drilling of new wells, which have since commenced production.

Our average gross production for the six months ended June 30, 2014 was 46,400 bopd, compared to 51,600 bopd for the year ended December 31, 2013. This change was primarily due to a more than four-week shutdown of the Forcados Pipeline in March and April 2014. However, as of July 15, 2014, the Forcados Pipeline was operational and our average gross production has returned to expected levels. The following table sets forth the average gross production volumes from the OMLs. This third-party information has been accurately reproduced and that as far as we are aware and is able to ascertain from information published by that third party, no facts have been omitted which would render the reproduced information inaccurate or misleading.

	Year ended December 31,			Six months ended June 30,		Twelve months ended June 30,
	2011	2012	2013	2013	2014	2014
<i>(in bopd)</i>						
Average gross production volume	31,300	33,300	51,600	51,100	46,400	49,300

The following table sets forth our total net entitlement, split between cost oil and profit oil, and the representation of this total net entitlement into revenue and underlift or overlift for each of the years ended December 31, 2011, 2012 and 2013 and the six months ended June 30, 2013 and 2014:

	Year ended December 31,			Six months ended June 30,	
	2011	2012	2013	2013	2014
<i>(in millions of \$)</i>					
Cost oil					
Operating costs	40.7	54.8	148.5	43.2	76.4
Capital expenditure	12.7	59.1	177.6	35.1	101.5
Profit oil	29.4	12.1	89.8	45.0	22.9
Total net entitlement	82.8	126.0	415.9	123.3	200.8
Represented by:					
Revenue	86.8	102.4	345.0	127.8	149.3
Increase / (decrease) in underlift	(4.0) ⁽¹⁾	23.6	70.9	(4.5)	51.5

(1) This was presented within production expenses in the 2011 financial statements.

As a result of increased field development activity during the past three years, our operating costs and capital expenditures increased, thereby increasing our entitlement to cost oil, which reduced the remaining amount of profit oil.

However, while our entitlement to profit oil varied during the periods under review, our revenue consistently increased because the decrease in profit oil was offset by a larger increase in cost oil, and thus our total entitlement increased due to an overall increase in production from the fields.

As the fields mature and capital expenditure requirements decrease, the entitlement to cost oil will decrease as a result. However, there will still be an entitlement to profit oil so long as actual production volumes remain higher than the agreed baseline production rate. The actual physical liftings of oil allocated on a monthly basis will never be exactly in line with the actual cost oil plus profit oil entitlement volume, partly due to the time delay in confirming the calculated volumes but also for the logistical reason that typically a 'rounded' volume of oil, (i.e. nearest 100,000 bbl) is allocated in any individual lifting. See "Our business—North west Niger Delta – The OMLs—Our interest: Strategic Alliance Agreement".

Operating costs under the Strategic Alliance Agreement

A significant proportion of operating costs under the Strategic Alliance Agreement have a direct correlation to production volumes. For example, processing and transportation costs increase when production volumes increase. Administrative costs and overheads increase and decrease depending on the level of activity at the fields, but not directly in line with production volumes. Operating costs, general and administrative costs and overhead have each increased during the periods under review as a result of increased production volumes and activity for the OMLs. These costs are recognized in cost of sales. See "Our business—North west Niger Delta – The OMLs—Our interest: Strategic Alliance Agreement".

Capital expenditure under the Strategic Alliance Agreement

There has been significant and ongoing investment to increase production and processing capacity of the OMLs. These activities include drilling new wells, which are mostly intangible capital expenditures, as well as building and improving facilities, which are tangible capital expenditures. For reporting purposes, both intangible and tangible capital expenditure under the Strategic Alliance Agreement are classified as upstream assets within property, plant and equipment in our financial statements. As described in "—Our entitlement under the Strategic Alliance Agreement", we recoup our past capital expenditures by way of cost oil and these capital expenditures also have a direct impact on production volumes and hence profit oil, while at the same time impacting operating expenditures by resulting in increased production and overhead.

During 2013, NPDC reached a final determination with Seplat, the operator of OMLs 4, 38 and 41, in relation to past costs incurred for the year ended December 31, 2012, which were initially unapproved by NPDC. This resulted in additional operating and capital expenditure costs and therefore resulted in an additional funding requirement. Finalization of the cost returns in respect of expenditures between NPDC and Seplat for the year ended December 31, 2013, has not yet occurred but we have taken into consideration the basis of the prior year cost determination in assessing their best estimate of the related expenditure for the year ended December 31, 2013. The basis of recognizing these expenditures includes monthly costs that NPDC initially does not approve with Seplat, but which are expected to be approved on subsequent review during 2014.

For further information on the Strategic Alliance Agreement, see "Our business—North west Niger Delta – the OMLs" and "Our business—Material agreements relating to our assets—The OMLs - Strategic Alliance Agreement".

Effects of the Forcados Export Terminal and Forcados Pipeline shutdown

We are reliant on third-party owned or operated infrastructure for our operations at the OMLs, including the Forcados Export Terminal and the Forcados Pipeline. During the six months ended June 30, 2014, the Forcados Export Terminal was shutdown for a period of over four weeks due to repair work on a subsea pipeline that was damaged due to bunkering activities. Due to the shutdown, the average gross oil production at the OMLs was lower than expected, producing at 46,400 bopd, which had a negative impact on our results of operations.

The inadequacy or unavailability of oil pipeline capacity and infrastructure could require us to shut-in wells, preventing us from realizing revenue from sales of oil to the export market from shut-in wells until suitable alternative transportation arrangements are made. However, we factor 10% of down time in our

competent person's report for such delay, as well as a further 7.5% reduction/reconciliation factor to take into account transportation losses.

Commencement of production at the Uquo Field and Stubb Creek Field

Gas

We have a ten-year, 100% take-or-pay gas sales agreement to supply gas to the Ibom Power station and a 20-year, 80% take-or-pay gas sales agreement to supply gas to the Calabar NIPP power station. As part of the EHGC Acquisition, we also acquired an 80% take-or-pay gas sales agreement to supply gas to the UniCem cement plant the term of which expires in 2032. Gas is being produced at the Uquo Field, and we expect to produce gas at the Stubb Creek Field in the future. Gas sold pursuant to these gas sales agreements is based on a fixed price, which is adjusted for inflation (except for the UniCem gas sales agreement which is based on a fixed price schedule), and fixed volumes which include a take-or-pay provision that requires the purchaser to purchase the specified amount of gas or to pay the equivalent cost regardless of whether the gas is consumed or utilized (subject to certain exceptions, such as force majeure). For these reasons, fluctuations in regional gas prices will not impact our revenue generated from these gas sales agreements. In the six months ended June 30, 2014, 2.7% of our revenue was generated from gas production from the Uquo Field. For further information, see “—Oil and gas prices” and “Our business—Material agreements relating to our midstream assets—Downstream Ibom gas sales agreement”.

We began commercial deliveries of gas to the Ibom Power station in January 2014. Pursuant to the terms of the gas sales agreement with Ibom Power, a total advance payment of \$63.5 million was agreed, equivalent to two years of contractual volumes to supply the Ibom Power station. In 2009, we received \$31.8 million as the first installment of this advance payment. Although we have received the benefit of the initial installment of this advance payment, revenue will only be recognized upon actual deliveries of gas to the Ibom Power station and the payments have been accounted for as deferred revenue on our balance sheet until the time of delivery. The remaining \$31.7 million was due following the completion of the infrastructure necessary to deliver gas to the Ibom Power station. We met this condition in March 2013 and received payments from Ibom Power totaling \$11.5 million as of December 31, 2013. The remaining \$20.2 million is expected to be paid during the remainder of 2014. These amounts are recognized as deferred revenue on our balance sheet until such time as actual delivery of quantities of gas to which such receivables are made. The unwinding of the deferred revenue will therefore not have an impact on our liquidity, but we will still recognize revenue, operating costs and depletion, as well as tax and royalty expenses upon commercial deliveries of gas. See “Risk factors—Risk factors relating to our business—Our future revenue depends on certain contractual relationships with key customers, and the loss of any of our key customers, their failure to fulfil their obligations or our inability to obtain additional or replacement customers, could adversely affect our financial results”.

We are in discussions with NDPHC in relation to a proposal that we build and finance the Oron to Creek Town pipeline, which will connect Oron to the junction of our East Horizon pipeline. The total cost of the pipeline is expected to be \$100.0 million, for which it is proposed we would be compensated by an increased gas tariff from the Calabar NIPP power station. See “—Capital expenditures”. Although we expect to recover the costs of the pipeline over time through the increased gas tariff, the impact of this project on our short-term liquidity would be significant. See “Risk factors—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”.

We expect to enter into additional gas sales agreements with new customers for any additional gas reserves that we discover or acquire. We also expect that the pricing terms for the sale of gas under any future gas sales agreements will be subject to the prevailing market price for gas at the time. The Nigerian government outlines a pricing framework for gas in the Gas Master Plan, but the framework assumes the supply of gas will be made directly to power stations and does not account for the cost of transportation. For further details about the Gas Master Plan, see “Legal and regulatory”. Therefore, the price that we will receive for gas will be based on the pricing framework set forth in the Gas Master Plan, plus an additional negotiated price for the cost of transportation. As such, fluctuations in gas prices are not expected to materially impact the results of our operations for our existing contracts, but will have an impact on the pricing and thus the revenue and taxes of any future contract that we may enter into.

Oil

We are scheduled to start producing oil from the Uquo Field and the Stubb Creek Field by the end of 2014. The commencement of oil production at these fields will result in increased revenue, cost of sales, depletion and tax expenses in future periods that are not reflected in our historical financial statements. To date, we have only recognized impairment in relation to these assets.

We entered into an oil sales agreement with ExxonMobil for the sale of oil produced at both fields. Oil sold pursuant to this agreement is subject to fluctuations in oil prices, which will impact our results of operations, as well as our production decisions. Should oil prices decline to an extent to which production is not economically attractive a decision may be made to actively reduce production volumes. Such considerations become more significant when a field is at the end of its life and production rates decline. In addition, any interruptions caused by external factors may temporarily impact the production volumes from the Uquo Field and the Stubb Creek Field, which may have a corresponding impact on our results of operations.

For further information, please see “—Oil and gas prices” and “Our business—Material agreements relating to our assets—Uquo Field and Stubb Creek Field – Oil handling and oil sales agreements—ExxonMobil crude oil sales agreement”.

Acquisitions and dispositions

Historically, we have undertaken a number of acquisitions, and we may enter into additional acquisitions in the future. We intend to seek out and pursue selective acquisition opportunities where we believe that we have strategic and competitive advantages. In connection with any such acquisitions, we may direct significant resources to identifying and evaluating potential acquisition opportunities, without any assurance that an acquisition will be completed successfully. To the extent that such an acquisition is paid in cash, such acquisition would affect our liquidity and cash position in the relevant period. If the cash consideration is funded by debt, the associated financing costs will also affect our future liquidity and cash position in the relevant period. Acquisitions may also have a significant impact on our results of operations, including impacting our future revenue, operating costs, capital expenditure and tax. While the accounting treatment of an acquisition can result in recognition of goodwill and other intangible assets, in the case of the acquisitions of Seven Energy (BVI) and Universal Energy, the excess value of any consideration over net assets acquired has been directly included as a fair value uplift to the cost of upstream oil and gas assets acquired. This fair value uplift is then used in our calculation of depletion under the unit of production method of accounting. As a result of such acquisitions, our results may not be comparable.

EHGC Acquisition

On March 31, 2014, we acquired the entire issued share capital of EHGC for a total consideration of up to \$250.0 million (adjusted for net liabilities). The aggregate consideration of up to \$250.0 million is payable by way of: (i) an initial payment of \$100.0 million in cash; (ii) the assumption of existing liabilities of EHGC, including \$54.3 million of outstanding indebtedness, primarily under the Bank of Industry Loan; and (iii) a contingent deferred payment to be satisfied by a combination of cash and the issuance of up to \$45.0 million of ICLNs. The initial \$100.0 million cash payment and the assumption of EHGC’s indebtedness have both been satisfied. The operational and contractual conditions that would result in the payment of the aforementioned contingent deferred payment have been partially satisfied and, in July 2014, we paid \$30.0 million of the contingent deferred payment. The remaining operational and contractual conditions are expected to be satisfied by the end of 2014. Both the initial payment and the payment in July 2014 were funded entirely by drawdowns under the Accugas III Facility. We expect to fund the cash component of the remaining contingent deferred payment with a combination of drawings under the Accugas III Facility and from our cashflows generated by operations.

EHGC derives 100% of its revenue from its gas sales agreement with UniCem, under which EHGC supplies gas to the second-largest cement plant in Nigeria, with a production capacity of 2.5 million metric tons per year. The primary fuel for this plant, owned and operated by UniCem, is the gas supplied by EHGC. The term of the gas sales agreement is 20 years and will expire in 2032. The agreement also includes an 80% take-or-pay provision. Under the terms of the UniCem gas sales agreement, EHGC is contractually obligated to supply UniCem an annual contracted quantity of 8 Bcf and a daily contracted quantity of 25 MMcfpd. We anticipate that the contracted delivery volume will increase to 50 MMcfpd upon completion of a planned

expansion of the UniCem cement plant, which is scheduled for January 2016. In the three months ended June 30, 2014, EHGC delivered 17.0 MMcfpd of gas to UniCem, which contributed \$10.7 million to our revenue.

EHGC purchases gas from NGC and transports the gas via the East Horizon pipeline for ultimate delivery to the UniCem cement plant. In the near-term, we will continue this practice and will continue to buy gas from NGC to fulfil EHGC's supply obligations under the UniCem gas sales agreement. Therefore, the EHGC Acquisition will have an immediate effect on our consolidated financial results, impacting our revenue, operating costs, depletion and tax expense. In the medium- to long-term, we anticipate that we will supply UniCem with gas from the Uquo Field and ultimately the Stubb Creek Field, following the completion of the Ikot Abasi connection (the 0.6 km connection from the Uquo to Ikot Abasi pipeline, around Ibom Power, connecting to NGC's pipeline to Ukanafun). In the future, we intend to acquire additional gas customers, which may increase our gas sales revenue. Any increase in revenue will be partially offset by an increase in operational expenditure from operating the pipeline.

The acquisition of EHGC also increased our fixed assets of the fair value of the gas pipeline (as determined March 31, 2014 when the acquisition was completed). This increased asset base will also increase future depletion charges to our consolidated statement of comprehensive income statement, as the economic useful life of the asset reduces.

OPL 905 Acquisition

On January 31, 2014, we acquired a 40% license interest in OPL 905, located in the Anambra Basin, in connection with our acquisition of SRL 905 Holdings (presently Seven Energy (Jersey)) for a total consideration of \$15.0 million of cash and the issuance of \$33.0 million of ICLNs. On the same day, we also entered into a conditional share purchase agreement to acquire a further 50% interest in OPL 905, through the acquisition of the entire issued share capital of GTPL for a total consideration of \$27.0 million, \$1.1 million of which will be satisfied by cash with the remainder being satisfied through the issuance of ICLNs. The GTPL acquisition has not yet been completed.

Under the terms of the production sharing contract in place with NNPC, we are committed to acquire and process 2D and 3D seismic data, as well as to drill a minimum of four exploration or appraisal wells by April 2017. As part of the exploration activities on OPL 905, a performance bond is also required to be placed with NNPC. This will have an impact on our liquidity position, while also increasing the value of our tangible assets (which will be impaired should our exploration activities be unsuccessful).

The field is located close to identified demand areas, and we will evaluate our capital expenditures to develop the field with a view to selling gas to the local light industrial and potential power generation customers in the area.

See "The Acquisitions—OPL 905 Acquisition" for details on this acquisition.

Potential disposition of Matsogo Field

During the year ended December 31, 2013, we sought to dispose of our interest in the Matsogo field for \$7.0 million. The carrying value of the asset has been transferred from intangible assets to assets held for sale. As a result, we incurred a \$5.8 million impairment charge on our income statement for the year ended December 31, 2013. We expect to complete the sale by the end of 2014. Upon completion of the sale, we expect that our assets held for sale will decrease and our liquidity will increase. See "—Impairment".

Impairment

We face risks in connection with our project development and production activities. We assess assets or groups of assets for impairment whenever events or changes in circumstances indicate that the carrying value of an asset may not be recoverable. For example, impairment may occur for oil and gas assets when there is a significant downward revision of estimated commercial reserves or an increase in estimated future development expenditure.

The value of our development and production assets are reviewed at each reporting date for any indication of impairment. If any such indication of impairment exists, we make an estimate of the asset's recoverable amount. 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. An asset group's recoverable amount is the higher of its (i) fair value less anticipated costs to sell the asset and (ii) its value in use. 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 assessing value in use, estimated future cash flows are adjusted for the risks specific to the asset group and are discounted to their present value using a discount rate that reflects current market conditions.

For example, in 2010, we recognized an impairment charge for the Uquo Field and its associated pipeline and gas processing facilities, principally due to cost overruns incurred during that year. The impairment charge was determined by estimating the excess of the cash generating unit's carrying value over future value in use. In calculating this impairment, we used a range of assumptions, including a long-term forecast oil price of \$85 per barrel and a 10% post-tax discount rate.

During the year ended December 31, 2013, we sought to dispose of our interest in the Matsogo field for \$7.0 million. The carrying value of the asset has been transferred from intangible assets to assets held for sale. As a result, we incurred a \$5.8 million impairment charge on our consolidated statement of comprehensive income for the year ended December 31, 2013.

Oil and gas reserves

Oil and gas reserves affect the amounts charged to our consolidated statement of comprehensive income as depletion. Using the unit of production method of accounting, the costs of developing a field are spread over the life of the field based on the total net entitlement of reserves, and charged to depletion, which is calculated on the ratio of oil and gas produced in a given period to the estimated quantities of commercial reserves at the end of the period plus production in the period. The reserves of the field are based on the latest technical estimates based on production history, pressure measurements, porosity of source rock, estimates of likely reservoir limits and other factors, and cannot be known with certainty during the life of the field. If there is a significant change in the estimated net reserves for a producing field, the total costs will be spread over a smaller or larger reserves number, increasing or decreasing, as the case may be, the depletion charge per unit of production and therefore the total cost of sales in a period. These reserves also underpin the total value of the field used for impairment calculations.

Financing

We operate in a capital intensive industry and have significant funding requirements for our production and development activities. Our funding requirements have been met through the issuance of equity and the incurrence of debt facilities which have included the Reserve Based Lending Facility, the Accugas II Facility, the Accugas III Facility, the Working Capital Facility and the Convertible Bonds. As of June 30, 2014, our total aggregate outstanding gross indebtedness amounted to \$766.1 million. As of June 30, 2014, as adjusted to give effect to the Refinancing as described in "Use of proceeds" our gross aggregate outstanding indebtedness amounted to \$778.9 million. See "Capitalization".

The costs of servicing our indebtedness, including the Notes, will continue to affect our results of operations. In addition to the net proceeds received by us upon completion of the Refinancing, we may seek to raise additional financing in the future to fund capital expenditure, acquisitions and other growth opportunities with the proceeds of external debt and the issuance of equity or convertible debt securities.

Tax

We are subject to Nigerian tax on our profits from our operations in Nigeria, principally CIT and PPT, as well as a 2.0% education tax. We are also subject to indirect and payroll taxes in Nigeria and the United Kingdom. Any changes to the applicable tax rates or to the tax regime in Nigeria could have a material impact on our results of operations. We also continue to work with the DPR and NPDC to further clarify our tax and royalty rates related to our interests in certain assets. The following tables summarizes our applicable tax and royalty rates by type of operation.

Operation	Tax Rates	Royalties
Upstream gas activities	30% (PPT)	7.0%
Upstream oil activities	65.75% (PPT)	2.5% for oil from marginal fields with

Operation	Tax Rates	Royalties
Service activities and midstream gas activities	30% (CITA)	production of less than 5,000 bopd; 20.0% from other onshore oil fields n/a

Our upstream gas activities (taxable under the PPTA provisions), service activities (taxable under CITA that may include activities related to the Strategic Alliance Agreement) and midstream activities (taxable under CITA) are subject to a tax rate of 30.0% and for certain deferred tax liabilities, taxed at 32.0% to take account of the education tax that will be payable once we fully utilize certain deferred tax balances. We believe that our upstream oil and gas companies, including SUGL and Universal Energy, as well as our midstream companies, Accugas and EHGC, may benefit from pioneer tax relief such that each of these entities will be exempt from tax during the first three to five years of production. The availability of pioneer tax relief for upstream oil companies is based on the current practice of the Nigerian Tax Authorities, but this practice is under review. During 2013, the Nigerian Investment Promotion Commission added upstream oil and gas to its list of qualifying industries and had issued pioneer certificates to some indigenous oil companies. We have applied for pioneer relief for SUGL and will apply for pioneer relief for Universal Energy. For Accugas, relief is being applied for as a midstream gas processing and transportation company. EHGC has a pioneer certificate and has benefited from pioneer relief since January, 1, 2012. See “Risk factors—Risk factors relating to our business—The taxes applicable to our operations may change to our detriment”.

Oil production is subject to a PPT tax rate of 65.75%. We expect a higher PPT rate of 85.0% to apply five years after the date of the first production of oil. However, amounts lifted by us from the OMLs under the Strategic Alliance Agreement are net of any such tax.

Oil and gas production is generally also subject to a Nigerian government royalty of 7.0% for gas, 2.5% for oil from marginal fields with production of less than 5,000 bopd and 20.0% from other onshore oil fields. These royalty payments are netted off against revenue.

Applicable tax rates may increase or decrease in the event new or amended tax laws or regulations are implemented. In particular, the current draft PIB, which is yet to be passed by either house of the National Assembly in Nigeria, contains proposed amendments to the current tax regime, which if adopted, will impact our applicable tax rates and the scope and amount of deductions which will be available to us and consequently, our results of operations. See “Legal and regulatory—Nigeria—Petroleum Industry Bill” for further information on the PIB.

Oil and gas prices

Oil prices

Revenue recognized in connection with the sale of oil is impacted by fluctuations in global oil prices, subject to any deferred put options we have entered into to hedge commodity price risk. The price for which we sell our oil is determined in accordance with our oil sales agreements and is primarily calculated with reference to the Brent quotations as published in Platts Crude Oil Marketwire. The following table sets forth the average Brent benchmark oil prices at which we lifted oil in the years ended December 31, 2011, 2012 and 2013, and periods ended June 30, 2013 and 2014.

<i>(in \$ per barrel)</i>	Twelve months ended December 31,			Six months ended June 30,	
	2011	2012	2013	2013	2014
Benchmark international Brent price.....	112.9	111.5	110.8	108.5	111.2

Global oil prices, including the Brent benchmark oil prices, are characterized by significant fluctuations. Key factors determining the global oil prices include the global balance of supply and demand, as well as the relative strength of the US dollar (the currency of choice for oil trading on the global commodities markets). For further details, see “Risk factors—Risk factors relating to the oil and gas industry—Oil prices are volatile and could be subject to a substantial or extended decline” and “Country, industry and market data”.

Under the Strategic Alliance Agreement, our revenue consists of cost oil and profit oil. For further information on our revenue generation under the Strategic Alliance Agreement, see “—Strategic Alliance Agreement—Revenue recognition and calculation under the Strategic Alliance Agreement”. Our cost oil is

recovered as an agreed dollar amount converted into a number of barrels of oil using the prevailing oil price at the time of each lifting. Any difference between the agreed dollar cost recovery amount and the actual dollar cost recovery amount received upon the sale of the liftings, as a result of fluctuations in oil prices between the time of the conversion and the actual lifting, is reflected in future lifting volumes and adjusted accordingly for any shortfall, or excess received, in the annual reconciliation undertaken by NPDC and ourselves. In 2011 and 2012, we entered into deferred put options with a syndicate of banks as part of the conditions for our Reserve Based Lending Facility relating to the funding for the development of the OMLs. These deferred put options establish a minimum oil price of \$100 per barrel for varying quantities of oil sales (ranging from 9,000 to 67,500 barrels per month) and cover a period to December 31, 2014, for an aggregate of 1,425,006 barrels. Costs incurred in connection with our deferred put options were \$0.1 million in 2011, \$4.8 million in 2012 and \$11.5 million in 2013. Although these deferred put options are a condition of the Reserve Based Lending Facility, they are separate financial instruments and will remain in place following the repayment of the Reserve Based Lending Facility from the Refinancing. Amounts payable under these put options are settled on a monthly basis during the period they are incurred and any such costs are included in the cost of sales. Following the Refinancing and the repayment of the Reserve Based Lending Facility, we do not intend to enter into additional hedging instruments.

Upon commencement of production of oil at the Uquo Field and the Stubb Creek Field, our revenue will be exposed to oil price fluctuations. See “—Commencement of production at the Uquo Field and Stubb Creek Field”. For further information on our oil sales agreements, see “Our business—Material agreements relating to our assets—Uquo Field and Stubb Creek Field – Oil handling and oil sales agreements”.

Gas prices

The revenue that we will receive for the sale of gas is principally contractually fixed and hence not subject to local, regional or global fluctuations in gas prices.

In 2009, we entered into a ten-year gas sales agreement to supply 43.5 MMcfpd to the 190 MW Ibom Power station. In 2011, we entered into a 20-year gas sales agreement to supply 131.0 MMcfpd to the 560 MW Calabar NIPP power station that is scheduled for commissioning by the end of 2014. The price under these gas sales agreements is based on a fixed price, which is then adjusted for inflation.

In addition, as a result of the completion of the EHGC Acquisition, we obtained a gas sales agreement between EHGC and an industrial customer, UniCem, to supply up to 25 MMcfpd under a 20-year gas sales agreement expiring in 2032. The price under this gas sales agreement is also based on fixed annual prices. We anticipate that the contracted delivery volume will increase to 50 MMcfpd upon completion of a planned expansion of the UniCem cement plant, which is scheduled for January 2016.

Pursuant to the Strategic Alliance Agreement, gas sales from the OMLs, are made at fixed prices as set by NGC and are not subject to local, regional or global fluctuations in gas prices. For the year ended December 31, 2013, \$1.1 million in revenue was generated from gas liftings under the Strategic Alliance Agreement.

For further information on our gas sales agreements, see “—Commencement of production at the Uquo Field and Stubb Creek Field—Gas” and “Our business—Material agreements relating to our assets”.

Foreign exchange

We operate internationally and have exposure to currency risk on purchases, sales, cash and cash equivalents that are denominated in currencies other than US dollars, which is the currency of most of our receivables and the currency of most of the cash balances that we maintain. The currencies giving rise to this are principally the pound sterling and Naira.

Explanation of statement of comprehensive income items

Revenue

Our revenue is generated from the sale of oil and gas and is recognized when the significant risks and rewards of ownership have passed to the buyer and can be reliably measured. Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for oil and gas products

provided in the normal course of business net of discounts, customs duties and sales taxes. Therefore, revenue derived from the Strategic Alliance Agreement is recognized on an actual invoiced basis for the value of the liftings made in the period, while revenue from the gas produced at the Uquo Field and gas deliveries to UniCem are recognized on a delivery basis.

Cost of sales

Our cost of sales consists of production expenses, hedging premiums and movements in overlift/underlift.

Cost of sales – Production expenses

Our production expenses primarily consist of (i) costs associated with the production of oil and gas, including salaries payable to personnel engaged in production activities, cost of equipment and materials and other costs related to oil and gas production, and (ii) deferred hedging costs.

Cost of sales – Increase/(decrease) in underlift

Offtake agreements associated with the sale of oil, gas, gas liquids, liquefied gas, petroleum and petrochemicals products in which we have an interest through jointly owned or controlled operations, such as the Strategic Alliance Agreement, are such that participants may not lift and sell their precise share of the overall production in each period. The resulting imbalance between cumulative entitlement and cumulative production (less inventory) attributable to each participant at a reporting date represents overlift or underlift. Overlift and underlift are valued at the time of recognition and recorded as current liabilities or current assets, respectively. Movements during an accounting period are adjusted through cost of sales, such that gross profit is recognized on an entitlements basis.

Depletion, depreciation and amortization expenses

Upstream oil and gas assets are depleted using a unit-of-production method, which is calculated on the ratio of oil and gas produced in a given period to the estimated quantities of commercial reserves at the end of the period, plus production in the period, generally on a field-by-field basis. Costs used in the unit-of-production calculation take into account expenditure incurred to date, together with expected future capital expenditure. Changes in the estimates of commercial reserves or future field development costs are dealt with prospectively.

Our infrastructure assets (including our pipelines, processing facility and gas receiving facility) are depreciated on a straight line basis over the useful economic lives of the material components, the majority of which are between 15 and 25 years. Assets are not depreciated in the course of construction, but depreciation commences once assets are ready for their intended use. Such depreciation is shown as depletion.

Our other fixed assets are depreciated as follows:

Furniture, fixtures and equipment.....	20% per annum
Vehicles.....	20% per annum
Computer hardware and software.....	33% per annum
Leasehold improvements.....	10% per annum

Impairment charge

We assess assets or groups of assets for impairment whenever events or changes in circumstances indicate that the carrying value of an asset may not be recoverable, for example, low prices or margins for an extended period or, for oil and gas assets, significant downward revisions of estimated commercial reserves or increases in estimated future development expenditures. If any such indication of impairment exists, we make an estimate of the asset’s recoverable amount. Individual assets are grouped for impairment assessment purposes at the lowest level at which there are identifiable cash inflows that are largely independent of the cash inflows of other groups of assets. An asset group’s recoverable amount is the higher of its fair value less costs to sell and its value in use. 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 assessing value in use, the estimated future cash flows are adjusted for the risks specific to the asset group and are discounted to their

present value using an appropriate discount rate that reflects current market assessments of the time value of money.

Other operating expenses

Our other operating expenses consist of gross staff costs (less any staff costs recharged to our joint venture partners or capitalized into the cost of fixed assets), inventory provision and other operating costs. Predominantly these are costs of an operational nature that are not directly linked to our production expenses.

Administrative expenses

Our administrative expenses consist of gross staff costs (less any staff costs recharged to our joint venture partners or capitalized into the cost of fixed assets) and other administrative expenses.

Investment revenue

Investment revenue relates to interest received on cash balances in bank accounts and revenue recognized in connection with the refinancing of Actis Loan Notes. Historically we have recognized investment revenue from the refinancing of Actis Loan Notes with the proceeds from the issuance of the Convertible Bonds in February 2012, which in this case led to a small profit on refinancing.

Finance costs

Finance costs are amortized over periods over the term of the corresponding indebtedness at a constant rate on the carrying amount. Arrangement fees and issue costs are deducted from the proceeds of debt incurrence on initial recognition of the liability and are amortized and charged to finance costs over the term of the debt.

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 prepare 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.

All other borrowing costs are recognized in the period in which they are incurred.

Foreign exchange gains/(losses)

We operate internationally and have exposure to currency risk on purchases, sales, cash and cash equivalents that are denominated in currencies other than US dollars. The currencies giving rise to this are principally pound sterling and Naira. Our exposure to foreign exchange fluctuations is reduced by maintaining cash balances primarily in US dollars, reflecting the currency of the majority of our transactions.

Tax (expense)/credit

Tax expense or credit represents the sum of current and deferred taxes on income. The tax rates applicable are dependent on the tax regime relevant for the individual companies. Upstream oil operations are subject to the provisions of the PPTA at the applicable PPT tax rate. The headline rates of PPT are 65.75% for the first five years of production and 85.0% thereafter. Our upstream gas operations are subject to the provisions of the PPTA at the lower CIT rate of 30.0% tax.

We have been advised that our upstream oil and gas group companies may receive pioneer tax relief for the first three to five years of production based on the current Nigerian Tax Authorities' practices, but these practices are under review. As a result, the profits arising from the first three to five years of production may not be subject to CIT or PPT. After the end of the pioneer period, the applicable tax rates for the upstream companies should revert to headline rates.

Our midstream operations and profits arising from the Strategic Alliance Agreement may be subject to the provisions of the CITA at the CIT tax rate of 30.0% and has been treated as such in arriving at tax expense although this treatment may be revised depending on the outcome of ongoing clarification work. Our midstream

operations are also eligible for pioneer tax relief. Our liftings from the OMLs are net of PPT, as NPDC is responsible for paying for any taxes under the Strategic Alliance Agreement.

All of our Nigerian entities are subject to education tax at two percent of assessable profits before the deduction of tax adjusted losses brought forward and capital allowances. For upstream entities, this two percent tax is deductible when calculating the tax adjusted profits of the relevant entity under the PPTA. Education tax will not be payable when pioneer relief applies.

We record deferred tax assets and liabilities in accordance with the appropriate IFRS principles. Deferred tax liabilities are recorded in relation to balances that will result in a future tax charge. Our deferred tax assets are therefore recorded only when it is considered probable that the entities they relate to will be sufficiently profitable in the future to utilize the tax reliefs to which the assets relate.

Key operating measures

We use several key operating measures, including revenue, operating cash flow, gross production, contracted gas volumes and Total Recordable Incidence Rate to track the financial and operating performance of our business. With the exception of revenue and operating cash flow, which are derived from our financial statements without adjustment, none of these terms are measures of financial performance under IFRS, nor have they been audited or reviewed by an auditor, consultant or expert. With the exception of revenue and operating cash flow, all of these measures have been derived from our internal operating systems. These measures are not meant to be considered in isolation or as a substitute for measures of financial performance reported in accordance with IFRS. As defined by our management, these measures may not be directly comparable to similar measures used by competitors or other companies.

The following table sets forth our key operating measures for the years ending December 31, 2011, 2012 and 2013, and for the six months ended June 30, 2013 and 2014.

	Year ended December 31,			Six months ended June 30,	
	2011	2012	2013	2013	2014
Revenue (\$ million).....	86.8	102.4	345.0	127.8	165.4
Operating cash flow (\$ million).....	(34.6)	77.8	171.9	44.2	64.4
Gross oil production (bopd).....	31,300	33,300	51,600	51,100	46,400
Contracted gas volumes (Bcf)	159	1,115	1,115	1,115	1,255
Total Recordable Incidence rate ⁽¹⁾	0.2	0.0	0.0	0.0	0.0

(1) Total Recordable Incidence Rate includes both our employees and contractors directly employed by us. For an explanation on how we calculate Total Recordable Incidence Rate, see “—Total Recordable Incidence Rate”.

Revenue

Revenue from oil and gas sales relates to our sale of oil and gas lifted during the period pursuant to the Strategic Alliance Agreement and, from January 2014, revenue derived from the sales of gas under the Ibom Power gas sales agreement.

Revenue was \$165.4 million for the six months ended June 30, 2014, compared with \$127.8 million for the six months ended June 30, 2013. The increase in revenue was primarily attributable to the 100% recognition of revenue from liftings from the OMLs from March 2013 following the termination of the SAA Funding Agreement in March 2013. For more information regarding the impact of the SAA Funding Agreement Termination see “—Impact of the SAA Funding Agreement termination” and “—Significant factors affecting results of our operations—Strategic Alliance Agreement”. A small portion of the increase in revenue can also be attributed to gas sales, which consisted of revenue from gas deliveries from the Uquo Field to Ibom Power that commenced in January 2014 and to UniCem following the EHGC Acquisition on March 31, 2014.

Revenue was \$345.0 million for the year ended December 31, 2013, compared with revenue of \$102.4 million for the year ended December 31, 2012. The increase was primarily attributable to increased liftings from the Strategic Alliance Agreement.

Revenue was \$102.4 million for the year ended December 31, 2012, compared with revenue of \$86.8 million for the year ended December 31, 2011. Again, this increase was as a result of increased liftings from the Strategic Alliance agreement.

Operating cash flow

Operating cash flow is cash flow from operations, before capital expenditure and financing activities. It is an indicator of our efficiency in generating cash from our business operations and is presented in our consolidated cashflow statement (where it is presented as “Net cash provided by/(used in) operating activities”).

Operating cash flow was \$64.4 million for the six months ended June 30, 2014, compared with \$44.2 million for the six months ended June 30, 2013. The increase was primarily attributable to increased oil liftings associated with the Strategic Alliance Agreement and favorable movements in working capital as a result of an increase in trade payables, partially offset by an increase in inventory.

Operating cash flow was \$171.9 million for the year ended December 31, 2013, compared with operating cash flows of \$77.8 million for the year ended December 31, 2012. The increase was primarily attributable to a significant increase in lifting volumes during the year.

Operating cash flow was \$77.8 million for the year ended December 31, 2012, compared with a negative operating cash flow of \$34.6 million for the year ended December 31, 2011. The positive operating cash flow in 2012 was a result of improved operating performance, as well as favorable working capital movements, which were primarily due to a decrease in trade receivables and an increase in trade payables.

Gross production

Gross production is the average field production volume from our upstream assets over a specified period of time. Gross production underpins the value of our asset portfolio and indicates production growth from existing assets. During the periods under review, our gross production derived from operations at the OMLs and the Uquo Field.

Our contractual arrangements are such that our entitlement volumes do not move in exact correlation with gross production.

Gross oil production was 46,400 bopd in the six months ended June 30, 2014, compared with 51,100 bopd in the six months ended June 30, 2013. The decrease in gross production relates to reduced oil production at the OMLs as a result of the closure of the Forcados Pipeline.

Gross oil production was 51,600 bopd for the year ended December 31, 2013, compared with 33,300 bopd for the year ended December 31, 2012. The increase in gross production relates to oil production from additional wells that were drilled or worked-over at OMLs 4, 38 and 41 during the year ended December 31, 2013, in addition to production from the Okporhuru field within OML 38, which came online in May 2013, and the Orogho Field within OML 38, which came online in December 2013. Gross oil production was 33,300 bopd the year ended December 31, 2012, compared with 31,300 bopd the year ended December 31, 2011.

The improvement in gross oil production over the period from 2010 to 2013 was a result of increasing levels of activity at OMLs 4, 38 and 41 in connection with Seplat becoming the operator in 2010, upon its acquisition of Shell’s license interest in the fields. In 2010 and 2011, Seplat focused on refurbishment and rigless activities and in 2012, Seplat commenced new drills and work-overs of existing wells, resulting in increased production. In 2013, Seplat began improving the surface facilities at OMLs 4, 38 and 41, which has resulted in further increases in gross production.

Contracted gas volumes

Contracted gas volumes are the total volumes of gas contracted over the remaining life of our existing contracts at a specific point in time.

Contracted gas volumes were 1,255 Bcf as of June 30, 2014, compared to 1,115 Bcf as of June 30, 2013. This increase reflects the gas sales agreement acquired as part of the EHGC Acquisition, together with the commencement of deliveries to Ibom Power station and UniCem cement plant.

Contracted gas volumes were 1,115 Bcf as of December 31, 2013, and were unchanged from December 31, 2012, as no other gas sales agreements were entered into or acquired during the period.

Contracted gas volumes were 1,115 Bcf as of December 31, 2012 and 159 Bcf as of December 31, 2011. The increase as of December 31, 2012 is a result of us entering into the 20-year gas sales agreement to supply the Calabar NIPP power station. Contracted gas volumes as 2011 relate to our ten-year gas sales agreement to supply the Ibom Power station.

Total Recordable Incidence Rate (“TRIR”)

TRIR is a recognized industry metric used to calculate the rate of recordable workplace injuries. TRIR is determined by multiplying the total recordable workplace injuries by 200,000, and dividing the product by the total hours worked during the applicable period. Recordable workplace incidents include fatalities, permanent total disabilities, permanent partial disabilities, lost time incident, restricted work case and medical treatment cases (excluding first aid cases).

TRIR was nil in the six months ended June 30, 2014. Our consistent strong safety record is a result of our strong focus on QHSSE/CSR matters in connection with the high levels of activity across our operations, including the construction of the 37 km Uquo to Oron pipeline.

TRIR was 0.2, nil and nil in the years ended December 31, 2011, 2012 and 2013, respectively. The consistent improvement in TRIR is a result of our continued strong focus on QHSSE/CSR matters, particularly considering our increasing levels of operating activity.

Results of operations

The following table sets forth certain of our historical revenue and expense items for the years ended December 31, 2011, 2012 and 2013, and the six months ended June 30, 2013 and 2014.

<i>(in millions of \$)</i>	Year ended December 31,			Six months ended June 30,	
	2011	2012	2013	2013	2014
Revenue	86.8	102.4	345.0	127.8	165.4
Cost of sales					
Production expenses	(46.3)	(64.5)	(171.4)	(49.9)	(90.0)
Increase/(decrease) in underlift		23.6	70.9	(4.5)	51.5
Depletion	(12.0)	(17.5)	(67.7)	(19.2)	(40.7)
Gross profit/(loss)	28.6	44.0	176.7	54.3	86.2
Depreciation and amortization expenses	(2.1)	(2.7)	(2.1)	(1.0)	(1.4)
Impairment charge	—	—	(5.8)	-	-
Other operating expenses	(4.8)	(1.7)	(0.5)	(0.9)	(1.7)
Administrative expenses	(28.1)	(25.9)	(42.6)	(19.0)	(28.9)
Operating (loss)/profit	(6.3)	13.6	125.7	33.5	54.2
Investment revenue	0.2	1.4	1.5	-	-
Finance costs	(6.8)	(18.7)	(38.1)	(20.9)	(24.1)
Foreign exchange gains/(losses)	0.7	(1.1)	(1.0)	0.6	(0.8)
Loss before tax	(12.3)	(4.8)	88.2	13.2	29.3
Tax (expense)/credit	(14.7)	(1.8)	(48.8)	(11.2)	(2.7)
(Loss)/profit for the period	(26.9)	(6.6)	39.4	2.0	26.6
Other comprehensive (expense)/income for the period					
(Loss)/profit for the period	(26.9)	(6.6)	39.4	2.0	26.6
Exchange differences on translation of foreign operations	0.2	—	—	—	—
Total comprehensive income for the	(26.7)	(6.6)	39.4	2.0	26.6

(in millions of \$) period	Year ended December 31,			Six months ended June 30,	
	2011	2012	2013	2013	2014

Comparison of results of operations for the six months ended June 30, 2013 and 2014

The following table sets forth certain of our historical revenue and expense items for the six months ended June 30, 2013 and 2014.

(in millions of \$)	Six months ended June 30,		% Change
	2013	2014	
Revenue	127.8	165.4	29.4%
Cost of sales			
Production expenses	(49.9)	(90.0)	80.4%
Increase / (decrease) in underlift	(4.5)	51.5	Nm
Depletion	(19.2)	(40.7)	112.0%
Gross profit/(loss)	54.3	86.2	Nm
Depreciation and amortization expenses	(1.0)	(1.4)	40.0%
Impairment charge	-	-	Nm
Other operating expenses	(0.9)	(1.7)	88.9%
Administrative expenses	(19.0)	(28.9)	52.1%
Operating (loss)/profit	(33.5)	(54.2)	61.8%
Investment revenue	-	-	Nm
Finance costs	(20.9)	(24.1)	15.3%
Foreign exchange gains/(losses)	0.6	(0.8)	233.3%
(Loss)/profit before tax	13.2	29.3	122.0%
Tax expense/(credit)	(11.2)	(2.7)	(75.9%)
(Loss)/profit for the period	2.0	26.6	Nm

Revenue

Revenue increased by \$37.6 million, or 29.4%, to \$165.4 million for the six months ended June 30, 2014, from \$127.8 million for the six months ended June 30, 2013. The increase in revenue was primarily due to increased total oil liftings in the period under the Strategic Alliance Agreement, the commencement of commercial gas deliveries to Ibom Power station from the Uquo Field, which contributed revenue of \$4.4 million, and gas sales to UniCem, which contributed revenue of \$10.7 million following the acquisition of EHGC.

For the six months ended June 30, 2014, we sold 1.3 MMbbl of oil at an average price of \$111 per barrel compared to the six months ended June 30, 2013, where we sold 1.2 MMbbl of oil at an average price of \$108 per barrel. All oil sold was attributable to oil under the Strategic Alliance Agreement. See “— Significant factors affecting results of our operations—Strategic Alliance Agreement—Revenue recognition and calculation under the Strategic Alliance Agreement”.

For the six months ended June 30, 2014, we sold an average of 12.1 MMcf of gas per day at \$2.00 per Mcf under the Ibom Power gas sales agreement and we sold an average of 17.0 MMcf of gas per day at \$7.21 per Mcf under the UniCem gas sales agreement. Revenue generated from the UniCem gas sales agreement has only been recognized from the date of acquisition, March 31, 2014. For the six months to June 30, 2013, no revenue was generated under these agreements.

Cost of sales

Cost of sales decreased by \$16.0 million, or 29.4%, to \$38.4 million for the six months ended June 30, 2014, from \$54.4 million for the six months ended June 30, 2013.

Production expenses

Production expenses increased by \$40.1 million, or 80.4%, to \$90.0 million for the six months ended June 30, 2014 from \$49.9 million for the six months ended June 30, 2013. The increase in these expenses increased are attributable to: (i) two additional fields that came on stream at OMLs 4, 38 and 41, thus requiring higher levels of activity; (ii) higher overall production at OMLs 4, 38 and 41; (iii) the commencement of production at the Uquo Field; and (iv) the production expenses associated with EHGC, following the EHGC Acquisition on March 31, 2014.

Increase / (decrease) in underlift

There was an increase in underlift of \$51.5 million in the six months to June 30, 2014, equivalent to approximately 464,000 barrels of oil at the weighted average price of oil for the period of \$111 per barrel, compared to a decrease in underlift of \$4.5 million as of June 30, 2013, equivalent to approximately 41,300 barrels of oil at the weighted average price of oil for the period of \$109 per barrel. The underlift increased as a result of timings of liftings during the respective periods.

Depletion

Depletion increased by \$21.5 million, or 112.0%, to \$40.7 million in the six months ended June 30, 2014, from \$19.2 million in the six months ended June 30, 2013. This increase in depletion primarily relates to: (i) increased entitlement and a higher rate of depletion under the SAA following termination of the SAA Funding Agreement; (ii) our midstream infrastructure at the Uquo Field, which only became operational in March 2013 and was therefore not depleted for the entirety of six months ended June 30, 2013; and (iii) depletion of our EHGC infrastructure following the acquisition thereof on March 31, 2014.

Depreciation and amortization expenses

Depreciation and amortization expenses increased by \$0.4 million, or 40.0%, to \$1.4 million in the six months ended June 30, 2014, from \$1.0 million in the six months ended June 30, 2013. The increase was principally due to the depreciation of new assets acquired in 2013 and 2014.

Other operating expenses

Other operating expenses increased by \$0.9 million, or 88.9%, to \$1.7 million, for the six months ended June 30, 2014, from \$0.9 million for the six months ended June 30, 2013. The increase was due to the recognition of production levies on our first gas production in 2014.

Administrative expenses

Administrative expenses increased by \$9.9 million, or 52.1%, to \$28.9 million for the six months ended June 30, 2014, from \$19.0 million for the six months ended June 30, 2013. The increase principally relates to an increased number of employees and reduced capitalization of staff costs to capital projects.

Finance costs

Finance costs increased by \$3.2 million, or 15.3%, to \$24.1 million for the six months ended June 30, 2014, from \$20.9 million for the six months ended June 30, 2013. The increase was due to an increase in borrowings.

Foreign exchange gains/(losses)

Foreign exchange gains or losses decreased by \$1.4 million, or 233.3% to a loss of \$0.8 million for the six months ended June 30, 2014, from a gain of \$0.6 million for the six months ended June 30, 2013. The decrease was due to minor currency fluctuations between the US Dollar and Naira.

Tax (expense)/credit

For the six months ended June 30, 2014, we incurred a tax charge of \$2.7 million, which included a current tax charge of \$0.2 million and a deferred tax charge of \$2.5 million, primarily relating to the utilization of brought forward tax adjusted losses due to profits arising in the period, and which was partially offset by a

deferred tax credit in relation to the movement of deferred tax assets in Accugas arising on fixed asset timing differences which have now been recognized. For the six months ended June 30, 2013, we incurred a tax charge of \$11.2 million, which included a current tax charge of \$0.2 million and a deferred tax charge of \$11.0 million. The tax charge for the six months ended June 30, 2014 decreased in comparison to the six months ended June 30, 2013, mainly due to the recognition of deferred tax assets in Accugas in respect of fixed assets which are expected to be available for utilization against future taxable profits in the company.

Adjusted EBITDAX

Adjusted EBITDAX is a non-IFRS measure and is not a substitute for any IFRS measure. We use this measure as a key measure of underlying performance and it is defined as profit or loss before finance costs, investment revenue, taxes, foreign exchange gains/(losses), depreciation, depletion, and amortization and exploration costs. We further add back share-based compensation expenses and impairment charges of oil and gas assets in the period. The following table sets forth the reconciliation of operating profit or loss for the period to Adjusted EBITDAX for the six months ended June 30, 2013 and 2014.

<i>(in millions of \$)</i>	Six months ended June 30,	
	2013	2014
Profit for the period	2.0	26.6
Tax expense/(credit)	11.2	2.7
Investment revenue	–	–
Finance costs	20.9	24.1
Foreign exchange gains/(losses)	(0.6)	0.8
Depreciation, depletion and amortization	20.2	42.1
EBITDAX	53.7	96.3
Share based payments charge	3.9	0.9
Impairment charge	–	–
Adjusted EBITDAX	57.4	97.2

Adjusted EBITDAX increased by \$39.8 million to \$97.2 million for the six months ended June 30, 2014, from \$57.4 million for the six months ended June 30, 2013. This increase was principally due to an increase in our net entitlement from the OMLs, the commencement of gas sales to Ibom Power station and gas revenue from EHGC.

Comparison of results of operations for the year ended December 31, 2012 and 2013

The following table sets forth certain of our historical revenue and expense items for the year ended December 31, 2012 and 2013.

<i>(in millions of \$)</i>	Year ended December 31,		
	2012	2013	% Change
Revenue	102.4	345.0	237.0%
Cost of sales			
Production expenses	(64.5)	(171.4)	165.7%
Increase in underlift	23.6	70.9	200.4%
Depletion	(17.5)	(67.7)	286.9%
Gross profit	44.0	176.7	Nm
Depreciation and amortization expenses	(2.7)	(2.1)	22.2%
Impairment charge	–	(5.8)	100.0%
Other operating expenses	(1.7)	(0.5)	70.5%
Administrative expenses	(25.9)	(42.6)	64.5%
Operating profit	13.6	125.7	Nm
Investment revenue	1.4	1.5	7.0%
Finance costs	(18.7)	(38.1)	101.6%
Foreign exchange (losses)	(1.1)	(1.0)	9.1%
(Loss)/profit before tax	(4.8)	88.2	Nm
Tax expense	(1.8)	(48.8)	Nm

	Year ended December 31,		% Change
	2012	2013	
(in millions of \$)			
(Loss)/profit for the year	(6.6)	39.4	Nm

Revenue

Revenue increased by \$242.6 million, or 237.0%, to \$345.0 million for the year ended December 31, 2013 from \$102.4 million for the year ended December 31, 2012. All of our revenue for these periods was derived from liftings under the Strategic Alliance Agreement and our increase in revenue was driven in part by an increase in production from the OMLs. Our increase in revenue was also driven by 100% recognition of revenue from liftings from the OMLs from March 2013 following the termination of the SAA Funding Agreement in March 2013. Under the SAA Funding Agreement, in exchange for certain funding contributions, our proportionate share of revenue from our allocated liftings from the OMLs was 70%. For further details about the impact of the SAA Funding Agreement Termination see, “—Impact of the SAA Funding Agreement termination” and “—Significant factors affecting results of our operations—Strategic Alliance Agreement”.

For the year ended December 31, 2013, we sold 3,104,000 barrels of oil at an average price of \$111 per barrel, generating revenue of \$343.8 million, compared to the year ended December 31, 2012, in which we sold 919,000 barrels of oil at an average price of \$112 per barrel generating revenue of \$102.4 million.

For the year ended December 31, 2013, we also recognized gas revenue of \$1.1 million compared to the year ended December 31, 2012, where we recognized gas revenue of nil.

Cost of sales

Cost of sales increased by \$59.6 million, or 145.7%, to \$100.5 million for the year ended December 31, 2013 from \$40.9 million for the year ended December 31, 2012.

Production expenses

Production expenses increased by \$106.9 million, or 165.7%, to \$171.4 million for the year ended December 31, 2013 from \$64.5 million for the year ended December 31, 2012. The principal production expenses relate to NPDC’s 55% share of the joint venture operating costs of the OMLs, funded by us and our funding partner, prior to the termination of the SAA Funding Agreement in March 2013. Prior to such termination, our proportionate share was 70% of the production expenses from the Strategic Alliance Agreement. Following, the termination of the SAA Funding Agreement, we were responsible for 100% of the production expenses.

Increase in underlift

In addition, we recognized an underlift credit of \$70.9 million as of December 31, 2013, equivalent to approximately 639,000 barrels of oil at the weighted average price of oil for the year of \$111 per barrel, compared to an underlift of \$23.6 million as of December 31, 2012, equivalent to approximately 211,000 bbl at the weighted average price of oil for the year of \$112 per barrel.

Depletion

Depletion increased by \$50.2 million, or 286.9%, to \$67.7 million for the year ended December 31, 2013 from \$17.5 million for the year ended December 31, 2012. The increase reflects the increased oil production associated with the Strategic Alliance Agreement and the termination of the SAA Funding Agreement; oil depletion being calculated on a unit of production basis which was \$15.6 per barrel in 2012 and \$12.2 per barrel 2013. In addition, in the year ended December 31, 2013, we depleted some of our infrastructure assets as they were available for use.

Depreciation and amortization expenses

Depreciation and amortization expenses decreased by \$0.6 million, or 22.2%, to \$2.1 million for the year ended December 31, 2013 from \$2.7 million for the year ended December 31, 2012. The decrease was

principally due to a number of other property, plant and equipment assets being fully depreciated during the year ended December 31, 2013.

Impairment charge

For the year ended December 31, 2013, we incurred an impairment of \$5.8 million relating to the Matsogo Field to reflect the realizable value of the asset. No such cost was incurred in the year ended December 31, 2012.

Other operating expenses

Other operating expenses decreased by \$1.2 million, or 70.5%, to \$0.5 million, for the year ended December 31, 2013 from \$1.7 million for the year ended December 31, 2012.

Gross staff costs that are classified under other operating expenses increased by \$2.1 million or 18.1% to \$13.7 million for the year ended December 31, 2013 from \$11.6 million for the year ended December 31, 2012. The increase in gross staff costs related to an increase in the number of senior operational staff members to support our expanding business. However, some of our staff costs were recharged to our joint venture partners or capitalized through timewriting into the cost of fixed assets, which offsets our other operating expenses. Recharges of gross staff costs increased by \$0.7 million, or 5.5%, to \$13.7 million, for the year ended December 31, 2013 from \$13.0 million for the year ended December 31, 2012.

Administrative expenses

Administrative expenses increased by \$16.7 million, or 64.5%, to \$42.6 million for the year ended December 31, 2013 from \$25.9 million for the year ended December 31, 2012. The increase principally relates to the increase in the number of senior operational staff members to support our growing operations.

Gross staff costs classified under administrative expenses increased by \$7.7 million, or 61.7%, to \$20.3 million for the year ended December 31, 2013, from \$12.5 million in December 31, 2012. As with some of the staff costs included in other operating expenses, the staff costs included in administrative expenses were recharged to our joint venture partners or capitalized into the cost of fixed assets, which can offset our administrative expenses. Timewriting recharges decreased by \$4.0 million, or 80.0%, to \$1.0 million, for the year ended December 31, 2013 from \$5.0 million for the year ended December 31, 2012. Also, other administrative expenses increased by \$5.0 million, or 27.2%, to \$23.3 million for the year ended December 31, 2013, from \$18.4 million for the year ended 2012 with the difference being driven by increased corporate activity in connection with consultant, legal and other advisory fees.

Our total full-time equivalent staff decreased to an average of 168 people during the year ended December 31, 2013 from an average of 172 people during the year ended December 31, 2012.

Investment revenue

Investment revenue increased by \$0.1 million, or 7.0%, to \$1.5 million for the year ended December 31, 2013, from \$1.4 million for the year ended December 31, 2012.

Finance costs

Finance costs increased by \$19.4 million, or 101.6%, to \$38.1 million for the year ended December 31, 2013 from \$18.7 million for the year ended December 31, 2012. The increase was due to an increase in borrowings.

Foreign exchange losses

Foreign exchange loss decreased by \$0.1 million, or 9.1%, to \$1.0 million for the year ended December 31, 2013 from \$1.1 million for the year ended December 31, 2012. The decrease was primarily due to minor favorable currency fluctuations between the US dollar and the Naira.

Tax expense

For the year ended December 31, 2013, we incurred a tax charge of \$48.8 million, which included a current tax charge of \$1.0 million and a deferred tax charge of \$47.8 million. For the year ended December 31, 2012, we incurred a tax charge of \$1.8 million, which included a \$0.2 million current tax credit and a \$2.0 million deferred tax charge. The tax charge for the year ended December 31, 2013 increased in comparison to the year ended December 31, 2012, mainly due to tax on increased profits arising under the Strategic Alliance Agreement which was offset by tax credits in relation to losses arising in Universal Energy and SUGL.

Adjusted EBITDAX

Adjusted EBITDAX is a non-IFRS measure and is not a substitute for any IFRS measure. We use this measure as a key measure of underlying performance, and it is defined as profit or loss before finance costs, investment revenue, taxes, foreign exchange gains/(losses), depreciation, depletion, and amortization and exploration costs. We further added back share-based compensation expenses and impairment charges of oil and gas assets in the period. The following table sets forth the reconciliation of operating profit/(loss) to Adjusted EBITDAX for the years ended December 31, 2012 and 2013.

<i>(millions of \$)</i>	Year ended December 31,	
	2012	2013
(Loss)/profit for the period	(6.6)	39.4
Tax expense	1.8	48.8
Investment revenue	(1.4)	(1.5)
Finance costs	18.7	38.1
Foreign exchange gains	1.1	1.0
Depreciation, depletion and amortization	20.2	69.8
EBITDAX.....	33.9	195.6
Share based payments charge	2.8	6.4
Impairment charge.....	—	5.8
Adjusted EBITDAX	<u>36.7</u>	<u>207.8</u>

Adjusted EBITDAX increased by \$171.2 million to \$207.8 million for the year ended December 31, 2013, from \$36.7 million for the year ended December 31, 2012. This increase was principally due to an increase in revenue from liftings under the Strategic Alliance Agreement, which also benefited from the termination of the SAA Funding Agreement in March 2013, which increased our proportionate share from 70% of the revenue to 100%. Similarly, we reflected an increase in underlift as a result of our increase in net entitlement. This was offset by an increase in both production expenses and administrative expenses.

Impact of the SAA Funding Agreement Termination

Removing the effects of the SAA Funding Agreement as if we held 100% of the interest in the OMLs as of January 1, 2013, we would have a significantly higher increase in: revenue, increase/(decrease) in underlift and depletion than without removing the effects of the termination. Had the termination already taken place as of January 1, 2013, we would have recognized the values associated with this higher interest for each of the aforementioned categories, reflecting higher cost oil and profit oil and as a result, increased revenue and movement in underlift. We would also have funded 100% of the cash calls payable under this Strategic Alliance Agreement and therefore would have recognized higher costs of sales, and as a result of higher entitlements, we would have recognized higher depletion charges.

Comparison of results of operations for the years ended December 31, 2011 and 2012

The following table sets forth certain of our historical revenue and expense items for the years ended December 31, 2011 and 2012 and the percent change between the two periods.

<i>(in millions of \$)</i>	Year ended December 31,		
	2011	2012	% Change
Revenue	86.8	102.4	18.0%
Cost of sales.....			

<i>(in millions of \$)</i>	Year ended December 31,		% Change
	2011	2012	
Production expenses	(46.3)	(64.5)	39.3%
Increase in underlift	-	23.6	100.0%
Depletion	(12.0)	(17.5)	45.8%
Gross profit	28.6	44.0	53.8%
Depreciation and amortization expenses	(2.1)	(2.7)	28.5%
Other operating expenses.....	(4.8)	(1.7)	(64.6%)
Administrative expenses.....	(28.1)	(25.9)	(7.8%)
Operating profit/(loss)	(6.3)	13.6	Nm
Investment revenue.....	0.2	1.4	Nm
Finance costs	(6.8)	(18.7)	175.0%
Foreign exchange gains/(losses).....	0.7	(1.1)	(257.1%)
Loss before tax	(12.3)	(4.8)	(61.0%)
Tax expense	(14.7)	(1.8)	(87.8%)
Loss for the year	(26.9)	(6.6)	75.4%

Revenue

Revenue increased by \$15.6 million, or 18.0%, to \$102.4 million for the year ended December 31, 2012, from \$86.8 million for the year ended December 31, 2011. All revenue was derived from liftings of oil under the Strategic Alliance Agreement.

For the year ended December 31, 2012, we sold 918,676 barrels of oil an average price of \$112 per barrel compared to the year ended December 31, 2011, where we sold 768,740 barrels at an average price of \$113 per barrel.

Cost of sales

Cost of sales decreased by \$5.3 million, or 11.6%, to \$40.9 million for the year ended December 31, 2012, from \$46.3 million for the year ended December 31, 2011.

Production expenses

Production expenses increased by \$18.2 million, or 39.3%, to \$64.5 million for the year ended December 31, 2012, from \$46.3 million for the year ended December 31, 2011. The principal production expenses relate to NPDC's 55% share of the joint venture operating costs of the OMLs, which were funded by us and our funding partner. Under the SAA Funding Agreement, our proportionate share was 70% of these costs.

Increase in underlift

As of December 31, 2012, we recognized an underlift of \$23.6 million, equivalent to approximately 211,000 bbl at the average price of oil for the year of \$112 per barrel. As of December 31, 2011, the value of the underlift was nil.

Depletion

Depletion increased by \$5.5 million, or 45.8%, to \$17.5 million for the year ended December 31, 2012, from \$12.0 million for the year ended December 31, 2011. The increase reflects the increased oil production associated with the Strategic Alliance Agreement, depletion being calculated on a unit of production basis which was \$15.6 per barrel in 2012 and \$15.5 in 2011.

Depreciation and amortization expenses

Depreciation and amortization expenses increased by \$0.6 million, or 28.5%, to \$2.7 million for the year ended December 31, 2012, from \$2.1 million for the year ended December 31, 2011. The increase was

principally due to increased expenditure on leasehold improvements for the Lagos office, office equipment and vehicles.

Other operating expenses

Other operating expenses decreased by \$3.1 million, or 62.5%, to \$1.7 million, for the year ended December 31, 2012, from \$4.8 million for the year ended December 31, 2011.

Gross staff costs that are classified under other operating expenses increased by \$0.6 million or 5.4%, to \$11.6 million for the year ended December 31, 2012 from \$11.0 million for the year ended December 31, 2011. The increase in gross staff costs related to an increase in the number of employees across our business due to increased activity over the periods. However, some of our staff costs are recharged to our joint venture partners or capitalized through timewriting into the cost of fixed assets, which offsets our other operating expenses. Timewriting recharges increased by \$2.6 million, or 24.5%, to \$13.0 million, for the year ended December 31, 2012, from \$10.4 million for the year ended December 31, 2011. In addition, other operating costs decreased by \$1.4 million, or 33.3%, to \$2.8 million for the year ended December 31, 2012 from \$4.2 million in the same period in 2011.

Administrative expenses

Administrative expenses decreased by \$2.2 million, or 7.8%, to \$25.9 million for the year ended December 31, 2012, from \$28.1 million for the year ended December 31, 2011.

Gross staff costs classified under administrative expenses increased \$0.8 million, or 6.8%, to \$12.5 million for the year ended December 31, 2012, from \$11.7 million in December 31, 2011. As with some of the staff costs included in other operating expenses, the staff costs included in administrative expenses are recharged to our joint venture partners or capitalized into the cost of fixed assets, which can offset our administrative expenses. Timewriting recharges increased by \$2.5 million, or 100%, to \$5.0 million, for the year ended December 31, 2012 from \$2.5 million for the year ended December 31, 2011. Also, other administrative expenses decreased by \$0.6 million, or 2.6%, to \$18.4 million for the year ended December 31, 2012, from \$18.9 million for the year ended 2011 with the difference being driven by reduced corporate service charges in connection with consultant, legal and other advisor fees, which were partially offset by increased rental costs, travel costs, insurance and redundancy pay to previous senior management.

Our total full time equivalent staff increased to an average of 172 people during the year ended December 31, 2012, from an average of 158 people during the year ended December 31, 2011.

Investment revenue

Investment revenue increased by \$1.2 million to \$1.4 million for the year ended December 31, 2012 from \$0.2 million for the year ended December 31, 2011. The increase was due to a gain earned upon the refinancing of the Actis Loan Note, with proceeds from the issuance of the Convertible Bonds.

Finance costs

Finance costs increased by \$11.9 million, or 175.0%, to \$18.7 million for the year ended December 31, 2012, from \$6.8 million for the year ended December 31, 2011. The increase was due to an increased a higher level of borrowings and a higher cost of borrowings, particularly relating to our Convertible Bonds that were issued in 2012.

Foreign exchange gains/(losses)

Foreign exchange losses decreased by \$1.8 million, or 283.3%, to a loss of \$1.1 million for the year ended December 31, 2012, from a gain of \$0.7 million for the year ended December 31, 2011. The increase was primarily due to fluctuations in the US dollar to Naira foreign exchange rate.

Tax expense

Tax expense decreased by \$12.9 million, or 87.8%, to \$1.8 million at December 31, 2012 from \$14.7 million for the year ended December 31, 2011. The decrease in tax expense was primarily due to

increased tax credits in respect of losses arising from Universal Energy and SUGL, which was offset by the increased tax on profits arising from the Strategic Alliance Agreement.

Adjusted EBITDAX

Adjusted EBITDAX is a non-IFRS measure and is not a substitute for any IFRS measure. We use this measure as a key measure of underlying performance and it is defined as profit or loss before finance costs, investment revenue, taxes, foreign exchange gains/(losses), depreciation, depletion, and amortization and exploration costs. We further added back share-based compensation expenses and impairment charges of oil and gas assets in the period. The following table sets forth the reconciliation of operating profit/(loss) to Adjusted EBITDAX for the years ended December 31, 2011 and 2012.

<i>(millions of \$)</i>	Year ended December 31,	
	2011	2012
Loss for the period.....	(26.9)	(6.6)
Tax expense.....	14.7	1.8
Investment revenue.....	(0.2)	(1.4)
Finance costs.....	6.8	18.7
Foreign exchange gains/(losses).....	(0.7)	1.1
Depreciation, depletion and amortization.....	14.1	20.2
EBITDAX.....	7.7	33.9
Share based payments charge.....	5.7	2.8
Impairment charge.....	-	-
Adjusted EBITDAX.....	<u>13.4</u>	<u>36.7</u>

Adjusted EBITDAX increased by \$23.3 million to \$36.7 million for the year ended December 31, 2012, from \$13.4 million for the year ended December 31, 2011. This increase was principally due to an increase in revenue from liftings under the Strategic Alliance Agreement, an increase in underlift as a result of our increase in net entitlement and a reduction in administrative expenses. This was offset by an increase in production expenses.

Liquidity

Our liquidity requirements arise principally from our capital expenditure, working capital and debt service requirements. During the periods under review, we satisfied our liquidity requirements primarily from proceeds from issuance of equity interests (including the ICLNs), the Convertible Bonds and bank borrowings, including the Reserve Based Lending Facility. In addition to the net proceeds we will receive in connection with the Refinancing, we may seek to raise financing in the future to fund capital expenditure, acquisitions and other growth opportunities from the proceeds of external debt and the issuance of additional equity or convertible debt securities. Our actual financing requirements will depend on a number of factors, many of which are beyond our control. In particular, any instability in the international financial markets could result in a contraction in lending volumes in global capital markets and could make it more expensive or difficult for us to refinance our existing debt or to incur additional debt, on terms acceptable to us, should the need arise. See “Risk factors— Risk factors relating to our structure and the Notes—Our level of indebtedness and the terms of our indebtedness could adversely affect our business and liquidity position”.

Cash flow

The following table sets forth consolidated cash flow information for the years ended December 31, 2011, 2012 and 2013 and for six months ended June 30, 2013 and 2014.

<i>(in millions of \$)</i>	Year ended December 31,			Six months ended June 30,	
	2011	2012	2013	2013	2014
Profit/(loss) for the period	(26.9)	(6.6)	39.4	2.0	26.6
Adjustments for:					
Investment revenue.....	(0.2)	(1.4)	(1.5)	-	-
Financing costs.....	6.8	18.7	38.1	20.9	24.1

<i>(in millions of \$)</i>	Year ended December 31,			Six months ended June 30,	
	2011	2012	2013	2013	2014
Depreciation and amortization.....	2.1	2.7	2.1	1.0	1.4
Depletion	12.0	17.5	67.7	19.2	40.7
Impairment loss on property, plant and equipment	–	–	5.8	–	–
Loss/(gain) on disposal of property, plant and equipment.....	–	–	0.3	0.2	–
Income tax expense	14.7	1.8	48.8	11.2	2.7
Share based payments expense.....	5.7	2.8	6.4	3.9	0.9
Foreign exchange losses/(gains).....	(0.7)	1.1	1.0	(0.6)	0.8
Deferred revenue released to income statement.....	–	–	–	–	(4.4)
Inventory provision.....	–	–	–	–	–
Increase in provisions for bad debt and obsolescence	1.5	2.7	–	–	–
Operating cashflows before movement in working capital	14.9	39.4	208.1	57.8	92.8
Decrease/(increase) in inventories.....	4.0	(33.2)	(60.0)	15.9	(51.7)
(Increase)/decrease in trade and other receivables	(67.1)	14.7	5.9	2.7	9.5
Increase/(decrease) in payables	13.6	56.9	17.9	(32.1)	13.8
Net cash provided/(used in) by operating activities	(34.6)	77.8	171.9	44.2	64.4
Interest received.....	0.1	0.1	0.2	–	–
Proceeds from disposal of property, plant and equipment.....	–	–	0.2	–	–
Net acquisition of shares in subsidiaries.....	–	–	–	–	(114.7)
Proceeds from disposal of assets	–	–	4.3	–	–
Purchases of property, plant and equipment and intangible assets.....	(171.3)	(186.3)	(328.8)	(136.6)	(182.5)
Net cash used in investing activities	(171.2)	(186.2)	(324.1)	(136.4)	(297.1)

<i>(in millions of \$)</i>	Year ended December 31,			Six months ended June 30,	
	2011	2012	2013	2013	2014
Interest and financing fees paid	(18.5)	(34.0)	(56.3)	(26.2)	(52.9)
Financing deposits paid	(4.5)	(7.6)	(0.2)	(3.8)	(23.6)
Repayment of borrowings.....	(5.0)	(68.4)	(101.8)	(34.5)	(64.7)
Proceeds from borrowings.....	78.1	40.0	301.1	128.8	216.0
Proceeds from issue of convertible bonds	–	121.2	28.8	–	–
Proceeds from issue of convertible loan notes	100.7	77.3	–	28.8	146.0
Net cash provided by financing activities ...	150.8	128.6	171.5	93.1	220.8
Net increase/(decrease) cash and cash equivalents	(55.0)	20.2	19.3	0.9	(11.9)
Cash and cash equivalents at beginning of period	67.5	12.7	32.2	32.2	50.4
Effect of foreign exchange rates	0.2	(0.7)	(1.1)	–	(0.8)
Cash and cash equivalents at end of period	12.7	32.2	50.4	33.3	37.7

Net cash provided by/(used in) operating activities

Net cash provided by operating activities was \$64.4 million for the six months ended June 30, 2014, compared with \$44.2 million for the six months ended June 30, 2013. In the six months ended June 30, 2014, the increase in net cash provided by operating activities primarily related to increased lifting volumes from the OMLs and revenue received under the UniCem and Ibom Power gas sales agreements. This increase was also

due to a large increase in trade payables, partially offset by a significant increase in inventory as a result of the increase in underlift in relation to the OMLs.

Net cash provided by operating activities was \$171.9 million for the year ended December 31, 2013, compared with \$77.8 million for the year ended December 31, 2012. For the year ended December 31, 2013, the increase in net cash provided by operating activities primarily related to our improved operational cash flow from the increased lifting volumes during 2013. This was offset by an increase in inventory which predominately related to our underlifted oil volumes. Both of these factors related to operations under the Strategic Alliance Agreement.

Net cash provided by operating activities was \$77.8 million in 2012, compared with net cash used in operating activities of \$34.6 million for the year ended December 31, 2011. The net cash provided by operating activities in 2012 reflected our improved operating performance as well as favorable working capital movements. The net cash used in operating activities in 2011 reflected adverse movements in working capital in 2011, along with increased operating losses in the same year. Changes in working capital are comprised of changes in inventories, receivables and payables. The following table sets forth these changes for the years ended December 31, 2011, 2012 and 2013, and for the six months ended June 30, 2013 and 2014.

<i>(in millions of \$)</i>	Year ended December 31,			Six months ended June 30,	
	2011	2012	2013	2013	2014
(Increase)/decrease in inventories.....	4.0	(33.2)	(60.0)	15.9	(51.7)
(Increase)/decrease in receivables	(67.1)	14.7	5.9	2.7	9.5
Increase/(decrease) in payables	13.6	56.9	17.9	(32.1)	13.8
Net increase/(decrease) in working capital.....	(49.4)	38.4	(36.2)	(13.5)	(28.4)

For the six months ended June 30, 2014, the net increase in working capital of \$28.4 million was a result of an increase in inventory under the Strategic Alliance Agreement, offset by an increase in trade payables, which predominantly reflects the ongoing capital expenditure requirements in relation to the construction of the Uquo to Oron pipeline and cash call payments due to our commercial partners.

For the years ended December 31, 2011, 2012 and 2013, the changes in working capital resulted from the following:

For the year ended December 31, 2013, the net decrease in working capital of \$36.2 million was a result of increased inventories reflecting our underlifted oil entitlement under the Strategic Alliance Agreement. This was offset by an increase in trade receivables and an increase in trade payables, the majority of which related to our increased capital expenditure on our upstream and midstream assets.

For the year ended December 31, 2012, the net increase in working capital of \$38.4 million was a result of an increase in payables of \$56.9 million, predominantly as a result of the timing of unpaid cash calls and trade payables, the majority of which related to our increased capital expenditure on our upstream and midstream assets and a decrease in receivables of \$14.7 million, predominantly in relation to the lifting of the December 2011 entitlement from the OMLs. This was partially offset by an increase in inventories of \$33.2 million in relation to underlifted volumes of oil entitlement under the Strategic Alliance Agreement.

For the year ended December 31, 2011, the net decrease in working capital of \$49.5 million was a result of an increase in receivables of \$67.1 million, predominantly as a result of the unpaid lifting under the Strategic Alliance Agreement of \$48.6 million. This was partially offset by an increase in payables of \$13.6 million, predominantly in relation to capital expenditure projects; and a decrease in inventories of \$4.0 million in relation to a lifting in December 2010 under the Strategic Alliance Agreement.

Net cash used in investing activities

Net cash used in investing activities was \$297.1 million for the six months ended June 30, 2014, compared with \$136.4 million for the six months ended June 30, 2013. In the six months ended June 30, 2014, the net cash used in investing activities primarily related to the EHGC and OPL 905 Acquisitions. In addition to this there was an increase in total capital expenditure incurred due to increased construction activities in

connection with the OMLs under the Strategic Alliance Agreement and on the projects at the Uquo Field and the Stubb Creek Field.

Net cash used in investing activities was \$324.1 million for the year ended December 31, 2013, compared with \$186.2 million for the year ended December 31, 2012. For the year ended December 31, 2013, the net cash used in investing activities primarily related to capital expenditure incurred in connection with OMLs 4, 38 and 41 under the Strategic Alliance Agreement and on the projects at the Uquo Field and the Stubb Creek Field.

Net cash used in investing activities amounted to \$186.2 million and \$171.2 million in each of the years ended December 31, 2012 and 2011, respectively. In 2012, we invested \$186.2 million, which principally related to capital expenditure on the projects at the Uquo Field and the Stubb Creek Field and capital expenditure incurred under the Strategic Alliance Agreement. In 2011, we invested \$171.2 million, consisting mainly of purchases of property, plant and equipment and intangible assets on the projects at the Uquo Field and the Stubb Creek Field and capital expenditure incurred under the Strategic Alliance Agreement.

For a more detailed description of our recent capital expenditure, see “—Capital expenditures”.

Net cash from financing activities

Cash inflow from financing activities was \$220.8 million for the six months ended June 30, 2014, compared with a cash inflow of \$93.1 million for the six months ended June 30, 2013. The cash inflow in the six months ended June 30, 2014 predominantly related to the Accugas III Facility which was drawn to fund the EHGC Acquisition and ICLNs issued as part of the April 2014 Equity Raise.

Cash inflow from financing activities was \$171.5 million for the year ended December 31, 2013, compared with a cash inflow of \$128.6 million for the year ended December 31, 2012. The cash inflow for the year ended December 31, 2013 was a result of \$135.0 million drawdown on the refinanced Accugas II Facility, an additional drawing of \$58.6 million under the Reserve Based Lending Facility, the issuance of \$28.8 million of Convertible Bonds and an additional \$5.0 million drawdown on our Working Capital Facility. This was offset by interest and financing costs of \$56.3 million.

In 2012, net cash generated from financing activities was \$128.6 million, principally reflecting proceeds from the issuance of \$121.2 million of our Convertible Bonds, the issuance of \$77.3 million of ICLNs to existing investors and \$35.0 million drawn under our \$40.0 million Working Capital Facility. In 2011, net cash generated from financing activities was \$150.8 million and primarily related to the issuance of \$100.7 million of ICLNs and \$75.0 million drawn under our Reserve Based Lending Facility in connection with our funding of NPDC’s 55% share of the development and operating costs in OMLs 4, 38 and 41.

For a more detailed description of our recent financing activities, see “—Contractual obligations and contingent liabilities—Financing”.

Cash and cash equivalents

We held cash and cash equivalents of \$50.4 million as of December 31, 2013, \$32.2 million as of December 31, 2012, and \$12.7 million as of December 31, 2011, as well as \$37.7 million as of June 30, 2014.

Our cash and cash equivalents balances exclude any restricted cash, which is included either in non-current other receivables or in trade and other receivables. The following table sets forth our total cash, cash equivalents and restricted cash for the years ended December 31, 2011, 2012 and 2013 and for the six months ended June 30, 2014.

<i>(in millions of \$)</i>	As of December 31,			As of June 30,
	2011	2012	2013	2014
Restricted cash included in non-current other receivables	4.5	5.4	7.5	2.7
Restricted cash included in trade and other receivables	—	6.9	5.0	19.7

<i>(in millions of \$)</i>	As of December 31,			As of June 30,
	2011	2012	2013	2014
Cash at bank and cash equivalents.....	12.7	32.2	50.4	15.3
Total	<u>17.2</u>	<u>44.5</u>	<u>62.9</u>	<u>37.7</u>

Cash and cash equivalents comprise cash and short-term bank deposits with an original maturity of three months or less. Restricted cash balances include deposits, stamp duty and debt service reserve amounts required to be held relating to our borrowings. The carrying amount of these assets is approximately equal to their fair value.

Capital expenditures

For the six months ended June 30, 2014, we invested \$240.8 million to support our development plans and to meet investment and capital expenditure requirements under the licenses and related agreements pursuant to which we operate. For the six months ended June 30, 2014, we also invested \$328.2 million by way of acquisition of EHGC and OPL 905. For the years ended December 31, 2011, 2012 and 2013 we invested \$215.1 million, \$232.0 million and \$508.3 million, respectively, on capital expenditure to support our development plans and to meet investment and capital expenditure requirements under the licenses and related agreements pursuant to which we operate.

Our capital expenditures (net of disposals) include both intangible and tangible assets as set forth below.

<i>(in millions of \$)</i>	Years ended December 31,			Six months ended June 30,
	2011	2012	2013	2014
Intangible assets.....	0.5	1.0	0.5	64.1
Tangible assets.....	214.6	231.0	507.8	506.3
Total	<u>215.1</u>	<u>232.0</u>	<u>508.3</u>	<u>570.4</u>

Capital expenditures for these periods related primarily to the development of our ongoing gas projects at the Uquo Field, including the Uquo Gas Processing Facility and related pipeline projects, the development of our ongoing oil and gas projects at the Stubb Creek Field, including an early production facility, as well as the initial acquisition cost of the Strategic Alliance Agreement and our share of the ongoing capital expenditure relating to the OMLs.

The following table sets forth a breakdown of our capital expenditures (net of disposals) by development site for the years ended December 31, 2011, 2012 and 2013, and for the six months ended June 30, 2014.

<i>(in millions of \$)</i>	Years ended December 31,			Six months ended June 30,
	2011	2012	2013	2014
Uquo Field.....				
Upstream.....	22.6	17.0	55.4	7.6
Midstream (Accugas).....	166.2	114.8	102.1	67.7
Stubb Creek Field.....	8.9	11.0	10.7	4.2
The OMLs ⁽¹⁾	14.4	85.2	338.0	161.4
Matsogo Field.....	0.5	1.0	0.5	–
EHGC.....	–	–	–	264.1
OPL 905.....	–	–	–	64.1
Other.....	2.5	3.0	1.6	1.3
Total	<u>215.1</u>	<u>232.0</u>	<u>508.3</u>	<u>570.4</u>

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- (1) For the year ended December 31, 2013, the capital expenditure relating to the OMLs includes the \$70.0 million cost to acquire our funding partners economic interest via the Strategic Alliance Agreement.

Our capital expenditure in the six months ended June 30, 2014 amounted to \$570.4 million; \$161.4 million was spent in connection with our share of ongoing capital expenditure of the OMLs under the Strategic Alliance Agreement. In addition, we incurred \$75.3 million on the continued developments at the Uquo Field, principally related to the construction of the Uquo to Oron pipeline, as well as \$4.2 million on the continued development of the Stubb Creek Field.

Our capital expenditure for the year ended December 31, 2013 amounted to \$508.3 million; \$338.0 million was spent in connection with our share of ongoing capital expenditure on the OMLs. This figure includes \$70.0 million consideration relating to the termination of the SAA Funding Agreement. In addition, we incurred \$157.5 million on the continued developments at the Uquo Field, including the right-of-way acquisition process and clearing for the Uquo to Oron pipeline to supply the Calabar NIPP power station and drilling wells, and \$10.7 million on the continued development at the Stubb Creek Field. Our capital expenditure for the year ended December 31, 2012 amounted to \$232.0 million; \$131.8 million related to developments at the Uquo Field, including upstream and infrastructure assets in the course of construction, including the drilling of wells and the construction of the Uquo to Ikot Abasi pipeline and the Uquo Gas Processing Facility. We spent \$85.2 million in connection with funding NPDC's 55% share of ongoing capital expenditures on the OMLs under the Strategic Alliance Agreement. We incurred capital expenditure of \$11.0 million in connection with our other upstream joint venture, the Stubb Creek oil and gas field development. Additions to oil and gas exploration and appraisal intangible assets during the year were \$1.0 million, which all related to the Matsogo Field.

Our capital expenditure for the year ended December 31, 2011 amounted to \$215.1 million; \$188.8 million related to developments at the Uquo Field, including the construction of the Uquo to Ikot Abasi pipeline, development of Uquo wells and related processing and receiving facilities. \$14.4 million was used to fund NPDC's 55% share of ongoing capital expenditures on the OMLs under the Strategic Alliance Agreement. We spent \$8.9 million in capital expenditure on the Stubb Creek oil and gas field joint venture. Additions to oil and gas exploration and appraisal intangible assets during the year were \$0.5 million, which related to the Matsogo field.

Our capital expenditure requirements relate largely to the continuing development of existing assets in which we have an interest. As of June 30, 2014, our estimated remaining capital expenditure is approximately \$170.0 million in 2014. Planned development of existing assets include: (i) undertaking appraisal and/or exploration drilling at the Uquo Field to develop the resources to supply gas to the Calabar NIPP power station; (ii) undertaking further drilling and development activities at the Stubb Creek Field to increase processing capacity from 2,000 bopd to 8,000 bopd; (iii) providing capital expenditure to support development activities, appraisal and exploration drilling at OMLs 4, 38 and 41; and (iv) undertaking exploration activities at OPL 905. In addition, we are finalizing the construction of the 37 km pipeline from Uquo to Oron to enable the supply of gas to the delivery point as defined in the gas sales agreement to supply to the Calabar NIPP power station. Following discussions with NDPHC, it has been proposed that we build and finance the second part of the Calabar pipeline from Oron to Creek Town for a total cost of \$100.0 million in exchange for an increased gas tariff. Discussions on this matter are ongoing. If we were to build this pipeline, we believe the cost of \$120.0 million would be incurred over the remainder of 2014 through 2015. The project would be funded by the proceeds of the Refinancing and cashflows from operations. See “—Significant factors affects results of our operations—Commencement of production at the Uquo Field and Stubb Creek Field—Gas”.

We continually evaluate our capital needs and compare them with our estimated funds available and our actual future capital expenditures may be higher or lower than our budgeted amounts. It is important to note that the dynamic nature of our business limits our ability to precisely predict our future capital expenditures.

Contractual obligations

The following table represents our contractual obligations as of June 30, 2014, after giving pro forma effect to the Refinancing therefrom.

<i>(in millions of \$)</i>	Payments due by period			
	Less than 1 year	1-5 years	More than 5 years	Total
Contractual obligations				
Accugas II Facility ⁽¹⁾	27.0	146.3	51.8	225.0
Accugas III Facility ⁽²⁾	2.0	90.0	8.0	100.0
Akwa Ibom State Loan ⁽³⁾	9.9	-	-	9.9
Bank of Industry Loan ⁽⁴⁾	46.6	-	-	46.6
Operating lease obligations ⁽⁵⁾	0.4	-	-	0.4
Notes offered hereby	-	-	300.0	300.0
NSIA Notes	-	-	125.0	125.0
Total	85.9	236.3	459.8	781.9

- (1) The Accugas II Facility provides for aggregate borrowings of up to \$225.0 million to fund Accugas processing and pipeline infrastructure projects. As of June 30, 2014, the Accugas II Facility was fully drawn. See “Description of certain financing arrangements—Accugas II Facility”.
- (2) The Accugas III Facility provides for aggregate borrowings of up to \$170.0 million to fund the acquisition of EHGC and pipeline infrastructure. As of June 30, 2014, we had drawn \$100.0 million under the Accugas III Facility. See “Description of certain financing arrangements—Accugas III Facility”.
- (3) The Akwa Ibom State Loan provides for aggregate borrowings of up to Naira 1,555.0 million or \$9.9 million, based on an exchange rate of 163.1405 to \$1.00, which was the exchange rate at the close of trading on June 30, 2014. As of June 30, 2014, the Akwa Ibom State Loan was fully drawn.
- (4) As a result of the EHGC Acquisition, we acquired the Bank of Industry Loan, which provides for aggregate borrowings of up to Naira 10,344.5 million or approximately \$63.4 million, based on an exchange rate of 163.1405 to \$1.00, which was the exchange rate at the close of trading on June 30, 2014. As of June 30, 2014, we had drawn \$44.0 million (equivalent) under the Bank of Industry Loan. The difference between the amount drawn and contractual obligation under this loan is attributable to the fair value difference as recognized under IFRS as compared to the actual payments to be made. See “Description of certain financing arrangements—Bank of Industry Loan (PAIF Facility)”. In the table above, this loan is stated at fair value.
- (5) The operating lease obligations are rentals payable under operating leases.

As is common in our industry, we have entered into various commitments and operating agreements related to the exploration and evaluation of and production from proved oil and gas properties. The following table sets forth our future capital commitments for oil and gas asset development and oil and gas asset exploration and evaluation as of December 31, 2011, 2012 and 2013. These amounts represent our obligations during the course of the following period to fulfill our contractual commitments. We believe that such commitments will be met without a material adverse effect on our financial position, results of operation or cash flows.

<i>(in millions of \$)</i>	As of December 31,		
	2011	2012	2013
Capital commitments			
Oil and gas assets-development.....	4.4	5.5	1.7
Oil and gas assets-exploration and evaluation.....	25.3	4.7	4.7
Total	29.7	10.2	6.4

The commitments for oil and gas assets for exploration and evaluation as of December 31, 2011, 2012 and 2013 relate to a two-year contractual agreement that we had entered into in 2010 for the use of a drilling rig in Nigeria. During 2011 and 2012, we assigned the use of this rig to third parties and, as such, assigned all of the rights and obligations in respect of this rig until the third party completed its drilling program in 2013. Although the contract expired in May 2013, we exercised a one-year option extension to enable the execution of our current drilling program.

We have also entered into certain deferred put option arrangements. For a description of our hedging, see “—Qualitative and quantitative disclosures about market risk”.

Defined employee contribution retirement schemes

We have defined contribution retirement schemes for all qualifying employees. The employees of our subsidiaries in Nigeria are members of state-managed retirement benefit schemes. We are required to contribute a specified percentage of payroll costs to the retirement scheme to fund benefits. As of December 31, 2011, 2012 and 2013, we owed \$0.1 million, \$0.1 million and \$0.1 million, respectively, in contributions to the schemes for those periods. For further information regarding pensions and retirement benefits schemes, see “Our business—Pensions and employee benefits”.

Financing

As noted above, our liquidity requirements arise principally from our capital expenditure and working capital requirements. For the periods presented, we met our working capital requirements primarily from oil sales and the proceeds of debt and equity financings. Historically, we have utilized a combination of short and long-term financial instruments to supplement cash flow from operations to finance our cash needs and the growth of our business. We believe that, following the Refinancing, our operating cash flows and borrowing capacity under the Accugas Facilities and the receipt of the Second Equity Tranche hereby will be sufficient to meet our requirements and commitments for at least the next twelve months. However, we are highly leveraged and have significant debt service obligations. We may, subject to the terms of our debt instruments, from time to time purchase or otherwise acquire or retire our debt and take other steps to reduce our consolidated debt or otherwise change our capital structure. These actions may include open market purchases, negotiated transactions, tender offers, exchange offers or other transactions. The timing and amount of any debt purchases or acquisitions would depend on market conditions, trading levels of the debt from time to time, our cash position and the availability and terms of cash financing from other sources, and other considerations. Our actual financing requirements will depend on a number of factors, many of which are beyond our control. See “Risk factors—Risk factors relating to our structure and the Notes—Our level of indebtedness and the terms of our indebtedness could adversely affect our business and liquidity position”, “—Contractual obligations and contingent liabilities” and “Description of certain financing arrangements”.

For a more detailed description of our financing contracts, including the covenants, see “Description of certain financing arrangements” and “Our business—Material agreements relating to our assets”.

Qualitative and quantitative disclosures about market risk

We seek to monitor and manage the financial risks relating to our operations. These risks include commodity price, foreign currency, credit, interest rate and liquidity risks.

Commodity price risk

Our activities expose us primarily to the financial risks of changes in oil and gas commodity prices. We monitor and manage this risk where considered appropriate through long-term fixed price sales contracts and forward contracts to economically hedge this commodity price risk. Specifically, we enter into forward contracts to fix the price of oil and gas contracts.

In 2011, 2012, 2013 and 2014, we entered into certain deferred put options with a syndicate of banks as part of the conditions for our Reserve Based Lending Facility relating to the funding for the development of the OMLs. These deferred put options establish a minimum oil price of \$100 per barrel for varying quantities of oil sales (ranging from 9,000 to 67,500 barrels per month) and cover a period up to December 31, 2014 for an aggregate of 1,425,006 barrels. These contracts are settled monthly and all of these contracts had settled prior to each period end. The cost of these deferred put options was \$0.1 million in 2011, \$4.8 million in 2012 and \$11.5 million in 2013. Following the Refinancing and repayment of the Reserve Based Lending Facility, we do not intend to enter into further hedging instruments in the near future.

In 2009, we entered into a ten-year gas sales agreement to supply 43.5 MMcfpd to the 190 MW Ibom Power station. In 2011, we entered into a 20-year gas sales agreement to supply 131.0 MMcfpd to the 560 MW Calabar NIPP power station. The price under these gas sales agreements is based on a fixed price, which is then (except in the case of the UniCem contract) adjusted for inflation. In March 2014, we acquired EHGC, which included a 20-year gas sales agreement with UniCem. This agreement is due to expire in 2032. As a result, changes in the market gas price over the period of each of these gas sales agreements would have no impact on our loss or equity in the current or future periods.

Foreign currency risk

We operate internationally and have exposure to currency risk on purchases, sales, cash and cash equivalents that are denominated in currencies other than US dollars. The currencies giving rise to this are principally pound sterling and Naira. Our exposure to foreign exchange fluctuations is reduced by maintaining cash balances primarily in US dollars, reflecting the currency of the majority of our transactions.

The carrying amounts of our foreign currency denominated monetary assets and monetary liabilities at the reporting date are as follows.

<i>(in millions of \$)</i>	As of December 31,					
	2011		2012		2013	
	Assets	Liabilities	Assets	Liabilities	Assets	Liabilities
Pound sterling	1.6	(3.9)	2.3	(5.1)	4.8	(5.6)
Naira	4.3	(20.0)	8.0	(26.6)	5.0	(24.6)

For the year ended December 31, 2013, a 20% increase and decrease in the US dollar against the pound sterling would have resulted in an increase in profit and equity of \$0.2 million and a decrease of \$0.1 million, respectively. For 2012, a 20% increase and decrease in the US dollar against the pound sterling would have resulted in an increase in profit and equity of \$0.5 million and a decrease of \$0.7 million, respectively.

For the year ended December 31, 2013, a 20% increase and decrease in the US dollar against the Naira would have resulted in an increase in profit and equity of \$1.6 million and a decrease of \$2.4 million, respectively. For 2012, a 20% increase and decrease in the US dollar against the Naira would have resulted in an increase in profit and equity of \$1.4 million and a decrease of \$2.2 million, respectively. For 2011, a 20% increase and decrease in the US dollar against the Naira would have resulted in an increase in profit and equity of \$2.6 million and a decrease of \$3.9 million, respectively.

Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to us. We have a policy of only dealing with counterparties we deem creditworthy and obtaining sufficient collateral or advance payment where appropriate, as a means of mitigating the risk of financial loss from defaults.

For the six months ended June 30, 2014 and the years ended December 31, 2011, 2012 and 2013, we considered our exposure to credit risk to be relatively low as cash inflows from sales were all from a state agency, international super-major or a large private entity. In addition, a total advance payment of \$63.5 million has been agreed under the gas sales agreement to supply the Ibom Power station, of which \$43.3 million has been received as pre-payments, of which \$31.8 million was received as the initial pre-payment and \$11.5 million was received in 2013 as the second pre-payment. There is still outstanding \$20.2 million (which is shown in trade and other receivables). See “Risk factors—Risk factors relating to our business—Our future revenue depends on certain contractual relationships with key customers, and the loss of any of our key customers, their failure to fulfil their obligations or our inability to obtain additional or replacement customers, could adversely affect our financial results”.

We will also seek to mitigate credit risk by obtaining letters of credit or bank guarantees, where appropriate and possible, to support payment. For example, under the gas sales agreement to supply the Calabar NIPP power station, the World Bank is expected to provide a partial risk guarantee in respect of a commercial letter of credit to be issued in connection with this gas sales agreement.

The carrying amount of financial assets recorded in the financial statements, which is net of impairment losses, represents our maximum exposure to credit risk as no collateral or other credit enhancements are held.

Interest rate risk

We are exposed to interest rate risk because some of our subsidiaries borrow funds at both fixed and floating interest rates. The risk is managed by maintaining an appropriate mix between fixed and floating borrowings.

The below sensitivity analyses have been determined for floating rate liabilities based on the exposure to interest rates at the balance sheet date and is prepared by using the average amount of liability outstanding during each period.

If interest rates had been 0.5% higher or 0.5% lower and all other variables were held constant, our gain for the year ended December 31, 2013 would have increased or decreased by \$1.4 million. If interest rates had been 0.5% higher or 0.5% lower and all other variables were held constant, our loss for the year ended December 31, 2012 would have increased or decreased by \$0.8 million and for the year ended December 31, 2011 by \$0.7 million. This is attributable to our exposure to interest rates on our variable rate borrowings.

We had cash and cash equivalents on hand on which we earned investment income. A 0.5% increase or decrease in the interest rate would have resulted in an increase or decrease in investment income by \$0.2 million, \$0.1 million and \$0.2 million for the years ended December 31, 2011, 2012 and 2013, respectively.

Liquidity risk

Ultimate responsibility for liquidity risk management rests with our board of directors, which has built an appropriate liquidity risk management framework for the management of our short, medium and long-term funding and liquidity management requirements. We maintain adequate liquid reserves by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities.

We closely monitor and manage our liquidity risk. Cash forecasts are regularly produced and sensitivities run for different scenarios including, but not limited to, changes in commodity prices, different production rates from our portfolio of producing fields and delays in development projects. In addition, we regularly monitor our utilized and unutilized amount of borrowings.

Critical accounting policies, estimates and judgments

Our consolidated financial statements have been prepared in accordance with IFRS as adopted by the European Union. Our financial statements have been prepared on the historical cost basis, except for the revaluation of certain financial instruments and share-based payments. Historical cost is generally based on the fair value of the consideration given in exchange for the assets at the time of initial recognition.

For a more detailed description on the preparation of our consolidated financial statements, please refer to our historical unaudited condensed consolidated interim financial statements and our consolidated financial statements and related notes included elsewhere in this Offering Memorandum.

Upstream and infrastructure oil and gas assets

We are required to assess our intangible assets and the upstream and infrastructure oil and gas assets for indicators of impairment. We take into account our latest development plans and business strategies and apply judgment in determining the appropriate cash generating units for the purpose of the annual impairment assessment. We compare the carrying value of these assets to the estimated net present value of the underlying oil and gas reserves and related future cash flows that could be generated from these reserves based upon estimates of future revenue, development costs and operating costs and a suitable discount rate. The reserve estimates are our best estimates, taking into consideration independent evaluations of the proved and probable reserves attributable to our economic interests using industry standard definitions and measurement techniques.

Decommissioning

We have decommissioning obligations in respect of certain of our oil and gas field interests and related processing and transportation infrastructure in Nigeria. The extent to which a provision is recognized requires management to make judgments on the legal and constructive obligations at the date of decommissioning, estimates of the restoration costs, timing of work, long-term inflation and discount rates to be applied.

Production entitlement

The Strategic Alliance Agreement relies on an agreed financial model to determine our production entitlement from this agreement. Within this model, production and capital expenditure costs are initially estimated from monthly cash calls and then actualized once cost returns are agreed by the operator, resulting in

either an over or under-funded position. Daily field production rates are adjusted to reflect expected terminal through-put rates based on past experience and then trued up for actual throughput by the terminal operator. Our share of production is determined at different percentage rates based both on baseline and incremental production volumes which change over the course of the agreement.

COUNTRY, INDUSTRY AND MARKET DATA

Certain of the projections and other information set forth in this section have been derived from external sources including BP Statistical Review of World Energy, CIA World Factbook, the International Monetary Fund (the "IMF"), OPEC, the Organisation for Economic Cooperation and Development (the "OECD"), the US Department of Energy and Poten & Partners, 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. This third-party information has been accurately reproduced and that as far as we are aware and is able to ascertain from information published by that third party, no facts have been omitted which would render the reproduced information inaccurate or misleading.

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".

Global overview

Global demand for energy is linked to movements in GDP and, accordingly, fluctuates with the economic cycle. Global primary energy consumption grew by 2.3 percent in 2013, below the CAGR for the last ten years of 2.5 percent, with global oil consumption growing by 1.4 percent to 91 MMbbl per day, and gas by 1.4 percent to 118 Tcf. (Source: BP Statistical Review of World Energy, June 2014).

In 2013, oil consumption in the 34 countries that are members of the OECD decreased by 0.4 percent, the seventh decrease in the past eight years. The OECD now accounts for just 49.2 percent of global oil consumption, the smallest share on record. Outside the OECD, oil consumption grew by 3.1 percent. In 2013, the United States recorded the largest increment to global oil consumption (an increase of 400 Mbbl per day), outpacing China's growth (an increase of 390 Mbbl per day) for the first time since 1999. Global gas consumption in 2013 grew by 1.4 percent, below the average rate of growth over the previous ten years. In 2014, consumption growth was above average in the OECD countries, recording a volumetric increase of 798 Bcf, representing 1.8 percent annual growth, and was below average outside the OECD recording a volumetric increase of 505 Bcf, representing 1.1 percent annual growth. In 2013, China (recording an increase of 540 Bcf or 10.8 percent) and the US (recording an increase of 501 Bcf or 2.4 percent) recorded the largest growth increments in the world, together accounting for 81 percent of global growth. India recorded the largest volumetric decline in the world (a decrease of 261 Bcf or 12.2 percent), while in the European Union, gas consumption fell to the lowest level since 1999 at 15,471 Bcf. Natural gas accounted for 23.7 percent of primary energy consumption globally. (Source: BP Statistical Review of World Energy, June 2014).

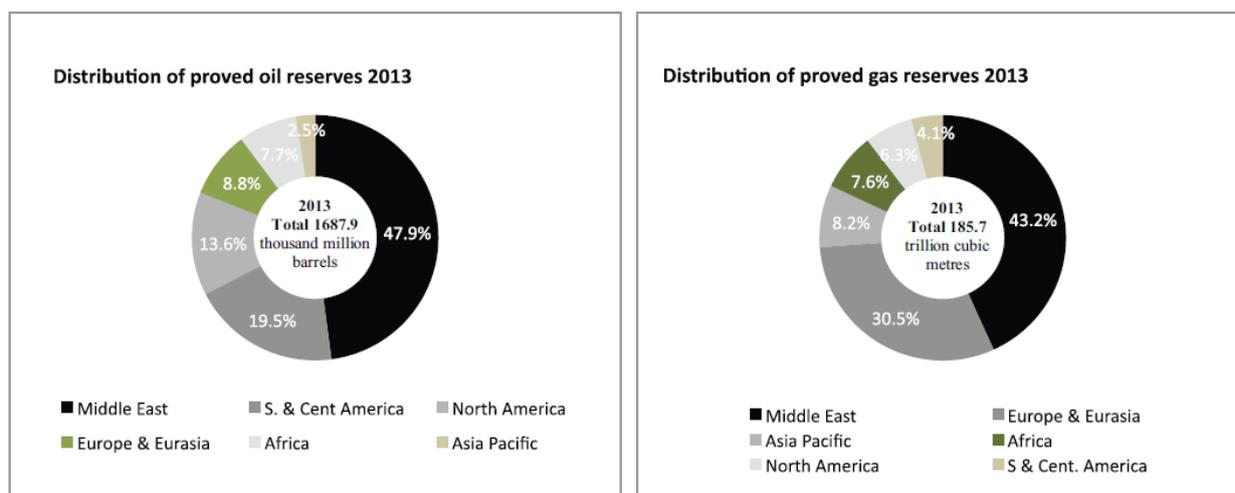
In 2013, global oil production did not keep pace with the growth in global consumption, rising by just 0.6 percent. The United States recorded the largest growth in the world (an increase of 1,111 Mbbl per day) and the largest year-on-year increase in the country's history for a second consecutive year. The United States accounted for nearly all (96 percent) of the non-OPEC output increase (the largest increase since 2002). Increases in Canada and Russia offset declines in Syria, the UK, Norway and Australia. OPEC output fell by 1.8 percent, the first decline since 2009. Declines in Libya (a decrease of 34.5 percent), Iran (a decrease of 6 percent), Saudi Arabia (a decrease of 1.1 percent) and Nigeria (a decrease of 4 percent) outweighed an increase in the United Arab Emirates (an increase of 7.4 percent) in each case compared to 2012. Global gas production increased by 1.1 percent in 2013, well below the ten-year average. Growth was below average in all regions except Europe and Eurasia, where growth was 0.7 percent, above the average rate of growth over the last ten years. The United States remained the world's leading producer of gas, producing 24,282 Bcf (an increase of 226 Bcf or 1.3 percent), but both Russia (an increase of 441 Bcf or 2.4 percent) and China (an increase of 349 Bcf or 9.5 percent) recorded larger growth increments in 2013. Nigeria (a decrease of 254 Bcf or 16.4 percent), India (a decrease of 233 Bcf or 16.3 percent), and Norway (a decrease of 212 Bcf or 5 percent) recorded the world's largest declines in volumetric terms. (Source: BP Statistical Review of World Energy, June 2014).

The long-term energy outlook remains focused on emerging economies. The past 10 years saw the largest growth of energy consumption ever recorded, driven by the industrialization and electrification of China, with India's consumption expected to grow to match China's consumption. It is also anticipated that more than half of global primary energy growth in the period from 2012 to 2035 will come from industrialization. While

renewables are expected to be the fastest growing type of fuel, gas is anticipated to grow the fastest of the fossil fuels, followed by coal and oil. (Source: *BP Energy Outlook 2035, January 2014*).

World primary energy production growth is expected to match consumption growth over the period from 2012 to 2035. Growth in energy production is projected to be dominated by non-OECD countries. Despite increases in the markets for shale gas, renewables and other sources of energy, which account for only 43 percent of predicted increases in energy production to 2035, the projected growth in consumption means that conventional fossil fuel supplies will likely still be the dominant form of energy in 2035. Gas is expected to be the largest single contributor to growth, and is expected to be the fastest growing of the fossil fuels. (Source: *BP Energy Outlook 2035, January 2014*).

It is expected that Africa will become an increasingly important source of fossil fuel exports. At the end of 2013, African proved oil reserves were estimated to be 130 billion barrels, equivalent to 7.7 percent of the world total and an increase of 113 percent from 1993. From 1993 to 2013, oil production in Africa increased by approximately 5 percent. At the end of 2013, Africa had approximately 502 Tcf of proved gas reserves, equivalent to a 7.6 percent share of the world total and an increase of 42 percent from its 1993 reserves. 7.2 Tcf of gas was produced in Africa in 2013, an increase of 39 percent from production levels in 1993. In 2013, Nigeria's oil and gas reserves constituted approximately 36 percent of African gas reserves and 28 percent of African oil reserves. (Sources: *BP Statistical Review of World Energy, June 2014*; *BP Energy Outlook 2035, January 2014*). The following diagrams set forth the distributions of proved oil and gas reserves by geographic region.



Source: *BP Statistical Review of World Energy, June 2014*

Nigeria

General

Nigeria is situated in West Africa and is bordered to the north by the Republics of Niger and Chad, to the west by the Republic of Benin, to the south by the Atlantic Ocean and to the east by the Republic of Cameroon. The country is divided into 36 states and the federal capital territory of Abuja. Following a GDP revision in 2014, Nigeria has become the largest economy in Africa. (Source: *World Bank*). It has a large, young and urbanizing population of approximately 177 million people making it Africa's most populous country, and the eighth most populous country in the world. Nigeria's population consists of over 250 ethnic groups, with the Hausa/Fulani, Yoruba and Igbo being the largest ethnic groups. (Sources: *World Bank 2013*; *US CIA World Factbook – Nigeria, May 2014*).

English is the official language of Nigeria and is widely spoken. The capital, Abuja, is located in the center of the country and is primarily a governmental and administrative city, with Lagos recognized as the commercial capital of the country. Nigeria's currency is the Naira, the average value of which was 159.2 Naira per \$1 in 2013. (Source: *Bloomberg*). In 2013, Nigeria's official exchange rate GDP was \$502 billion (equivalent, on a purchasing power parity basis, to \$478.5 billion), equating to a per capita GDP of \$2,800.

(Source: *US CIA World Factbook – Nigeria, May 2014*). Nigeria has one of the fastest growing economies in Africa, growing at 4.7% in 2011, 6.7% in 2012 and 7.3% in 2013. (Source: *IMF, July 2014*). Real GDP grew at a CAGR of 8.4 percent from 2000 to 2013. (Source: *IMF, April 2014*).

Nigeria operates a federal system of government comprised of three tiers: the federal government, state government and local government. At both federal and state levels, there is separation of power among the executive, legislative and judicial arms of government. The two major political parties are the People’s Democratic Party and All Progressive Congress. The People’s Democratic Party has been in power since 1999 and is the dominant party, with a large majority of Senators and House of Representative Members. (Source: *US CIA World Factbook – Nigeria, May 2014*).

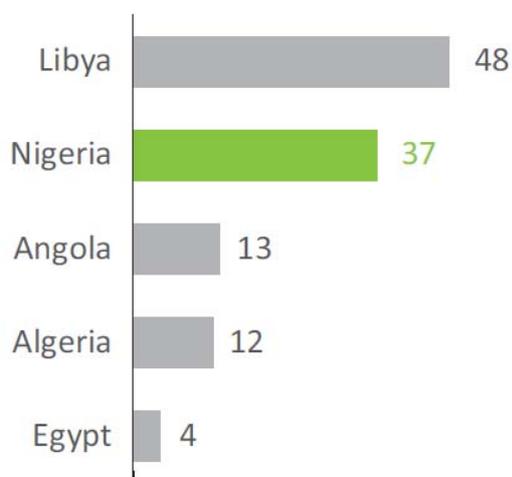
Nigeria gained independence from the United Kingdom in 1960 and became a republic in 1963. Due in part to Nigeria’s multi-ethnic and multi-religious population, the country has experienced numerous political changes since its independence. In 1999, after 39 years of independence (28 of which were under military rule characterized by political instability), a peaceful transition to civilian government was completed and democracy was re-introduced with the election in February 1999 of retired General Olusegun Obasanjo as President. The current Constitution of Nigeria was adopted in May 1999 and provides for a President, a National Assembly and a Judiciary. The President is elected for a four-year term. The National Assembly comprises two chambers: a Senate and a House of Representatives. Both chambers are made up of elected members who hold four-year terms. (Source: *US CIA World Factbook – Nigeria, May 2014*).

In April 2007, Umaru Musa Yar’Adua was elected President of Nigeria marking the first handover from one democratically elected government to another. Following the death of President Umaru Yar’Adua in 2010, the Vice President, Goodluck Jonathan, was sworn in as President in accordance with the Constitution of Nigeria and was re-elected in the general elections that concluded in April 2011. The next general elections are scheduled for February 2015. See “—Risk factors relating to operating in Nigeria—Political instability, religious differences, ethnicity, regionalism and internal security in Nigeria pose risks that impact Nigerian oil and gas production”.

Overview of oil and gas resources

As of the end of 2013, Nigeria’s proved oil reserves at that date were estimated at approximately 37.1 billion barrels, the second largest in Africa and eleventh largest in the world. Nigeria had 179.4 Tcf of gas reserves, the largest in Africa and ninth largest in the world at that time. (Source: *BP Statistical Review of World Energy, June 2014*). The following diagrams set forth the top five countries in Africa with the largest oil reserves as of 2013 along with their oil production levels as of 2013.

Oil Reserves (2013) (Bnbbls)

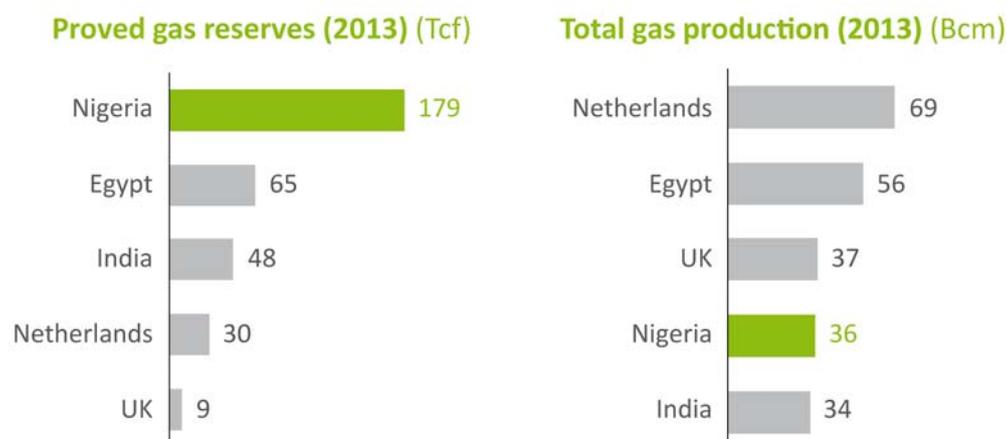


Oil Production (2013) (Mbopd)



Source: BP Statistical Review of World Energy, June 2014

The following diagrams set forth certain global gas producing countries and their proved gas reserves as of 2013 and gas production levels for 2013.



Source: BP Statistical Review of World Energy, June 2014.

Note: Excludes countries with significantly larger proved gas reserves and production, such as Iran, the Russian Federation and Saudi Arabia.

The majority of Nigeria's oil and gas reserves are in the Niger Delta, with additional oil reserves offshore in the Bight of Benin, the Gulf of Guinea and the Bight of Bonny. (Source: US Department of Energy, Energy Information Administration, Country Analysis Briefs – Nigeria, December 2013).

The Nigerian economy is heavily dependent on the oil sector, which together with gas, accounted for 96 percent of total export revenue in 2012 and approximately 40 percent of Nigerian GDP. (Source: US Department of Energy, Energy Information Administration, Country Analysis Briefs – Nigeria, December 2013).

The upstream industry is governed by the DPR, which is part of the MPR. Fiscal terms in Nigeria vary, with concessions, production sharing contracts, production sharing agreements and service contracts related to oil and gas ownership and extraction in use.

As a member of OPEC since 1971, Nigeria has agreed to oil production limits that have varied over the years but are currently set at approximately 2.0 MMbbl per day. (Source: US Department of Energy, Energy Information Administration, Country Analysis Briefs – Nigeria, December 2013). Historically, actual production has been largely unaffected by the quota system. (Source: U.S. Department of Energy, September 13, 2011).

Competitive environment

International oil companies have been present in Nigeria since the 1950s, including a number of IOCs such as Shell, Chevron, ExxonMobil, Total, and Eni. IOCs mainly focus on large scale projects and have gradually shifted focus from onshore oil investments to liquefied natural gas ("LNG") and deepwater offshore exploration and production. The NNPC is the state-owned oil company and has a majority share of several joint ventures involving IOCs.

Over the last few years, also in conjunction with an increased focus of the Nigerian government on indigenization of the Nigerian oil and gas industry, a number of indigenous players have emerged, growing their asset base through acquisition of assets from IOCs whom are gradually withdrawing from the Niger Delta. In particular, a number of indigenous companies have acquired assets from Shell, Total E&P Nigeria and AGIP joint ventures, as well as from others, including the following recent transactions:

- *December 2011:* First Hydrocarbon Company Nigeria, a subsidiary of Afren, acquired a 45 percent interest in OML 26; *August 2012:* Elcrest Exploration & Production Nigeria, a

consortium jointly owned by Eland Oil and Gas and Starcrest Nigeria Energy (a subsidiary of Chrome Group), acquired a 45 percent interest in OML 40;

- *September 2012:* ND Western, a consortium jointly owned by Niger Delta Petroleum Resources (a wholly owned subsidiary of NDEP), Petrolin Group and Walters Smith Petroman Oil, acquired a 45 percent interest in OML 34;
- *November 2012:* Shoreline Natural Resources, a consortium jointly owned by Heritage Oil and Shoreline Power, acquired a 45 percent interest in OML 30;
- *June 2013:* Seplat, a Nigerian consortium jointly owned by Maurel et Prom and the Nigerian companies Platform Petroleum and Shebah Petroleum Development Company acquired a 40 percent interest in the Umuseti/Igbuku Fields in OML 56;
- *February 2014:* Seplat was selected to purchase a 40 percent interest in OML 52, 53 and 55. The transaction remains subject to government approval and pending claims filed by competing bidders; and
- *July 2014:* Oando completed its acquisition of ConocoPhillips Nigerian assets, which own interests in onshore OMLs 60, 61, 62, and 63, as well as related infrastructure and facilities.
- *August 2014:* Shell announced its sale of four oil blocks in the Niger Delta: OMLs 18, 24, 25, 29, as well as the Nembe Creek Trunk pipeline.

NPDC holds a stake in the aforementioned assets.

Oil production and development

Nigeria's proved oil reserves at the end of 2013 were estimated at approximately 37.1 Bnbbbl, the second largest in Africa and ninth largest reserves in the world. (*Source: BP Statistical Review of World Energy, June 2014*).

Nigeria is the largest oil producer in Africa, with substantially all production coming from the Niger Delta region. The core producing areas cover approximately 60 percent of a total acreage of about 31,105 km². Nigeria produces high quality sweet crude from approximately 193 operational fields. (*Source: Nigerian National Petroleum Corporation, Business Information*). In 2013, total oil production in Nigeria reached 2,322 Mbbl per day. (*Source: BP Statistical Review of World Energy, June 2014*).

Historically, most oil production in Nigeria has come from relatively small individual onshore fields. However, production from deepwater offshore fields has grown considerably in the past decade, due to a number of factors that made deepwater exploration more attractive to IOCs. Deepwater fields tend to be larger than onshore or shallow water fields, are less prone to security concerns that characterize operations onshore in the Niger Delta region and often have no NNPC direct funding interest, and thereby no associated funding constraints. In addition, the Nigerian government ownership share tends to be lower in the deepwater fields than in the onshore and shallow water joint venture fields. (*Source: U.S. Department of Energy, Energy Information Administration, Country Analysis Briefs - Nigeria, December 2013; Nigerian Natural Resource Center, March 6, 2014*).

Nigeria is pursuing a number of reforms targeted at restructuring its oil and gas industry. These initiatives include streamlining and revising obsolete laws, rules and policies that regulate operations in the industry. In 2008, the Nigerian government submitted to the National Assembly the PIB, which proposes various reforms. A revised version of the PIB was presented in late 2012, however, after more than five years of negotiation, the PIB has not yet passed into law. Discussions to date with respect to the PIB have resulted in uncertainty and delayed oil investments and projects in Nigeria. (*Source: U.S. Department of Energy, Energy Information Administration, Country Analysis Briefs - Nigeria, December 2013; Nigerian Natural Resource Center, March 6, 2014*). For further information on industry regulation and the impact proposed legislation such as the draft PIB may have on our industry, see "Risk factors—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 "Legal and regulatory—Petroleum Industry Bill".

Onshore operations in the Niger Delta region have in the past suffered from militant activity. As a result, the Nigerian government has in recent years demonstrated increasing commitment to resolve disputes in the Niger Delta region and continues to engage in discussions with stakeholders to achieve greater stability in the region. The Nigerian government has placed continuous emphasis on its amnesty programs following the April 2011 general elections. The Niger Delta has been unaffected by Boko Haram's activities, which are concentrated in northern Nigeria. For further information, see "Risk factors relating to operating in Nigeria—Militant activity could destabilize oil production in Nigeria and adversely affect our operations and Nigeria's economy".

In addition, oil and gas assets in the Niger Delta are subject to frequent acts of sabotage and theft. Local groups seeking a share of the oil wealth have often attacked oil infrastructure and staff, forcing companies to declare force majeure on oil shipments. The oil sector has also suffered from significant disruptions due to oil theft, commonly referred to as "bunkering", which can lead to the temporary shutdown of facilities and pipeline damage, causing loss of production and pollution. For example, the Forcados Export Terminal was closed for extended periods in March and April 2014 to enable repairs on a subsea pipeline following damages due to bunkering activities. With the majority of Nigeria's gas reserves located in the Niger Delta region, the gas industry is impacted by the same security issues affecting the oil industry, however the gas industry is less susceptible to the risks of bunkering due to the characteristics of gas and the difficulty of tapping gas pipelines. (Source: *US Department of Energy, Energy Information Administration, Country Analysis Briefs – Nigeria, December 2013*). See also "Risk factors relating to operating in Nigeria—Oil production in Nigeria has been subject to theft in the past, which may continue in the future".

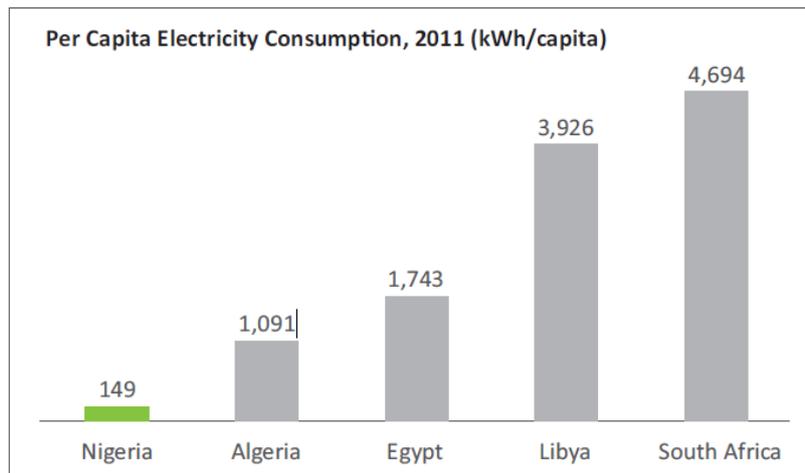
Gas and power production and development

At the end of 2013, Nigeria had the largest gas reserves in Africa and ninth largest gas reserves in the world. In 2013, the country produced approximately 3.5 Bcf per day of gas, approximately eight times more than in 1992. (Source: *BP Statistical Review of World Energy, June 2014*).

Although commercial gas production has risen, it does not account for a significant proportion of overall production. In 2012, approximately 25 percent of gas production in Nigeria was flared. (Source: Nigerian Department of Petroleum Resources). After flaring, 80 percent of Nigerian gas production was exported and 20 percent was supplied and used by the domestic gas market. (Source: *U.S. Energy Information Administration report on Nigeria, December 30, 2013*). Any remainder was re-injected or used as fuel or processed into liquefied petroleum gas ("LPG") and gas liquids ("NGL"). Nigerian oil and gas industry participants have not capitalized on the country's substantial gas reserves to supply its domestic gas market, leaving significant potential for gas development. (Source: *Poten & Partners, Nigeria Gas Market Research and Strategic Review, September 2012; Institute for Chartered Accountants of Nigeria, 2012*).

Deficit of domestic gas supply in Nigeria has a negative effect on the broader Nigerian economy, especially with regard to power generation. The pace of economic development, has been constrained due to lack of investment in Nigeria's power infrastructure and the absence of a reliable and affordable electricity supply. (Source: *Roadmap for Power Sector Reform, The Presidency of the Federal Republic of Nigeria, August 2010*).

Relatively low installed electricity generating capacity of approximately 6 GW has led to chronic domestic power shortages. (Source: *Poten & Partners, Nigeria Gas Market Research and Strategic Review, September 2012*). As of 2010, only 48 percent of the Nigerian population had access to electricity, Nigeria's per capita electricity consumption being among the lowest in Africa, as shown in the graph below. (Source: *World Bank, January 2014*). Lack of appropriate power infrastructure also results in country-wide fuel substitution and self-generation. In 2011, despite being the second largest oil producer in Africa at the time, Nigeria imported approximately 61 percent of its consumed petroleum products. (Source: *OPEC, June 2012*). Members of the Manufacturers' Association of Nigeria and smaller-scale businesses spend approximately \$5 billion per annum in aggregate on diesel fuel for self-generation. (Source: *Poten & Partners, Nigeria Gas Market Research and Strategic Review, September 2012*). Cost of diesel for electricity generation is \$21.3 per MMbtu. (Source: *US Energy Information Administration*). The following diagram below sets forth the per capita electricity consumption in certain African countries.

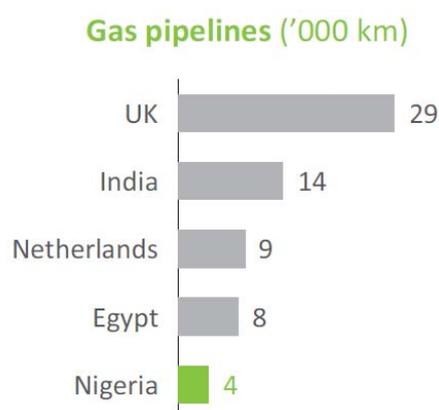


Source: World Bank, January 2014

The Nigerian government has stated that it sees the provision of adequate gas supply as a means of increasing industrial output and electricity supply, and hence economic growth, prosperity, and employment opportunities. The overriding priority is providing gas to the power sector, as gas fired power stations are likely to be the cheapest form of power generation in Nigeria. (Source: *Poten & Partners, Nigeria Gas Market Research and Strategic Review, September 2012; Roadmap for Power Sector Reform, The Presidency of the Federal Republic of Nigeria, August 2010*).

The development of gas supply for the domestic market has been identified by the current Nigerian government as a priority, as demonstrated by a number of reforms and initiatives. The Gas Master Plan, developed by NNPC in 2008, aims to unlock Nigeria’s gas potential and meet growing domestic energy demand by driving power capacity growth. The Gas Master Plan calls for the construction of new cost competitive gas infrastructure, including the construction of pipelines and central processing facilities across the country. (Source: *Poten & Partners, Nigeria Gas Market Research and Strategic Review, September 2012*). For further information on industry regulation, see “Legal and regulatory”.

The following diagram below is an illustration of the extent of Nigeria’s pipeline infrastructure as of 2013 as compared to some of the countries with comparable proved gas reserves and gas production levels (excludes mixed-use pipelines as well as pipelines reserved for condensate and liquid petroleum gas).



Source: CIA World Factbook

A number of other reforms to the Nigerian power sector have targeted growth in power generation capacity. In particular, the Nigerian government has implemented several measures to incentivize the private sector to invest in the power sector with a view to meeting the target of 40 GW of generating capacity by 2020,

requiring a total estimated investment of approximately \$10 billion per annum. (Source: *Roadmap for Power Sector Reform, The Presidency of the Federal Republic of Nigeria, August 2010*).

Power sector reform started with the enactment of the 2005 Electric Power Sector Reform Act (“EPSR Act”), which provided for the privatization of all existing generation and distribution companies and the handover of transmission company management to a private company. The EPSR Act also established an independent regulator, the Nigerian Electricity Regulatory Commission (“NERC”), which was formed in October 2005. The EPSR Act was complemented in 2008 by the Gas Master Plan and in 2010 by the Roadmap for Power Sector Reform. (Source: *Roadmap for Power Sector Reform, The Presidency of the Federal Republic of Nigeria, August 2010*).

The stated objective of the Roadmap for Power Sector Reform is, among other objectives, to remove obstacles to private sector investment in the power sector (including through the provision of credit enhancement and the establishment of an appropriate pricing regime) and permit the privatization of existing generation and distribution companies. As part of the privatization process, in January 2012, the state owned Power Holding Company of Nigeria (“PHCN”) was divided into eighteen separate successor companies, including six generation companies, one transmission company and eleven distribution companies.

These transactions and industry agreements are considered to be among the largest developments in the power sector of Nigeria to date, setting the framework to allow for substantial investments in the Nigerian power sector to increase generation capacity and expand the capacity of transmission and distribution networks. (Source: *Poten & Partners, Nigeria Gas Market Research and Strategic Review, September 2012; Roadmap for Power Sector Reform, The Presidency of the Federal Republic of Nigeria, August 2010*).

The Nigerian government also indicated plans to establish an appropriate pricing framework, and it has been reported that the NERC is undertaking a major review of the tariff regime to replace the existing national uniform tariff with a new cost-reflective ceiling on end-user tariffs. (Source: Nigerian Electricity Regulatory Commission, May 26, 2014 and Multi-Year Tariff Order, June 1, 2012). In May 2010, the MPR Minister announced President Goodluck’s approval of the implementation of a new gas-to-power price framework, encouraging more gas production for electricity generation. Under the approved price framework, gas prices (for gas-to-power projects) were to progressively increase from the current \$0.60 cents per MMBtu to \$1.00 per MMBtu from the end of 2010, \$1.50 per MMBtu from the end of 2011 until the end of 2013 and \$2.00 per MMBtu from the end of 2013 through the end of 2014. Beyond the end of 2014, gas prices are expected to be adjusted based on the applicable inflation rate. However, if the PIB is passed into law in its current form, the aggregate price for domestic gas will be determined by the Domestic Gas Aggregator. (Source: *NNPC*). For further information on industry regulation, see “Legal and regulatory”.

In addition, the Nigerian government has taken a number of steps to support the development of Independent Power Producers (“IPPs”) that are likely to build open cycle gas turbine plants. In August 2011, a single buyer, Nigerian Bulk Electricity Trading (“NBET”), was established to buy electricity from Independent Power Producers and sell it to distribution companies. NBET, which became operational in early 2012, is backed and assisted by a proposed \$1 billion World Bank Partial Risk Guarantee, introduced in 2009. NBET’s mandate is to carry out contract management and bulk trading on behalf of the distribution companies until the industry stabilizes, including in terms of demand and pricing. (Source: *NBET*). The presence of NBET is expected to act as an incentive for new investment into the power generation market and to help stabilize the market for the successor distribution companies of PHCN. The total proposed investment in the power sector during the first period of the National Implementation Plan from 2010 to 2013 was Naira 881 billion (\$5.4 billion). This will cover investments in power generation, transmission, distribution and alternative energy.

Other measures taken by the Nigerian government to support development of the power sector include: (i) in August 2010, the creation by the CBN of a 300 billion Naira (approximately \$2 billion) Power and Aviation Sector Intervention Fund for investment in debentures to be issued by the Bank of Industry to finance power and aviation projects (Source: *Bank of Industry, Power and Aviation Fund, 2014*); (ii) in March 2011, the disbursement by the CBN of 198 billion Naira (approximately \$1.3 billion) of funds to the Bank of Industry for onward disbursement as discounted loans to the power and aviation sectors; (iii) in June 2012, the introduction of a new electricity tariff for the period from 2012 to 2017 with a view of encouraging potential investors who were concerned with the return on their investment under the former tariff regime to invest in the power sector; and (iv) two landmark regulations to enable state and local governments, private investors and suppliers and communities to generate and distribute electricity, (a) the “Nigerian Electricity Regulatory

Commission Regulations for Independent Electricity Distribution Networks 2012” permitting state and local governments, private investors and suppliers and communities to generate and distribute electricity for their exclusive consumption using existing electricity distribution networks and (b) the “Nigerian Electricity Regulatory Commission Regulations For Embedded Generation 2012”, permitting state and local governments, investors and communities to invest in generating electricity for transportation through electricity distribution networks in areas without access to the grid or distribution network or areas with poorly serviced distribution networks. (Source: *Nigerian Electricity Regulatory Commission, May 26, 2014 and Multi-Year Tariff Order, June 1, 2012*).

As a result of a number of reforms and initiatives (Gas Master Plan, EPSR) promoted by the Nigerian government to unlock Nigeria’s gas potential and meet growing domestic energy demand by increasing gas power capacity benefiting from advantageous fuel substitution economics, as well as more broadly Nigeria’s expected GDP growth, total domestic gas demand is projected to grow significantly.

LEGAL AND REGULATORY

Like other participants in the 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 laws in these jurisdictions that are subject to change. These laws 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 the jurisdictions in which we operate 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 the jurisdictions in which we conduct our business.

From time to time, we receive notices and inquiries from regulatory authorities and others asserting that we are not in compliance 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 jurisdiction 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 legal and regulatory regimes that we operate under in Nigeria, where our oil and gas assets are located. For a discussion of certain risks associated with Nigeria, see “Risk factors”.

Nigeria

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.

Government regulations

By the provisions of the Constitution of the Federal Republic of Nigeria Cap C23 Laws of the Federation, 2004 and the Petroleum Act P10 Laws of the Federation of Nigeria, 2004 (“Petroleum Act”), ownership of petroleum is vested in the Nigerian government for the benefit of the people of Nigeria. Thus, the exploration and production of gas and oil is regulated by the Nigerian government. 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.

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 PPTA and the CITA. Some legislation and regulations affecting the oil and gas industry carry significant penalties for failure to comply with the provisions thereof. 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 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. Non-compliance 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. We do not expect this law to materially affect us as compared to any other similarly sized oil and gas company operating in Nigeria. There are also pending bills, such as the PIB, before the Nigerian National Assembly, which are likely to affect oil and gas business in Nigeria. We are unable to predict if and when such bills will be passed. We are also unable to predict the future cost or impact of complying with these regulations if such bills are passed into law. 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.

Exploration and production regulations

The Petroleum Act is the primary legislation governing the development of petroleum in Nigeria. The MPR, which is headed by the MPR Minister, acts for and on behalf of the Nigerian government and has broad powers including the powers to grant OPLs, which give the holder an exclusive right to explore and prospect for petroleum in respect of an area, and OMLs for the development and disposal of petroleum. The MPR Minister's consent is required for assignments of interests in OPLs and OMLs, and the MPR Minister has the authority to issue regulations further to the Petroleum Act. The MPR Minister regulates the industry through the DPR, which is headed by a Director and forms part of the MPR.

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. We conduct the majority of our operations through the Strategic Alliance Agreement, providing us with an interest in petroleum produced (not petroleum *in strata*) from the OMLs. In addition, we have legal interests in three marginal fields, being the Uquo Field, the Stubb Creek Field and the Matsogo Field. In December 2013, we completed the OPL 905 Acquisition.

Production sharing contracts are contracts whereby the NNPC alone holds the OPL or OML and enters into a contract with an oil and gas company whereby the oil and gas company takes the risk of exploration on behalf of the NNPC in exchange for a right to a portion of any production. The contract area of the production sharing contract is usually equal to an OPL or OML and the oil and gas company has an exclusive right to work within that area. A production sharing contract usually has a term of 30-years with a ten-year exploration period and 20-year production period.

A marginal field typically consists of a capped oil field within an OML that has not been developed by the OML holder 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 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 withdraws 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 OML. The Nigerian government has in the past provided extensions to grants of marginal fields. 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 royalties 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 OPL or OML 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.

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. Historically, however, the Petroleum Act has only been applied to the exploration and production of oil. Prior to the unveiling of the Gas Master Plan in February 2008, the domestic gas supply and the development of the gas infrastructure, the regulation of gas exploration and production in Nigeria had been limited and vague. Paragraph 35 of the First Schedule to the Petroleum Act merely provides that the MPR 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.

The Gas Flaring Act

The Gas Flaring 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 MPR Minister. However, since 1984, the MPR Minister has under the Gas Flaring Act 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.

Gas Master Plan

The Nigerian government is promoting a Gas Master Plan to address the under-development of the Nigerian gas sector, with particular emphasis on domestic gas consumption, to diversify Nigeria’s economy by reducing its dependence on oil, and to improve electric power generation and supply.

The Gas Master Plan comprises: (i) the Gas Pricing Policy, which provides a framework for the minimum price that any purchaser of gas can be charged; (ii) the Domestic Gas Supply Obligation, which is aimed at assuring availability of gas for domestic consumption in order to stimulate economic growth; and (iii) the Gas Infrastructure Blueprint which provides for the establishment of a network of gas hubs which would ultimately reduce the cost of supplying gas from Nigeria.

National Gas Supply and Pricing Regulations

A part of the Gas Master Plan, the National Domestic Gas Supply and Pricing Regulations were issued in March 2008 by the Minister of State for Energy (Gas). The National Domestic Gas Supply and Pricing Regulations provides for the imposition of domestic gas supply obligations on oil and gas companies and requires them to submit gas production and supply plans consistent with their domestic gas supply obligations. The National Domestic Gas Supply and Pricing Regulations 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 in line with the Gas Master Plan. Non-compliance 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.

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 MPR 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

In 2008, a Presidential committee prepared the PIB. The draft PIB proposed to promote local participation in upstream operations, to build genuine private sector capacity in technical capability and to limit political factors influencing the development of the industry.

The PIB has undergone a number of iterations and has been challenged at each stage by various vested interests and stakeholders. Since it remains under consideration and has not yet been passed into law, its provisions are subject to change.

The PIB is a wide-ranging bill that could, if passed, have a significant impact on Nigeria’s oil and gas business. The PIB objective is to manage oil and gas resources in Nigeria by:

- creating a conducive business environment for petroleum operations;
- enhancing exploration and exploitation of petroleum resources in Nigeria for the benefit of Nigerians;
- optimizing domestic gas supplies, particularly for power generation and industrial development;
- establishing a progressive fiscal framework that encourages further investment in the petroleum industry while optimizing revenue accruing to the Nigerian government;
- establishing commercially-oriented and profit-driven oil and gas entities;
- creating efficient and effective regulatory agencies;
- promoting transparency and openness in the administration of petroleum resources of Nigeria;
- promoting the development of Nigerian content and indigenous ownership in the petroleum industry;
- protecting health, safety and the environment, and promoting local communities, in the course of petroleum operations;
- separating policy, regulation and commercial activities; and
- further deregulating and liberalizing the downstream petroleum sector.

The PIB proposes reforms to the legal, regulatory, institutional and fiscal regimes of the Nigerian petroleum industry. In terms of reforms to the legal regime, the PIB, if passed into law in its current form, will repeal and replace current legislation in the industry. NNPC will be restructured into three autonomous companies: namely, National Oil Company (“NOC”), the Nigerian Petroleum Assets Management Company Limited, and the National Gas Company Plc. NOC will be a new profit-driven state company similar to Norway’s Statoil ASA. In terms of regulatory reforms, a new regulatory authority, the Upstream Petroleum Inspectorate (the “UPI”), would be created to replace the DPR in its role as regulator of the upstream petroleum sector. The Nigerian Petroleum Products Pricing Regulatory Agency, which acts as the pricing regulator for downstream products, would be replaced with the Nigerian Downstream Petroleum Regulatory Agency

("DPRA"). The UPI and DPRA will, together, regulate the gas market that would be established, in accordance with the prevailing Gas Master Plan. The NCDMB will continue to exist and implement the Nigerian government's local content policy. In addition, a 'use it or lose it' provision is included in the PIB that would require the relinquishment after ten years from the date of grant of any undeveloped lease, areas not in commercial production or for which no firm development commitments have been made during that period. This may provide access to very large areas of the Niger Delta which have been licensed continuously for over 50 years. In the downstream sector, the Nigerian government plans to encourage IOCs to refine at least 50% of production within Nigeria, allowing the country to benefit from higher revenue from value-added oil products and reducing reliance on imported refined products.

The PIB has adopted the local content policy as set forth in the Local Content Act. The benefits of indigenous petroleum company status under the PIB include the restriction on the Nigerian government participating in petroleum operations of indigenous petroleum companies. Another benefit is that qualifying companies whose aggregate production from petroleum operations are less than 25,000 barrels per day of oil or its gas equivalent may be allowed by the UPI to produce up to the technical allowable output set for the license or lease. For a non-indigenous company, however, the Nigerian government may, where it has that right under the license or lease, participate in its petroleum operations irrespective of its aggregate production per day; and notwithstanding the technical allowable output set for the license or lease, a non-indigenous company cannot produce in excess of the petroleum production quota allocated to it by the UPI.

Measures designed to support indigenous petroleum companies under the PIB include:

- no Nigerian government participation, where aggregate production is not more than 25,000 bopd of oil or its gas equivalent;
- no quota restriction for production below 25,000 bopd in assets held by indigenous companies;
- the Nigerian government setting targets for indigenous oil and gas reserves, with a view to increasing the level of indigenous participation in the Nigerian petroleum industry;
- ownership of leases for marginal field operators only;
- measurable indigenous personnel participation to stimulate local content in the industry; and
- specific provisions for local communities.

The PIB defines indigenous company similarly to how Nigerian company is defined in the Local Content Act: a company with minimum 51% equity shareholding held by Nigerians. The PIB defines an "Indigenous Petroleum Company" as a company: (a) engaged in the exploration for and production of petroleum of which 51% or more of its shares are beneficially owned directly or indirectly by Nigerians; (b) which meets applicable requirements in any guidelines or regulations that may be issued by the UPI or the DPRA to be established under the PIB; or (c) which lists on a stock exchange in Nigeria, and a majority of the directors are Nigerian. If the PIB is passed in its current form, a listing of a company on the Nigerian Stock Exchange will ensure that the company continues to be regarded as an indigenous company, regardless of any subsequent changes in the nationality of its shareholders further to the trading of its shares on the Nigerian Stock Exchange.

If passed into law, the PIB will repeal the Gas Flaring Act and other petroleum legislation in Nigeria. The PIB proposes the prohibition of gas flaring from a flare out date to be prescribed by the Minister, and the punishment of unauthorized flaring. The PIB provides that the fine for the authorized flaring of gas shall not be lower than the value of the gas flared or vented.

The PIB also proposes to replace the PPT (as described below) with a two tier tax regime. Hydrocarbon taxes will be charged at 50% of net profits (in the case of production from an onshore or shallow water field) or 25% (in the case of petroleum operations from the deep offshore, frontier acreages or the production of bitumen), and CIT will also be chargeable on all companies in accordance with the CITA at the rate of 30%. Hydrocarbon taxes will not be deductible in computing the profits liable to CIT and vice versa. A

system of production allowances will be available to reduce profits liable to hydrocarbon taxes, thus reducing the effective tax rate on smaller fields.

In addition, a Petroleum Host Communities Fund is to be established and upstream companies will be liable to pay 10% of their post-tax profits into that fund. That payment is to be deductible in computing profits liable to hydrocarbon tax, and is also capable of being offset as a credit against hydrocarbon tax or CIT due.

Fiscal regulations

Petroleum Profit Tax Act

The PPTA 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.

Deep Offshore and Inland Basin Production Sharing Contract Act

The Deep Offshore & Inland Basin Production Sharing Contract Act (the “DIBPSA”) was enacted further to the PPTA and applies to production sharing contracts for concession areas situated deep offshore and in Nigeria’s inland basin. The law was enacted to provide fiscal incentives to encourage exploration in areas that were at the time underutilized. The main incentive is a lower tax rate of 50% (as opposed to the 85% set by the PPTA), lower royalty rates (as low as 0% for deep offshore areas) and the introduction of an investment tax credit of 50% for production sharing contracts executed before July 1, 1998 or an investment tax allowance of 50% for production sharing contracts executed after July 1, 1998. The DIBPSA is administered by the FIRS.

In addition to the taxation of petroleum profits, pursuant to the PPTA or DIBPSA, there is also a levy of three percent 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.

Incentives

The PPTA also 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.

In order to encourage gas utilization, 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 CITA, 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.

Under the Industrial Development (Income Tax Relief) Act, Chapter 17 Laws of the Federation of Nigeria, 2004 (the “Industrial Development Act”) pioneer relief is available to provide a tax-free period of up to five years. The Nigerian Investment Promotion Commission issues pioneer certificates to companies that qualify for this incentive and has included the upstream oil industry in its list of qualifying industries. The Nigerian Tax Authorities have in the past disputed the basis for granting pioneer relief to companies in the upstream oil industry as the Industrial Development Act specifically referred to the CIT as the Principal Act and as such only companies under CIT are entitled to pioneer relief. However, this relief has now been granted to

several marginal fields companies and has been accepted by the Nigerian Tax Authorities thereby giving effect to pioneer relief for marginal fields companies in particular.

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.

The PIB is before the National Assembly would, if signed into law, 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.

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.

Enforcement of security under Nigerian law

In Nigeria, debt instruments are typically secured through the use of guarantees, mortgages, fixed and floating charges and pledges of real, personal, tangible and intangible property belonging to the debtor. Generally, security may be enforced under Nigerian law through foreclosure, sale, entry into possession, appointment of a receiver and action in court for recovery.

Foreclosure

Creditors in Nigeria tend not to use foreclosure remedies due to the length of time required to effect foreclosure (generally nine to twelve months, because a court order for the purposes is required) and the fact that mortgagees are precluded from claiming ahead of unsecured creditors any shortfall between the open market value of the mortgaged asset and the outstanding debt.

Sale

Nigerian debt documentation typically contains a power in favor of the creditor to sell any security provided by the debtor to satisfy the amount owing under a loan in the event of default by the debtor. Unlike foreclosure, which is restricted to mortgages, a power of sale is exercisable in respect of mortgages, charges, pledges and other forms of security. In relation to legal mortgages of land, the power of sale is statutory (though in practice a power of sale is also almost always expressly included in security documentation). Accordingly, security interests in land may be enforced by sale without recourse to court, provided that such enforcement is in good faith. The power of sale for other forms of security, such as equitable mortgages of land or charges of shares or other intangible property, is not statutorily implied and must be expressly provided for in the relevant security documentation for valid enforcement without recourse to court.

To ensure that a transfer of legal title to property subject to a security interest can be perfected without recourse to the debtor, creditors in Nigeria are generally advised to have debtors sign the relevant documentation in relation to transferring the secured property on the same date as the relevant debt agreement and to appoint the creditor as the debtor's lawful attorney. In addition, to perfect a sale of land under Nigerian law, the consent of the governor of the state where the land is situated is required and the land sale documents must be duly stamped and registered at the land registry of the State. This process usually takes three to six months.

Appointment of a receiver

Another common method used by Nigerian creditors to realize security is the appointment of a receiver. The right to appoint a receiver is statutory in connection with legal mortgages on land. In addition, the appointment of a receiver has a statutory basis for debenture holders (and trustees) in connection with the enforcement of fixed and floating charges against a company. Receivers under Nigerian law are statutorily entitled to take possession of security, sell security, collect debts and enforce claims vested in a relevant debtor. Though the power to appoint a receiver is statutory, Nigerian security documents often include express provisions for creditors or the trustee of creditors to appoint a receiver with wide powers to manage and sell a debtor's business or assets. The process for appointing a receiver in Nigeria can generally be concluded within a relatively short period of time once a debtor is in default; however, in practice, it is difficult to estimate the time within which a receiver will be able to realize the security.

Where the power to appoint a receiver is expressly detailed in the security documentation, specific terms will govern the extent of the receiver's powers. By way of statute, a receiver can, *inter alia*,

- take possession of security;
- sell security;
- collect debts;
- enforce claims vested in the debtor;
- compromise, settle and enter into arrangements in respect of claims by or against the debtor;
- grant or accept leases of land and licenses in respect of patents, designs, copyright and trademarks; and
- recover any installment unpaid on the company's issued shares.

Nigerian law further provides that a receiver is the agent of the person(s) on whose behalf it is appointed and confers on a receiver fiduciary duties to act in good faith with respect to the company under receivership.

Action for recovery

Outstanding debts owed to a creditor by a debtor under Nigerian security documentation 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.

Ministerial consent

With respect to oil and gas assets in Nigeria, the prior consent of the MPR is required for the assignment of a license or the lease of any right, power or interest therein. Based on the language of the Petroleum Act, the consent requirement extends to the creation of a legal security interest in respect of an OPL or an OML. Accordingly, the consent of the MPR Minister is required for the creation of a legal mortgage over an OPL or an OML. The process for obtaining ministerial consent can be complex and time-consuming. Mortgages of OPLs and OMLs are registered with the DPR. The creation of a charge over an OPL or OML does not require the prior consent of the MPR Minister. Charges do not have to be registered with the DPR.

Although the creation of a charge over an OPL or OML does not require the consent of the MPR Minister, the enforcement of such security will require the consent of the MPR Minister as such enforcement will involve an assignment of the OPL or OML or the relevant interest therein.

Governor's consent

The consent of the state governor where land is situated is required for any assignment, transfer, sublease or mortgage of land in Nigeria. This consent requirement applies equally to the transfer of legal title to land by way of a sale or mortgage. Security interests which do not transfer legal interest in land, such as charges or equitable mortgages, do not ordinarily require the state governor's consent to be perfected. Absent the relevant governor's consent, a Nigerian mortgage will be treated as an equitable mortgage. As equitable mortgages and charges are not registrable at the relevant lands registry, creditors who are the subject to such security are exposed to the risk that a legal mortgage could be registered in connection with the property in question, which would gain priority over their security interest.

Stamping

Under Nigerian law, stamp duty is chargeable on a wide range of instruments, including duty of between 0.375% to 1.5% of the amount secured by the security documentation in respect of transactions relating to anything done or to be done in Nigeria. The relevant instruments are required to be stamped within 30 days of execution or, if executed outside Nigeria, within 30 days of receipt of the instrument in Nigeria. An unstamped instrument will not be admissible in civil proceedings or for any purpose whatsoever unless the unpaid duty and prescribed penalties have been paid. The obligation to stamp an instrument is statutorily imposed on an obligee, although, in practice, the burden for payment of the duty is usually transferred to the obligor.

The payment of stamp duty is important for enforcing the security created by the security documents, as any instrument required to be stamped is precluded from being received in evidence by a Nigerian court without the required duty and applicable penalties first being paid. The late payment of stamp duty results in a penalty interest rate of 10% per annum from the due date up to the time when the amount of interest is equal to the unpaid duty.

In Nigeria, significant stamp duties are imposed on certain instruments creating security over a company's assets and, in the case of such instruments creating registrable charges under CAMA, the primary companies' law legislation, significant registration fees are imposed in addition to the stamp duties. In order to

minimize transaction costs, creditors in certain large financings in Nigeria customarily agree, at the request of the relevant obligors, to “understamp” or pay stamp duties in respect of a fraction of the indebtedness secured by such collateral. In practice, the creditors or their agents retain custody of corporate authorizations, forms and other relevant documents to enable such creditors or their agents to “upstamp” or pay the additional stamp duty and registration fees to ensure that the collateral securing the relevant indebtedness is perfected and/or enforceable for the full amount of indebtedness thereby secured, in the event of an enforcement of such collateral. Such stamp duties and/or registration fees are generally payable in respect of certain security interests governed by Nigerian law or located in or granted by a Nigerian entity. The Nigerian security documents pursuant to which the collateral will be granted will be subject to such stamp duties and/or registration fees. In connection with the guarantee of the Notes, the Nigerian security documents will be stamped and registered for only a fraction of the amount of indebtedness purported to be secured thereby.

Further, any subsequent third party security interest over assets secured pursuant to the Nigerian security documents which is perfected prior to the payment by or on behalf of the holders of the Notes of the full amount of stamp duty and registration fees would rank ahead of the unstamped portion of the security created pursuant to the Nigerian security documents. In addition, any “upstamping” payment made within the three months preceding the insolvency or winding-up of a Nigerian entity could be deemed in certain circumstances to be a fraudulent preference under the provisions of section 495(1) of the CAMA or a disposal of the assets of the insolvent company (if payment is made with company funds) and void against the liquidator of such entity. See “Risk factors—Risk factors relating to our structure and the Notes—The primary Collateral securing the Notes will not be perfected or enforceable for the full amount of the indebtedness thereby secured unless and until full stamp duties and registration fees are paid in respect thereof by or on behalf of the holders of the Notes”.

Registration

Certain categories of charges created by a Nigerian company debtor to provide security to a creditor shall be void against a liquidator and any creditor of the company unless registered with the CAC within 90 days of creation. Charges required to be registered include charges on book debts, land and floating charges on the assets and undertaking of the company. Registration with the CAC is undertaken after the security documents are stamped, and involves the payment to the CAC of a fee of one percent of the amount secured. The registration of a charge with the CAC can generally be completed within two weeks from stamping of the security documents.

Aside from registration with the CAC, legal security in respect of land such as a legal mortgage is also required to be registered in the relevant land registry in the state where the land is situate. In addition, the applicable stamp duty, consent and registration fees of about 4% of the loan amount (depending on the particular state) will need to be paid in connection with the registration with the lands registry.

Enforcement of foreign judgments

For information regarding the enforcement in foreign judgments in Nigeria, see “Service of process and enforcement of civil liabilities—Nigeria”.

Tax implications

Save for stamp duties and applicable CAC and land registry filing fees, the creation and enforcement of security interests in Nigeria does not ordinarily give rise to any tax implications. However, where the guarantees are enforced, any interest payable by the Nigerian Guarantors will be subject to a 10% withholding tax charge. With regard to the exercise of a power of sale, where there has been a sale by a creditor of assets covered by a security interest, so long as there is no surplus from the sale over and above the outstanding debt (including interest), there would not be any tax implications save for transaction taxes such as stamp duties, value added tax and CAC and land registry registration fees.

OUR BUSINESS

In this Offering Memorandum, the words “we”, “us”, and “our” refer to Seven Energy together with our subsidiaries on a consolidated basis, except where otherwise specified or clear from the context. The proved and probable reserves and contingent resources data presented in this section have been audited at our request by Senergy and estimated at our request by Novas in accordance with PRMS guidelines and definitions. Estimated proved and probable reserves presented herein may differ from reserves that might be estimated according to definitions used by other companies in the industry or the SEC. See “Presentation of financial information and other information”. Unless otherwise indicated, all production figures are presented on a net basis. Where gross amounts are indicated, they are presented on a total basis—i.e., the actual interest of the relevant legal interest or license holder in the relevant fields and license areas without deduction for the economic interest of our local partners, tax or royalty interests or otherwise. Our legal interest and effective working interest, as applicable, in the relevant fields and license areas are separately disclosed. See “—Overview of our assets”. For a further discussion of the regulations governing the majority of our licenses see “Legal and regulatory—Nigeria”. In addition, 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 an indigenous Nigerian oil and gas exploration, development and production company with a focus on supplying gas to the domestic market. Our business consists of two types of operations onshore in Nigeria: (i) upstream oil and gas exploration, appraisal, development and production operations and (ii) midstream gas processing and distribution operations. In the twelve months ended June 30, 2014, we generated *Pro Forma* revenue of \$398.6 million and *Pro Forma* Adjusted EBITDAX of \$254.6 million.

Although Nigeria possesses the largest proven gas reserves in Africa with 179.4 Tcf as of December 31, 2013, and the second largest oil reserves in Africa with 37.1 Bnbbbl as of December 31, 2013, the country imports the substantial majority of its consumed petroleum products. In 2013, approximately \$17.5 billion was spent on diesel imports for power generation. To attempt to address this domestic demand, the Nigerian government has adopted policies designed to encourage the development of the local energy market with the stated goal of displacing the reliance on imported diesel and of expanding domestic power generation from 6 GW to 40 GW by 2020. For example, the Gas Master Plan, developed by the Nigerian government in 2008, aims to unlock Nigeria’s gas potential and meet growing domestic energy demand by driving power capacity growth. The Gas Master Plan calls for the construction of new cost-competitive gas infrastructure, including the construction of pipelines and central processing facilities across the country. We believe we are positioned to capitalize on these trends in the Nigerian domestic energy market with our diversified portfolio of onshore gas interests and processing and distribution assets transporting gas from our assets to areas of high demand, underpinned by our oil interests for export.

Our primary assets are located in relatively secure areas of south east Nigeria, including in the Niger Delta and the Anambra Basin. As a domestic producer with long-term gas sales agreements in place to supply the Nigerian domestic energy market, we believe we will be able to use our integrated asset base, long-term commercial partnerships and broad experience in Nigeria to achieve our goal of becoming the leading supplier of gas to the Nigerian domestic market.

Our business began in 2004 as a division of Weatherford International, the New York Stock Exchange listed oil services company, pursuing upstream oil and gas opportunities in Nigeria, in partnership with Exoro Energy, a Nigerian company. In 2007, the division was sold by Weatherford International and merged with Exoro Energy to establish an independent company. Since then, we have grown both organically and through strategic acquisitions. Our equity holders include a number of blue-chip international institutional and strategic equity investors, who have supported our vision and long-term strategy by providing us with significant financing. Most recently, in April 2014, Temasek, the IFC and the IFC ALAC Fund invested \$255.0 million in aggregate for approximately 26% of our equity interests, of which we have received \$146.0 million with the remainder subject to certain conditions which we expect will be satisfied upon closing of this Offering. See “Capitalization” and “Principal equity holders”.

Our assets include a portfolio of four upstream assets located in the north west and south east Niger Delta and the Anambra Basin and midstream assets located in the south east Niger Delta. The following map presents the location of each of our primary assets.

Upstream assets

Our portfolio of upstream assets includes interests in four onshore oil and gas assets. Our contractual interests in OMLs 4, 38 and 41 (such contractual interests, the “OMLs”) in the north west Niger Delta account for the significant majority of our gross production and cash flow. The Uquo Field in the south east Niger Delta began commercial gas production in early 2014. We also have a legal interest in the Stubb Creek Field, located near the Uquo Field in the south east Niger Delta, which is scheduled to begin oil production by the end of 2014. In January 2014, we acquired a license interest in OPL 905 in the Anambra Basin, north of the Niger Delta, which includes two discovered but undeveloped gas fields.

The OMLs

Production from the OMLs has contributed substantially all of our revenue since we entered into a contractual agreement (the “Strategic Alliance Agreement”) to share in a percentage of the incremental production revenue of these assets with NPDC. NPDC is a wholly-owned subsidiary of NNPC, the state oil corporation through which the Nigerian government regulates and participates in the country’s petroleum industry.

Under the Strategic Alliance Agreement, we agree to pay all of NPDC’s costs in connection with development of OMLs 4, 38 and 41 and to provide technical services in exchange for a share of NPDC’s production from its 55% license interests in the OMLs. Until we recover our costs under this agreement, we receive 60% of any profit attributable to incremental production, reducing to 35% following cost recovery. See “Management’s discussion and analysis of financial condition and results of operations— Significant factors affecting results of our operations—Strategic Alliance Agreement—Our entitlement under the Strategic Alliance Agreement”.

Seplat, the operator of OMLs 4, 38 and 41, owns the remaining 45% interest in the OMLs. Since we began operating under the Strategic Alliance Agreement, we have met \$735.1 million in cash calls, and average monthly gross production at the OMLs has increased by 138% from November 2010 to August 2014. We sell oil lifted under the Strategic Alliance Agreement to Shell at the Forcados Export Terminal. Average gross oil production at OMLs 4, 38 and 41 was 51,600 bopd for the year ended December 31, 2013, of which our average entitlement was 10,400 bopd during the same period. Our revenue for the year ended December 31, 2013 was \$345.0 million, which included \$1.1 million in revenue from gas production. All of our revenue for this period was derived from our entitlement to production at the OMLs. For the six months ended June 30, 2014, the average gross oil production from OMLs 4, 38 and 41 was 46,400 bopd, of which our average entitlement for the period was 11,000 bopd. Our revenue from the OMLs for the six months ended June 30, 2014 was \$149.3 million.

Uquo Field

The Uquo Field is primarily a gas field, which lies in close proximity to areas of significant gas demand. We began commercial deliveries of gas from the Uquo Field in January 2014. Our operating partner in the field is Frontier Oil. We provide technical expertise and financing pursuant to our role as capital project partner. For the six months ended June 30, 2014, the Uquo Field delivered 12.1 MMcfpd and generated \$4.4 million of revenue.

Stubb Creek Field

The Stubb Creek Field, near the Uquo Field, is initially being developed to produce oil, while we plan to develop the gas resources and tie in to our midstream gas infrastructure over the medium term. Oil production at the Stubb Creek Field is scheduled to commence by the end of 2014. We hold our interest in the Stubb Creek Field through our majority-owned subsidiary, Universal Energy, and our commercial partner in the field is Sinopec.

OPL 905

We also hold a license interest in OPL 905, a block covering 2,600 km² and containing two undeveloped gas discoveries. This block is near identified demand areas, including potential industrial and power generation customers. The other interests in OPL 905 are held by Ideal Oil and GTPL, the operator of the field. As of August 31, 2013, the contingent gas resources for OPL 905 were estimated to be 425 Bcf.

The following table sets forth a summary of our oil and gas assets (excluding OPL 905), 2P reserves and 2C contingent resources as of December 31, 2013. This third-party information has been accurately reproduced and that as far as we are aware and is able to ascertain from information published by that third party, no facts have been omitted which would render the reproduced information inaccurate or misleading.

	As of December 31, 2013		
	Oil (MMbbl)	Gas (Bcf)	Total (MMboe)
Reserves (2P)			
OMLs 4, 38 and 41			
Proved + probable (2P).....	75.3	408.0	143.3
Uquo Field			
Proved + probable (2P).....	0.8	484.9	81.6
Stubb Creek Field			
Proved + probable (2P).....	6.9	0.0	6.9
Total			
Proved + probable (2P).....	83.0	892.9	231.8
Contingent resources (2C)			
OMLs 4, 38 and 41			
Contingent resources (2C).....	44.5	188.8	75.9
Uquo Field			
Contingent resources (2C).....	0.0	13.6	2.3
Stubb Creek Field			
Contingent resources (2C).....	0.0	262.1	43.7
Total			
Contingent resources (2C).....	44.5	464.5	121.9

Source: Senergy Report effective as of December 31, 2013.

The following table sets forth a summary of field type, working interest and gross production for the years ended December 31, 2012 and 2013 and for the twelve months ended June 30, 2014. This third-party information has been accurately reproduced and that as far as we are aware and is able to ascertain from information published by that third party, no facts have been omitted which would render the reproduced information inaccurate or misleading.

Asset	Field type	Working interest	Production		
			Year ended December 31,		Twelve
			2012	2013	months ended June 30
OMLs 4, 38 and 41	Oil and gas	Indirect interest to NPDC's 55% interest			
Oil (bopd)			33,300	51,600	49,300
Gas (MMcfd)			—	64.9	69.4
Uquo Field	Oil and gas	40% legal interest			
Gas (MMcfd)			—	—	12.1 ⁽¹⁾

Asset	Field type	Working interest	Production		
			Year ended December 31, 2013		Twelve months ended June 30
			2012	2013	2014
Stubb Creek Field	Oil and gas	51% legal interest through Universal Energy	—	—	—
OPL 905	Gas	40% license interest	—	—	—

(1) Represents average production for the six months ended June 30, 2014, as production began at the Uquo Field in January 2014.

Midstream assets

Our midstream operations process and distribute gas to the growing domestic power consumption market in Nigeria. In order to meet existing and growing demand, we recently expanded our midstream operations with the EHGC Acquisition. Our primary midstream assets are located in the south east Niger Delta, linking our upstream gas assets, the Uquo Field and Stubb Creek Field, to our existing customers, which are located in a region with significant demand from power stations and industry. Our primary midstream assets consist of a 200 MMcfd gas processing facility located at the Uquo Field (the “Uquo Gas Processing Facility”), as well as 227 km of main gas pipelines connecting the Uquo Field and Stubb Creek Field to areas of demand in the region, comprised of a 62 km pipeline from Uquo to Ikot-Abasi, the newly acquired, 128 km East Horizon pipeline from the Ukanafun Junction to Mfamosing, near Calabar, and the near-complete 37 km pipeline from Uquo to Oron to service the Calabar NIPP power station.

We have three long-term take-or-pay gas sales agreements with established customers, and are making gas deliveries under two of these agreements. The general terms of the agreements are as follows, as further described under “Our business—Material agreements relating to our assets”:

- a ten-year, 100% take-or-pay gas sales agreement with Ibom Power, a Nigerian state-owned power company, to supply 43.5 MMcfd to the 190 MW Ibom Power station near Ikot Abasi, under which we began deliveries in January 2014;
- a 20-year, 80% take-or-pay gas sales agreement with UniCem, to supply the UniCem cement plant with up to 25.0 MMcfd, which we acquired on March 31, 2014 in connection with the EHGC Acquisition and pursuant to which EHGC delivered 17.0 MMcfd during the three months following the acquisition, contributing to \$10.7 million in revenue during this period (we anticipate that the contracted delivery volume will increase to 50.0 MMcfd (as provided for under the agreement) upon completion of a planned expansion of the UniCem cement plant which is scheduled to occur in January 2016); and
- a 20-year, 80% take-or-pay gas sales agreement with NDPHC and CEGC to supply 131.0 MMcfd to the 560 MW Calabar NIPP power station, located near Calabar, under which we expect deliveries to begin by the end of 2014, initially via the Ikot Abasi to Ukanafun and East Horizon pipelines until completion of NDPHC’s pipeline from Oron to the Calabar NIPP power station.

Our integrated business model allows us to produce gas from the Uquo Field, process that gas at our Uquo Gas Processing Facility and transport the gas to our customers under long-term gas sales agreements via our pipelines. As our additional upstream and midstream assets in the south east Niger Delta come online, scheduled during the course of 2014 and 2015, we expect to continue to service customers and existing demand, at which point our pipeline network will have 600 MMcfd of distribution capacity, providing scope and capacity to contract out distribution to third-party gas suppliers, as well as to accommodate future growth in our production.

Our strengths

We believe the following strengths will allow us to continue to develop our existing assets and achieve our goal of becoming the leading gas supplier in the Nigerian domestic market:

Indigenous Nigerian business with an integrated and productive asset portfolio

We are an established participant in the domestic energy market in Nigeria, and we believe we have strong and significant ties to the country. The OMLs and the Uquo Field provide us with a broad base of reserves, production and cash flows, while our midstream assets allow us to deliver gas from our upstream gas assets to areas of strong and growing demand. Nigerian law affords several significant advantages to Nigerian oil and gas companies, including minimal local content requirements and mandatory participation of domestic companies in certain working interests held by international oil companies. Having focused our efforts on acquiring, exploring and developing oil and gas assets in Nigeria, we believe that we have built up the experience and knowledge that allow us to navigate complex community and environmental obstacles that face energy companies operating in the onshore Nigerian energy market. We believe we are well-positioned to continue to grow our customer base using our existing assets and to serve additional customers by offering an alternative to costly imported petroleum products.

Strong cash generation from oil producing fields via the Strategic Alliance Agreement with NPDC

Our share of oil lifting revenue under the Strategic Alliance Agreement generates significant cash flows. For the twelve months ended June 30, 2014, our share of liftings provided us with total oil revenue of \$366.5 million. OMLs 4, 38 and 41 have a long track record of consistent production, starting in 1971. Working with our commercial partner, NPDC and the operator, Seplat, we have significantly increased production at these fields, from an average of 27,700 bopd in November 2010, to an average of 62,500 bopd in June 2014. We provide all of NPDC's share of expenses and therefore are not dependent on NPDC funding for further development of the OMLs. Seplat funds its proportionate share of funding for development, and as a result of the commercial benefits of its ownership interest, we believe Seplat will continue to do so. Given that the arrangement is structured to be beneficial for all parties, there is an incentive to maximize liftings through efficiency gains and improvements. We believe we continue to have a strong relationship with Seplat. We also actively participate in the decision-making process with NPDC through our voting rights under the Strategic Alliance Agreement and in our role as NPDC's technical advisor. We sell oil lifted from the OMLs into the global oil market via the Forcados Export Terminal through our offtake agreements with Shell. Through this arrangement, the effects of bunkering on our liftings are significantly reduced, because our liftings occur at the time of export after being transported from the oil fields, rather than at the time of production. We also have a back-up transmission route for oil produced from the OMLs to a refinery in Warri if for any reason the Forcados Pipeline or the Forcados Export Terminal are unavailable.

Integrated upstream and midstream gas assets provide strong competitive position as an early entrant in the developing domestic gas market

Over the long term, we believe that there is significant demand and significant government support in Nigeria, in particular under the Gas Master Plan, for a domestic alternative to costly imported fuel, in particular in the industrialized region near our midstream infrastructure. Our integrated gas assets consist of significant gas reserves and resources, primarily at our producing Uquo Field, and our already-built midstream processing and distribution assets that deliver gas to our customers. Significant historic investments have enabled us to establish a dynamic gas processing and distribution infrastructure system in the south east Niger Delta, linking our upstream assets to our customers' facilities, including the Ibom Power station, Calabar NIPP power station and UniCem cement plant. These customers purchase or will purchase once transportation pipelines are complete our gas under long-term, take-or-pay gas sales agreements that provide for stable payments whether or not gas is consumed. As our infrastructure is already largely in place, and we are already delivering from producing fields, we believe we are well-positioned to continue to capitalize on growing demand and to benefit from supportive government policies. We believe the integrated nature of our gas production, processing and distribution operations also provides us with a competitive advantage over providers who only operate upstream or midstream assets. In addition, having this network of midstream infrastructure also allows us to decrease costs by eliminating the need to contract with third-party infrastructure owners for the distribution of our oil and gas production.

Primary assets located in relatively secure areas

Our operations are located in relatively secure parts of the Niger Delta, and our assets are not concentrated in any one location in the region. Our operations are primarily based in rural areas with established settlements that historically have proven less volatile than riverine areas populated by transitory communities. Due to our domestic presence and as a result of our significant community outreach, we believe we have good relations with the communities in which we operate. Geographic diversification of our assets within the Niger Delta also enables us to minimize risk and disruption to our business in the event operations at one of our upstream or midstream assets is interrupted. For example, OMLs 4, 38 and 41 are situated in the north west Niger Delta, while our other operations, the Uquo Field and Stubb Creek Field and the related midstream assets, are located in the south east Niger Delta. We have experienced virtually no bunkering affecting our gas pipelines as it is extremely difficult for gas distribution networks to be tapped and relevant product collected. Although liftings from the OMLs have been impacted in the past by shutdowns of the Forcados Pipeline and the Forcados Export Terminal due to bunkering and sabotage (including in the first quarter of 2014), there now is a back-up transmission route via a pipeline to a refinery in Warri for liftings from the OMLs.

Highly experienced management team with a proven track record in Nigeria and strong shareholder support from blue-chip investors

Our senior management team has significant oil and gas experience, including in the regions in which we operate and considerable on-the-ground experience in Nigeria. We believe this combination of industry and regional expertise has allowed us to develop constructive working relationships with the Nigerian federal and state governments, local agencies, other operators and communities. Our Chairman, Chief Executive Officer, Chief Financial Officer, Chief Operating Officer and Chief Technical Officer have over 100 years of combined oil and gas experience, including a long history of managing and financing oil and gas operations in Africa. Our Chief Executive Officer, Phillip Ihenacho, is a Nigerian national with extensive experience in founding and running Nigeria-focused businesses. Our senior management team has extensive industry experience, having worked for a diverse range of international oil and gas companies, including Royal Dutch Shell, Weatherford International, ConocoPhillips and JKX Oil & Gas. Our Chairman, Dr. Andrew Jamieson, also has significant experience, including at Shell as Executive Vice President of Gas and Projects of Shell Gas and Power International BV and Managing Director of Nigeria LNG. We complement our highly experienced management team with our strong presence in Nigeria; our offices in Lagos, Abuja, Benin City, Calabar, Enugu, Port Harcourt and Uyo provide us with direct insight into local issues, and allow us to effectively manage our projects and collaborate with our commercial partners.

We also benefit from the strong support of our blue-chip international equity investors, who have supported our vision and long-term strategy by providing us with significant financing. In April 2014, Temasek, the IFC and the IFC ALAC Fund invested \$255.0 million for approximately 26% of our equity interests. We have received \$146.0 million through this investment with the remainder subject to certain conditions which we expect will be satisfied upon closing of this Refinancing and the application of proceeds therefrom. For a further description of our key equity holders, see “Principal equity holders”.

Our strategy

Our strategy is to maximize the value of our existing assets and develop and grow in line with the development of the domestic energy market. To achieve this goal, we intend to pursue the following strategies:

Leverage and develop our integrated business model to supply the domestic market

Our vision is to become the leading supplier of gas to the Nigerian domestic market for power generation and industrial consumption. We intend to achieve this objective by capitalizing on our first mover advantage as a supplier to the Nigerian domestic gas market by using our existing midstream infrastructure for distribution of our producing upstream gas assets. Using our existing midstream infrastructure, including the Uquo Gas Processing Facility and our network of pipelines, we will serve our existing customers under our three long-term gas sales agreements, and we aim to increase volumes distributed as our customers’ capacity grows. We also intend to seek to enter into new take-or-pay gas sales agreements with creditworthy customers in the power sector, manufacturing, fertilizer and cement industries and other low-volume, high-priced light industrial customers in and around the regional demand centers that are close to our midstream infrastructure. We believe that this strategy will benefit from significant Nigerian government support, including the Nigerian

government's stated target to increase power generation capacity by nearly seven times by 2020, and our established presence as a domestic player in the market.

Maintain strong cash flows through further development of existing assets and infrastructure

We have two producing upstream assets and brought our Uquo Gas Processing Facility and gas pipelines online at the beginning of 2014. Our ongoing projects in the south east Niger Delta are scheduled to be completed over the remainder of 2014 and the course of 2015, and upon completion, all of our infrastructure will be in place to service customers without the need for significant additional development. For more details on our capital expenditure plans, see "Management's discussion and analysis of financial condition and results of operations—Capital expenditures". We intend to continue to further develop our existing upstream assets by continuing to meet our funding obligations under the Strategic Alliance Agreement and by continuing to develop both oil and gas assets at the Uquo Field and at the Stubb Creek Field through appraisal and exploration drilling data. On OPL 905, we intend to undertake strategic gas exploration, with the acquisition of and interpretation of additional seismic data and appraisal drilling. We also intend to install a central oil processing facility at the Stubb Creek Field to increase the oil production capacity from approximately 2,000 bopd to 8,000 bopd. We believe that these projects will be immediately value accretive, as the core infrastructure is or will be over the course of 2014 and 2015, with the exception of OPL 905, already in place.

Prudent cash management and leverage

We intend to maintain our financial flexibility and a prudent financial profile, enabling us to generate significant amounts of operating cash flow. We have stable sources of cash flows, which we intend to reinvest in our business and use to service our existing debt obligations. To date, we have relied on equity and debt financings including credit facilities and convertible bonds to fund both our operations and our infrastructure development projects. Our Accugas II Facility and Accugas III Facility, which are secured by our midstream gas assets, mature in 2019 and 2020, respectively, and will be repaid through amortization payments from cash flows generated by our midstream assets. We have no near-term debt maturities, other than those being repaid with proceeds from this Offering. We expect that our stable cash flows under the Strategic Alliance Agreement and our long-term take-or-pay gas sales agreements will help us maintain a low net leverage ratio, as we intend to maintain a prudent level of indebtedness to suit our financial profile.

Continue to develop relationships and partners in Nigeria

We believe we have strong existing relationships with our commercial partners on all our assets, and with NPDC in respect of the OMLs, and we intend to continue to foster these relationships. These relationships are underpinned by our significant and established on-the-ground presence in Nigeria, and our outreach to local communities and the federal and local government in Nigeria. We believe we adhere to high standards of quality, health and safety, security, environmental and corporate social responsibility. Because of this, we benefit from long-term community buy-in, which supports the development of our existing assets and opportunities for growth. We have worked to develop positive relationships with the communities near our assets that we believe are crucial to the stability and long-term success of our operations. To strengthen these relationships, we seek out and enter into agreements that help provide employment and equipment to local communities. We meet frequently with the leaders of communities who have agreed to support our operations and have an interest in our success, with a view of promoting harmonious relations. For example, during 2013, we worked directly with local communities impacted by our 37 km Uquo to Oron gas pipeline project to ensure we addressed local needs and concerns. We also maintain an open dialogue with representatives of impacted communities and contribute to local community projects. For example, we are working to complete the renovation and construction of community projects, including at the National High School in Etebi and Esit Ekey, the Ubodung community secondary school, and the completion of a rural electrification project.

Our corporate history

Our business began in 2004 as a division of Weatherford International, the New York Stock Exchange listed oil services company, pursuing upstream oil and gas opportunities in Nigeria in partnership with Exoro Energy, an indigenous Nigerian company. In 2007, Weatherford International sold the division, which merged with Exoro Energy to establish an independent company. Since then, we have grown both organically and through strategic acquisitions.

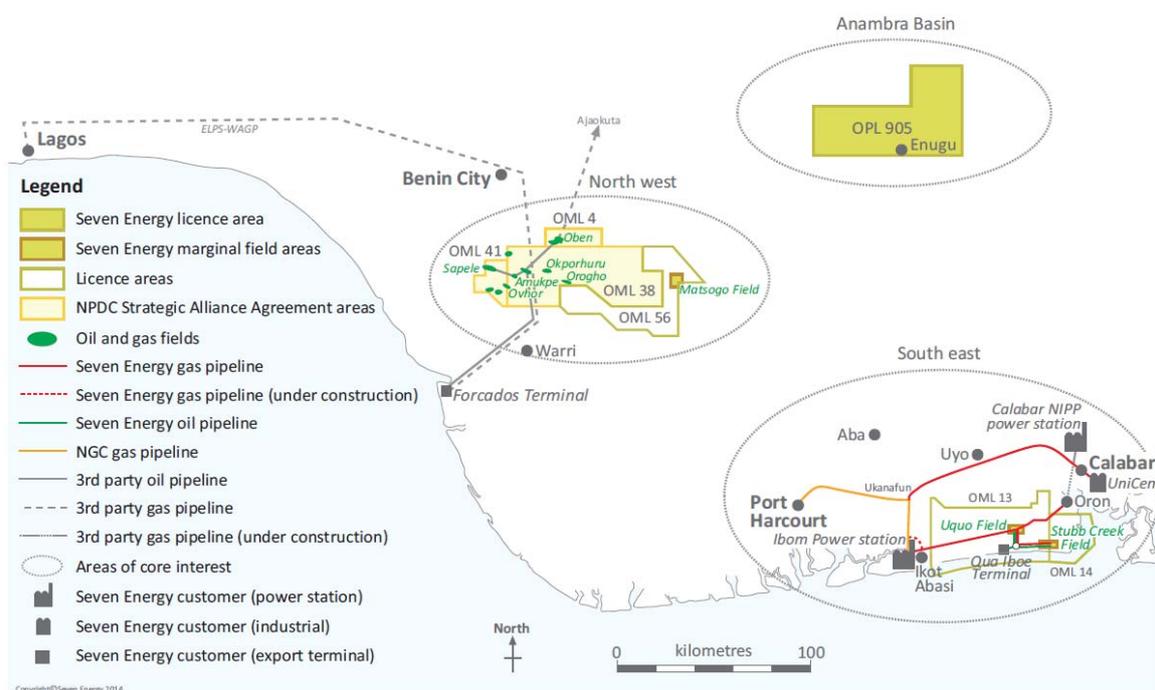
With the Exoro Energy merger, we obtained a 49% legal interest in the Matsogo Field. In 2009, we acquired the entire issued share capital of Seven Energy (BVI), by way of a share for share exchange, from which we obtained a 40% legal interest in the Uquo Field. In 2009, we also acquired, in two stages, 62.5% of the issued share capital of Universal Energy, which holds a 51% legal interest in the Stubb Creek Field. In 2010, we obtained an indirect interest in OMLs 4, 38 and 41 when we entered into the Strategic Alliance Agreement with NPDC with respect to its 55% license interests in the OMLs. In January 2014, we acquired the entire issued share capital of SRL 905 Holdings, an oil and gas company which has a 40% license interest in OPL 905. Through these transactions, we have established a portfolio of five upstream assets: two are located in the north west Niger Delta (including the Matsogo Field, which is held for sale), two in the south east Niger Delta and one in the Anambra Basin.

We also established a midstream business, Accugas, to support the marketing, processing and distribution of gas to the Nigerian domestic market. Since 2009, we have signed gas sales agreements with major domestic gas customers and developed infrastructure to support their needs. To fund our ongoing infrastructure projects, we have obtained financing, including the Accugas I Facility of \$60 million in 2010. We refinanced this in 2013 with the Accugas II Facility, which provides borrowings of up to \$225 million. In March 2014, we further strengthened our midstream operations by acquiring from Oando the entire issued share capital of EHG, which operates the 128 km, 18-inch East Horizon pipeline from Ukanafun to Mfamosing, near Calabar, and has a gas sales agreement to supply up to 25 MMcfpd to the UniCem cement plant. These midstream assets collectively allow us to link our upstream assets in the Uquo Field and Stubb Creek Field to our power sector and industrial customers in areas of high demand.

Overview of our assets

Our assets are divided into two business sectors: (i) upstream oil and gas operations and (ii) midstream gas operations, which comprise processing, transportation, sales and marketing.

The following map sets forth the location of our upstream and midstream assets.



Upstream oil and gas operations

In our upstream operations, we have direct and indirect interests in two oil and gas assets (one of which is held for sale) located in the north west Niger Delta, two in the south east Niger Delta and one in the Anambra Basin. These assets are characterized as relatively low geological risk fields and discoveries with significant

resource potential. Collectively, our upstream assets, excluding OPL 905, had 1P, 2P and 2C resources of 162.0 MMboe, 231.8 MMboe and 121.9 MMboe, respectively, as of December 31, 2013. OPL 905, in which we acquired an interest in January 2014, had gross 2C resources of 425 Bcf as of August 31, 2013.

The following table sets forth the legal interest, role, nature of our interest, fiscal system, and expiry of our legal interests related to each of our upstream assets.

Assets⁽¹⁾	Uquo Field	Stubb Creek Field	The OMLs	OPL 905
License area	OML 13	OPL 276 (formerly OML 14)	OMLs 4, 38, 41	OPL 905
Legal interest/ License Type	Marginal field, JOA	Marginal field, JOA	Strategic Alliance Agreement	License interest
Operator (and interest)	Frontier Oil ⁽²⁾ (60%)	Universal Energy ⁽³⁾ (51%)	Seplat (45%)	GTPL (50%) ⁽⁶⁾
Percent of our interest	40%	Oil: 51% ⁽⁵⁾ Gas: 51% ⁽⁵⁾	N/A	40% ⁽⁶⁾
Governing documents	JOA and Technical services agreement with Frontier Oil	JOA, Funding agreement and technical services agreement with Sinopec	Strategic Alliance Agreement with NPDC	Production sharing contract
Our cost share	100% (until Payout) ⁽⁴⁾	Oil: 20% Gas: 50%	Operating costs and intangible capital expenditures are recovered in the month of expenditure Tangible capital expenditure is recovered at a rate of 20% per annum over a five-year term from the date of the expenditure	60%
Our production share	85% for oil and 90% for gas until payout (including a 15% return on investment); 52% for oil and 48% for gas thereafter ⁽⁴⁾	Oil: 35% Gas: 60%	60% of incremental production during cost recovery reducing to 35% after cost recovery	Variable dependent on cost recovery and production volumes
Other participants	N/A	Sinopec (49%)	N/A	N/A
Expiry	March 2015 (as the field is producing, the renewal is automatic subject to the Marginal Field Guidelines) ⁽⁴⁾	March 2015 (as the field is scheduled to begin production by the end of 2014, the renewal is expected to be automatic subject to the Marginal Field Guidelines)	Cumulative production reaches 165 MMbbl and 900 Bcf gas; the term may be extended upon development of contingent resources and our payment of an additional fee ⁽⁷⁾	Dependent on development and exploration plan

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- (1) We also have an interest in the Matsogo Field (OML 56). In 2013, the decision was made to sell this asset, and it is being held for sale.
 - (2) We entered into a technical services agreement with Frontier Oil, the operator of record pursuant to which we act as technical partner and project manager.
 - (3) We have this interest through our 62.5% owned subsidiary, Universal Energy.
 - (4) Under an arrangement with Frontier Oil, we pay 100% of capital and operating costs for joint operations; provided that when our net revenue from oil operations or gas operations exceed capital and operating costs (plus 15% return on investment per annum) (“Payout”), our obligation to pay capital and operation costs will reduce from 100% to 52% for an oil project and 48% for a gas project. With respect to oil operations, we are entitled to 85% of revenue until Payout, reducing to 52% after Payout of the oil project. With respect to gas operations, we are entitled to 90% of revenue until Payout, reducing to 48% after Payout of the gas project.
 - (5) We have 100% percent interest with an assignment of a 49% legal interest in the Stubb Creek Field to Sinopec, pending DPR consent. The economic and profit sharing interests relating to the Stubb Creek Field are held as follows: (i) with respect to oil operations, Universal Energy has a 20% cost-share obligation and a 35% profit sharing interest and (ii) with respect to gas operations, Universal Energy has a 50% cost share obligation and a 60% profit sharing interest.
 - (6) We have signed a share purchase agreement to acquire GTPL, in order to acquire its 50% license interest in OPL 905. See “The Acquisitions—OPL 905 Acquisition”.
 - (7) The underlying licenses held by NPDC and Seplat expire in 2019, but are renewable under the terms of the Petroleum Act provided the lessors are in compliance with the terms of licenses at the time.

Midstream gas operations

Our midstream assets are located in the south east Niger Delta and include our 200 MMcfd Uquo Gas Processing Facility and four gas pipelines, which are used to supply power generation and industrial customers. Our midstream assets support the processing and distribution of gas from our upstream activities at the Uquo Field and Stubb Creek Field, and delivery gas provided by third parties. Our pipeline network comprises four significant gas pipelines and various ancillary pipelines. Three of these significant pipelines are complete: the 62 km Uquo to Ikot Abasi pipeline, the 31 km Stubb Creek to Uquo pipeline and the 128 km East Horizon pipeline from Ukanafun to Mfamosing. Construction of the fourth pipeline, the 37 km Uquo to Oron pipeline, is substantially advanced with completion scheduled to occur by the end of 2014. Once complete, our four pipelines will have a combined transport capacity of 600 MMcfd and excess capacity of 400 MMcfd.

Summary of our reserves, resources and production

The oil and gas reserves data presented below are audited at our request by Senergy, in relation to the Uquo Field, the Stubb Creek Field and the OMLs, and are estimated at our request by Novas, in relation to OPL 905. Senergy and Novas are international oil and gas consultants who have prepared estimates in accordance with industry standards. For more details of these standards, see “Presentation of financial and other information—Certain reserves and production information”. The commercial reserves and contingent resources classifications used are as defined by the March 2007 PRMS.

Typical to the industry in which we operate, there are a number of uncertainties inherent in estimating quantities of commercial reserves. Therefore, the reserve and resource information in the Senergy Report and Novas Report constitute estimates. Reserve engineering is a subjective process of estimating underground accumulations of oil and gas that cannot be measured in an exact manner. The accuracy of any reserve estimate is a function of a number of variable factors and assumptions, many of which are beyond our control, including the quality of available data and of 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 reserve estimates, the initial reserve estimates are often different from the quantities of oil and gas that are ultimately recovered. The significance of such estimates depends primarily on the accuracy of the assumptions upon which they were based. For a summary of certain assumptions used in the Senergy Report and Novas Report, see “Presentation of financial and other information”. For these reasons, you should not place undue reliance on the ability of the commercial reserves reports prepared by Senergy and Novas to predict actual reserves or on comparisons of similar reports concerning other companies, including such reports as are filed with the SEC. In addition,

except to the extent that we acquire additional properties containing commercial reserves or conduct successful exploration and development activities, or both, our commercial reserves will decline as reserves are produced. The following reserve information should be read along with the section entitled “Risk factors—Risk factors relating to the oil and gas industry”.

Potential investors should note that the Senergy Report and Novas Report have not estimated commercial reserves under the standards of reserves measurement applied by the SEC (the “SEC basis”) for any of the relevant periods reviewed in the financial and other Offering Memorandum, or otherwise. The SEC basis differs from PRMS. See “Presentation of financial and other information”.

Reserves and resources

Senergy has estimated the oil and gas commercial reserves and contingent resources related to our interest in the OMLs, the Uquo Field and the Stubb Creek Field. Novas has estimated contingent resources related to our interest in OPL 905. The following information has been extracted from the Senergy Report as of December 31, 2013. The information in the following table does not give any effect to or reflect our commodity hedges. The following tables below set forth the aggregate totals are provided for our oil and gas reserves at our upstream assets on a consolidated basis. This information has been accurately reproduced and that as far as we are aware and is able to ascertain from information published by that third party, no facts have been omitted which would render the reproduced information inaccurate or misleading.

Oil – Reserves on a consolidated basis

Category ⁽³⁾	Our effective working interest reserves before tax & royalty	Net entitlement reserves ⁽¹⁾	Future net revenue (\$ million) ⁽²⁾
	Oil (MMstb)	Oil (MMstb)	NPV at 10%
Proved (1P).....	52.8	24.6	437.5
Proved + Probable (2P).....	83.0	35.0	652.8

Source: Senergy (GB) Limited

- (1) Net entitlement reserves are after deductions for tax and royalty burdens.
- (2) The Senergy Report was prepared using oil and gas prices and cost parameters specified by us.
- (3) 1P and 2P reserves have been prepared in accordance with the definitions and guidelines set forth in 2007 by PRMS.

Gas – Reserves on a consolidated basis

Category ⁽³⁾	Our effective working interest reserves before tax & royalty	Net entitlement reserves ⁽¹⁾	Future net revenue (\$ million) ⁽²⁾
	Gas (Bscf)	Gas (Bscf)	NPV at 10%
Proved (1P).....	655.2	506.1	653.0
Proved + Probable (2P).....	892.9	678.0	1,025.0

Source: Senergy (GB) Limited

- (1) Net entitlement reserves are after deductions for tax and royalty burdens.
- (2) The Senergy Report was prepared using oil and gas prices and cost parameters specified by Seven Energy.
- (3) 1P and 2P reserves have been prepared in accordance with the definitions and guidelines set forth in 2007 by PRMS.

Contingent resources

The following table presents our summary of contingent resources as of December 31, 2013, which is derived from the Senergy Report. The acquisition of OPL 905, not included in the below table, contributes gross 2C resources of 425 Bcf as of August 31, 2013, of which we have a 40% license interest and a 60% economic interest. This information has been accurately reproduced and that as far as we are aware and is able to ascertain from information published by that third party, no facts have been omitted which would render the reproduced information inaccurate or misleading.

	Our effective working interest contingent resources before tax & royalty		
	Oil (MMstb)	Gas (Bscf)	Total (MMboe)
Contingent resources (2C).....	44.5	464.5	121.9

Source: Senergy (GB) Limited

(1) Net contingent resources are before deductions for tax and royalty burdens.

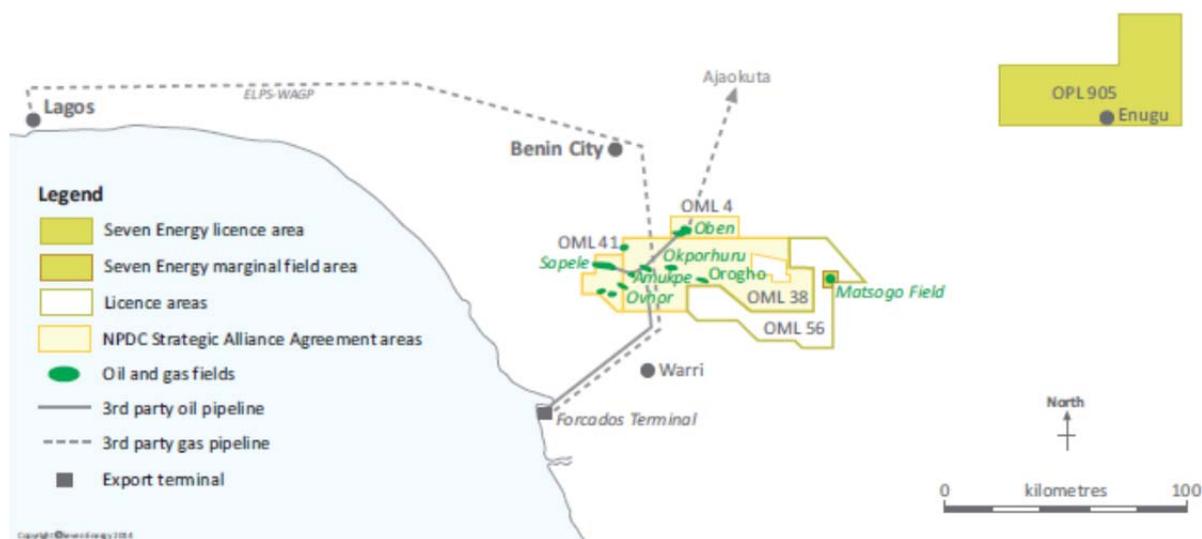
Qualification of third-party engineers

Senergy signed the competent person's report covering the Uquo Field, Stubb Creek Field and the OMLs, dated January 17, 2014 with an effective date of December 31, 2013. Senergy is a part of the Lloyds Register Group, and is an independent consulting company established in 1990, with offices in Aberdeen, London, Stavanger, Abu Dhabi, Kuala Lumpur and Perth. Senergy specializes in petroleum reservoir engineering, geology and geophysics and petroleum economics. All of these services are supplied under an accredited ISO9001 quality assurance system. Except for the provision of professional services on a fee basis, which is not on a contingent fee basis, Senergy has no commercial arrangement with any person or company involved in the interest that is the subject of this report.

Novas signed a competent person's report in relation to OPL 905, dated August 31, 2013. Novas is an independent consulting firm which provides professional advice to the upstream oil and gas industry. Novas was established in 2005, and is led by Philip Clarke, a Chartered Geologist with more than 30 years of international upstream experience with BP and as an independent consultant. Novas has a team of qualified staff and associates who have considerable experience in the practice of geology, geophysics and subsurface engineering. They comply with the London Stock Exchange's requirements for competent persons. Novas has no commercial arrangement with any person or company involved in the interest that is the subject of this report.

Our upstream assets – North west Niger Delta

The following map sets forth the location of the OMLs and the Matsogo Field, our interest in which is held for sale and OPL 905, which is located in the Anambra Basin.



North west Niger Delta – The OMLs

Overview

The following table sets forth certain details of the OMLs, including our legal and contractual interests and those of our commercial partner under the Strategic Alliance Agreement, NPDC.

	OML 4	OML 38	OML 41
Discovery date	1972	1969	1969
First production	1974	1972	1971
Area km ²	267	2,094	291
Producing fields	Oben	Amukpe; Ovhor ⁽¹⁾ ; Okporhuru; Orogho	Sapele; Ovhor(1) North
Export terminal	Forcados	Forcados	Forcados
Crude quality	Bonny light	Bonny light	Bonny light
Legal interest/License type	Indirect interest in NPDC's 55% license interests via Strategic Alliance Agreement		
Operator	Seplat		
Operator interest	45% via JOA with NPDC		
Our role	Technical and funding partner to NPDC		
Gross production (bopd) ⁽²⁾	51,600 bopd for the year to December 31, 2013, 46,400 bopd for the six months ended June 30, 2014		
Our net entitlement (bopd) ⁽²⁾	10,400 bopd for the year to December 31, 2013 11,000 bopd for the six months ended June 30, 2014		

(1) The Ovhor Field straddles both OML 38 and OML 41.

(2) Gross production decreased due to the shutdown of the Forcados Pipeline for four weeks.

We have an indirect interest in the OMLs through the Strategic Alliance Agreement with NPDC, an agreement that became effective in November 2010. The OMLs primarily produce oil, with additional gas reserves, which are in production. The license interests in these fields are held by NPDC, which holds a 55% license interests and by Seplat, which holds the remaining 45% interest and is the operator of OMLs 4, 38 and 41. Seplat acquired its license interests from Shell in 2010, prior to our involvement in the OMLs through the Strategic Alliance Agreement, and became the operator at the same time. For the year ended December 31,

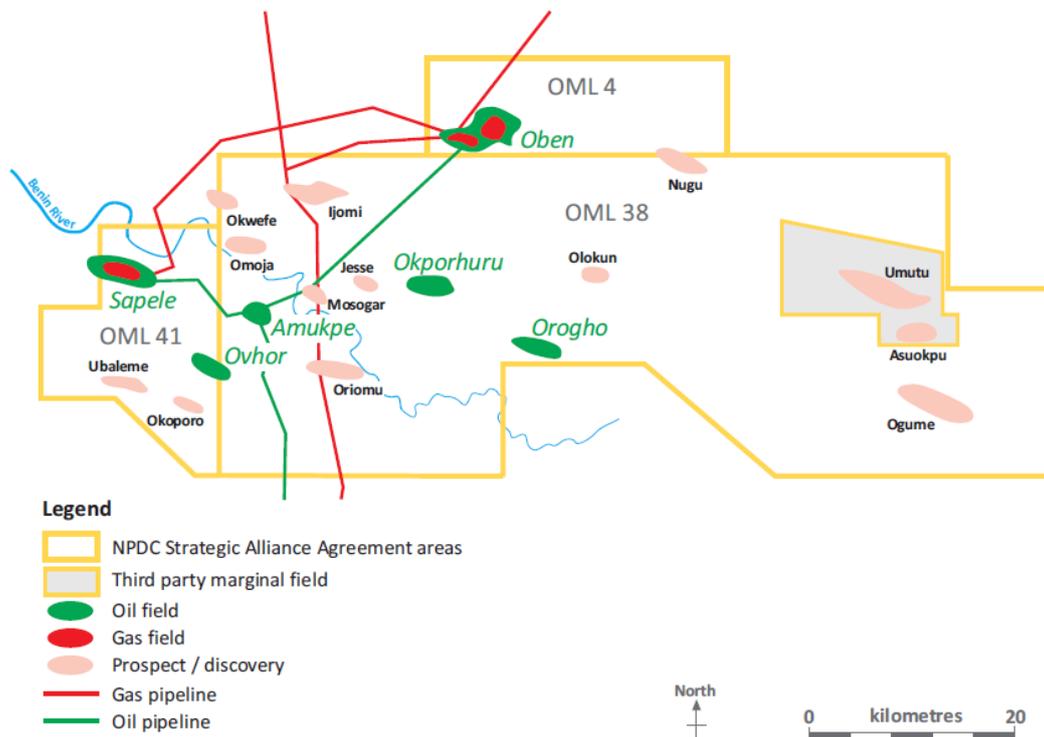
2013, 100% of our revenue was derived from liftings pursuant to the Strategic Alliance Agreement. For further information on the Strategic Alliance Agreement, see “—Our interest: Strategic Alliance Agreement”.

OMLs 4, 38 and 41 are located in the north west Niger Delta, covering 267 km², 2,094 km² and 291 km², respectively. The fields are located near established midstream infrastructure. Oil from the fields is transported via the Forcados Pipeline, which delivers oil to the Forcados Export Terminal and also has an alternate transmission pipeline to an oil refinery in Warri. We expect that any future commercial gas transport would be via the Oben junction of gas pipelines. This important demand node serves as the connection between the Escravos to Lagos pipeline and the Ajaokuta Pipeline. The Escravos to Lagos pipeline supplies gas to Benin City, Lagos and the West African Gas Pipeline, and the Ajaokuta Pipeline supplies gas to several industrial users.

The OMLs cover six fields that are in production: Oben, Amukpe, Ovhor, Sapele, Okporhuru and Orogho. In addition, there are a number of undeveloped fields at OMLs 4, 38 and 41, including the Mosogar, Okoporo, Ubaleme, Oghareki and Okwefe Fields.

At the Mosogar Field hydrocarbons occurred between 3,713 and 11,150 ft true vertical depth subsea (“tvdss”) in nine reservoirs. The Okoporo discovery is made up of seven reservoirs between 5,500 and 9,000 ft tvdss, of which four are oil-bearing. There are five hydrocarbon-bearing reservoir units between 8,300 and 12,500 ft tvdss in the Ubaleme field, of which two units are oil-bearing. At Oghareki and Okwefe Fields three wells have been drilled, which have encountered more than 15 reservoirs between 9,400 and 11,700 ft tvdss, most of which are oil-bearing.

The following map sets forth the location of the fields and discoveries located in OMLs 4, 38 and 41.



Our interest: Strategic Alliance Agreement

Overview

Our indirect interest in the OMLs is derived through the Strategic Alliance Agreement. Pursuant to the terms of the agreement, we are required to fund NPDC’s 55% share of operating costs and capital expenditure in respect of the OMLs and provide technical assistance. See “Management’s discussion and analysis of financial condition and results of operations—Significant factors affecting results of our operations—Strategic Alliance

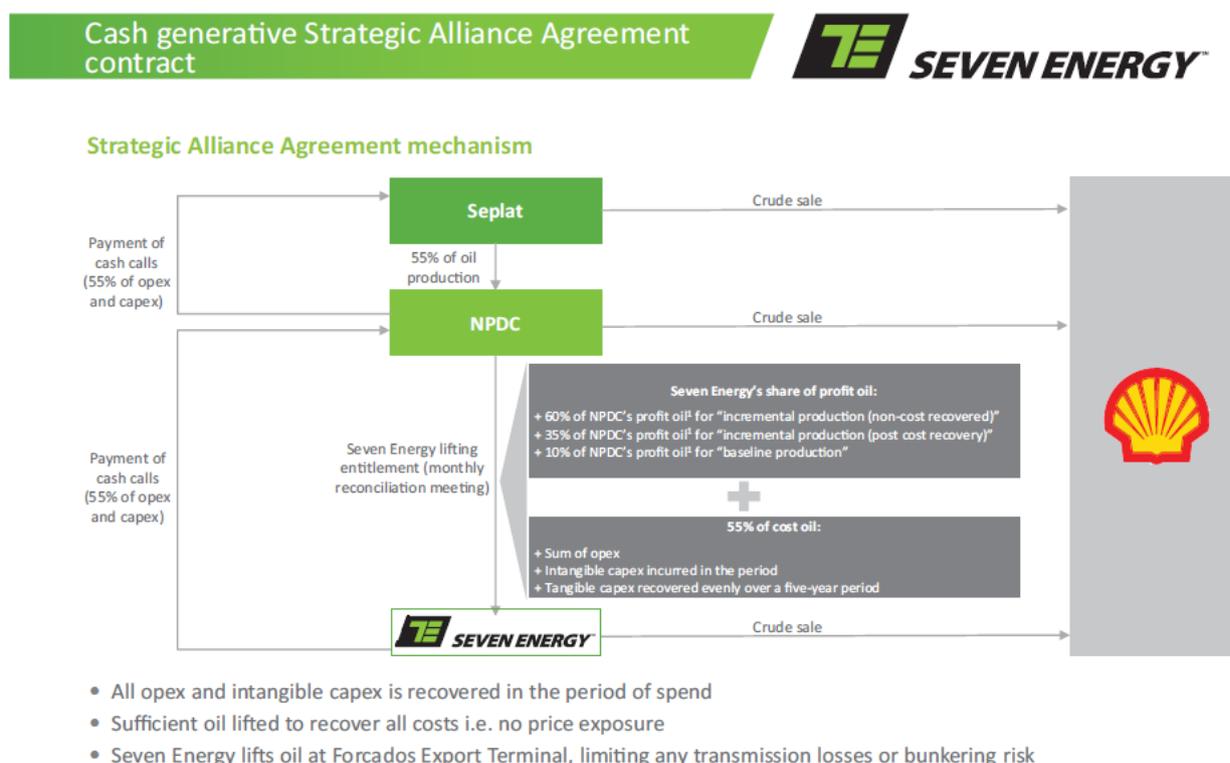
Agreement”. In return, we recover our operating costs and capital expenditures and receive an entitlement to a share of production attributable to NPDC’s interest. See “—Production share”.

The Strategic Alliance Agreement remains in force until the cumulative production from the OMLs reaches 165 MMbbl and 900 Bcf of gas. Based on our current 2P production profile, we estimate that limit will be reached in 2019. However, the term of the Strategic Alliance Agreement may be extended by NPDC upon the development of contingent resources and our payment of an additional fee of \$26.6 million to NPDC. If contingent resources are developed and we make the \$26.6 million payment, the agreement will continue until the cumulative production of contingent resources reaches 100 MMbbl of oil and 357 Bcf of gas, which, based on our current 2P production profile, we expect to occur in 2023.

Seplat and NPDC jointly hold the title to OMLs 4, 38 and 41, in accordance with their respective participating interests (45% and 55% respectively). OMLs 4, 38 and 41 will expire in June 2019. However, we believe that renewal of the licenses should be granted as a matter of course to Seplat and NPDC under applicable law, as the fields are in production, have complied with the requisite terms and conditions of the licenses, paid the applicable royalties and taxes in relation thereto and filed an application for renewal in accordance with the provisions of the Petroleum Act. If either of the licenses are not renewed and NPDC ceases to have interest in OMLs 4, 38 and 41, it may become impossible for us to implement the Strategic Alliance Agreement. See “Risk factors—Risk factors relating to the Strategic Alliance Agreement and certain allegations thereto—The OMLs are our primary revenue-generating assets and constitute a substantial portion of our reserves, resources and production, and our interests therein constitute the primary credit support for the Notes”, “Risk factors—Risk factors relating to the Strategic Alliance Agreement and certain allegations related thereto—The Strategic Alliance Agreement may expire in 2019 and the lease under which we indirectly hold the OMLs expires in 2019 and may not be renewed” and “Risk factors—Risk factors relating to our business— Our operations are subject to licensing, contractual and regulatory requirements, each of which may be subject to amendment, renewal or reform, which could make compliance more challenging”.

Production share

The following diagram sets forth of our entitlement to production from the OMLs as defined in the Strategic Alliance Agreement and as calculated using a model that has been agreed by both parties.



¹ NPDC profit oil equals 55% of (revenues – opex – royalties – Seven Energy's intangible costs and depreciated tangible costs – NPDC past cost – taxes)

NPDC's 55% share of oil production is allocated between NPDC and us, based on whether the oil constitutes cost oil, royalty oil, tax oil, or profit oil. For our costs, we recover cost oil, which is a volume of oil that generates proceeds equal to the costs we incur on the OMLs. Specifically, we recover the following:

- operating costs and intangible capital expenditures, including exploration and most drilling costs, are recovered in the month of expenditure; and
- tangible capital expenditure, including facilities, is recovered at a rate of 20% per annum over a five-year term from the date of the expenditure.

The distinction between intangible and tangible capital expenditures in the Strategic Alliance Agreement, is not comparable to intangible and tangible capital expenditures reported in the historical IFRS financial statements included in this Offering Memorandum.

Royalty and tax oil are allocated to NPDC in an amount that generates proceeds equal to NPDC's royalty and tax liability relevant to the production for the period. Profit oil is calculated as the remaining amount after cost, royalty and tax oil have been deducted and therefore we are not required to pay royalties or PPT on the profit oil we receive. Our profit oil is recovered in accordance with the following schedule:

- 10% of the baseline production; baseline production represents production from the fields at the time we entered into the Strategic Alliance Agreement. Baseline production was set at an initial production level of approximately 27,000 bopd, thereafter declining by a rate of 15% per annum. Once NPDC achieves cost recovery, our cost share of baseline production increases to 35%; and
- 60% of incremental production; incremental production represents total production less baseline production. Once we achieve cost recovery, our share of incremental production decreases to 35%.

Once our total entitlement is determined, we are permitted to lift our allocation of oil for sale at the Forcados Export Terminal. See “—Production and liftings – oil” and “—Offtake and marketing”. Following entry into the Strategic Alliance Agreement, it was necessary for us to agree upon a methodology with NPDC to calculate our share of production under the agreement. Initially, we each used different methodologies, and it took until February 2013 to agree a model to calculate our entitlement to production from the effective date of the Strategic Alliance Agreement of November 24, 2010 to December 31, 2012 (together with a monthly lift schedule for 2013) which required agreement between the parties as to the baseline, incremental production, profit splits and the applicable tax rate. Thereafter, we have agreed that discussions will take place on an annual basis, or more often as requested by either us or NPDC. The 2013 preliminary reconciliation, including the agreed 2014 monthly lift schedule, was signed in February 2014. No assurance can be given that there will not be another prolonged process to reach agreement in respect of our entitlement under the agreement or that such discussions are not subsequently re-opened once agreed. See “Risk factors—Risk factors relating to the Strategic Alliance Agreement and certain allegations related thereto—The interpretation and operational application of certain provisions in the Strategic Alliance Agreement requires discussion with, and the agreement of, NPDC”.

Joint operating agreement and management committee

Decisions with respect to the OMLs are made between Seplat, the operator, and NPDC pursuant to a JOA. Although we are not a party to the JOA between Seplat and NPDC, pursuant to the Strategic Alliance Agreement, NPDC is required to vote under the JOA in accordance with its previously agreed position with us. While we do not have a contractual right to attend meetings between Seplat and NPDC, we attend the operational committee meetings, as well as the technical and finance committee and the various other subcommittee meetings between NPDC and Seplat in our capacity as technical adviser and funding partner to NPDC. See “Risk factors—Risk factors relating to the Strategic Alliance Agreement and certain allegations related thereto—We do not hold a direct interest in the OMLs and, as a result, we are reliant on our rights under the Strategic Alliance Agreement and our ability to advise and cooperate with NPDC and Seplat in respect of developmental and operational matters relating to the OMLs”.

Decisions with respect to NPDC's 55% interests in the OMLs are taken by a management committee made up of eight members, four appointed by NPDC and four by us. All decisions taken by the management committee require unanimity and, in the event of dissent, require referral to an appointed expert or, failing agreement, that resolution be obtained through an ad hoc neutral arbitrator in Nigeria. Pursuant to the Strategic Alliance Agreement, NPDC is required to reflect decisions made at the management committee in the operating committee meetings with Seplat. To date, we have achieved unanimity in decision-making with NPDC without need to refer to an independent expert or arbitration.

For additional information on the terms of the Strategic Alliance Agreement and the risks associated with the interpretation of certain of its provisions, see "Risk factors— Risk factors relating to the Strategic Alliance Agreement and certain allegations related thereto—The interpretation and operational application of certain provisions in the Strategic Alliance Agreement requires discussion with, and the agreement of, NPDC", "Management's discussion and analysis of financial condition and results of operations—Significant factors affecting results of our operations—Strategic Alliance Agreement" and "—Material agreements relating to our assets— The OMLs – Strategic Alliance Agreement".

Production and liftings – oil

Gross production from the OMLs averaged 31,300, 33,300 bopd and 51,600 bopd for the years ended December 31, 2011, 2012 and 2013, respectively. For the six months ended June 30, 2014, gross production levels decreased to 46,400 bopd due to a shutdown of the Forcados Pipeline for more than four weeks in March and April 2014 due to repairs on its subsea pipeline required due to damage caused by bunkering activities. Gross production from the OMLs thereafter increased to 62,500 bopd for June 2014, following the re-opening of the Forcados Pipeline. Peak production during 2011, 2012 and 2013 reached 44,700 bopd, 45,800 bopd and 64,700 bopd, respectively. See "Risk factors—Risk factors relating to the Strategic Alliance Agreement and certain allegations thereto—Our primary revenue-generating assets, the OMLs, are geographically concentrated".

The following table sets forth the average gross production, liftings in respect of our entitlement to oil production from the OMLs and a summary of the well development program undertaken for the years ended December 31, 2011, 2012 and 2013, and for the six months ended June 30, 2014.

	Year ended December 31,			Six months ended June 30,
	2011	2012	2013	2014
Average gross production (oil and condensate) (bopd).....	31,300	33,300	51,600	46,400
Total liftings (Mbbbl).....	1,098	1,312	3,287	1,300
Well development program	Rigless	8 workovers, 5 new drills and 2 water injection wells	8 workovers and 7 new drills	n/a

The increased average gross production level achieved during 2013 reflects production from 15 wells that were drilled or worked over during 2013. In addition, the Okporhuru field and the Orogho field came on line in May 2013 and December 2013, respectively, contributing to the increased average gross production. The increase in the average rate of production from the year ended December 31, 2013 to June 2014 was in part due to the production contribution from the annualized impact of additional fields that came online in 2013.

Shell controls the Forcados Export Terminal and is scheduled to participate in monthly meetings with NPDC to determine future oil liftings to take place over the following two months. Agreed amounts may be subsequently adjusted based on the actual entitlement agreed between NPDC and us. Our oil liftings are based on our estimated cost oil and share of profit oil, which are determined by an agreed upon model that takes into consideration forecasted cash calls and production rates for the relevant months, which are then adjusted for any overlift or underlift imbalances depending on actual production and capital expenditures. Following these determinations, we agree to the timing of the oil lifting with Shell.

Offtake and marketing

We sell our share of oil to Shell pursuant to an oil purchase agreement which expires in 2016. We may renew the contract with Shell, but even if we are able to renew the contract, the terms of the new contract may be less advantageous to us than the current contract. If we decide to sell all or part of our product on the open market, we may not obtain favorable terms and our lack of experience with such operations may put us at a disadvantage. Accordingly, we may experience delays, difficulties and lower sales and margins as a result of any future open market sales or any sales arrangement with Shell or another counterparty. See “Risk factors—Risk factors relating to the Strategic Alliance Agreement and certain allegations thereto—A change in the relationship with our primary offtaker or its inability to meet its obligations to us may adversely affect our financial results”. Production from the wells on the OMLs is brought to market via a number flowstations, compression stations, manifolds and associated flowlines which ultimately export commingled oil to the Forcados Export Terminal via the Shell operated Forcados Pipeline. We do not own or operate any of the infrastructure within the OMLs or that permit oil from the OMLs to be transported to the Forcados Export Terminal. See “Risk factors—Risk factors relating to our business—We are subject to risks involving third-party operators, partners and other project participants and any disagreements with, or the exercise of termination rights by, any of the third-party operators, partners and other project participants may result in delays or additional costs”.

For more information on our existing sales contracts in respect of the OMLs, including the pricing terms for which we sell oil, see “—Sales and marketing” and “—Material agreements relating to our assets—The OMLs – Strategic Alliance Agreement”.

Gas

Gas is also produced from the OMLs and, through the Strategic Alliance Agreement, we participate in the funding and production rights. The gross 2P gas reserves at the OMLs are 0.4 Tcf. Gas produced at the OMLs is sold to NGC which sells the gas to companies in the power sector and the commercial sector. However, our revenue from the sale of gas from the OMLs has been insignificant, primarily due to the low average price at which gas is sold to NGC and an outstanding balance owed by NGC to Seplat and NPDC.

With the anticipated increase in gas demand, Seplat and NPDC have indicated their interest in developing and marketing the gas reserves. We believe that gas sales could contribute more significantly to our revenue in the future, subject to finding and entering into agreements with suitable customers. Gas reserves from the OMLs may be sold in greater volumes via NGC and/or directly marketed to end-users. The gas sales agreements entered into with NGC expired on December 31, 2012 and discussions are ongoing for the renewal of these agreements. A side letter dated June 2012 provides that until new agreements are entered into, the terms for sale of gas produced at the OMLs continue as per the expired gas sales agreements, but with pricing in line with the regulated gas prices.

On May 5, 2014, Seplat announced a \$300.0 million investment plan with NPDC to develop new gas processing facilities at the Oben field in OML 4 to supply gas to the 450 MW Azura-Edo Independent Power Project, which is a significant step in development of the gas reserves of these blocks, providing the opportunity to both increase revenue and diversify production once the processing facilities and power plant are constructed. The 450 MW Azura-Edo Independent Power Plant is planned for construction on the outskirts of Benin City, Edo State. While we are not party to this agreement, gas produced from the OMLs will be processed through the proposed gas processing facilities. We are dependent on third parties for the development of processing facilities and there can be no assurances that these facilities will be developed on the timeline anticipated or at all. See “Risk factors—Risk factors relating to our business—We are susceptible to risks associated with growing our business, including the inability to obtain necessary funds for new projects and delays and deviations from completion deadlines in connection with the construction of new pipelines, gathering systems and processing facilities, which may prevent us from producing or delivering certain oil and gas supplies when expected or at all”.

Under the Strategic Alliance Agreement, the calculation used to derive our share of gas is very similar to that used to calculate our share of oil. As with oil, there is a baseline gas production profile from which we take 10% of the profit gas. Also as with oil, we take 60% (declining to 35% after cost recovery) of any profit gas arising from incremental production.

Future plans and outlook

The future development of the OMLs is focused on the six producing fields, as well as the development of a portfolio of discoveries with the aim of increasing the production levels across the OMLs.

An active work program is planned to maximize recovery of hydrocarbons from the Oben, Ovhor, Sapele and Amukpe fields, all of which have been producing for many years. This program includes the drilling of a number of infill wells to produce additional reserves from the fields, as well as carrying out workovers on selected producing wells in an effort to enhance production from those wells. Two fields were brought on line in 2013, Okporhuru, which commenced production in May 2013 and Orogho, which commenced production in December 2013. Further drilling on the Okporhuru and on Orogho fields is ongoing, which may be followed by a further two appraisal/development wells. The development of a portfolio of discoveries is at various stages of planning and includes:

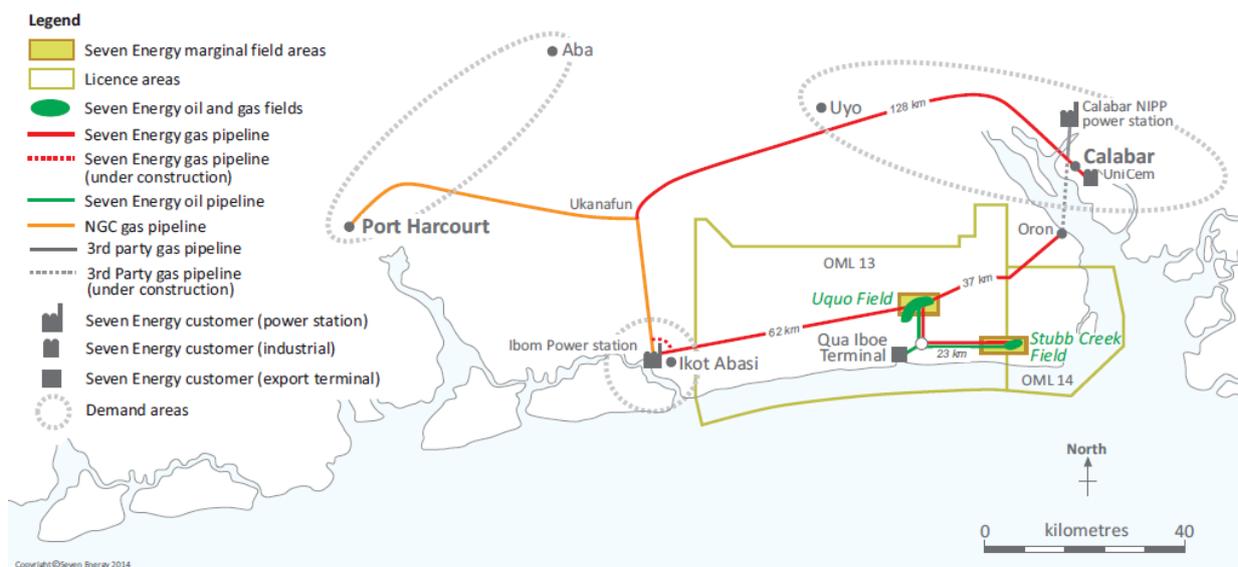
- *Mosogar Field.* Seplat has prepared a draft development plan, which includes drilling of an appraisal/development well targeting the main reservoirs. Information from these drilling and further studies will determine a second phase for development. Recent sampling of reservoir fluid at the field has indicated that it contains heavy oil, and potential development alternatives are being reviewed;
- *Okoporo Field.* Seplat has proposed a phased approach to development, which includes data acquisition and drilling. An appraisal well was drilled in 2013 which encountered oil that was heavier than expected. Seplat therefore intends to produce the field using a storage tank to assess performance and to further confirm hydrocarbon properties. Full field development is being re-evaluated;
- *Ubaleme Field.* Seplat has proposed a development plan that includes an initial phase of one well in 2015; and
- *Okwefe and Oghareki Fields.* A field development plan is in preparation by Seplat, and the re-entry of two wells to test production performance is anticipated in 2015.

In addition, Seplat continues to develop and enhance the current infrastructure at the OMLs to support the growing production levels at the fields, as well as the planned gas development. This includes the commissioning of a central liquid treatment facility, which was installed in late 2013. Further development will be required in the next few years to provide sufficient capacity in the flow stations and water handling facilities to handle the forecasted production volume. See “Risk factors—Risk factors relating to the oil and gas industry—Drilling for and producing oil and gas are high-risk activities with many uncertainties which may result in increased costs, decreased cash flows and not achieving our planned production targets”.

Our upstream assets – South east Niger Delta

In the south east Niger Delta, we have two upstream assets, the Uquo Field and the Stubb Creek Field. The Uquo Field and the Stubb Creek Field are located in close proximity to areas such as Ikot Abasi, Calabar and Uyo, where we believe there will be significant demand for gas from existing or planned power stations and other customers. These fields are also within reach of Port Harcourt and Aba, both major industrial centers where there is also significant demand for gas for light industry.

The following map set forth the location of the Uquo Field and Stubb Creek Field, together with the key demand centers in south east Niger Delta.



South east Niger Delta – Uquo Field

Overview

The following table sets forth certain details of the Uquo Field.

	Uquo Field
Related OML	OML 13
Discovery	1958
First commercial production	January 2014
Area km ²	102
Legal interest	40%
Operator	Frontier Oil
Operator legal interest	60%
Our role	Capital project partner
Gross production (MMcfpd) ⁽¹⁾	22.8
Our net production (MMcfpd) ⁽¹⁾	20.5

(1) As of June 30, 2014.

We have a 40% legal interest in the Uquo Field, which is located in Akwa Ibom State in the south east Niger Delta and is situated onshore approximately 8 km from the Qua Iboe export terminal operated by ExxonMobil. The remaining 60% legal interest is held by the operator, Frontier Oil, a Nigerian exploration and production company. The Uquo Field is predominately a gas-producing asset with a small amount of condensate and a small oil accumulation.

Field technical background

The field, located within OML 13, was discovered by Shell in 1958 when a discovery well was drilled. Since then, seven wells have been drilled on the field, all encountering hydrocarbons. The field lies within a gently folded area and the reservoir quality is considered to be excellent.

The initial discovery well found two oil-bearing formations. A further drilling program identified another ten gas-bearing formations and one further oil-bearing formation.

The field was evaluated in 2005, using previously acquired 2D seismic data. A 3D seismic survey was completed during 2006 and 2007 over most of the license area, excluding the extreme western edge of the field due to the existence of an airstrip. The seismic data is of good quality and has allowed accurate mapping of

reservoirs, although it has not been possible to produce accurate stratigraphic interpretations. An evaluation of the field by an independent expert in 2008 produced a comprehensive series of structure and attribute maps for the key reservoir sands, which were used for subsequent volumetric calculations.

In December 2009, the Uquo-3 well was re-entered and tested with gas flows of 23.0 MMcfpd. The re-entry into the Uquo-3 well also confirmed the presence of oil sands. The Uquo-3 well has been completed as an oil production well. In April 2010, the Uquo-2 well was re-entered and completed as a gas production well.

In 2013, drilling continued and in May 2013, the Uquo-4 well was re-entered and tested at 35.0 MMcfpd and then completed to provide gas deliverability for commercial supply to the Ibom Power station. In September 2013, two large bore wells, Uquo-7 and Uquo-8ST were drilled with positive results. Both wells are scheduled to be completed as gas production wells, ahead of the planned deliveries to the Calabar NIPP power station. These well results are in line with expectations and confirm good quality of the reservoirs.

Our interest

We hold a 40% legal interest in the Uquo Field through our acquisition of Seven Energy (BVI) in May 2009. The remaining 60% legal interest is held by the operator, Frontier Oil. Frontier Oil was awarded the marginal field lease to the Uquo Field in the Marginal Field Bid Round held in 2003.

We are party to a JOA with Frontier Oil, pursuant to which we are the technical and funding partner to Frontier Oil and project manager for the field's development. Under the JOA, we provide technical services, approve budgets, and field development plans for the Uquo Field and pay monthly cash calls to reimburse Frontier Oil's expenditure in line with the approved budgets. As the funding partner we are entitled to recover our costs and to earn a 15% rate of return as described further below. Frontier Oil obtained its initial legal interest in 2003 with a term of 60 months. This legal interest was extended by the MPR for a period of four years commencing March 14, 2011. If, prior to the expiry of such four-year extension, the DPR is satisfied that we and Frontier Oil have shown verifiable evidence of efforts made to progress development on the field, the legal interest will be renewed for the remaining field life. We believe that our legal interest will be extended once its term expires in 2015, given that the field is in production and we have verifiable evidence through our operations reports and onsite activity that we have made progress in the development of the field. For risks associated with legal interest renewal, see "Risk factors—Risk factors relating to our business—Our operations are subject to licensing, contractual and regulatory requirements, each of which may be subject to amendment, renewal or reform, which could make compliance more challenging". Since we acquired our interest in the Uquo Field, we have worked with Frontier Oil to revise the field's environmental and social management system to be aligned with our internal QHSSEC management system and policies.

For further information on contracts related to the Uquo Field, see "—Material agreements relating to our assets—Uquo Field".

Production share

Gas

Until we have recovered our capital and operating costs and achieved an internal rate of return of 15%, we are entitled to 90% of gas production under the fourth side letter to the Uquo Field JOA. After cost recovery, our share of production will reduce to 48%. For further information on contracts related to the Uquo Field, see "—Material agreements relating to our assets—Uquo Field".

Oil

Until we have recovered our capital and operating costs and achieved an internal rate of return of 15%, we will be entitled to an 85% share of oil production under the fourth side letter to the Uquo Field JOA. After cost recovery, our share of production will reduce to 52%. For further information on contracts related to the Uquo Field, see "—Material agreements relating to our assets—Uquo Field".

Production

Gas

Commercial gas deliveries from the Uquo Field to the Ibom Power station commenced in January 2014. However, as the power station is undergoing a ramp up phase, it has not yet been able to take the contracted volumes. As our gas sales contract to supply the Ibom Power station is a take-or-pay contract, the reduced deliveries are not expected to impact our revenue related to the agreement. Our average gross gas production volume for the six months ended June 30, 2014 was 12.1 MMcfpd, with a production rate of 22.8 MMcfpd as of June 30, 2014. We expect that deliveries will increase to the contracted gas sales volume of 43.5 MMcfpd upon completion of the ongoing repair, maintenance and re-commissioning work at the Ibom Power station. To the extent that our customer's operational development and gas delivery needs do not develop as anticipated to require the contracted volumes, our customer's credit may be adversely affected and our customer may not be able to fulfill its take-or-pay contract. See "Risk factors—Risk factors relating to our business—Our future revenue depends on certain contractual relationships with key customers, and the loss of any of our key customers, their failure to fulfil their obligations or our inability to obtain additional or replacement customers, could adversely affect our financial results". All gas production from the Uquo Field is processed and distributed through our midstream assets operated by Accugas, our wholly owned subsidiary. For further details of our midstream business, infrastructure assets and gas sales agreements, see "—Midstream operations".

Oil

We anticipate that future oil and condensate production from the Uquo Field will be delivered to the Qua Iboe export terminal via an 8 km, 4-inch pipeline and an oil collection manifold owned by a joint venture between Frontier Oil, our subsidiary, Universal Energy and Network (collectively "FUN" and the manifold, the "FUN Manifold"). The FUN Manifold will collect and meter oil and condensate produced at the Uquo Field, the Stubb Creek Field and at other fields in which FUN has an interest. The final 2 km 10-inch pipeline connections between the FUN Manifold and the Qua Iboe export terminal are under construction. The first oil deliveries through this infrastructure are scheduled to commence by the end of 2014. However, there can be no assurances that the infrastructure will be completed in the timeframe anticipated, see "Risk factors— Risk factors relating to our business—Operational impediments or damage to, or the shut-down of, current or planned processing and transport infrastructure may hinder our access to oil and gas markets or delay or cease our production".

Offtake and marketing

Gas

We sell gas from the Uquo Field via our midstream business, Accugas, to supply the Ibom Power station and in due course the Calabar NIPP power station under long-term gas sales agreements. Accugas purchases gas from the Uquo Field and processes and then transports the gas for sale to the power stations. First commercial deliveries of gas from the Uquo Field to the Ibom Power station commenced in January 2014, representing a major milestone for us. However, as the power station is undergoing a ramp up phase, it has not yet been able to take the contracted volumes. As our gas sales contract to supply the Ibom Power station is a take-or-pay contract, the reduced deliveries is not expected to impact our revenue related to the agreement. See "Risk factors—Risk factors relating to our business—Our future revenue depends on certain contractual relationships with key customers, and the loss of any of our key customers, their failure to fulfil their obligations or our inability to obtain additional or replacement customers, could adversely affect our financial results". For further information on contracts related to the Uquo Field, see "—Major customers" and "—Material agreements relating to our assets—Uquo Field".

Oil

We expect to sell oil from the Uquo Field to ExxonMobil pursuant to an oil purchase agreement entered into on November 30, 2012. Once the required infrastructure is complete, we expect that oil will be transported from the Uquo Field via pipelines connecting to the FUN Manifold for quality testing and metering before delivery to ExxonMobil at the Qua Iboe export terminal. For details of the oil purchase agreement, see "— Material agreements relating to our assets—Uquo Field and Stubb Creek Field – Oil handling and oil sales agreements".

Future plans and outlook

The future development plan for the Uquo Field includes the drilling of one further development well, targeting capacity to supply the additional 131 MMcfpd required under a gas purchase agreement to supply the Calabar NIPP power station. Further drilling and construction of compression facilities are expected to be undertaken later in the field's life.

With Frontier Oil, we have also identified two prospects within the Uquo Field (Uquo-1 NE and Uquo-3 S), and it is intended that the Uquo-1 NE prospect will be drilled in either 2014 or 2015.

South east Niger Delta – Stubb Creek Field

Overview

The following table sets forth certain details of the Stubb Creek Field:

	<u>Stubb Creek Field</u>
Related OML	OML 14
Discovery date	1971
First commercial production	By end of 2014
Area km ²	65
License interest	51% held by Universal Energy, a subsidiary in which we hold a 62.5% interest
Operator	Universal Energy
Partner	Sinopec
Partner license interest	49%
Our role	Operator
Gross production (bopd)	Production expected by end of 2014
Our net production (bopd)	n/a

We have a 51% legal interest in the Stubb Creek Field through our 62.5% owned subsidiary, Universal Energy. The field is located in onshore south east Niger Delta, close to the Qua Iboe export terminal and the Uquo Field in Akwa Ibom State. The field lies within OPL 276 (formerly OML 14) near the mouth of the Cross River. The Stubb Creek Field is primarily an oil asset with undeveloped non-associated gas resources.

Field technical background

The Stubb Creek Field consists of oil and gas accumulations in a series of Agbada Formation reservoir sands. Non-associated gas has been proven in four reservoirs and light oil in three deeper reservoirs.

The field was discovered in 1971 and a total of nine wells have been drilled on the field. Four exploration and appraisal wells were drilled by Shell between 1971 and 1983, and five development wells were drilled, tested and completed by Universal Energy between 2007 and 2009. A 3D seismic survey was acquired by Universal Energy in 2006. Sinopec, acting as our technical partner, completed a detailed reservoir evaluation, which was updated in 2011. In 2012, we conducted a further geophysical and geological review, aimed primarily at determining a definitive geological model for the sands in one of the deeper reservoirs and providing an update of oil-in-place. Reservoir properties are considered good with average porosity.

Our interest

In 2002, the Stubb Creek Field was classified as a marginal field, and in 2003, our subsidiary, Universal Energy, was awarded the legal interest in a Marginal Field Bid Round.

In April 2010, we increased our ownership of Universal Energy to 62.5% from 31.25% of its issued share capital. Universal Energy initially held a 100% interest in the Stubb Creek Field and in November 2010 assigned 49% of its legal interest to Sinopec, a Chinese national petroleum and petrochemical enterprise group, pursuant to the Stubb Creek Deed of Assignment. Consent to the assignment has not yet been granted by the

DPR. However, until receipt of DPR approval, the Stubb Creek JOA and the Stubb Creek funding agreement provide that Sinopec will receive the agreed economic benefit pursuant to the respective agreements notwithstanding the fact that no legal interest has yet transferred. As designated by the Stubb Creek Field JOA, entered into in August 2010, Universal Energy is the operator of the field and Sinopec is a technical partner.

The initial term of our legal interest in Stubb Creek Field as set forth in the farm-out agreement was five years, but in March 2011, the MPR extended the term for an additional four years to expire in 2015. We believe that, because production is scheduled to commence at the Stubb Creek Field by the end of 2014, the lease will be extended once its term expires.

For further information on agreements related to the Stubb Creek Field, see “—Material agreements relating to our assets—Stubb Creek Field”.

Since we acquired our interest in the Stubb Creek Field, we have worked with Universal Energy to revise the field’s environmental and social management system to be aligned with our internal QHSSEC management system and policies.

Production share and production

Oil

We fund 20% of development costs relating to oil at the Stubb Creek Field, which is recovered as cost oil. Our share of profit oil is 35%.

Oil production from the Stubb Creek Field is scheduled to commence by the end of 2014 following completion of the first phase of the field development plan, which includes the utilization of the Stubb Creek early production facility to handle oil production. The Stubb Creek early production facility has been commissioned and approval for the introduction of hydrocarbons at the facility has been received from the DPR, in preparation for production to commence upon final completion of the tie-in of the oil export line to Qua Iboe export terminal. The associated gas will be sent to the Uquo Gas Processing Facility via a 31 km, 6-inch pipeline.

Gas

We are required to fund 50% of development costs relating to gas at the Stubb Creek Field, which will be recovered as cost gas. Our share of profit gas is 60%.

Although the Stubb Creek Field contains gas resources, which were identified by the oil field appraisal wells, these resources are undeveloped.

Offtake and marketing

Similar to our oil production from the Uquo Field, we will sell our oil from the Stubb Creek Field to ExxonMobil pursuant to an oil purchase agreement entered into on November 30, 2012. Oil will be transported from the Stubb Creek Field via oil pipelines to the FUN Manifold for quality testing and metering before delivery to Qua Iboe export terminal. For details of the oil purchase agreement, see “—Material agreements relating to our assets—Uquo Field and Stubb Creek Field – Oil handling agreements and oil sales agreements”.

Future plans and outlook

The second phase of the Stubb Creek Field development plan requires the installation of a central processing facility capable of handling approximately 8,000 bopd of oil. Work is underway to finalize and approve plans for this project. The second phase is scheduled to commence production in mid-2016, at which point we expect that the early production facility will be decommissioned. No commitments have been made in respect of capital investments required to execute these development plans as planning and scoping work is ongoing.

We intend to develop the field’s gas resources in the future and to drill a non-associated gas appraisal well; however, development plans for the gas at the Stubb Creek Field have not yet been finalized.

Anambra Basin – OPL 905

On January 31, 2014, we acquired an interest in OPL 905. The following table sets forth certain details of OPL 905, including our legal and effective working interest in this license and the roles of our commercial partners.

	<u>OPL 905</u>
Award date.....	April 23, 2007
Area km ²	2,603
First production	n/a
License term	Up to 30 years, including an initial ten year exploration term Exploration period: two five-year terms to acquire 2D and 3D seismic and to drill exploration and appraisal wells
Work commitment.....	40% license interest; 60% economic interest
License interest.....	GTPL
Operator.....	50% license interest; 36% economic interest
Operator interest.....	Ideal Oil: 10% license interest
Other interests.....	Technical partner
Our role.....	

We have a 40% license interest in OPL 905, which is located in Enugu State to the north of the Niger Delta, in an area known as the Anambra Basin. Our commercial partners in the license are GTPL, the operator under the license, and Ideal Oil. At the same time as this acquisition, we entered into a conditional share purchase agreement to acquire the entire issued share capital of GTPL and, therefore, become the operator of OPL 905.

Field technical background

OPL 905 contains two gas discoveries, Ihandiagu, which was discovered in 1967, and Amansiodo, which was discovered in the early 1950s. The Ihandiagu Field, which is located in the northern part of the license area, is a potentially large gas discovery with multiple stacked sands of moderate porosity, separated by shale layers. The Ihandiagu-1 well was re-entered in 2012 and tested at production rates of up to 8.7 MMcfpd of dry gas with a low Condensate to Gas Ratio. 229 km of 2D seismic has been acquired in the northern part of OPL 905 covering the Ihandiagu discovery. Gas Initially in Place for the Ihandiagu discovery is estimated to be 911 Bcf with 2C resources of 425 Bcf based on the Novas Report dated August 31, 2013. The Amansiodo discovery, which is located in the southern part of the license, was abandoned soon after its discovery in the 1950s and, due to a lack of seismic or log data, no hydrocarbon resource estimates can be made at this time.

Our interest

OPL 905 was awarded in 2005 to a consortium consisting of GTPL and Ideal Oil. SRL 905 Holdings, a part of the SUN Group, became a partner in this consortium, and, following various subsequent farm-in arrangements and assignments of interest, in April 2007, the license holders entered into a production sharing contract with NNPC. Through our acquisition of SRL 905 Holdings, now renamed Seven Energy (Jersey), we hold a 40% license interest in OPL 905 but, by virtue of other contractual arrangements with the other license holders, we have a 60% economic interest pursuant to which we are entitled to a 60% share of any revenue derived from the production sharing contract and we are obligated to pay 60% of all capital and operating costs. We are a party to a JOA with GTPL and Ideal Oil and have a technical services agreement with GTPL.

Future plans and outlook

Under the terms of the production sharing contract with NNPC for OPL 905, we are obligated to acquire and process 500 km of 2D seismic and 50 km² of 3D seismic and to drill two exploration or appraisal wells. If we do not meet these commitments, there is a mandatory relinquishment of 50% of the license area at

the end of the exploration period in April 2017. However, we believe exploration activities will begin in the short- to medium- term. Our medium-term plan would be to acquire 50 km² of 3D seismic data over Ihandiagu discovery and at least 300 km of close grid 2D seismic data over Amansiodo discovery. Subject to the outcome of this seismic acquisition and processing, our intention would be to drill an appraisal well on the Ihandiagu Field to include a test of the deeper horizon that has been identified as being prospective.

We and our commercial partners in OPL 905 have a production sharing contract with NNPC, which was signed in April 2007. The production sharing contract has a maximum term of 30 years, with a ten-year exploration phase, comprising two five-year periods. If a commercial discovery is made, the OPL can be converted to an OML for a production phase of 20 years. If production continues after 20 years, the licensees may apply for an extension, subject to renegotiation of terms. As part of these exploration activities on OPL 905, a performance bond of \$15.0 million is required to be placed with NNPC.

Assets held for sale - Matsogo Field

Overview

The following table sets forth certain details of the Matsogo Field:

	<u>Matsogo Field</u>
Related OML	56
Discovery date	1966
First production.....	Undeveloped, no production
Legal interest	49%
Operator	Chorus Energy
Operator legal interest.....	51%
Our role.....	Technical partner

We have a 49% legal interest in the Matsogo Field located onshore within OML 56, in the north west Niger Delta adjacent to the area covered by the OMLs. We are holding the gas resource containing Matsogo Field for sale. In 2013, we agreed to the sale of our 49% legal interest in the Matsogo Field for \$7 million; however, the transaction is not complete.

Our interest

In 2006, we obtained a 49% interest in the Matsogo Field through a farm-in agreement with Chorus Energy (which retains a 51% legal interest). Chorus Energy is the field operator and we are a technical partner. In June 2014, Chorus Energy was acquired by Swift Oil Limited, a Nigerian downstream oil and gas company.

Pursuant to a JOA, we have entered into with Chorus Energy, decisions in respect of the Matsogo Field's development are taken by a joint operating committee made up of three members, two of which are appointed by us and one by Chorus Energy. All decisions taken by the joint operating committee require affirmative votes of two or more unaffiliated parties, collectively holding at least 75% of the interest in the field. We do not expect to incur any costs in respect of the Matsogo Field as there is no development plan for this field.

Midstream operations

Overview

One of the key challenges to the Nigerian gas industry is the provision of pipeline and other infrastructure to enable the transportation of gas from the country's producing regions to its domestic demand centers and customers. We saw this challenge as an opportunity to build an integrated business, providing not only upstream production, but also midstream operations to process and transport gas to supply the domestic market.

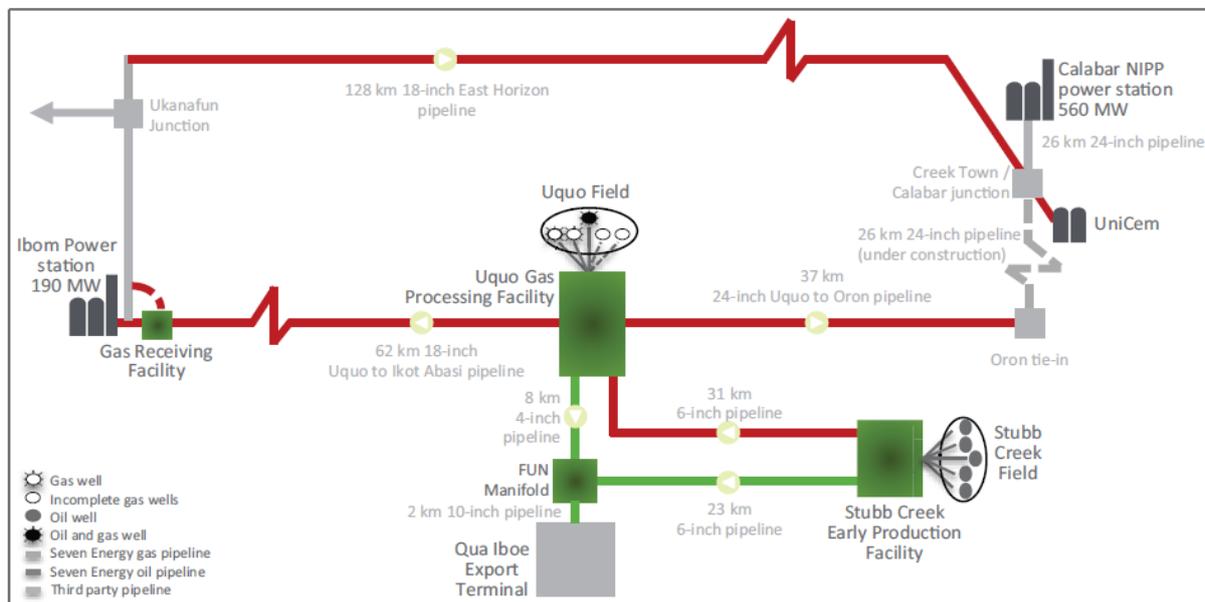
Our midstream operations include our processing, transportation and gas marketing activities, which are conducted through our wholly owned subsidiaries, Accugas and EHGC. Our midstream assets and activities include the following:

- *Processing* – Gas processing services are provided to our other subsidiaries and our commercial partners in our joint ventures at the Uquo Field and Stubb Creek Field to whom a tariff is charged for the gas processed. Similar processing services are planned to be offered to other market participants in due course. In August 2014, we formally commissioned the Uquo Gas Processing Facility in an opening ceremony conducted by President Goodluck Jonathan in the presence of the Minister of Petroleum Resources, Diezani Alison-Madueke, and the Governor Akpabio of Akwa Ibom State;
- *Distribution* – Through our gas pipeline infrastructure, gas is transported from processing facilities directly to customers; and
- *Sales and marketing* – Entering into gas sales agreements with customers. At present, we have three long-term take-or-pay gas sales agreements in place.

Our gas processing and transportation infrastructure in the south east Niger Delta has been developed or acquired with a view to link our upstream assets in the Uquo Field, and in due course, gas produced at the Stubb Creek Field, to demand centers within the region. This will allow us to deliver gas to supply power generation and industrial users.

As a means of expanding our midstream operations, in March 2014, we acquired the entire issued share capital of EHGC, a gas distribution company, for a total consideration of up to \$250 million (adjusted for net liabilities). See “The Acquisitions—EHGC Acquisition”. EHGC operates the 128 km East Horizon pipeline through Akwa Ibom State and Cross Rivers State in the south east Niger Delta (Ukanafun to Mfamosing) and has a long-term gas sales agreement to supply the UniCem cement plant, near Calabar. Following the EHGC Acquisition, the average gas sales rate to UniCem in the three months ended June 30, 2014 was 17.0 MMcfd, contributing \$10.7 million of revenue during this period. We are actively seeking additional gas customers to enter into gas sales agreements to utilize the spare capacity of the East Horizon pipeline.

The following diagram sets forth our midstream infrastructure and assets in the south east Niger Delta.



Key infrastructure assets

Since 2010, we have developed significant, wholly-owned, gas infrastructure in the south east Niger Delta. Our infrastructure includes the 200 MMcfd Uquo Gas Processing Facility and a network of 227 km of main gas pipeline with a total distribution capacity of 600 MMcfd, including the recently acquired 128 km East Horizon pipeline.

Principal greenfield developments undertaken by us have included:

- *Uquo Gas Processing Facility* – A two train gas processing facility, with total capacity of 200 MMcfpd (or 100 MMcfpd per train). The first train was commissioned in December 2012, and the second train was commissioned in May 2014. The facility is designed to treat and process gas, produced from the Uquo Field and Stubb Creek Field;
- *Stubb Creek to Uquo* – A 31 km, 6-inch gas pipeline, constructed during 2010 and 2011. The gas pipeline is designed to transport raw gas produced at the Stubb Creek Field to the Uquo Gas Processing Facility; Uquo to Ikot Abasi – A 62 km, 18-inch gas pipeline, constructed over two periods in 2010 and 2011. The gas pipeline is designed to transport processed gas from the Uquo Gas Processing Facility to the Ibom Power station; and
- *Uquo to Oron* – A 37 km, 24-inch gas pipeline. Nearly complete, with construction having taken place over two periods in 2013 and 2014. The gas pipeline is designed to transport processed gas from Uquo to Oron, as part of the pipeline project to supply the Calabar NIPP power station. For further details, see “—Development and outlook”.

Development and outlook

The 37 km, 24-inch eastbound pipeline from the Uquo Gas Processing Facility to Oron is nearing completion, expected for the end of 2014. The land required for the pipeline has been purchased directly from local communities through a right-of-way acquisition process with the assistance of non-governmental agencies. This pipeline will tie in with the pipeline system from Oron to Calabar is being constructed by CEGC in order to supply gas to the Calabar NIPP power station.

Gas deliveries to the Calabar NIPP power station are scheduled to begin by the end of 2014. Initially, gas produced from the Uquo Field, will be processed through our Uquo Gas Processing Facility and transported via a longer westerly route via Ikot Abasi and Ukanafun and along the East Horizon pipeline to the Calabar NIPP power station. When the pipeline system via Oron to Calabar is complete, full contractual volumes may be delivered via the Uquo-to-Calabar route through our 37 km Uquo to Oron pipeline, which is in the final stages of completion. Although the original intention was for CEGC to undertake the construction of the second part of the Calabar pipeline from Oron to Creek Town, it has been proposed that we build and finance this pipeline for a total cost of \$100.0 million in exchange for an increased gas tariff. Discussions on this matter are ongoing. We would recover the cost through the increased gas tariff. See “Risk factors—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”.

Through ongoing discussions with NDPHC and other stakeholders, we are identifying and evaluating the environmental and social risks and appropriate mitigation related to the delivery of gas to the Calabar NIPP power station and associated projects. We are also working with NDPHC to determine the progress achieved on the environmental and safety, permitting and licensing planning process. To evaluate this progress, we have conducted a gap analysis of the environmental and safety planning requirements of these projects against the IFC Performance Standards and will continue our ongoing review.

We are also evaluating and intend to undertake a project to divert up to 23 MMcfpd of gas at present flared by IOCs to our Uquo Gas Processing Facility, where it will be stripped of liquids and blended with our gas for distribution through our midstream assets.

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Sales and marketing

Oil

We market and sell our oil to owners and operators of export terminals that are geographically accessible to where our oil is produced or lifted. Once a suitable owner or operator is identified, we will seek to enter into a multi-year oil purchase agreement to sell our production.

With respect to our liftings under the Strategic Alliance Agreement, we have entered into an oil purchase agreement with Shell. Shell operates the Forcados Export Terminal, which is the point of delivery used by both NPDC and Seplat for production from the OMLs. As our oil is lifted at the Forcados Export Terminal, which is the point of sale, once oil is successfully transported to the Forcados Export Terminal, the risk of losses due to bunkering is greatly reduced. There is also an alternative transmission route for the oil production from the OMLs to an oil refinery in Warri, if the Forcados Pipeline or Forcados Export Terminal were shutdown for a prolonged period of time. During the March and April 2014 shutdown, we exported a small quantity of oil (0.1 MMbbl) via Seplat's newly constructed pipeline to the Warri refinery, which was the first use of this alternative export route.

As a result of the geographic location of the Uquo Field and the Stubb Creek Field, the Qua Iboe export terminal was identified as the most suitable export terminal for oil to be produced at these fields. Accordingly, we signed an oil purchase agreement with ExxonMobil, which operates this terminal.

For further information on our customers and our oil sales agreements, see “—Material agreements relating to our assets—Uquo Field and Stubb Creek Field – Oil handling and oil sales agreements”.

Gas

Our gas sales and marketing activities are undertaken by Accugas, our midstream business. Led by an experienced team, Accugas works with upstream partners to secure the supply of processed and unprocessed gas, which is then marketed to downstream customers to whom the processed gas is sold.

Accugas' current upstream partners are the Uquo Field and the Stubb Creek Field. In the future, we intend to increase the number of upstream partners to include other third parties, as we believe we offer a cost-effective solution to other upstream companies for gas produced at their fields. This is especially relevant considering that 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. In a bid to give effect to the Gas Master Plan, the Nigerian Minister of State for Energy (Gas) issued the National Domestic Gas Supply and Pricing Policy and the National Domestic Gas Supply and Pricing Regulations. The National Domestic Gas Supply and Pricing Policy recognizes a “domestic reserves obligation”, and the National Domestic Gas Supply and Pricing Regulations imposes a “domestic gas supply obligation”. The effect of both of these obligations is 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. For further information regarding domestic supply obligations, see “Legal and regulatory”.

In terms of downstream sales and marketing, Accugas seeks to secure additional anchor customers in key locations, to allow for the development of the infrastructure and pipelines to connect the gas reserves to the desired area. Anchor customers are considered to be major customers of gas, such as power stations, aluminum smelters, fertilizer plants or other gas-intensive industries. Once we have secured an anchor customer, infrastructure is built with additional capacity, so that other smaller customers, whose custom would not necessarily facilitate the construction of new infrastructure, can be supplied. We have a detailed understanding of the demand and supply structure for gas distribution in Nigeria, and following careful evaluation, the Uquo Field and the Stubb Creek Field were found to be suitable locations for our midstream investments, as they are located close to the demand centers of Calabar, Ikot Abasi, Uyo, Aba and Port Harcourt. In 2009, we secured our first anchor customer, the Ibom Power station, located near Ikot Abasi, which allowed the commencement of the processing and distribution development at the Uquo Field. In 2011, a further gas sales agreement was secured to supply the Calabar NIPP power station, which was under construction at the time. In March 2014, we acquired EHG, which had an existing long-term gas sales agreement to supply the UniCem cement plant. The intention is to secure further customers close to our existing anchor customers to leverage off our existing knowledge of the local demand and our infrastructure.

Major customers

Oil

Shell

Shell purchases our entire production entitlement from the OMLs over the term of an oil purchase agreement entered into on February 1, 2011. The agreement expires on February 1, 2016. Under this agreement, Shell lifts the agreed volumes of oil as delivered from the OMLs to the Forcados Export Terminal and then settles the amount due directly with us. For more information on our oil purchase agreements, see “—Material agreements relating to our assets”.

ExxonMobil

ExxonMobil has agreed to purchase oil produced from the Uquo Field and Stubb Creek Field pursuant to an oil purchase agreement between ExxonMobil and a group of companies, including Frontier Oil (on behalf of the Uquo Field joint venture), our subsidiary, Universal Energy and Network. This agreement expires upon the earlier of November 30, 2017 or until the crude handling agreement dated November 30, 2012 between the parties is terminated. Oil is transported from the fields to ExxonMobil via oil pipelines to the FUN Manifold for quality testing and metering before delivery to the Qua Iboe export terminal. For details of the oil purchase agreement, see “—Material agreements relating to our assets”.

Gas

Ibom Power station

We sell gas to Ibom Power, which is owned by Akwa Ibom State, to supply the 190 MW Ibom Power station. Gas produced at the Uquo Field is processed and transported to the power station through our midstream assets operated by Accugas. The gas supply to the Ibom Power station is structured under two agreements: a gas purchase agreement and gas sales agreement. We and Frontier Oil agreed to sell gas produced from the Uquo Field to Accugas pursuant to a gas purchase agreement dated June 2, 2010, under which Accugas is obligated to pay for an annual quantity of gas equivalent to 43.5 MMcfpd. The contract price is fixed at \$0.52 per Mscf for the first five years and \$1.17 per Mscf thereafter and is adjusted for inflation annually according to the US CPI.

Through Accugas, we entered into a take-or-pay gas sales agreement with Ibom Power for a term of ten years. The contract price is \$2.00 per Mcf, indexed annually by reference to US CPI. For further information on the gas sales and purchase agreements, see “—Material agreements relating to our assets”.

Calabar NIPP power station

We will supply gas to the 560 MW Calabar NIPP power station, owned by NDPHC and CEGC, two corporations owned by the Nigerian government. The gas for the Calabar NIPP power station will initially be supplied from the Uquo Field and in the longer term is intended to be supplied from the Stubb Creek Field. Gas from the Stubb Creek Field will make up the total daily gas volumes required to meet deliveries pursuant to the gas sales agreement as production from the Uquo Field declines. The Calabar NIPP is at present able to evacuate power, and is working to make a second turbine operational by the end of 2014.

Gas will be sold to the Calabar NIPP power station pursuant to two agreements: a gas purchase agreement and gas sales agreement. We and Frontier Oil agreed to sell 131 MMcfpd of gas produced from the Uquo Field to Accugas pursuant to a gas purchase agreement dated November 19, 2012 for a term of 15 years from the later of the date of first commercial delivery (which is yet to occur) and April 30, 2014. This agreement is also a take-or-pay agreement, whereby Accugas has committed to a take-or-pay equivalent of 80% of the contracted volume (which equates to 104.8 MMcfpd). The contract price is fixed at \$1.72 per Mcf and adjusted for inflation according to US CPI and the Nigerian consumer price index (“CPI”).

Through Accugas, we entered into a take-or-pay gas sales agreement with CEGC, the Calabar NIPP power station’s owner and operator, and NDPHC, CEGC’s parent company, dated December 8, 2011 to supply processed gas to Calabar NIPP power station for a term of 20 years from the date of first commercial delivery. We will supply 131 MMcfpd each month and NDPHC and CEGC have committed to a take-or-pay obligation

provision equivalent to 80% of that volume (which equates to 104.8 MMcfpd). The contract price is \$2.65 per Mcf indexed annually by reference to US CPI and Nigerian CPI. For further information on our oil and gas sale and purchase agreements, see “—Material agreements relating to our assets”.

UniCem

We have a gas sales agreement to supply the UniCem cement plant, a cement plant owned by a consortium consisting of Flour Mills of Nigeria, Lafarge and Holcim. The agreement is a 20-year 80% take-or-pay gas sales agreement, which expires in 2032. We supply 25 MMcfpd of gas to the UniCem cement plant, with contracted volumes to increase to 50 MMcfpd on January 1, 2016.

UniCem was established in 2002 by Holcim. and Flour Mills of Nigeria to acquire Calabar Cement Company during the Nigerian government’s privatization thereof. The plant was planned and constructed by Salzgitter Industriebau GmbH in the 1970s to meet the high demand for cement in Nigeria. UniCem is presently Nigeria’s third largest cement manufacturer by products shipped.

For a further description of any of the agreements entered into by these customers, see “—Material agreements relating to our assets”.

Competition

The oil and gas industry is competitive, and we compete with a substantial number of other companies, many of which have greater resources than we do. 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 IOCs, 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 are for sale by third parties. See “Country, industry and market data—Nigeria—Competitive environment”. In the south east Niger Delta, we believe we have no direct competitors other than those operating in the region given the high barriers to entry and our portfolio of assets and infrastructure

Partners

Our assets are developed through partnerships or joint ventures with government entities, other indigenous companies and international companies.

We partner with NPDC, a Nigerian government entity and a subsidiary of NNPC, for the development of the OMLs under the Strategic Alliance Agreement. NPDC’s activities cover the upstream oil and gas industry, with involvement in 21 OMLs and seven OPLs across Nigeria. As a result of the Strategic Alliance Agreement, we have an indirect relationship with Seplat, the operator of OMLs 4, 38 and 41. Seplat is a publicly listed company on the London Stock Exchange and the Nigerian Stock Exchange. Seplat acquired its interests from Shell in 2010 and became the operator at OMLs 4, 38 and 41 at the same time.

Our current Nigerian partners include Frontier Oil, the operator of the Uquo Field, and Chorus Energy, the operator of the Matsogo Field, both independent oil and gas companies formed in 2001. In June 2014, Chorus Energy was acquired by Swift Oil, another Nigerian oil and gas company involved with downstream oil and gas operations. With the OPL 905 Acquisition, we also became partners with two other Nigerian oil and gas companies, GTPL and Ideal Oil. We are also engaged with an international partner, Sinopec, in relation to the development of the Stubb Creek Field. Sinopec is also involved in various other oil and gas projects in Nigeria and elsewhere in Africa.

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 third-party operators, partners and other project participants and any disagreements with, or the exercise of termination rights by, any of the third-party operators, partners and 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”.

Anti-corruption policies

We recognize that doing business in Nigeria brings with it inherent risks associated with fraud, bribery and corruption. We published our Code of Conduct and Business Ethics (“Code of Conduct”) in 2011, which contains policies and procedures covering how we conduct our business, maintain our relationships with business partners and ensure compliance with applicable anti-corruption legislation (including the UK Bribery Act and the FCPA). All employees are required to self-certify compliance with the Code of Conduct annually and receive training in relation to compliance with anti-bribery, corruption and whistleblower legislation. In addition, we have adopted rigorous policies and procedures relating to contracts and procurement that include due diligence procedures when entering into new agreements with either new or existing agents. For more information, see “Risk factors—Risk factors relating to our business—Any actual or perceived failures to address community issues or negative publicity could impact our business reputation, which is important to our continued viability and could materially and adversely affect our business” and “Risk factors—Risk factors relating to the Strategic Alliance Agreement and certain allegations related thereto—Allegations that the Strategic Alliance Agreement was entered into as a result of illegal or improper conduct, or that the Strategic Alliance Agreement is unconstitutional or unlawful may continue to damage our reputation, divert management attention and affect our ability to conduct our business”.

Corporate social responsibility

Corporate social responsibility is a primary focus for us, and we are committed to ensuring that we are recognized as a responsible organization with the highest corporate social responsibility standards and performance. We continually review these standards and practices and augment our policies where necessary to comply with the IFC Performance Standards. We completed a review of our CSR management system against the IFC Performance Standards and revised the system to comply with the IFC Performance Standards and the requirements of ISO 14000 and OHSAS 18001. We implemented the system through our CSR field team by conducting internal and external training and awareness events.

As a result, we have established QHSSE/CSR policies and procedures and endeavor to promote and adhere to internationally recognized standards throughout our operations. We have a team focused on promoting our QHSSE/CSR standards and practices. We believe that adhering to internationally recognized QHSSE/CSR standards is important as it establishes us as a responsible operator, while also promoting the safety of our employees and local communities. Furthermore, we believe relationships with local communities, governmental agencies and large international companies have been, and will be, further strengthened through our commitment to establishing and following internationally recognized QHSSE/CSR standards.

On behalf of our board of directors, our Environment & Community Committee meets quarterly to monitor progress against our QHSSE/CSR targets which are updated annually and to ensure adherence with our QHSSE/CSR policies and procedures.

Quality

Quality management is key to the success of our operations. During 2013 and 2014, we implemented changes to the structure of our QHSSE/CSR group to strengthen our team, including the appointment of a full-time quality manager. We implemented a Quality Management Policy in accordance with international standards (ISO 9001) and other oil and gas sector best practice guidance. As part of this initiative, we also implemented a revised Quality Management System and the implementation is near complete. In 2013, we also engaged a third-party consultant to evaluate our QHSSE/CSR policies to ensure our individual projects were acquired, constructed and operated in a manner consistent with host country requirements, IFC Performance Standards and good international industry practice.

Our quality and assurance team implements the Quality Management Policy and System throughout the business by training our employees and partners. They also regularly facilitate and participate in a number of inspections and audits, both internally and with external parties, at our upstream and midstream operations. In

line with these activities, we are focused on developing quality data management systems for us and our commercial partners to provide enhanced reporting capabilities. We have conducted a gap analysis to review our existing training and communication procedures against the IFC Performance Standards. To ensure we are in compliance with these standards, we implemented a training and awareness program in 2014, which includes modules addressing safety issues and other IFC Performance Standard topics. We have also put in place a senior manager of corporate affairs and external communications to further progress our QHSSE/CSR communication procedures.

Health and safety

We seek to protect the health and safety of all persons involved in our activities, the people who come into contact with our operations and the health and sustainability of the environments in which we operate. We aim to provide a secure working environment through the adoption of appropriate international industry standards to protect employees and contractors, physical assets and operations against risks of injury, loss, damage or impairment from criminal, hostile or malicious acts. As part of our standard operating procedure review, we finalized and implemented a camp management plan, which incorporates the recommendations and results of the review.

As of June 30, 2014, our employees and contractors directly employed by us worked over 10.3 million man-hours since June 3, 2011 without a lost time incident occurring, and our total recordable incidence rate was 0.2, nil, and nil per 200,000 hours worked for the years ended December 31, 2011, 2012 and 2013, respectively. Our total recordable incidence rate was nil and nil for every 200,000 hours worked for the six months ended June 30, 2013 and 2014, respectively. For these same periods, we experienced no fatalities across our business.

Security – asset protection

One of our most significant challenges is ensuring the secure operation of our upstream and midstream activities and, as such, we have prioritized security throughout our business systems and organization. We also created and implemented an asset protection management system. From the opportunity identification phase of our business model through project development and production, our system seek to identify and mitigate security risks.

Generally, we operate in areas that we believe are relatively stable and attempt to avoid areas prone to higher security threats. We have performed and maintain ongoing research with security consultancies which allows us to monitor volatility in the Niger Delta region. When performing joint operations, we engage specialist security consultants to examine and manage transport routes and any other identified hazards to mitigate potential risks and security issues.

In addition, we employ an alert system that describes the security status at all of our upstream and midstream locations. We use many contributing factors to determine what security status may be appropriate for each location. These contributing factors include: security threats and vulnerability assessments, local intelligence, international and national news and insight from community liaisons. All personnel, across our upstream and midstream gas operations, are kept informed of the security status of each location on an ongoing basis. We also have a security team that covers both upstream and midstream assets, including the Uquo Gas Processing Facility, and certain of our assets are guarded by the Nigerian armed forces. Third-party contractors provide security services for all our pipelines and pipeline routes with the assistance of the police.

As of June 30, 2014, we have recorded no serious security related incidents for the sixth successive year throughout all of our operations.

In addition to carrying out the above measures and analysis, we seek to build good relationships with the local communities where our assets are based. We also comply with the International Voluntary Principles of Security and Human Rights and seek to ensure that all of our commercial partners, contractors and subcontractors also comply with these principles.

Environment

We recognize the significant environmental considerations attached to our operations and in particular our drilling operations. Minimizing the impact on the environment by our business and operations is therefore very important to us.

For the assets we operate directly and for those operated by our commercial partners, we take an active role in monitoring the environmental impact of development and production activities. Our operations at all times are directed by our QHSSE/CSR policies and procedures, which meet regulatory requirements and reflect best industry practice. For the projects operated by our commercial partners, such as the OMLs, the relevant operators have their own environmental policies and procedures in place; however, we review those policies and monitor environmental activities to ensure compliance with the relevant rules and regulations. We share our Environmental Management System with our operating partners to facilitate effective management of environmental considerations across our assets.

All of our projects have approved environmental impact assessments (“EIAs”) in place and we have implemented recommendations provided by the EIAs. All significant environmental impact factors are regularly monitored and the results are recorded and reported. We engaged a qualified independent third-party environmental and social consultant to review our existing portfolio against the IFC Performance Standards. From this review, we developed and continue to implement our environmental and social action plans to bring our portfolio in line with the IFC Performance Standards. We are also developing an environmental management system that we anticipate will be compliant with IFC Performance Standards and the requirements of ISO 14000 and OHSAS 18001, which is scheduled for ISO 14001 certification over the next year.

Our Environmental management system is supported by other health and safety management systems, and policies and procedures already in place across our organization. In addition, we have implemented other World Bank and IFC Performance Standards requirements with respect to our projects, including our waste management plans, environmental management plans and environmental monitoring plans.

We have also developed and deployed appropriate crisis management and emergency response and oil contingency plans in line with our current operational footprint and any ongoing projects. Our oil spill contingency plan has been shared with the relevant departments of the Nigerian government and our joint venture partners. In 2013, we had no material environmental spills. Furthermore, we are also committed to ceasing gas flaring activities, with the goal to transport, process and sell all the gas that we produce alongside our oil for processing and sale.

We have and will continue to review and seek independent review of environmental programs, policies and systems for adherence to regulatory and industry requirements. For further information on environmental matters, see “Legal and regulatory”.

Community

We aim to create sustainable value for all stakeholders by providing an essential source of energy, while simultaneously safeguarding the environment and respecting and contributing to the communities in which we operate. We continue to evaluate and refine our QHSSE/CSR policies and procedures in accordance with international best practice, guided by both the IFC’s Performance Standards and the Equator Principles. We published our Code of Conduct and related documents, which guides our employees and contractors on handling community interactions related to our projects. We require our employees to acknowledge receipt and understanding of its principals.

In line with the principles of the Local Content Act, we strive to ensure that Nigeria’s assets are increasingly used to benefit Nigerians. This goal is inherently sustainable as we help to build the Nigerian economy, develop local communities and reduce the environmental and health impacts associated with other sources of power, such as diesel-generated electricity.

As part of our community initiatives, the views and perceptions of the local communities are taken into consideration in the planning of all of our projects from their inception. We engage with and consult with host communities in the form of meetings across all ages and groups with focused group discussion and general town hall meetings throughout the life span of a project. In order to manage community expectations, prior to commencement of any site work, we sign a memorandum of understanding with the local communities. The memorandum of understanding sets forth, among other things, what social development projects, healthcare, training, education and employment that we will provide to the relevant community. It also lists the obligations local communities have to us and creates avenues for grievance handling and reporting of outcomes to relevant stakeholders. Further, we have reviewed and revised our stakeholder engagement plan and external grievance procedures to comply with the IFC Performance Standards.

We have also improved our land acquisition policies, such that we work directly with local communities to obtain right-of-way access for our infrastructure projects. For example, we completed the right of way acquisition process in May 2013 for the Uquo to Oron pipeline project by effectively collaborating with NGOs and local communities through the land acquisition process, which allowed us to address community needs and minimize cost-overruns. We also engaged a third-party auditor to conduct a completion audit of the Uquo to Oron land acquisition process. The process and the initial report has been accepted by the World Bank with some remaining issues to be resolved before the final report can be released for approval by the World Bank. Additional assessments of the right-of-way land acquisition processes access procedures adopted for the Uquo to Ikot Abasi and the Oron to Creek Town projects are ongoing.

For more information on the Local Content Act, see “Legal and regulatory—Nigeria—Government regulations”.

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 two brokers, JLT Specialty Limited (in co-operation with YOA Insurance Brokers, Lagos, Nigeria) and Bluefin Insurance Services Ltd. While we maintain insurance coverage for multiple risks, we are not insured against all risks. In particular, we do not carry insurance for business interruption, war and terrorism. We believe that our existing insurance coverage is sufficient to cover the risks associated with our operations.

Employees

As of December 31, 2013, we had a full year average of 168 employees, of which 141 were based in Nigeria (83%) with the remaining 27 employees based in the United Kingdom. Approximately 93% 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 (including Executive Management) we employed for the years ended December 31, 2011, 2012 and 2013:

	For the year ended December 31,		
	2011	2012	2013
Executive Management	3	7	4
Operations and support staff	125	128	107
Administration	30	37	57
Total	158	172	168

We seek to maintain workforce policies that are fair and compliant with applicable local laws. We seek to employ individuals on the basis of merit and ability. We continue to develop the skills of our local workforce and to employ locally, as much as possible. Each employee, consultant and contractor is expected to abide by our human resources policies, including our policy on equal employment opportunities and workforce diversity. In addition, we try to ensure that companies in our supply chain also comply with these standards. We also maintain an employee grievance handling and reporting procedure that is in compliance with the IFC Performance Standards.

We recognize the right of all employees to be members in an employee organization or a trade union and we seek to protect internationally recognized human rights. Certain workers at Universal Energy are represented by trade unions and there is a collective bargaining agreement in place. For further information, see “Risk factors—Risk factors relating to our business—Labor unrest could affect our ability to explore for, produce and market our oil and gas production”.

Pensions and employee benefits

We operate defined contribution retirement benefit schemes for all qualifying employees. The assets of the scheme are held under the control of the trustees of the respective benefit schemes. Employees based in Nigeria are members of a statutorily mandated retirement benefit scheme operated by licensed pension fund administrators. Our operations in Nigeria are required to contribute a specified percentage of payroll costs to the retirement benefit scheme to fund the benefits. For the years ended December 31, 2011, 2012 and 2013, we made contributions of \$0.5 million, \$1.0 million and \$1.3 million, respectively. For the six months ended June 30, 2013 and 2014, we made contributions of \$0.6 million and \$0.6 million, 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. As of December 31, 2013, the number of contractors we engaged at the time was 130.

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 effect on our business, financial condition or results of operations.

Tax disputes

We are involved in a number of disputes with FIRS, which we do not consider should result in any additional taxes becoming payable by us. However, should there be a finding to the contrary, significant additional tax liabilities may become payable by us. We are contesting several tax treatments asserted by FIRS, which we and our tax advisers do not consider should result in any additional taxes becoming payable by us. One such item relates to a recent claim by FIRS of additional tax of \$55 million payable by Accugas comprising VAT and withholding tax allegedly not accounted for on certain expenditure by the company, and penalties and interest thereon. Our tax advisers consider that this claim is without merit and, as such, no provision or reserve for any amount in respect of this item is considered necessary. However, in the event of a finding to the contrary, significant additional tax liabilities may become payable by us. See “Risk factors—Risk factors relating to operating in Nigeria—The taxation and customs systems in Nigeria may be subject to change and the rules of those systems may be subject to different interpretation”.

Material agreements relating to our assets

The OMLs – Strategic Alliance Agreement

NPDC and Seplat, respectively, hold 55% and 45% interests in OMLs 4, 38, and 41. On September 15, 2010, we signed the Strategic Alliance Agreement with NPDC for the development of OMLs 4, 38, and 41, which became effective in November 2010. Under the agreement, we pay NPDC’s entire share of operating and development costs for OMLs 4, 38, and 41, in return for cost recovery and profit share of NPDC’s production.

The term of the agreement is divided into different periods depending on the type and volume of resources to be extracted. Upon payment of a \$54 million initial entry fee, the agreement remains in full force and effect until the cumulative production from OMLs 4, 38 and 41 has reached 165 MMbbl of oil and 900 Bcf of gas, making up a total of 335 million barrels of equivalent. Based on our current 2P production profile, the term of the agreement would continue for approximately nine years (i.e., until 2019). Additionally, we are obligated to provide technical assistance, an annual training program and an annual payment of \$350,000 over five years for a training facility and various other obligations.

The duration of the agreement as described above may be extended upon the development of contingent resources and our payment of an additional fee of \$26.6 million. If contingent resources are

developed, the agreement will continue until the cumulative production of contingent resources reaches 100 MMbbl of oil and 357 Bcf of gas. However, as of the date of the Offering Memorandum, no such work program has yet been agreed. If new producible reserves are added to the volumes referred to above, the duration of this agreement will, subject to new terms and conditions agreed to by the parties, be extended until full recovery of such new reserves.

Production share

Our entitlement to production from OMLs 4, 38 and 41 is defined in the Strategic Alliance Agreement and calculated using a model that has been agreed by both parties.

Oil production is allocated between NPDC and us, based on whether the oil constitutes cost oil, royalty oil, tax oil, or profit oil. For our costs, we recover cost oil, which is a volume of oil based on the costs we incur on OMLs 4, 38 and 41. We recover the following in respect of cost oil:

- operating costs and intangible capital expenditures, including exploration and most drilling costs, are recovered in the month of expenditure; and
- tangible capital expenditure, including facilities, is recovered at a rate of 20% per annum over a five-year term from the date of the expenditure.

Intangible and tangible capital expenditures, as used pursuant to the Strategic Alliance Agreement, are not comparable to intangible and tangible capital expenditures reported under the IFRS, including our financial statements included in this Offering Memorandum.

Royalty and tax oil are allocated to NPDC in an amount that generates proceeds equal to NPDC's royalty and tax liability relevant to its 55% share of the production for the period.

Profit oil is calculated as the remaining amount after cost, royalty and tax oil have been deducted and therefore we are not required to pay royalties or tax on the profit oil we receive. Our profit oil may be recovered in accordance with the following schedule:

- 10% of the baseline production being the production from the fields at the time we entered into the Strategic Alliance Agreement. Baseline production was set at an initial production level of approximately 27,000 bopd, thereafter declining by a rate of 15% per annum. Once NPDC has recovered its past costs, we will receive 35% of baseline production;
- 60% of incremental production, which is the total production less the baseline production. Incremental production is in essence production attributable to the capital expenditures funded by us. Once our costs have been recovered, we receive 35% of incremental production.

Once our total entitlement is determined, we may lift our allocation of oil for sale at the Forcados Export Terminal. See “—North west Niger Delta – The OMLs—Production and liftings – oil” and “—North west Niger Delta – The OMLs—Offtake and marketing”.

Joint operating agreement and management committee

Decisions with respect to OMLs 4, 38 and 41 are made between Seplat, the operator, and NPDC pursuant to a JOA. We are not a party to the JOA between Seplat and NPDC, though NPDC can only vote in accordance with its previously agreed position with us. However, while we do not have a contractual right to attend meetings between Seplat and NPDC, we attend the operational committee meetings, as well as the technical and finance committee and the various other subcommittee meetings between NPDC and Seplat in our capacity as technical adviser and funding partner to NPDC. See “Risk factors—Risk factors relating to the Strategic Alliance Agreement and certain allegations related thereto—We do not hold a direct interest in the OMLs and, as a result, we are reliant on our rights under the Strategic Alliance Agreement and our ability to advise and cooperate with NPDC and Seplat in respect of developmental and operational matters relating to the OMLs”.

Decisions in respect to NPDC's 55% interests in OMLs 4, 38 and 41 are taken by a management committee made up of four members, two appointed by NPDC and two by us. All decisions taken by the management committee require unanimity and in the event of a deadlock there is provision for referral to an expert appointed by the parties or, failing agreement, resolution is obtained through ad hoc arbitration in Lagos, Nigeria. NPDC is bound by the Strategic Alliance Agreement to reflect decisions made at the management committee in the operating committee meetings with Seplat. Since entering into the Strategic Alliance Agreement, we have always achieved unanimity in decision-making with NPDC, without need to refer the matter to an expert or arbitration.

Transfer or assignment of rights

We are not permitted to transfer or assign any rights acquired and obligations under the agreement without the prior written consent of NPDC, which shall not be unreasonably withheld. However, NPDC has preemption rights should the proposed assignment of an interest be to an entity other than an existing affiliate.

Termination

The agreement may be terminated by mutual agreement at any time whenever it appears the cumulative production figures referred to above cannot be economically obtained. Additionally, NPDC may terminate the agreement immediately by written notice to Seven Exploration in a number of circumstances, including the following:

- Seven Exploration defaults in the performance of its obligation to fund NPDC's 55% share of petroleum operation costs in the Contract Area (although NPDC may by notice give Seven Exploration a period of 30 days to remedy such breach—if the default is not so remedied, the agreement automatically terminates);
- Seven Exploration assigns its rights and interests under the Agreement without the prior written consent of NPDC;
- Seven Exploration is adjudged insolvent, bankrupt or to have made restitution to its creditors by a court of competent jurisdiction in Nigeria;
- Seven Exploration terminates its corporate existence;
- there is a breach of the parent company guarantee;
- if it is established and confirmed that Seven Exploration and Seplat are affiliates; and
- the disposal of Seven Exploration's rights and interests under the Strategic Alliance Agreement through the sale of its parent company.

The OMLs – Shell Crude oil purchase agreement

On February 1, 2011, our subsidiary, Seven Exploration (formerly Septa Energy Nigeria Limited), and Shell entered into an oil purchase agreement in respect of our entitlement to oil from the OMLs.

The crude oil purchase agreement will remain in force for five years from the execution date, subject to early termination by either party giving written notice to the other party in the event a liquidator (other than for the purpose of amalgamation or reconstruction), administrator, trustee in bankruptcy, receiver or receiver and manager is appointed, or if the other party enters into an arrangement or composition with its creditors, or if the terminating party has reason to expect any of the above events.

The agreement provides that Seven Exploration is obligated to sell and Shell is obligated to purchase 100% of our allocation of Forcados oil under the crude handling agreement between the operator of OMLs 4, 38 and 41 and the operator of the Forcados Export Terminal.

The price for oil under this agreement is calculated as (a) the average of the mean dated Brent quotations as published in Platts, with dated Brent quotations for these purposes being defined as either: (i) the

five consecutive dated Brent quotations immediately preceding six business days before the first day of the loading date range (subject to a premium of \$0.04 per barrel) or (ii) the five consecutive dated Brent quotations immediately following the bill of lading date (with Shell being required to declare its option between (i) and (ii) by no later than 19:30 on the bill of lading date), plus (b) a differential to dated Brent quotation as established by the official selling price for Forcados oil prompt option as published by NNPC for the month of loading.

Alternatively, for each cargo, we have the option to request a fixed price in US dollars for a fixed volume of up to 90% of the cargo. If a fixed price cannot be agreed with Shell, then pricing reverts to the contractually agreed mechanism as described above.

SAA Funding Agreement (terminated March 2013)

At the same time as entering into the Strategic Alliance Agreement, we entered into the SAA Funding Agreement pursuant to which the counterparty thereto agreed to provide funding for 30% of our obligations under the Strategic Alliance Agreement in exchange for 30% of our production entitlement. This agreement was terminated on March 13, 2013.

Uquo Field

Uquo farm-out agreement

On April 27, 2004, NNPC, Shell, Elf Petroleum Nigeria Limited, and AGIP as a joint venture agreed to terms under which the Uquo Field would be developed by Frontier Oil. Prior to this farm-out agreement, on February 25, 2003, the Nigerian government had granted the right to operate this field as a marginal field to Frontier Oil. The agreement had an original term of 60 months, subject to renewal for the remaining life of the field upon production being reached. Although production was not reached during this period, the MPR extended its approval of this agreement for a period of four years to March 14, 2015.

The agreement requires Frontier Oil to pay the joint venture overriding royalties on petroleum production of (i) 2.5% for average daily production below 2,000 bopd, (ii) 3% for daily production of 2,001 to 5,000 bopd, (iii) 5.5% for daily production of 5,001 to 10,000 bopd, (iv) 7.5% for daily production from 10,001 to 15,000 bopd. For production in excess of 15,000 bopd, Frontier Oil pays an additional rate to be negotiated by the parties. For the production of gas, Frontier Oil pays to the joint venture an overriding royalty of (i) 0% for daily production below 20 MMscfpd and (ii) an amount to be agreed for daily production above 20 MMscfpd.

Pursuant to a deed of assignment dated May 15, 2006, Frontier Oil assigned a 40% legal interest in the Uquo Field to Red Rock Energy Limited ("Red Rock"). Red Rock then assigned the interest to Seven Energy (BVI), which subsequently assigned the interest to its subsidiary, SUGL, on January 9, 2007.

The farm-out agreement may be terminated (in the case of (ii), on 90 days' notice thereafter, and in the case of (i), (iii), (iv) and (v) below, immediately) if: (i) the farmee suffers an insolvency event or is found by a court of competent jurisdiction to have willfully violated any Nigerian laws and regulations governing petroleum operations, financial transactions and/or commercial operations during the term of the agreement; (ii) the DPR determines that the petroleum operations conducted by the farmee are not in compliance with applicable law and regulation or environmental, health and safety standards, and the farmee does not restore its operations to compliance within 90 days after receiving a written notice from the DPR; (iii) the farmee assigns its rights and interests without prior consent from the Nigerian government; (iv) it is established that the farmee intentionally extracted production from outside the farm-out area; or (v) the farmee is unable to remedy a material breach within 90 days after notice.

If the farmee stops operations for more than 90 days with no justifiable excuse or reason, the Uquo farmers may terminate the farm-out agreement on 30 days' written notice. Obligations under the agreement are, however, suspended for so long as they are unable to be performed for force majeure reasons. In the event of termination, Frontier will remain liable for all abandonment and decommissioning of petroleum operations and will surrender possession of the farm-out area to the Uquo farmers. During the term of the agreement the farmee must provide security funds to satisfy abandonment obligations from the field, including security to cover abandonment cost.

Uquo Field joint operating agreement

As a condition precedent to Frontier Oil's assignment of interest to SUGL, Frontier Oil and SUGL entered into a joint operating agreement on January 9, 2007 (the "Uquo JOA"), which sets out the parties' obligations with respect to the conduct of petroleum operations in the Uquo Field. It also designates Frontier Oil as operator and SUGL as technical partner. The Uquo JOA continues in effect until the Uquo Field Farm-Out Agreement terminates or expires, or until the Uquo JOA is terminated as described below. The Uquo JOA has been amended from time to time to reflect the changes in the parties' interests. The Uquo JOA (as amended) requires us to commit up to \$150 million of funding to the development of the Uquo Field and the gas project, in addition to the \$50 million incurred prior to May 26, 2009. To date, we have provided in excess of this funding requirement.

The terms of the Uquo Field JOA provide that we pay 100% of the capital and operating costs of the oil and gas operations carried out by Frontier Oil as operator of the field. However, once our net revenue from oil operations or gas operations (including a 15% return on investment) exceed the capital and operating costs we have paid and which remain unrecovered in respect of such operations ("Payout"): (i) our obligation to pay 100% of the capital costs is reduced to 52% and 48% of such capital costs for oil and gas development, respectively; and (ii) our obligation to pay 100% of the operating costs is reduced to 40% in respect of oil or gas operations thereafter.

With respect to oil operations, we are entitled to receive 85% of revenue until Payout (including a 15% return on investment) in respect of such oil operations, following which such entitlement reduces to a target of 52%. With respect to gas operations, we are entitled to receive 90% until Payout (including a 15% return on investment) in respect of such gas operations, following which such entitlement reduces to a target of 48%. After Payout, the target revenue entitlement is achieved by the revenue sharing schedule set forth in the Uquo Field JOA.

As operator, Frontier Oil is responsible for conducting all operations on behalf of the joint venture parties in respect of oil and gas development, including all associated administrative tasks. Decisions in respect of the Uquo Field's oil and gas operations are taken by a joint operating committee which has the power to authorize, direct and supervise Frontier Oil, acting as operator, in its conduct of joint operations. This joint operating committee is made up of four members, two of whom are appointed by Frontier Oil and two of whom are appointed by us. At least one representative from each party must be present at a resolution of the joint operating committee in order for the meeting to be quorate and all decisions require the unanimous vote of Frontier Oil and us. While Frontier Oil is responsible for preparing annual work programs and budgets, the work programs and budgets require approval of the joint operating committee. In addition, we have the final decision on whether to proceed with joint operations.

The Uquo JOA includes a number of events of default, including failure to pay joint account expenses, breach of representations, failure to perform resulting in a material adverse effect on a non-defaulting party and certain insolvency events in respect of a party. During any such event of default, subject to certain notice and cure periods, the defaulting party will not be entitled to participate in vote in joint operating committee decisions, and, if not remedied by the 180th day following the default, the non-defaulting party may require the defaulting party to withdraw from the Uquo JOA. In addition, in the event SUGL fails to provide its minimum investment commitment, Frontier Oil has the right to terminate the Uquo JOA (and SUGL will be required to transfer back to Frontier Oil its interest and forfeit all investments in the farm-out area) upon 30 days' notice if such breach is not cured and if the parties have not reached mutual agreement otherwise.

Neither party may assign any or all of its rights and obligations under the agreement to any other party without prior written approval of the other party (not to be unreasonably withheld). A party who seeks to transfer its interest must provide the non-transferring parties preemptive rights to the interest based on a competitive pricing structure to be agreed by the parties.

Uquo Field technical services agreement

On January 9, 2007, Frontier Oil and SUGL entered into a technical services agreement ("Uquo TSA") which sets out the terms on which SUGL provides technical expertise and assistance to Frontier Oil in the discharge of its functions as operator under the Uquo JOA. The term of the agreement is the same as provided for under the Uquo JOA, unless otherwise agreed. The agreement will also terminate in the event that we transfer our entire interest in the Uquo Field.

The services we are to provide under the agreement include: (i) advisory and management services; (ii) seismic acquisition, processing and interpretation services; (iii) drilling planning and execution services; (iv) procurement and supply chain management services for seismic, drilling and production facilities; and (v) training and development services. The agreement also contemplates that we may engineer and manage the project development of enhanced gas monetization projects, which may be undertaken as a separate project dealt with under separate agreements. Under the technical services agreement, the budget or cost of each of our services is to be agreed with Frontier Oil as the operator.

Stubb Creek Field

Stubb Creek Field farm-out agreement

On December 22, 2003, NNPC, Shell, Elf Petroleum Nigeria Limited and AGIP as a joint venture agreed to terms under which the Stubb Creek Field would be developed by Universal Energy. We own a 62.5% interest in Universal Energy, which we acquired in 31.25% in December 2009 and an additional 31.25% in April 2010. Prior to this farm-out agreement, on February 25, 2003 the Nigerian government had granted the right to operate this field as a marginal field to Universal Energy. The agreement had an original term of 60 months, subject to renewal for the remaining life of the field upon production being reached. Although production was not reached on a specified time line, the MPR extended its approval of this agreement for a period of four years to March 14, 2015.

The agreement requires Universal Energy to pay to the joint venture overriding royalties on petroleum production of (i) 2.5% for average daily production below 2,000 bopd and (ii) 3% for daily production of 2,001 to 5,000 bopd, (iii) 5.5% for daily production of 5,001 to 10,000 bopd, (iv) 7.5% for daily production from 10,001 to 15,000 bopd. For production in excess of 15,000 bopd, Universal Energy pays an additional rate to be negotiated by the parties. For the production of gas, Universal Energy pays an overriding royalty of (i) 0% of daily production below 20 MMscf/d and (ii) an amount to be agreed for daily production above 20 MMscf/d.

The agreement may be terminated immediately if: (i) Universal Energy becomes bankrupt or insolvent; (ii) the DPR determines that Nigerian petroleum laws, regulations or environmental health and safety standards are not being complied with (after a 90 day cure period); (iii) Universal Energy assigns its interest without the Nigerian government's consent; (iv) the farmee intentionally extracts petroleum outside the OML 14 farm-out area; or (v) there is failure to rectify a material breach (as further defined in the agreement) within a 90 day cure period.

The Stubb Creek farmers can terminate the agreement immediately if a material breach (as further defined in the agreement) has not been remedied after 90 days' notice. The Stubb Creek farmers can also terminate on 30 days' notice if Universal Energy ceases operations for more than 90 days without acceptable cause or justification. Notice must be given to the other party within 24 hours of a force majeure event, along with an estimate of how long its resolution might take. The obligations of the party giving the notice (other than payments of amount due or furnishing security) will then be suspended. There is a reasonable endeavors obligation on such party to rectify or overcome the force majeure situation as quickly as possible.

Stubb Creek funding agreement and joint operating agreement

On August 11, 2010, Universal Energy and Sinopec entered into a funding agreement, whereby Universal Energy assigned an undivided 49% legal interest in Stubb Creek Field to Sinopec. In addition, Sinopec agreed to fund a further 31% of the development of certain petroleum operations for Stubb Creek Field on behalf of Universal Energy in consideration for an additional 16% total profit share from its profit oil allocation, resulting in Sinopec effectively being entitled to 65% of total profit generated by the field in respect to oil and associated gas.

On the same day, Universal Energy and Sinopec also entered into a joint operating agreement to set out the parties' obligations with respect to the conduct of petroleum operations in Stubb Creek Field (the "Stubb Creek JOA"). The initial term of the agreement is the same as the initial term of the Stubb Creek Farm-Out Agreement, which has been extended to March 14, 2015. The agreement designates Universal Energy as the operator and Sinopec as the technical advisor.

The assignment by Universal Energy of the 49% legal interest in the Stubb Creek Field to Sinopec is pending DPR consent.

For funding, Universal Energy is required to provide 20% of funds and Sinopec is to provide 80% of funds required for petroleum operations, both of which are subject to cash calls. Cash calls are based on the current bank balances and the estimate of money to be spent by the project team under work programs and budgets approved by the project management committee. However, profit allocation is 35% for Universal Energy and 65% for Sinopec. Funding for associated gas is based on the same terms. Non-associated gas development, however, is separate from crude oil development, with funding allocated evenly between two groups and profit allocation divided 60% to Universal Energy and 40% to Sinopec. Universal Energy is responsible for payment of any royalties and taxes in respect to the Stubb Creek Field.

Decisions in respect of the development of the field require the joint consent of Universal Energy and Sinopec. In the event of a deadlock:

- in respect of oil and associated gas development, the deadlock will be submitted to the DPR for mediation by DPR appointed experts, failing which it is to be resolved through ad hoc arbitration seated in Nigeria; and
- in respect of non-associated gas development, Universal Energy, as operator, has a casting vote to avoid delays in operations.

The joint venture decision-making process is conducted through a project management committee which provides direction in relation to all matters pertaining to the conduct of petroleum operations and preparation of the field development plan for the exploration, development and production of the field. The project management committee consists of eight members: four appointed by each of Sinopec (one to be the deputy project manager) and Universal Energy (one to be the project manager). Universal Energy also appoints the Chairman and Sinopec appoints the Committee Secretary.

Neither party may assign any or all of its rights and obligations under the agreement to any other party including affiliates without the prior written approval of the other party (not to be unreasonably withheld).

Either party may terminate if any of the following events occur: (i) default of a material Stubb Creek Field JOA or Funding Agreement obligation by the other party; (ii) assignment of a Stubb Creek Field JOA or Funding Agreement interest without the prior written notice and consent of the other party; (iii) a party is adjudged insolvent, bankrupt or to have made a restitution to its creditors by a court of competent jurisdiction in Nigeria; or, (iv) a party liquidates or terminates its corporate existence.

Uquo Field and Stubb Creek Field – Oil handling and oil sales agreements

Mobil crude handling agreement

On November 30, 2012, Mobil Producing Nigeria Unlimited (“MPN”) in its capacity as operator of the NNPC/MPN joint venture entered into a crude handling agreement with Frontier Oil, Universal Energy and Network. The term of this agreement is five years from the date of execution.

The agreement provides that oil (“Qua Iboe Crude”) produced by Frontier Oil, Universal Energy and Network will be shipped through the oil infrastructure of the NNPC/MPN joint venture’s Qua Iboe Terminal. In consideration, Frontier Oil, Universal Energy and Network pay MPN monthly tariffs per the schedule set forth in the agreement and adjusted annually based on operating costs. This agreement is subject to written confirmation (not yet received) by the NNPC and the DPR that these volumes of crude oil can be processed as Frontier Oil, Universal Energy and Network’s commercial allowable Qua Iboe Crude via MPN’s facilities in exchange for a fee.

By a separate and concurrent agreement described below, MPN’s affiliate, ExxonMobil committed to purchase all volumes of Qua Iboe Crude stored and transferred by MPN.

ExxonMobil crude oil sales agreement

On November 30, 2012, ExxonMobil, Network, Universal Energy and Frontier Oil entered into an agreement pursuant to which Network, Universal Energy and Frontier Oil have agreed to sell Qua Iboe Crude to ExxonMobil.

The term of the agreement commenced on the effective date of a crude handling agreement dated November 30, 2012 between Mobil Producing Nigeria, Universal Energy, Frontier Oil and Network and the agreement continues throughout the term of the crude handling agreement. In the event that the crude handling agreement is terminated, the crude oil sales agreement continues until the earlier of: (i) the end of the third full month following the date of termination of the crude handling agreement; or (ii) the date of ExxonMobil's payment for the purchase of the remaining inventory of Network, Universal Energy and Frontier Oil in the Qua Iboe Terminal.

The agreement specifies that the quantity of oil to be sold under the agreement will be determined at the monthly production curtailment and lifting schedule meeting with NNPC and Mobil Producing Nigeria. The contract price per barrel for a particular month of lifting is determined in accordance with the following formula: the average of dated Brent quotations published in Platts in the month of lifting plus the average of the differential for Qua Iboe Crude to dated Brent published in the period starting on the twentieth day of the second month prior to the month of lifting through the nineteenth day of the first month prior to the month of lifting; less (i) a logistics margin of 0.125% of the price component determined as described above (subject to the logistics margin not being less than \$ 0.11 per barrel) and (ii) the differential for Qua Iboe Crude to dated Brent calculated on a 50/50 basis using information published in Platts and Argus Media. There is no take-or-pay obligation on ExxonMobil.

OPL 905 production sharing contract

OPL 905 was awarded in 2005 to a consortium comprising GTPL and Ideal Oil. The SUN Group, through its subsidiaries, became a partner in 2006 and the consortium agreed a production sharing contract that was signed in April 2007. Since the OPL 905 Acquisition, the partners and their respective license interests are: Seven Energy (40%), Ideal Oil (10%), GTPL (50%). We have a 60% economic interest in the block through a cost and profit sharing arrangement with GTPL.

Material agreements relating to our midstream assets

Upstream Ibom gas sales agreement

On June 2, 2010, Frontier Oil and SUGL (as sellers) and Accugas (as buyer) entered into an agreement for the sale of gas from Uquo Field to Accugas. The gas purchased is intended to supply gas to Ibom Power station. The term of the agreement is ten years from the date of the first commercial delivery of gas, which occurred in March 2013. Thereafter, the term is subject to any extension mutually agreed between the parties. Pursuant to a deed of charge in connection with the Accugas II Facility, Accugas has assigned its interest in and to the agreement to UBA Trustees Limited in its capacity as collateral agent for certain lenders in respect of the Accugas II Facility. We guarantee all of Accugas' s obligations under this agreement.

Accugas agrees to accept and pay for, or pay for if not taken, the annual equivalent of 43.5 MMscfpd, less certain deductions set forth in the agreement. The contract price is \$0.80 per Mscf for the first five years and \$1.45 per Mscf thereafter and is inflation adjusted annually according to the US CPI. Accugas is entitled to take volumes of make-up gas where it has paid for but not taken gas.

The agreement can be terminated on 60 days' written notice by the non-defaulting party if an event of default as defined in the agreement occurs and continues for a 60-day period. Where an event of default lasts for less than 60 days, the non-defaulting party may suspend deliveries on 14 days' prior notice where the non-defaulting parties are Frontier Oil and SUGL, or refuse to accept deliveries where the non-defaulting party is Accugas. Where Accugas is exercising such rights to terminate, any such termination shall only be in respect of the defaulting seller. The sellers may also terminate the agreement when a government authority takes action so that the sale of gas under the agreement is subjected to conditions that are overly burdensome to the sellers.

Save for permitted affiliates, the parties may not assign any interest in the agreement without the express written consent of the other parties.

Downstream Ibom gas sales agreement

On May 15, 2009, Seven Exploration (formerly Septa Energy Nigeria Limited) (as seller) and Ibom Power (as buyer) entered into a gas purchase and sales agreement, whereby Seven Exploration agreed to supply processed gas to Ibom Power as operator of the Ibom Power station. On June 4, 2010, Seven Exploration

transferred its rights, liabilities, duties and obligations under the agreement to Accugas, and the gas purchase and sales agreement was amended and restated on the same day. The term of the agreement is ten years from the date of first commercial delivery of gas (which occurred on in January 2014), subject to any extension mutually agreed between the parties. Ibom Power's take-or-pay obligations began in March 2013.

Under the agreement, Ibom Power agrees to accept and pay for, or to pay for if not taken, the annual equivalent of 43.5 MMcf per day, less certain deductions set forth in the agreement (including an Ibom Power force majeure and up to twelve days of Ibom Power outages). The contract price for the gas is the higher of: (i) the fixed price, being a price of \$0.40 per MMBtu plus a subsidy of \$1.60 to deliver to Accugas a price of \$2.00 per MMBtu (converted to Naira at the buying rate published on the Central Bank of Nigeria website for the invoice date); or, (ii) the last price, being the fixed price adjusted annually on the anniversary of the first supply date by the average US CPI for the preceding 12 months.

The agreement provides that Ibom Power pay an advance of \$63.5 million for future gas deliveries, of which we have received \$43.3 million. We received a prepayment of \$31.8 million in July 2009 for the first year's contracted gas volumes. We have also received \$11.5 million which relates to an advance payment for 11% of contracted gas volumes for years two to ten under the agreement. We are in discussions with Ibom Power regarding obtaining payment for the outstanding amount. See "Risk factors—Risk factors relating to our business—Our future revenue depends on certain contractual relationships with key customers, and the loss of any of our key customers, their failure to fulfil their obligations or our inability to obtain additional or replacement customers, could adversely affect our financial results".

Accugas repays the advance payment to Ibom Power by the provision of gas by way of credit in respect of the full amount invoiced for each month following the first supply date until the value of gas invoiced to Ibom Power equals 50% of the advance payment, and thereafter by way of credit of a Naira amount equal to \$294,028 in respect of each invoice for each month until the aggregate credits invoiced to Ibom Power from Accugas, during the contract period, shall equal the advance payment.

The agreement requires Ibom Power to provide a guarantee from the Akwa Ibom State Government in respect of its obligations under the agreement and in accordance with the provisions set out therein. Ibom Power has provided an executed guarantee from the Akwa Ibom State Government dated June 24, 2010 (the "Akwa Guarantee"), for the Naira equivalent of \$2.4 million to be set aside in an escrow account for 60 days, each month. In the event of a breach by Ibom Power of any of its obligations in the agreement, Accugas has recourse to the Akwa Guarantee and is entitled to demand payment under the Akwa Guarantee for immediate payment of all unpaid amounts together with such payments as are required to recover any other losses suffered in respect of the breach or to demand the performance of any other obligation breached by Ibom Power.

The agreement can be terminated by Accugas upon ten days' written notice in the case of an event of default, as defined in the agreement, by Ibom Power or by the Akwa Ibom State government under its Akwa Guarantee. There are no reciprocal termination rights for Ibom Power. Save for permitted affiliates, the parties are not permitted to assign all or any part of their rights and obligations under the agreement without the prior written consent of the other parties. Ibom Power is not, however, required to obtain the prior written consent of Accugas in the event of a full or partial assignment of the agreement by Ibom Power for the purposes of obtaining financing for the construction of the Ibom Power station in Akwa Ibom State.

Upstream Calabar gas sales agreement

On November 19, 2012, Accugas entered into a gas purchase agreement with Frontier Oil and SUGL, pursuant to which it agreed to purchase gas from Frontier Oil and SUGL for a term of 15 years from the later of the date of first commercial delivery during the period from May 1, 2013 to April 30, 2014. The obligations of the parties under the agreement are subject to two conditions precedent. First, the transportation pipeline system through which Accugas will deliver gas to the Calabar NIPP power station will have been constructed, tested and pre-commissioned. Second, Accugas will have procured a guarantee by Seven Energy in favor of Frontier Oil and SUGL, as sellers, in accordance with the terms of the agreement.

Under the terms of the gas purchase agreement, Frontier Oil and SUGL supply 131.0 MMscf/d and Accugas commits to a take-or-pay obligation equivalent to 80% of that amount (which equates to 104.8 MMscf/d). Subject to the terms of the agreement, Accugas can request that any gas which it has paid for but not received, is supplied to it as make-up gas at a later date. The contract price is \$2.00 per Mcf and is inflation adjusted according to US CPI and Nigerian CPI.

The agreement can be terminated by Accugas if Frontier Oil and SUGL, among other things, abandon construction or operation of the facilities required to deliver gas to the delivery point or fail to deliver certain specified quantities of gas. Frontier Oil and SUGL may terminate the agreement if Accugas, among other things: (i) permanently ceases operation of its facilities at the Calabar NIPP power station; (ii) fails to satisfy certain payment obligations under the agreement; (iii) fails to take delivery of certain specified quantities of gas; or (iv) fails to extend or replenish the standby letter of credit pursuant to the agreement.

Save in relation to permitted assignments to affiliates, the parties are not permitted to assign all or any part of their rights and obligations under the agreement without the prior written consent of the other parties. In the event that Accugas wishes to assign any or all of its rights under the agreement to a bank or other financial entity for the purpose of providing finance in connection with the Calabar NIPP power station, it will not require the sellers' prior written consent. In the event that the sellers wish to assign any or all of their rights under the agreement to a bank or other financial entity for the purpose of providing finance in connection with the delivery of gas under this agreement, it shall not require the sellers' prior written consent.

Downstream Calabar gas sales agreement

On December 8, 2011, Accugas entered into a natural gas sales agreement with Calabar Electricity Generation Company ("CEGC"), the Calabar NIPP power station's owner and operator, and CEGC's parent company, Niger Delta Power Holding Company Limited ("NDPHC"), to supply processed gas to CEGC. The agreement was subsequently amended on February 20, 2013. The term of the agreement is 20 years from the date of first commercial delivery. First deliveries under this agreement are expected by the end of 2014. The start date of the agreement is the date on which the first commercial delivery of gas occurs (which is yet to occur).

NDPHC and CEGC's obligations under the agreement are subject to certain conditions precedent, namely that Accugas obtains all of the requisite authorizations for the sale and transportation of gas and that Accugas procures a parent company guarantee from Seven Energy in favor of NDPHC and CEGC. Accugas' obligations under the agreement are subject to: (i) the issue of the capital letter of credit to be provided by NDPHC and CEGC as security for their obligations under the agreement; (ii) the construction of NDPHC and CEGC's facilities, including the Calabar NIPP power station and associated pipeline from Calabar NIPP power station to the delivery point of the gas sales agreement at Oron; and, (iii) NDPHC and CEGC obtaining the requisite authorizations for the purchase of the gas. In addition, CEGC has applied for, and been nominated by the Nigerian government for, a World Bank partial risk guarantee under the Nigeria Electricity and Gas Improvement Project to guarantee CEGC's obligations to Accugas under the gas sales agreement.

The World Bank is expected to provide this guarantee in the form of a commercial letter of credit to be issued in connection with the gas sales agreement to supply the Calabar NIPP power station. Pending procurement of the letter of credit and the World Bank Guarantee, CEGC and NDPHC will put in place certain interim financial support. If the World Bank guarantee and letter of credit are not in place by the start date of the gas sales agreement with NDPHC and CEGC, NDPHC and CEGC will be required, pursuant to the terms of the gas sales agreement, to maintain an account with a minimum specified cash balance until the required letters of credit and guarantee from the World Bank take effect. In addition, we will be unable to enforce the guarantee or letter of credit against the World Bank for any non-payment under the Calabar NIPP power station gas sales agreement until the guarantee and letter of credit are in place.

Under the agreement, Accugas is contracted to supply 131.0 MMscfpd, and NDPHC and CEGC have committed to a take-or-pay obligation equivalent to 80% of that amount (which equates to 104.8 MMscfpd), less certain deductions set forth in the agreement. Subject to the terms of the agreement, NDPHC and CEGC can request that any gas which they have paid for but not received, is supplied to them as make-up gas at a later date. The contract price is \$2.65 per Mscf (indexed annually by reference to US CPI and Nigerian CPI).

The agreement can be terminated by NDPHC and CEGC by 30 days' notice to Accugas if given prior to the start date, or by 180 days' notice thereafter if Accugas, among other things: (i) abandons construction or operation of the facilities required to deliver gas to the delivery point at Oron; (ii) fails to make available for delivery in any contract year 50% of the Annual Contract Quantity (provided that during that contract year the quantities of gas that are properly nominated by NDPHC and CEGC exceed 50% of the Annual Contract Quantity); or (iii) suffers an insolvency event. Accugas may terminate the agreement by 30 days' notice to NDPHC and CEGC if given prior to the start date, or by 180 days' notice thereafter, if NDPHC and CEGC, among other things: (i) abandon construction or operation of the Calabar NIPP power station; (ii) fail to satisfy

certain payment obligations under the agreement; (iii) fail to take delivery in any contract year of 50% of the aggregate of properly nominated quantities of gas; or (iv) suffer an insolvency event.

Except in relation to permitted assignments to affiliates, the parties shall not assign all or any part of their rights and obligations under the agreement without the prior written consent of the other parties. In the event that NDPHC, and CEGC or Accugas wish to assign any or all of their rights under the agreement to a bank or other financial entity for the purpose of providing financing in connection with the Calabar NIPP power station or delivery thereto, such assignment will not require the sellers' prior written consent.

UniCem gas sales agreement

By a gas sale agreement dated April 18, 2007 (as amended by an addendum dated January 5, 2012) between EHGC (as seller) and UniCem (as buyer) (the "UniCem GSA"), EHGC agreed to sell and UniCem agreed to purchase gas for UniCem's cement plant in Cross River State, Nigeria. The term of the agreement is 20 years from October 1, 2011, subject to any extension mutually agreed by the parties under the terms of the agreement.

Under the UniCem GSA, UniCem agreed to take and pay for, and if not taken, pay for a minimum of 80% of the annual contract quantity of 230,000,000 SCM of gas (and a daily contract quantity of plus or minus ten percent of 710,000 SCM/D) up till January 1, 2016 and thereafter, an annual contract quantity of 4,000,000,000 SCM (and a daily contract quantity of plus or minus ten percent of 1,420,000 SCM/D). From the effective date through 2014, the contract price for the gas is based on a schedule of domestic gas prices issued by the MPR and adopted by the parties. For the year 2015, the gas price is \$6.63 per Mscf and thereafter, for the remainder of the contract, \$5.0 per Mscf (payable in Naira at the monthly average of the official CBN rate as currently represented by the Wholesale Dutch Auction System or such official exchange rate that may be in force in future as the official CBN exchange rate mechanism) unless otherwise amended in accordance with the terms of the contract.

The UniCem GSA may be terminated, inter alios, by the buyer for convenience. However, where UniCem terminates for convenience, the UniCem shall be liable to pay the seller a termination fee in the sum of \$200 million which sum shall be reduced by \$10 million for each contract year which has elapsed prior to such termination and \$27,397 for each day that has elapsed since the last day of the contract year immediately preceding the effective date of the termination. Where the agreement is so terminated, EHGC shall immediately assign, without cost, all its rights and obligations under the gas sale agreement entered into between UniCem and the NGC on December 30, 2008 (the "NGC GSA") (and assigned to EHGC by deed of assignment dated March 29, 2007, which assignment was effective from the date of execution of the NGC GSA) under which agreement EHGC contracted to purchase gas from the NGC through its pipeline infrastructure. UniCem shall then be required to enter into a gas transportation, operations and maintenance agreement with EHGC for the length of the term of the NGC agreement, under which UniCem shall pay EHGC a fee of \$0.70-\$0.90 per Mscf for the transportation/delivery of gas to UniCem.

Other commercial contracts

Universal Energy shareholders agreement

The holders of 91.25% of the issued share capital of Universal Energy are parties to the Universal Energy Shareholders' Agreement dated January 31, 2013 which governs the relationship between those parties and Universal Energy. Only those holders who have entered into the Shareholders' Agreement are bound by and entitled to rely on its provisions, and no other holder of shares in Universal Energy is able to enforce any rights under the Shareholders' Agreement against any shareholder which is not party to it. We own 62.5% of the shares of Universal Energy, while the next largest holder, Akwa Ibom Investment & Industrial Promotion Council, holds 12.5% of the shares of Universal Energy. The Universal Energy Board consists of ten members, and any holder of 10% or more of the issued share capital is entitled to appoint one director to the Universal Energy Board for each 10% so held. We have the right to appoint six directors, Akwa Ibom Investment and Industrial Promotion Council has the right to appoint one director, and three directors may be appointed by the remaining shareholders acting together. The quorum for the transaction of business is three directors, one of whom must be one of our appointees and one of whom must be an appointee who was not appointed by us. In addition, we have the right to appoint the managing director of Universal Energy.

Shareholders may transfer shares to affiliates by giving prior written notice to Universal Energy, provided that the transferee enters into a deed of adherence to the Universal Energy Shareholders' Agreement. If at any time after a transfer to an affiliate the transferee ceases to be an affiliate then the shares must be transferred back to the original shareholder. All transferees must enter into a deed of adherence to the Universal Energy Shareholders' Agreement before the transfer will be made in the register of members of Universal Energy.

A shareholder is not permitted to assign any of its rights or obligations in whole or in part to a third party without the prior written consent of the other shareholders. Any holder of shares in Universal Energy that wishes to dispose of any of its shares must issue a notice to all other shareholders giving them the opportunity to acquire the securities pre-emptively. In the case of a proposed sale to an independent third party of more than 60% of the issued share capital of Universal Energy, the remaining shareholders have the right to participate pro-rata in such sale. Under the terms of the Universal Energy Shareholders' Agreement, shareholders holding 80% of the issued share capital of Universal Energy have the right to require the remaining shareholders to sell their shares to any independent third party purchaser or purchasers at the same price.

MANAGEMENT

Board of Directors

The persons set forth below are the current members of our board of directors. The business address of each of the Directors is 4th Floor, 6 Chesterfield Gardens, London W1J 5BQ, United Kingdom.

Name	Age	Position	Type of director
Dr. Andrew Jamieson	66	Chairman	Independent Non-executive Director
Phillip Ihenacho	49	Chief Executive Officer	Executive Director
Ashley Dunster	51	Non-executive Director	Non-executive Director
Atul Gupta	54	Non-executive Director	Non-executive Director
Osam Iyahen	40	Non-executive Director	Non-executive Director
Michael Lynch-Bell	61	Non-executive Director	Independent Non-executive Director
Dr. Yemi Osindero	41	Non-executive Director	Non-executive Director
Robin Pinchbeck	61	Non-executive Director	Non-executive Director
Dr. Joshua Udofia	69	Non-executive Director	Independent Non-executive Director
Dr. Fidelis Oditah	50	Non-executive Director	Independent Non-executive Director
Clare Spottiswoode	61	Non-executive Director	Independent Non-executive Director
Peter Gutman	51	Non-executive Director (Alternate)	Alternate to Dr. Osindero

Dr. Andrew Jamieson, OBE was appointed as a Non-executive Director in March 2012 and Non-executive Chairman in 2013. Dr. Jamieson has more than 30 years' experience in a variety of roles with Royal Dutch Shell in Europe, Australia and Africa, including executive vice president of Gas and Projects of Shell Gas and Power International BV. Dr. Jamieson holds non-executive directorships at Woodside Energy Ltd, Hoegh LNG Holdings and Velocys Group. He holds a Doctorate in Philosophy from the University of Glasgow and a Bachelor's degree from the University of Glasgow. He is a Fellow of the Royal Academy of Engineering and the Royal Institute of Chemical Engineers.

Mr. Phillip Ihenacho was appointed to the board of directors in 2008. He served as Executive Chairman and stepped down from this role in January 2013 to concentrate on his role as Chief Executive Officer. Mr. Ihenacho is a co-founder and partner in Amaya Capital, a principal investment firm focused on investments in the energy sector in West Africa. Prior to Amaya Capital, Mr. Ihenacho established and ran Afrinvest (UK) Limited, the London-based regulated investment bank focused on African markets, until its successful sale in 2008. Whilst at Afrinvest (UK) Limited for over ten years, Mr. Ihenacho was involved with advising multinational companies and investors active in the oil and gas, telecoms and financial services sectors in various African markets, including Nigeria. He is chairman of Azura Power Holdings and has also served as chairman of the investment committee of Aureos West Africa Fund, where he assisted the investment team with evaluating investment opportunities in Senegal, Nigeria and Ghana and prior to this, he worked at McKinsey & Co. for five years in New York and London. Mr. Ihenacho is also a partner in ACP Advisory. Mr. Ihenacho holds a Bachelor's Degree in History from Yale University and a Juris Doctor from Harvard Law School, both with honors.

Mr. Ashley Dunster was appointed as a Non-executive Director in September 2010. Ashley Dunster is a private equity managing partner at Capital Group Private Markets with primary responsibility for Emerging Europe, the Middle East and Africa. He has served as a director of Amoun Pharmaceutical S.AE, Lode Holdings Limited (Cyprus) and International Chrome Holdings (Turkey). Mr. Dunster has a Bachelor's of Engineering from Melbourne University and Master's of Science from Oxford University.

Mr. Atul Gupta was appointed as a Non-executive Director in September 2012. Mr. Gupta is an experienced oil and gas executive with over 25 years of experience in the international upstream oil and gas business. Formerly, he was the chief executive officer of DBP Petroleum – Oil and Gas. He is a director of Essar Capital Ltd, Vetra Holdings S.à r.l., Energy Bidco Group and Nostrum Oil and Gas. He holds a Bachelor's degree in Chemical Engineering from Cambridge University and a Master's in Petroleum Engineering from Heriot-Watt University.

Mr. Osam Iyahen was appointed as a Non-executive Director in March 2012. Since 2008, Mr. Iyahen has served as a senior vice-president for Natural Resources for Africa Finance Corporation ("AFC"). In this role, he leads the AFC's oil and gas industry activities and is responsible for client coverage within the natural resources sector. He holds a Bachelor's degree in Arts from Middlebury College and a MBA from Cornell University.

Mr. Michael Lynch-Bell was appointed as an Independent Non-executive Director in May 2013 and is Chair of the Audit Committee. Mr. Lynch-Bell joined Ernst & Young in 1974 and became a partner in 1985, going on to spend 38 years at Ernst & Young specializing in the provision of services to a wide variety of mining and metals and oil and gas clients. Mr. Lynch-Bell is senior independent non-executive director of Kazakhmys PLC, a leading natural resources group of which he is also the audit committee chair, Energise Bootcamp Limited, Lenta Limited, where he is also audit chair, and a board member of Action Aid International. He also is a trustee for 21st Century Legacy and ex-officio chairman for the United Nations Expert Group on Resource Qualification. Mr. Lynch-Bell has a Bachelor's degree in Economics and Accounting from the University of Sheffield, is a Fellow of the Institute of Chartered Accountants of England and Wales. He also holds an Honorary Doctorate of Humane Letters from the Schiller International University.

Dr. Yemi Osindero was appointed as a Non-executive Director in December 2009. Dr. Osindero is a director of Standard Chartered Private Equity, with primary responsibility for the West African markets and a managing director and Head of West Africa Private Equity and also serves on the boards of GZ Industries and Union Bank of Nigeria. He holds a Bachelor's in Engineering and a Ph. D. in Chemical Engineering from the University of Bath. Peter Gutman regularly acts as Dr. Osindero's appointed Alternate.

Mr. Peter Gutman became an alternate to Dr. Yemi Osindero in April 2013. Mr. Gutman is a managing director in the Principal Finance Group at Standard Chartered. He is also a director of Grenko (Mauritius), an Indian energy company. Mr. Gutman has an engineering degree from the University of Michigan, a Master's of Business Administration from the University of Chicago and an Master's of Science from the London School of Economics.

Dr. Fidelis Oditah QC SAN was appointed as Independent Non-executive Director in June 2014, and his appointment will be formalized pending certain Mauritius law registration requirements. Dr. Oditah is an English Queen's Counsel, a Senior Advocate of Nigeria and a leading arbitrator with considerable experience of local and international commercial and investment arbitration. He has extensive knowledge and practical experience of Nigerian and English commercial and corporate law, particular in the energy and natural resources sector. Dr. Oditah has advised oil and gas companies, banks, multinational companies and small businesses on various aspects of Nigerian commercial law practice Dr. Oditah was educated at the Universities of Lagos and Oxford and is qualified in Nigerian and English law.

Mr. Robin Pinchbeck was appointed as a Non-executive Director in May 2013. Mr. Pinchbeck has nearly 40 years of experience in the oil and gas upstream services sector. He spent 21 years with BP, before he moved to the oil services sector where he was the managing director of Atlantic Power & Gas which was sold to Petroleum Geo-Services and subsequently purchased by Petrofac. Mr. Pinchbeck had a variety of roles over a ten-year period at Petrofac, most recently as group director of strategy and corporate development before retiring in 2012. He holds a non-executive director role at Starn Energy Services Group Limited, PTS Limited, IDMLimited, IGas plc, Enteq Upstream plc, EnQuest plc, SLR Consulting Limited, Sparrows Offshore Limited and Sondex plc. He has a Bachelor's of Science in Chemical Engineering from Imperial College, London and a Master's of Science in Management from Stanford Business School.

Ms. Clare Spottiswoode CBE was appointed as Independent Non-executive Director in June 2014, and her appointment will be formalized pending certain Mauritius law requirements. As a CBA mathematician and an economist by training, Ms. Spottiswoode began her career in the UK HM Treasury before starting a software company. Between 1993 and 1998, she was director general of Ofgas, the UK gas regulator, and a member of the UK Treasury's Independent Commission on Banking until 2012. Ms. Spottiswoode is chairman of Gas Strategies, Flow and EnergySolutions EU Ltd and is a non-executive director of G4S plc, Ilika plc, Energy Solutions Inc., EnQuest plc, Royal Bank of Canada Europe and BW Offshore, amongst other organizations. She was previously a non-executive director of Tullow Oil and deputy chairman of British Energy plc. She holds a Master's in Mathematics and Economics from the University of Cambridge, a Master's in Economics from Yale University and an honorary Doctorate in Social Sciences from the University of Brunel.

Dr. Joshua Udofia was appointed as Independent Non-executive Director in May 2009 and is Chair of the Environment & Community Committee. He was chief executive officer of Seven Energy (BVI) (formerly GOGI) and has over 36 years of experience in the oil and gas industry, mainly at Shell. He holds a Bachelor's degree in Mechanical Engineering from the University of Birmingham.

Temasek and the IFC parties (the IFC and the IFC ALAC Fund) each have the right to appoint a director and respective committee members. Temasek has provisionally appointed Khodor Mattar to be on the board pending the appointment of a representative director to the board.

Executive Committee and management

Our day-to-day management is delegated to an Executive Committee (the “Executive Committee”). The Executive Committee meets on a monthly basis with agenda items including operations, financial performance and funding requirements, project updates, QHSSE/CSR, business development and legal and corporate governance. The following table sets forth the members of our Executive Committee in addition to Mr. Ihenacho who is also a member of the board of directors.

Name	Position
Bruce James Burrows	Chief Financial Officer
Campbell Airlie	Chief Technical Officer
Jeffrey D. Corey	Chief Operating Officer

Mr. Bruce James Burrows was hired in October 2011 as Chief Financial Officer. Prior to joining us, Mr. Burrows was at Rialto Energy and spent 14 years as finance director at JKX Oil & Gas plc, the London Stock Exchange listed exploration and production company with interests in Ukraine and central and eastern Europe and a non-executive director position at European Goldfields between 2004 and 2012. He holds a Bachelor’s of Science Honors degree from Canterbury University (New Zealand) and a Diploma in Accounting from Victoria University (New Zealand). He is a member of the Institute of Chartered Accountants of New Zealand.

Mr. Campbell Airlie is our Chief Technical Officer. An original founder of Seven Energy, he has been part of the business since it was formed as a division of Weatherford International. He has over 30 years’ experience in reservoir and production engineering and asset management. He has held positions as reservoir engineering team leader for BP’s mature assets, development manager and technical director. Mr. Campbell holds degrees in Natural Philosophy from the University of Glasgow and Petroleum Engineering from Heriot-Watt University.

Mr. Jeffrey D. Corey joined as Chief Operating Officer and Director of Nigerian subsidiaries in January 2013. Prior to this, Mr. Corey was the executive vice president of operations (as a secondee from ConocoPhillips) for Waha Oil Company, a Libya based company engaged in oil and gas exploration and production. Mr. Corey began his career as an engineer in 1984 after graduating with a Bachelor’s with Honors in Petroleum Engineering from New Mexico Institute of Mining & Technology. He went on to gain over 30 years of significant experience with Waha Oil Company, Australia-Pacific LNG, and ConocoPhillips, where he held various senior roles with a broad spectrum of responsibilities in United Arab Emirates, Venezuela, Australia, US and Libya. He holds a Bachelor’s of Science Honors in Petroleum Engineering from New Mexico Institute of Mining & Technology.

Corporate governance

Since we are a private company, we are not required to comply with any provisions of the Corporate Governance Code. However, the directors have adopted provisions of the Corporate Governance Guidance and Principles for Unlisted Companies in the UK. The board of directors is composed of thirteen members, consisting of the Chairman, one Executive Director and eleven Non-executive Directors, five of whom are independent. Accordingly, no individual or group of individuals dominates the board of director’s decision taking. All board members except for Dr. Jamieson, Mr. Lynch-Bell, Dr. Udofia, Dr. Oditah and Ms. Spottiswoode are deemed by the board of directors not to be independent.

Code of Business Conduct

We are committed to highest ethical standards throughout our organization and with our business partners. We demonstrate our commitment to these standards through our Code of Business Conduct and Ethics (the “Code”), which was unanimously approved by our board of directors and published in 2011.

Our goal is to ensure that our day-to-day business activities are conducted in an ethical, responsible and honest manner. The policies and procedures set forth in this Code govern the conduct of every aspect of our business. The Code covers a wide range of topics, including ensuring compliance with the FCPA, the UK Anti-Terrorism, Crime and Security Act of 2001 and the UK Bribery Act of 2010.

Every person connected with us has individual responsibility for maintaining an ethical workplace. Our managers and leaders are additionally responsible for fostering a proper environment and encouraging ethical practices. All employees are required to self-certify compliance with the Code annually and to receive training in relations to anti-bribery and anti-corruption legislation.

Compensation to our board of directors and executive committee members

Our directors and members of our executive committee are considered to be key personnel of our group. For the year ended December 31, 2013, their total remuneration was \$5.9 million, compared to \$2.5 million for the year ended December 31, 2012.

Board committees

Audit Committee

The Audit Committee assists the board of directors in discharging its responsibilities with regard to financial reporting, external and internal audits and controls, including reviewing our annual financial statements, reviewing and monitoring the extent of the non-audit work undertaken by external auditors, advising on the appointment of external auditors and reviewing the effectiveness of our internal audit activities, internal controls and risk management systems. The ultimate responsibility for reviewing and approving the annual report and accounts and the half yearly reports remains with the board of directors. The Audit Committee is also responsible for providing oversight and advice to the board of directors in relation to our current and future risk exposures and future risk strategy, reviewing and approving various formal reporting requirements and promoting a risk awareness culture.

The following table sets forth the current members of the Audit Committee.

Name	Position	Type
Michael Lynch-Bell.....	Chair	Independent Non-executive Director
Ashley Dunster	Member	Non-executive Director
Osam Iyahen.....	Member	Non-executive Director
Peter Gutman as alternate to Dr. Yemi Osindero.....	Member	Non-executive Director
Robin Pinchbeck.....	Member	Non-executive Director

HR & Remuneration Committee

The HR & Remuneration Committee assists the board of directors in determining its responsibilities in relation to remuneration, including making recommendations to the board of directors on our policy on executive remuneration, determining the individual remuneration and benefits package of each of the executive directors and recommending and monitoring the remuneration of senior management below the board of directors level. The following table sets forth the current members of the HR & Remuneration Committee.

Name	Position	Type
Clare Spottiswoode.....	Chair	Independent, Non-executive Director
Ashley Dunster	Member	Non-executive Director
Osam Iyahen.....	Member	Non-executive Director
Peter Gutman as alternate to Dr. Yemi Osindero.....	Member	Non-executive Director
Robin Pinchbeck.....	Member	Non-executive Director
Andrew Jamieson	Member	Independent, Non-executive Director

Environment & Community Committee

The Environment & Community Committee assists the board of directors by being responsible for reviewing our policies, procedures and performance in relation to QHSSE/CSR matters.

The following table sets forth the current members of the Environment and Community Committee.

Name	Position	Type
Dr. Joshua Udofia	Chair	Independent Non-executive Director
Peter Gutman as alternate to Dr. Yemi Osindero.....	Member	Non-executive Director
Robin Pinchbeck.....	Member	Non-executive Director
Dr. Glenn Bestall	Secretary	Management

Dr. Glenn Bestall joined as Vice President of QHSSE/CSR in February 2013. Dr. Bestall brings 30 years of experience in both safety, CSR and environmental management and technical roles, primarily in support of major capital projects and the upstream/downstream oil and gas business. Prior to joining, Dr. Bestall worked for Tullow Oil, based in Uganda and Ghana, where he was responsible for project focused health safety and environment technical management associated with exploration and field development projects. He has also worked on the OKLNG Project in Nigeria, with Shell Global Solutions in the Netherlands and in Nigeria, SPDC/AGIP in Port Harcourt, Nigeria, and with Total Exploration & Production (E&P) in Angola. Dr. Bestall graduated with honors from Huddersfield University in Yorkshire, England with a Bachelor's of science in Chemistry and earned his Ph.D. in Chemistry from Leeds Metropolitan University.

Share option scheme

We operate a share option scheme for employees. Our policy is to award options to eligible employees at the sole discretion of the HR & Remuneration Committee of the board of directors. Options are issued at market price on the grant date and typically have a three-year vesting period. In addition, some options have performance related vesting conditions which require that our share price reaches a minimum threshold per such option before such options are able to be exercised by the employee. The options expire up to seven years from the date of grant if they remain unexercised and are forfeited if the employee leaves us before the options vest except at the discretion of the board of directors.

Following our issuance of ICLNs in October 2012, the board of directors approved in 2013 an amendment to the Discretionary Share Option Plan such that, for some options with performance conditions, the exercise price for options previously issued at \$350.00 per share were reduced to \$311.87 per share; (2012: for options without performance conditions, the exercise price for options previously issued at \$320.86 per share and \$350.00 per share were reduced to \$285.91 per share and \$311.87 per share respectively). The board of directors also granted a further 875 (2012: 7,658) options as a result of this issue of ICLNs.

In addition to the above modifications, we granted a further 60,707 (2012: 0) share options to employees under the Discretionary Share Option Plan. Of these options, a total of 31,157 will vest in three equal annual tranches from January 1, 2013. The balance of 29,550 options will vest in three equal annual tranches from January 1, 2014.

PRINCIPAL EQUITY HOLDERS

The Issuer, Seven Energy Finance Limited, is our wholly owned subsidiary. We have issued two forms of equity securities, ordinary shares and ICLNs. We utilize this split capital structure in order to maintain a substantial majority ownership in ordinary shares by Nigerian persons or entities. Through this ownership structure, we will continue to seek to satisfy the indigenous company requirements established in the Marginal Field Guidelines as set forth by the DPR. See “Risk factors—Risk factors relating to operating in Nigeria—Our operations are subject to 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—Risk factors relating to operating in Nigeria—Our operations in marginal fields are subject to indigenous ownership restrictions”.

The ICLNs are non-interest bearing equity securities and are not repayable or redeemable by us. The ICLNs have conversion rights which entitle the ICLN holder to convert its ICLNs into ordinary shares at a predetermined conversion price at any time upon election by the holder of the ICLN, or upon mandatory conversion pursuant to the occurrence of certain events, including an initial public offering, sale, or liquidation/administration of us. In addition, the holders of ICLNs and ordinary shares (collectively, “equity holders”) are all parties to an amended and restated consolidated securityholders agreement dated August 22, 2008 (the “SHA”) which, among other things, sets forth the voting and other rights of the holders of our equity securities within a contractual framework. In some cases, we have issued ICLNs as consideration for acquisitions we have made, such as the EHGC and OPL 905 Acquisitions.

We have a fully diluted issued share capital (which comprises ordinary shares and ICLNs, but excludes warrants, share options and convertible bond options) of 3,860,118 ordinary shares as of June 30, 2014. We have an issued share capital of 508,909 ordinary shares.

The following table sets forth certain information concerning the significant equity holders with ultimate beneficial interests of more than three percent in our fully diluted issued share capital, following the April 2014 Equity Raise by Temasek, the IFC and the IFC ALAC Fund. The following table assumes the full conversion into ordinary shares of all the outstanding ICLNs issued by us and assumes that Temasek, the IFC and the IFC ALAC Fund own approximately 26% after the receipt of the Second Equity Tranche, see “Summary—Recent developments—Our equity holders”.

Name of ICLN holder	Number of common shares	Total percentage of shares owned (%)
Temasek	600,000	15.5
Petrofac Limited	595,845	15.4
Capital Group Private Markets	516,011	13.4
Standard Chartered Private Equity.....	382,733	9.9
IFC	300,000	7.7
Suntera Management Limited.....	132,000	3.4
IFC ALAC Fund	120,000	3.1

The following is a brief description of each of our beneficial equity holders in the table above:

Temasek is an investment company owned by the Government of Singapore and is one of the few global firms assigned with the highest overall corporate credit ratings of “AAA” by Standard & Poor’s. It manages and owns a net portfolio of \$177 billion as of March 31, 2014.

Petrofac is an international oil and gas facilities service provider. Petrofac works around the globe helping independent, integrated and national oil companies access and harness energy resources.

Capital Group Private Markets is an experienced private equity leader and pioneer in investing in emerging markets. Capital Group Private Markets reportedly has invested over \$4.5 billion in six emerging market private equity funds with 82 companies since 1992.

Standard Chartered Private Equity is a corporate private equity business and reportedly has invested over \$1 billion to date, providing shareholding partnership for companies in a wide range of industries.

The *IFC*, a member of the World Bank Group, is the largest global development institution focused exclusively on the private sector. Working with private enterprises in more than 100 countries, the IFC uses its capital, expertise and influence to help eliminate extreme poverty and promote shared prosperity. By end of 2013, its investments were \$25 billion.

Suntera Management is part of the SUN Group, an Indian investment group.

The *IFC ALAC Fund* is a \$1 billion fund that has commitments from six sovereign and pension investors, as well as the IFC. The IFC ALAC Fund was launched in April 2010 and is focused on making equity and equity related investments in Africa, Latin America and the Caribbean.

The following table sets forth certain information concerning the ordinary shareholders with direct interests of more than three percent, on a non-diluted basis, in our issued share capital:

Name of ordinary shareholder	Number of shares	Total percentage of shares owned (%)
Exoro Energy Holdings Limited.....	251,966	49.8
JPP Ocean (Singapore) Pte. Ltd.....	78,750	15.6
Diamond Bank.....	73,302	14.5
Joshua Udofia.....	27,697	5.5
Kolawole Aluko.....	22,800	4.5
Amaya Partners Holdings.....	19,623	3.9

The following is a brief description of each of our ordinary shareholders that hold over 3% of the issued shares:

Exoro Energy Holdings Ltd (“EEHL”) was the parent company of Exoro Energy International Ltd. Exoro Energy International Ltd merged with a subsidiary of Weatherford International to form Seven Energy. The shareholders of EEHL include Amaya Partners Ltd, Capital Group Private Markets, JPP Ocean and a number of our former employees, including Mr. Kola Aluko.

JPP Ocean (Singapore) Inc. is a company incorporated in Singapore with its principal activity as that of investment holding. It is one of our founding investors.

Diamond Bank is a Nigerian retail and commercial bank.

Dr. Joshua Udofia is one of our directors, and he was chief executive officer of Seven Energy (BVI) (formerly GOGI).

Mr. Kolawole Aluko is a private individual. He was a founder of Exoro Energy, which later merged to form Seven Energy in 2007. He previously served as our deputy chief executive officer and a director on our board.

Amaya Partners Holdings is controlled by Phillip Ihenacho, our chief executive officer, and members of his immediate family.

The SHA

All ordinary shareholders and ICLN holders are parties to the SHA. The SHA regulates the operation of the Company and its subsidiaries, regulates the relationship between the ordinary shareholders and the ICLN holders, provides the ICLN holders with certain contractual voting and other rights, defines appointment rights in respect of the board of directors of the Company and its committees, and defines the calling of, and proceedings at, general meetings of the ICLN holders as well as the meetings of ordinary shareholders.

Certain ICLN holders either jointly or individually are entitled to appoint and remove directors of the board, collectively these holders are entitled to appoint eight directors. Certain holders lose their rights to appoint directors if their holding of securities falls below 6.5% of the full diluted share capital (for certain ICLN holders, the holder retains the right to appoint one director for so long as such person holds securities representing less than 6.5% but more than 1% of the fully diluted share capital). The remaining directors are appointed by a majority of the board (the number which constitutes a majority varies depending on how many directors have been appointed). The total membership of the board of directors may not exceed 13 directors.

Each director, including the chairman, has one vote, and in the case of equal votes, the chairman does not have the casting vote. The quorum for the transaction of any business at any meeting of the board of directors is at least 6 directors. If a quorum is not present within thirty minutes from the time appointed for the meeting or if during the meeting such a quorum ceases to be present, the meeting is adjourned and alternative quorum requirements apply. The SHA provides that the board of directors will establish and maintain a finance committee, a compensation committee, a business development committee and an environmental and community committee, and may establish such other committees as the board of directors deems appropriate. The terms of the committees are governed by the terms of the SHA.

Under the terms of the SHA, certain transactions and matters require qualified majority board approval (the number of directors which constitute a majority varies depending on how many directors have been appointed), including among other things (i) adoption of the Company's annual operating plan and changes to the scope of its business; (ii) the acquisition or disposal of interests in oil and gas licenses and concessions; and (iii) approval of work programs, budgets and development plans and items of expenditure in respect of such interests.

In addition, certain equity holders have the right to appoint observers to the board. Observers are entitled to attend and speak at but not vote at meetings of the board of directors.

Under the SHA's terms, no ordinary shareholder meeting may be convened and no resolution of the ordinary shareholders may be passed unless a resolution is first convened by the equity holders. Any ordinary shareholder meeting must be scheduled for immediately after the equity holders' meeting. Where there is a proposed resolution before the ordinary shareholders, the ordinary shareholders must vote in the same proportion as the proportion votes cast in favor of the proposed resolution at the equity holders' meeting. The quorum for the transaction of business at any equity holders meeting is equity holders holding more than 50% of the fully diluted share capital present at the time when the relevant business is transacted. If a quorum is not present at an equity holders' meeting within 1 hour from the time appointed in the relevant notice of meeting, the meeting is adjourned for 5 business days to the same time and place. The quorum for an adjourned equity holders' meeting is the equity holder or equity holders present.

Decisions at equity holders' meetings are determined by a simple majority of the votes cast on a poll. Each equity holder is entitled to one vote for each share or ICLN convertible into a share held by such equity holder. Certain matters require qualified majority (equity holders holding not less than 80% of the fully diluted share capital of the Company) equity holder approval, including, among others (i) altering the Company's constitution or the rights attaching to its equity securities; (ii) issuing equity securities, other than on the basis that the equity holders have a first right of refusal; (iii) those in relation to possible sale, IPO or other liquidity event in respect of the Company; and (iv) rights and restrictions on the disposal of shares and equity securities. Notice is required for general meetings of the equity holders.

The SHA includes certain exit provisions. Upon receiving the written instruction from equity holders holding equity securities representing more than 50% of the fully diluted share capital, the parties are required to initiate a competitive tender sales process to facilitate a company sale with the intent of maximizing the value received by the equity holders in respect of their equity securities. Further, the SHA includes provisions addressing permitted disposals, compulsory transfers, right of first offer, tag along rights, approved disposals and drag along rights. In particular, any issue of new equity securities, such as ICLNs or ordinary shares, is subject to a right of first refusal in favour of the existing equity holders unless such issuance has been approved in writing by 80% of the equity holders. In addition, certain institutional equity holders possess particular rights such as preferential transfer rights.

If there is any conflict between the provisions of the SHA and the provisions of the constitution of the Company or of the discretionary employee share option plan of the Company, the parties (other than the Company) have agreed that, as between themselves and for so long as the SHA remains in force, but not so as to

amend the constitution, the provisions of the SHA shall prevail and each such party shall exercise all voting and other rights and powers available to it to give effect to the provisions of the SHA.

The SHA is governed by English law and any dispute in connection with it will be referred to and finally resolved by arbitration under the London Court of International Arbitration Rules.

CERTAIN RELATIONSHIPS AND RELATED PARTY TRANSACTIONS

Petrofac, the international oil and gas facilities, engineering and project management services provider, is one of our equity holders. We had a strategic alliance with Petrofac for the provision of engineering and capital project management services which has now expired. In the six months ended June 30, 2014, we received project management, engineering and procurement services totaling \$0.1 million (June 30, 2013: \$1.3 million, December 31, 2013: \$2.6 million) of which \$0.1 million remained payable at June 30, 2014 (June 30, 2013: \$5.0 million, December 31, 2013: \$1.9 million). The services were associated with the on-going development of the Uquo and Stubb Creek Fields.

We have outstanding share purchase loans with one of our former directors, Mr. Kola Aluko, and one of our former employees who both remain as current equity holders. These loans accrue interest during the periods of US LIBOR plus two percent. The total amount outstanding under these loans as of June 30, 2014 was \$2.3 million (as of June 30, 2013: \$2.2 million, December 31, 2013: \$2.2 million). We entered into the share purchase loan with Mr. Aluko while he was still our employee in 2009, and as of June 30, 2014, the outstanding amount for the share purchase loan with Mr. Aluko is \$2.2 million.

We have a Reserve Based Lending Facility with three banks, one of which is Standard Chartered Bank, one of our equity holders via its subsidiary Standard Chartered Private Equity (Mauritius) III Ltd. During 2013, we completed redeterminations of the borrowing base and an expansion of the facility. The facility had been increased to \$350.0 million, with the borrowing base increased to \$208.0 million \$148.6 million was outstanding at December 31, 2013 (2012: \$56.2 million) with \$38.3 million being a related party balance with Standard Chartered Bank. Part of the proceeds of this Offering will be used to repay the Reserve Based Lending Facility.

In May 2014, Seplat announced the signing of a 15-year gas sale and supply contract to supply the Azura-Edo Independent Power Project with the project's fuel gas requirements. The gas will be produced by OMLs 4, 38 and 41, under the joint venture between NPDC and Seplat, and under which we have an indirect interest via the Strategic Alliance Agreement with NPDC. Amaya Capital, co-founded by our Chief Executive Officer, Phillip Ihenacho, is an investor in the Azura-Edo Independent Power Project and Mr. Ihenacho is also the Chairman of Azura Power Holdings.

DESCRIPTION OF CERTAIN FINANCING ARRANGEMENTS

The following summary of the material terms of certain financing arrangements to which the Company and certain of its 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. For further information regarding our existing indebtedness, see "Use of proceeds", "Capitalization" and "Management's discussion and analysis of financial condition and results of operations".

The Company and certain of its subsidiaries have entered into financing arrangements which are summarized below.

Accugas II Facility

Accugas as borrower, Exoro Holdings BV and SUGL as guarantors, Exoro Holding BV and Seven Exploration & Production Limited as shareholders and us as sponsor entered into a common terms agreement (the "Accugas II CTA"), which governed, among other things, a \$225 million term facility, the Accugas II Facility, as documented in the "Accugas II Facility Agreement", both dated June 24, 2010, as amended and restated on March 27, 2013, with First Bank of Nigeria PLC, FCMB Capital Markets Limited, First City Monument Bank PLC, Stanbic IBTC Capital Limited and United Bank for Africa PLC as Mandated Lead Arrangers and FBN Capital Limited as Additional Mandated Lead Arranger and Facility Coordinator, Stanbic IBTC Trustees Limited as Facility Agent and UBA Trustees Limited as Collateral Agent, for the purpose of refinancing the Accugas I Project and to part finance the Accugas II Project (both as defined in the Accugas II CTA), along with an injection of equity. The Accugas II Facility Agreement has a final maturity date of March 15, 2020. Defined terms not defined herein have the meaning given in the Accugas II CTA. We guaranteed the Accugas II Facility under a sponsor guarantee dated June 24, 2010 and amended and restated on March 27, 2013.

Outstanding

The Accugas II Facility Agreement provides for a term facility in an aggregate amount equal to the total commitments. As of the Issue Date, the aggregate amounts outstanding under the Accugas II Facility were \$225 million in accordance with the reduction schedule provided for in the Accugas II Facility Agreement. In addition, the Accugas II CTA also provides terms for additional debt to be incurred under other future facility agreements, which would also form part of the secured liabilities.

Reduction and repayment

Loans made under the Accugas II Facility must be repaid pursuant to the repayment schedule as set forth in the Accugas II Facility Agreement, as amended and restated, and repaid in full on the final maturity date of March 15, 2020. Amounts repaid by the borrower may not be re borrowed. The total aggregate commitments under the Accugas II Facility which are unutilized (if any) by March 27, 2015 will be automatically cancelled.

Prepayment

On a change of control, the majority lenders may cancel the outstanding commitments and declare outstanding loans immediately due and payable. In addition, the Accugas II Facility will be immediately cancelled, and all obligations thereunder will become payable on the last day of the relevant interest period, or earlier if specified in the notice to the borrower, in the event of an illegality. The borrower may cancel the commitment of a lender should the sum payable be increased or should the lender become a defaulting lender and subsequently increase the commitments of the remaining lenders.

The borrower may voluntarily prepay and cancel amounts outstanding under the Accugas II Facility without penalty or premium, at any time prior to March 27, 2015, in whole or in part, subject to a minimum repayment of \$10 million, on not less than ten business days' notice to the facility agent. Any notice of cancellation or prepayment shall be irrevocable, shall specify the date of effect and shall be delivered along with any fees (including prepayment fees), break costs and accrued interest.

Interest

The rate of interest payable is calculated on the basis of a formula which incorporates the aggregate of the applicable margin, base rate, and the mandatory cost, if any, to determine the percentage rate per annum.

Covenants

The Accugas II Facility contains customary operating and financial covenants, including covenants restricting the ability of each obligor to, among other things:

- create security or assign security interests;
- incur financial indebtedness or make prohibited payments;
- amend transactional or constitutional documents;
- amalgamate or merge or enter into joint ventures or profit-sharing with other companies;
- change of principal business activity;
- dispose of tax losses;
- apply for immunity against proceedings in Nigeria or elsewhere;
- make deposits into accounts other than the charged project accounts;
- make material acquisitions, distributions or investments or disposals, sell, lease, transfer or dispose of assets;
- reduce share capital, issue shares, deal with shareholder loans;
- enter into affiliate transactions
- enter into material contracts or arrangements other than in the ordinary course of business; and
- waive, amend or terminate any material project agreement or agree to assignment of the same.

The Accugas II Facility also requires the borrower and sometimes each obligor to observe certain affirmative covenants, including, but not limited to, covenants relating to:

- construction, operation and maintenance of the projects and provision of access to facilities of the same;
- compliance with the prescribed use of the proceeds;
- provision of reports such as construction, operating and environmental reports;
- provision of audited financial statements and compliance certificates in relation to the same;
- provision of financial and other information to lenders;
- notifications in the event of any force majeure or default;
- notice of shareholder meetings;
- notice of testing or environmental issues;
- compliance with insurance reporting requirements and know your customer checks;

- maintenance of relevant authorizations and consents;
- compliance with obligations, maintenance and enforcement of rights under the contractual agreements relating to the project;
- compliance with laws, including environmental laws and regulations, including the Nigerian Oil and Gas Content Development Act;
- payment of taxes; maintenance of corporate status, principal place of business and company books;
- maintenance of insurance;
- maintenance of property and intellectual property;
- ensuring that the claims of the finance parties under the Accugas II Facility rank at least *pari passu* with the claims of other unsecured and unsubordinated creditors;
- maintenance of project accounts;
- further assurance in relation to security documents under the Accugas documents
- defense of litigious actions; and
- exchange loss mitigation under the gas sale and purchase agreements.

Events of Default

The Accugas II Facility sets forth certain events of default, the occurrence of which would allow the majority lenders to accelerate all outstanding loans and cancel their commitments and/or declare that all or part of the utilizations and other amounts outstanding are immediately due and payable. The events of default include, among other events and subject in certain cases to grace periods, thresholds and other qualifications:

- non payment of amounts due under a finance document;
- breach of covenants;
- inaccuracy of a representation or statement when made, deemed to be made or repeated;
- cross defaults;
- insolvency or insolvency proceedings;
- invalidity or unlawfulness of certain sales contract and material contracts;
- repudiation, invalidity, illegality, unlawfulness, termination or rescission of any finance document under the Accugas II CTA;
- repudiation, termination, invalidity, illegality, material amendment of or failure to comply with any obligations under any material project agreement leading to a material adverse effect;
- litigation or unsatisfied judgments;
- abandonment or suspension of either the Accugas I or Accugas II Projects or loss or damage to the project assets having a material adverse effect;
- discovery of environmental contaminants or liability under environmental laws;

- loss or adverse amendment of any consent required for the operation of the projects;
- loss of *pari passu* ranking of claims against the obligors;
- government intervention;
- material adverse change;
- cessation of business of an obligor;
- immunity from legal process of any obligor's assets;
- change of control of the borrower;
- audit qualification;
- loss of use of the central processing facility site;
- suspension, cancellation, revocation, forfeiture, repudiation or surrender of any finance document, or imperfection of any security granted thereunder; failure to achieve the second project completion date or delays to the construction of the central processing facility or gas pipeline;
- certain actions taken by us relating to the Uquo Field and having a material adverse effect; and
- failure to grant security in respect of Downstream GSA 2.

Security

The Accugas II Facility is secured by the following collateral: (i) all the assets of Accugas by way of a deed of charge entered into by Accugas; (ii) Exoro Holdings B.V.'s interest in the shares of Accugas by way of a memorandum of deposit in relation to an equitable mortgage; (iii) Seven Exploration interest in the shares of Accugas by way of a memorandum of deposit in relation to an equitable mortgage; (iv) guarantees of all Accugas' obligations by each of the guarantors; and (v) a sponsor guarantee of Accugas' obligations by us.

Accugas III Facility

Accugas as borrower and the Company as guarantor entered into a medium term facility, Accugas III Facility, dated as of March 25, 2014, with FBN Bank (UK) Limited and Ecobank Nigeria Limited as lenders, FBN Capital Limited as mandated lead arranger and facility agent and First Trustees Nigeria Limited as collateral agent (the "Accugas III Facility Agreement"). The facility was taken for the purpose of part-financing the acquisition of EHGC. The Accugas III Facility was granted for a term of five years and six month (5 years and 6 months) from its effective date.

Commitments

The Accugas III Facility Agreement provides for a term loan facility in an aggregate amount of \$100,000,000, with an accordion feature for an increase up to an additional \$70,000,000 provided an event of default has not occurred and is continuing. Based on the repayment schedule provided under the Accugas III Facility, the aggregate commitments under the Accugas III Facility stood at \$100,000,000 as of September 5, 2014.

Purpose

The purpose of the facility is for the part-financing the acquisition of 100% of the share capital of EHGC under a sale and purchase agreement between and among Oando and Ayotola Jagun on the one part and Accugas and the Company on the other part.

Reduction and Repayment

The Accugas III Facility must be paid in full on the final maturity date, being a date that is 66 months from the effective date of the Accugas III Facility Agreement. The loan is to be repaid in accordance with the repayment schedule set forth in the Accugas III Facility Agreement. The borrower may not re-borrow any part of the Accugas III Facility which has been repaid. Based on the repayment schedule, repayment of the Accugas III Facility will commence on March 15, 2015 with the total commitment falling to zero on June 15, 2019.

Prepayment

The Accugas III Facility shall be immediately cancelled, and all obligations thereunder will be payable on the last day of the relevant interest period in the event of illegality. The lenders may also cancel the facility and declare same immediately due and payable if EHGC ceases to be owned by the Company.

The borrower may prepay amounts owing under the facility prior to the final repayment date, without penalty. Upon prepayment, however, the borrower shall be liable to pay a prepayment fee and break costs, calculated in accordance with the terms of the facility agreement

Interest

The interest rate is calculated as the aggregate of the base rate (LIBOR) and the margin, payable on a quarterly basis.

Covenants

The Accugas III Facility contains customary operating and financial covenants, subject to certain agreed exceptions, including covenants restricting the ability of the borrower (and where expressly provided, the guarantors) to, among other things:

- incur additional indebtedness (does not apply to the Company);
- create security (does not apply to the Company);
- utilize the loan for any other purpose;
- enter into any other material contracts or assume any other material obligations;
- making material disposals, sell, lease, transfer or dispose of assets;
- amalgamate or merge with other companies (does not apply to the Company);
- change its corporate status or principal business activity;
- incur indebtedness or issue guarantees (does not apply to the Company);
- pay dividends, redeem share capital or redeem affiliate indebtedness (does not apply to the Company);
- issue shares (does not apply to the Company); and
- enter into affiliate transactions (does not apply to the Company).

The Accugas III Facility also requires the borrower and guarantor (in certain cases) to observe certain affirmative covenants, subject to certain agreed exceptions and including, but not limited to, covenants relating to:

- maintenance of relevant consents and authorizations;

- compliance with applicable laws;
- corporate status;
- payment of taxes;
- performance of obligations under relevant insurance contracts;
- ensuring that the claims of the finance parties under the Accugas III Facility rank at least *pari passu* with the claims of other unsecured and unsubordinated creditors;
- maintenance of transaction accounts;
- maintain accounting systems and books in accordance with IFRS; and
- provision of access to transaction assets as well as financial and other information to lenders.

The Accugas III Facility requires the borrower to: (i) for the period following the first anniversary of the second project completion date, maintain a historic debt service cover ratio of 1.35:1 in relation to the preceding 12 months, (ii) for the period following the second project completion date, maintain a forecast debt service cover ratio of 1.35:1 in relation to the next 12 months commencing on a test date, (iii) in respect of the period following the end of the moratorium period (the period ending 12 months from first utilization) maintain an interest cover ratio of 2.35:1 in respect of the 12 month period ending on a test date and (iv) in respect of the period following the end of the moratorium period ensure that the ratio of total outside liabilities to tangible net worth shall not exceed 2.50:1.

Events of Default

The Accugas III Facility sets forth certain events of default, the occurrence of which would allow the lenders to accelerate all outstanding loans and cancel their commitments and/or declare that all or part of the utilizations and other amounts outstanding are immediately due and payable. The events of default include, among other events and subject in certain cases to grace periods, thresholds and other qualifications:

- Non payment of amounts due and payable
- Breach of financial covenants
- Breach of obligations under finance documents
- Misrepresentation
- Default in respect of other financial indebtedness of an obligor
- Insolvency or the commencement of insolvency proceedings or creditors process
- Change in ownership of obligor
- Illegality of the finance documents
- Material adverse change
- Non-delivery of specified documents under the facility agreement
- Breach of material contract
- Unwinding of the acquisition of EHGC

Security

The Accugas III Facility is secured by (i) a second-ranking deed of charge over the borrower's assets (ii) a deed of charge in respect of the Company's shares in EHGC and (iii) an assignment over the Intra-Group Loan Agreement granted by the Company to EHGC. The Company also guaranteed the borrower's obligations under the Facility Agreement.

Akwa Ibom State Loan

The Akwa Ibom State Government, in 2012, made available a Naira denominated shareholder loan to Universal Energy Resources Limited ("Universal") in connection with the development of the Stubb Creek Field (the "Akwa Ibom State Loan"). Indebtedness under the Akwa Ibom State Loan is secured by the Universal Security Deed, subject to the terms of the Universal Intercreditor Deed.

Commitments

The Akwa Ibom State Loan provides for a Naira denominated secured amortizing term loan facility in the sum of Naira 1,555 million.

Purpose

The loan was made available to Universal to be utilized for the development of the Stubb Creek marginal field.

Reduction and repayment

Principal repayments on the facility are to be made on each repayment date in accordance with the amortization schedule. However, the facility must be repaid in full (including all amounts owing under the finance documents) no later than the final maturity date. As of June 30, 2014, the Akwa Ibom State Loan was fully drawn.

Prepayment

In the event that it become unlawful for the lender to perform the obligations under the facility or to continue to make available the loan the Akwa Ibom State Loan will be immediately cancelled, and all obligations thereunder payable on the last day of the interest period after notice to this effect has been given to the borrower by the lender or otherwise, the date specified in the notice given by the lender.

The borrower may prepay the facility amount (together with such amounts owing under the facility) prior to the final repayment date, without penalty. Repayments commence on September 30, 2013 and then annually thereafter until the final maturity date of September 30, 2016.

Interest

Interest is payable on the loan amount at a rate of 15% per annum, payable biannually commencing from the last day of the interest period falling a year after the first oil date.

Covenants

The Akwa Ibom State Loan contains customary operating and financial covenants, subject to certain agreed exceptions, including covenants restricting the ability of the borrower to, among other things:

- incur additional indebtedness;
- create security;
- making disposals, sell, lease, transfer or dispose of assets; and
- granting loans, guarantees or indemnities.

The Akwa Ibom State Loan also requires the borrower and guarantor (in certain cases) to observe certain affirmative covenants, subject to certain agreed exceptions and including, but not limited to, covenants relating to:

- provision of financial statements;
- notification of default;
- effectiveness of security documents;
- ensuring that claims under the Akwa Ibom State Loan rank at least *pari passu* with the claims of other unsecured and unsubordinated creditors; and
- preservation of assets.

Events of Default

The Akwa Ibom State Loan sets forth certain events of default, the occurrence of which would allow the lender to accelerate all outstanding loans and cancel their commitments and/or declare that all or part of the utilizations and other amounts outstanding are immediately due and payable. The events of default include, among other events and subject in certain cases to grace periods, thresholds and other qualifications:

- Non payment of amounts due and payable;
- Breach of key covenants and other obligations under the finance documents;
- Misrepresentation;
- Default in respect of other financial indebtedness of the borrower;
- Insolvency or the commencement of insolvency proceedings or creditors process;
- Change in ownership of obligor;
- Illegality under the finance documents;
- Repudiation of the finance documents;
- Validity and enforceability of transaction security; and
- Material adverse change.

Security

The Akwa Ibom State Loan is secured by (i) a Security Deed creating security over certain assets of Universal and is subject to the terms of an Intercreditor Agreement between the security trustee under the Security Deed, the Akwa Ibom State Government and Seven Energy Nigeria Limited.

Contractual agreements

The parties signed a loan agreement reflecting the terms of the Akwa Ibom State Loan; however, the signatures were not released. In addition, an intercreditor agreement and security agreement were drafted but not signed. The Akwa Ibom state government still provided the loan pursuant to the terms of these agreements, and we have relied on such agreements in our course of dealings with them.

Bank of Industry Loan (PAIF Facility)

EHGC entered into a loan facility agreement with First Bank of Nigeria Plc, Fidelity Bank Plc, Sterling Bank Plc, Access Bank Plc, Ecobank Plc and First City Monument Bank Plc (the “BoI Lenders”), as lenders and FBN Capital Limited as facility agent under the Bank of Industry Power and Airline Intervention Fund (“PAIF”) for the purpose of refinancing existing loan obligations of EHGC (the “BoI Facility Agreement”).

Commitments

The BoI Facility Agreement provides for a PAIF facility in the amount of Naira 11,401,490,000. Of the total commitments, the sum of Naira 10,344,529,586.52 was drawn down towards refinancing existing facilities owed by EHGC.

Purpose

EHGC was permitted to draw the funds available under the BoI Facility Agreement to refinance its existing loan obligations.

Reduction and repayment

Principal repayments on the facility are to be made on each repayment date in accordance with the repayment schedule. However, the facility must be repaid in full (including all amounts owing under the finance documents) no later than the final repayment date (November 30, 2018).

Prepayment

The borrower may prepay amounts owing under the facility prior to the final repayment date, without penalty.

Interest

Interest on the loan is calculated, for each interest period quarterly, at a rate of 7% per annum and payable on the interest payment date.

Covenants

The PAIF Facility contains customary operating and financial covenants, subject to certain agreed exceptions, including covenants restricting the ability of the borrower to, among other things:

- incur additional indebtedness;
- create security;
- making material disposals, sell, lease, transfer or dispose of assets;
- amalgamate or merge with other companies;
- assign or transfer rights or obligations under the finance documents; and change its business.

The PAIF facility also requires the borrower and guarantor (in certain cases) to observe certain affirmative covenants, subject to certain agreed exceptions and including, but not limited to, covenants relating to:

- maintenance of relevant consents and authorizations;
- compliance with applicable laws;
- ensuring that the claims of the finance parties under the PAIF Facility rank at least *pari passu* with the claims of other unsecured and unsubordinated creditors;

- the subordination of intercompany loans and director and/or shareholder payment obligations to the PAIF Facility;
- maintenance of insurances; and
- preservation of corporate status and nature of business.

The PAIF facility also requires EHGC to ensure (i) that the interest bearing debt/EBITDA ratio does not exceed 15 (ii) that the ratio of current assets to current liabilities shall not be less than 1 (iii) that the debt service cover ratio shall not be less than 1 and (iv) that the debt service cash cover ratio shall not be less than 1.

Events of Default

The PAIF facility sets forth certain events of default, the occurrence of which would allow the lenders to accelerate all outstanding loans and cancel their commitments and/or declare that all or part of the utilizations and other amounts outstanding are immediately due and payable. The events of default include, among other events and subject in certain cases to grace periods, thresholds and other qualifications:

- Non payment of amounts due and payable;
- Breach of financial covenants;
- Breach of obligations under finance documents;
- Misrepresentation;
- Default in respect of other financial indebtedness of the borrower;
- Insolvency or the commencement of insolvency proceedings or creditors process;
- Change in ownership of obligor;
- Illegality of the finance documents;
- Repudiation of the finance documents; and
- Material adverse change.

Security

The PAIF Facility is secured by an EHGC amended and restated security deed and supplemental deed.

NSIA Notes

On September 19, 2014, we and the NSIA executed a commitment letter under which we agreed to sell and the NSIA agreed to purchase the NSIA Notes in a principal amount of \$100,000,000]. Under the terms and conditions of the NSIA Notes (the “Terms and Conditions”), we will be subject to covenants (including change of control provisions and events of default) substantially the same as those governing the Notes (except that we will not be able to incur indebtedness that would rank in priority to the NSIA Notes without the consent of the NSIA). See “Description of Notes”. The NSIA’s commitment to purchase the NSIA Notes will be subject to several conditions precedent, including that we issue at least \$300.0 million aggregate principal amount of the Notes and the absence of any material adverse changes in market conditions in the U.S. or the international financial markets which make it impracticable to proceed with the sale and purchase of the NSIA Notes. We cannot assure you that each of these conditions will be met and that we will be able to issue the NSIA Notes. Our issuing the NSIA Notes will be a condition precedent to our issuing the Notes.

The NSIA Notes will not be listed on any exchange and will not trade through clearing systems such as Euroclear and Clearstream. We expect that the only holder of the NSIA Notes will be the NSIA.

Maturity and Interest

Our issuance of the NSIA Notes will be a condition precedent to the issuance of the Notes. We will pay to the NSIA a commitment fee in respect of their purchase of the NSIA Notes.

The NSIA Notes will be sold at an issue price of 100.00%, bear interest at 10.500% per annum and mature on the same date as the Notes. The maturity of the NSIA Notes may be extended by 18 months by agreement between us and the NSIA on or prior to September 30, 2020. Interest payments will commence on the same date and will be paid semi-annually on the same dates as the Notes.

Guarantees and Security

The NSIA Notes will be guaranteed on a senior secured basis by each of the Guarantors (with respect to the obligations under the NSIA Notes, the “NSIA Guarantors”). The Issuer’s obligations under the NSIA Notes and the guarantees thereof by the NSIA Guarantors will be secured on a *pari passu* first-priority basis by security interests in the same assets that will guarantee the Notes. As one of our secured lenders, the NSIA will become party to the Intercreditor Agreement. See “—Intercreditor Agreement”.

Optional Redemption

Except as set forth below, the NSIA Notes will be subject to the same optional redemption terms as the Notes, including redemption with the proceeds of certain equity offerings and redemptions due to certain changes in taxation provided that the redemption price for the NSIA Notes will never fall below 101% unless the maturity of the NSIA Notes is extended. Under the Terms and Conditions and the Indenture, we will have the ability under certain circumstances to redeem some or all of either the NSIA Notes, the Notes or both.

After October 11, 2020, we may redeem all or part of the NSIA Notes at a redemption price equal to 101.00% of the principal amount thereof, plus accrued and unpaid interest and Additional Amounts, if any, to the redemption date. In the event that we and the NSIA agree to extend by eighteen months the maturity of the NSIA Notes, then after October 11, 2022, we may redeem all or part of the NSIA Notes at a redemption price equal to 100.00% of the principal amount thereof, plus accrued and unpaid interest and Additional Amounts, if any, to the redemption date.

Covenants

The Terms and Conditions will contain covenants that will be substantially similar to the covenants to be included in the Indenture. See “Description of Notes”. These covenants will restrict our ability to, among other things:

- incur or guarantee additional debt and issue certain preferred shares;
- pay dividends, repurchase stock, and make distributions and certain other payments and investments;
- create liens;
- enter into transactions with affiliates;
- transfer or sell assets;
- engage in certain activities;
- impair security interests;
- provide guarantees of other debt;
- agree to restrictions on dividends by subsidiaries; and
- merge or consolidate.

Under the Terms and Conditions, we will not be able to incur indebtedness that would rank in priority to the NSIA Notes (including in respect of receipt of the proceeds from any enforcement of security interests) without the consent of the NSIA. Such indebtedness will be permitted by the Indenture, subject to the limitations contained therein.

Governing law

The NSIA Notes and any non-contractual obligations arising out of or in connection with them will be governed by, construed in accordance with and will be enforced in accordance with the laws of the State of New York.

Intercreditor Agreement

In connection with the entry into the Indenture, the Issuer, the Parent, the Guarantors and certain other subsidiaries of the Parent will enter into the Intercreditor Agreement to govern the relationships and relative priorities among: (i) any future credit facility constituting a “Credit Facility” under the Notes Indenture (ii) any persons who accede to the Intercreditor Agreement as counterparties to certain hedging agreements (collectively, the “Hedging Agreements”; the liabilities under such Hedging Agreements, the “Hedging Liabilities”; and any persons that accede to the Intercreditor Agreement as counterparties to such Hedging Agreements being referred to in such capacity as the “Hedge Counterparties”); (iii) the Trustee, on its own behalf and on behalf of the holders of the Notes (the “Noteholders”) (the “Notes Trustee”) and creditors of certain debt permitted to have the same ranking as such debt; (iv) the NSIA as a creditor in respect of the NSIA Notes; (v) the intra group lenders and debtors; and (vi) certain direct or indirect shareholders of the Issuer in respect of certain structural debt that the Issuer or another member of the Group has incurred or may incur in the future (including any subordinated shareholder loans).

- In this description, “Group” refers to the Parent and each of its subsidiaries.
- Each member of the Group that incurs any liability or provides any guarantee, in respect of the Notes or under any other Debt Document (as defined in “—*Further Security and Incremental Borrowings*”) is referred to as a “Debtor” and are collectively referred to as the “Debtors”.

The Intercreditor Agreement will set forth, amongst other matters:

- the relative ranking of certain indebtedness of the Debtors;
- the relative ranking of certain security granted by the Debtors;
- when payments can be made in respect of certain indebtedness of the Debtors;
- when enforcement actions can be taken in respect of that indebtedness;
- the terms pursuant to which that indebtedness will be subordinated upon the occurrence of certain insolvency events;
- turnover provisions; and
- when security and guarantees will be released to permit a sale of any assets subject to transaction security (such assets, the “Collateral”; such security, the “Transaction Security”; and the documents constituting such Transaction Security, the “Transaction Security Documents”).

The Intercreditor Agreement will contain provisions relating to future indebtedness that may be incurred (either through a credit facility made available to the Parent or a subsidiary of the Parent which is a guarantor of the Notes, or through the issuance of senior secured notes by the Parent or a subsidiary of the Parent which is a guarantor of the Notes), which is permitted or not prohibited under the Debt Documents (as defined below), any *Pari Passu* Debt Document (as defined below) and any High Yield Debt Document (as defined below), to rank *pari passu* in right of payment with the liabilities under the Indenture (for the purposes of this section, the “Notes Indenture”, the NSIA Notes and any existing *Pari Passu* Debt Liabilities (as defined

below), then existing, and to be secured on the Collateral, subject to the terms of the Intercreditor Agreement (such indebtedness, together in each of the following cases with indebtedness under the Notes and the Notes Indenture and the NSIA Notes, being the “Pari Passu Debt”; the creditors in respect of such indebtedness being the “Pari Passu Creditors”; the liabilities of the Debtors in respect of such indebtedness being the “Pari Passu Debt Liabilities”; and the documents creating or evidencing the Pari Passu Debt Liabilities, the “Pari Passu Debt Documents”).

The Intercreditor Agreement will also include provisions permitting the future incurrence of subordinated indebtedness (either in the form of notes issued by the Issuer or through a credit facility made available to the Issuer), subject to certain conditions and requirements (such indebtedness being “High Yield Debt”, the liabilities of the Debtors in respect of such indebtedness being “High Yield Debt Liabilities”, the borrowing liabilities of the Issuer in respect of the High Yield Debt Liabilities being the “High Yield Debt Borrowing Liabilities” and documents creating or evidencing the High Yield Debt Liabilities, the “High Yield Debt Documents”) and provisions relating to the liabilities in respect of guarantees granted by the Parent (the “High Yield Parent Guarantee Liabilities”) and each other guarantor of the High Yield Debt (other than the Parent) (the “High Yield Debt Guarantee Liabilities”) and provisions relating to the liabilities owed to the Issuer by any member of the Group in respect of any on-loan of the proceeds of any High Yield Debt (the “Issuer Liabilities”), subject to the terms of the Intercreditor Agreement (the creditors in respect of such indebtedness being the “High Yield Debt Creditors”).

The Intercreditor Agreement will also provide for, any future credit facility constituting a “Credit Facility” under the Notes Indenture, the creditors of which are entitled under the terms of the existing Pari Passu Debt Documents and any existing High Yield Debt Document to receive priority in respect of the proceeds of the enforcement against the Collateral (each such facility a “Credit Facility” and each finance document relating thereto (but excluding any Hedging Agreement), a “Credit Facility Document”). Each lender under a Credit Facility is a “Credit Facility Lender” and excluding any Hedging Liabilities, the liabilities of the Debtors to the Credit Facility Lenders are referred to as the “Credit Facility Liabilities”.

By purchasing a Note, Noteholders shall be deemed to have agreed to, and accepted the terms and conditions of, the Intercreditor Agreement and to have authorized the Trustee to enter into the Intercreditor Agreement on their behalf.

The following description is a summary of certain provisions in the Intercreditor Agreement. It does not restate the Intercreditor Agreement in its entirety.

Ranking and priority

Payment

The Intercreditor Agreement will provide, subject to the provisions in respect of permitted payments described below, that (i) the Credit Facility Liabilities; (ii) the liabilities of the Debtors with respect to Hedging Agreements entered into in relation to interest rate exposures under any of the Credit Facility Documents, the Pari Passu Debt Documents and the High Yield Debt Documents and which are permitted by the Credit Facility Documents, the Pari Passu Debt Documents and the High Yield Debt Documents (the “Interest Rate Hedging Liabilities”); (iii) the liabilities of the Debtors with respect to Hedging Agreements entered into in relation to hedging any foreign exchange exposures under any of the Credit Facility Documents, the Pari Passu Debt Documents and the High Yield Debt Documents and which are permitted by the Credit Facility Documents, the Pari Passu Debt Documents and the High Yield Debt Documents (the “FX Hedging Liabilities” and together with the Interest Rate Hedging Liabilities, the “Super Senior Hedging Liabilities”, with the counterparties to such agreements being the “Super Senior Hedge Counterparties”); (iv) the liabilities of the Debtors with respect to Hedging Agreements not constituting Super Senior Hedging Liabilities (the “Pari Passu Hedging Liabilities”, with the counterparties to such agreements being the “Pari Passu Hedge Counterparties”); (v) the Pari Passu Debt Liabilities; (vi) the High Yield Debt Guarantee Liabilities; (vii) the High Yield Parent Guarantee Liabilities; and (viii) certain other unsecured liabilities, will rank in right and priority of payment in the following order:

- *first*, the Credit Facility Liabilities, the Super Senior Hedging Liabilities, the Pari Passu Hedging Liabilities, the Pari Passu Debt Liabilities, the High Yield Parent Guarantee Liabilities and the High Yield Debt Borrowing Liabilities will rank *pari passu* and without any preference between them; and

- *second*, the High Yield Debt Guarantee Liabilities and the Issuer Liabilities will rank *pari passu* between themselves and without any preference between them.

The liabilities:

- owed by any member of the Group to a Subordinated Creditor (as defined in the Intercreditor Agreement) (the “Subordinated Liabilities”); and
- (other than the Issuer Liabilities) owed by any Debtor to any other member of the Group (an “Intra Group Lender”) (the “Intra Group Liabilities”);

are postponed and subordinated to the liabilities owed by the Debtors to each of the Credit Facility Lenders, the Super Senior Hedge Counterparties (together with the Credit Facility Lenders, the “Super Senior Creditors”), the Pari Passu Creditors, the Pari Passu Hedge Counterparties and the High Yield Debt Creditors (together, the “Primary Creditors”). The Intercreditor Agreement does not purport to rank the Subordinated Liabilities or the Intra Group Liabilities as between themselves.

Security

The parties to the Intercreditor Agreement will agree in the Intercreditor Agreement that the Collateral ranks and secures the following liabilities in the following order:

- *first*, the liabilities (including fees, costs and expenses) owed to the security agent under the Intercreditor Agreement (for the purposes of this description only, the “Security Agent”), the agent under any Credit Facility, the Trustee, and the relevant Creditor Representative (as defined below) in respect of (i) any other Pari Passu Debt, and (ii) any High Yield Debt, *pari passu* and without any preference between them;
- *second*, the Credit Facility Liabilities, the Super Senior Hedging Liabilities (together the “Super Senior Liabilities”), the Pari Passu Hedging Liabilities and the Pari Passu Debt Liabilities, *pari passu* and without any preference between them; and
- *third*, the High Yield Debt Liabilities, but only to the extent of the Collateral granted over any equity or debt instruments (including proceeds loans) issued by the Issuer (“Investment Instruments”) in favor of the Security Agent under the Intercreditor Agreement (the “High Yield Debt Shared Security”).

The Subordinated Liabilities are not permitted to be secured by the Collateral or any other security, guarantee, indemnity or assurance against loss (together, “Security”), prior to the latest to occur of (i) the date on which all Credit Facility Liabilities and Super Senior Hedging Liabilities are fully and finally discharged (the “Super Senior Discharge Date”), (ii) the date on which all Pari Passu Debt Liabilities are fully and finally discharged, (the “Pari Passu Discharge Date”) and (iii) the date on which all High Yield Debt Liabilities are fully and finally discharged (the latest to occur of those dates being the “Final Discharge Date”).

The Intra Group Liabilities may not be secured by the Collateral or any other Security prior to the Final Discharge Date, unless such Security is either:

- (i) not prohibited by any agreement creating or evidencing any Credit Facility, any Pari Passu Debt Document or any High Yield Debt Document;
- (ii) prior to the later to occur of the Super Senior Discharge Date and the Pari Passu Discharge Date (such later date being the “Secured Debt Discharge Date”), if the prior consent of the relevant Credit Facility Agent (as defined below) acting on behalf of the Credit Facility Lenders in accordance with the relevant Credit Facility (the “Required Super Senior Creditors”) and each relevant Creditor Representative(s) acting on behalf of the Pari Passu Creditors it represents in accordance with the relevant Pari Passu Debt Document (the “Required Pari Passu Creditors”), has been obtained; or

- (iii) prior to the date on which the High Yield Liabilities (as defined herein) are discharged in full (“the High Yield Discharge Date”), the prior consent of each relevant Creditor Representative(s) acting on behalf of the High Yield Debt Creditors it represents in accordance with the relevant High Yield Debt Document (the “Required High Yield Creditors”) has been obtained.

The Parent Liabilities are not permitted to be secured by the Collateral or any other Security prior to the Final Discharge Date, other than as not prohibited by the Credit Facility Agreement(s) and the Pari Passu Debt Documents.

Under the Intercreditor Agreement, all proceeds from enforcement of the Collateral and certain other recoveries will be applied as provided below under “—*Application of Proceeds from Enforcement of Transaction Security*”.

Further Security and incremental borrowings

The Credit Facility Lenders and the Pari Passu Creditors may take, accept or receive the benefit of additional security and additional guarantees, indemnities or other assurances against loss from any member of the Group in respect of the liabilities owed to each such creditor, *provided* that (subject to certain exceptions unlimited in the Intercreditor Agreement), if and to the extent legally possible, such security, guarantee, indemnity or other assurance against loss is also granted to the Security Agent as agent and trustee of the other Senior Secured Parties. In this description, “Secured Parties” means the Security Agent and each Primary Creditor, and “Senior Secured Parties” means the Secured Parties save for any of the High Yield Debt Creditors.

Any such additional security, guarantee, indemnity or other assurance against loss referred to above will rank in the same order of priority as referred to above and the proceeds of the enforcement of any such security will be applied as provided under “—*Application of Proceeds from Enforcement of Transaction Security*”.

The Intercreditor Agreement will contemplate the Debtors (or any of them): (i) incurring incremental borrowing liabilities and/or guarantee liabilities; or (ii) refinancing the borrowing liabilities incurred under the documents creating or evidencing indebtedness under or in respect of any Credit Facility Liabilities, any Pari Passu Debt Liabilities, and any High Yield Debt Liabilities (such incremental borrowing liabilities and refinancing liabilities being referred to as “Additional Indebtedness”) which in any such case are intended to rank *pari passu* with and/or share *pari passu* in any Collateral with any existing liabilities and/or to rank behind any existing liabilities and/or to share in the Collateral behind such existing liabilities (as appropriate).

The parties to the Intercreditor Agreement will confirm in the Intercreditor Agreement that, upon receipt of written notice from a Debtor that it intends to incur any Additional Indebtedness, they will (at the Parent’s cost) enter into such documentation as may be necessary (including, without limitation, entering into a new intercreditor agreement) to ensure that the Additional Indebtedness (and the liabilities and obligations of the Debtors in respect of such Additional Indebtedness) will have the ranking permitted to be conferred upon it in accordance with the terms of the Debt Documents. In this description, “Debt Documents” means, collectively, the Intercreditor Agreement, the Hedging Agreements, the Credit Facility Documents, the Pari Passu Debt Documents, the High Yield Debt Documents, the Transaction Security Documents and any other document entered into by a Debtor creating security, guarantees or indemnity as security for any of the Secured Obligations (as defined in the Intercreditor Agreement), and any document evidencing the Parent Liabilities, the Intra Group Liabilities or the Subordinated Liabilities.

Security: Pari Passu Creditors

The Pari Passu Creditors may take, accept or receive the benefit of:

- (a) security in respect of the Pari Passu Debt Liabilities in addition to the Transaction Security if, at the same time, it is also granted either:
 - (i) to the Security Agent as trustee for the other Secured Parties in respect of their secured obligations;

- (ii) in the case of any jurisdiction in which effective security cannot be granted in favor of the Security Agent as trustee for the Secured Parties to the other Secured Parties in respect of their secured obligations,

and ranks in the same order of priority as that contemplated in “—*Ranking and Priority*” above; and

- (b) any guarantee, indemnity or other assurance against loss in respect of the Pari Passu Debt Liabilities in addition to those in:

- (i) the original form of the Pari Passu Debt Documents;
- (ii) the Intercreditor Agreement;
- (iii) any engagement letter or commitment letter entered into in connection with or any Pari Passu Debt Document; or
- (iv) any guarantee, indemnity or other assurance against loss given for the benefit of all the Secured Parties in respect of their liabilities,

only if, in each case, at the same time it is also offered to the other Senior Secured Parties in respect of their respective secured liabilities and ranks in the same order of priority as that contemplated in “—*Ranking and Priority*”.

Permitted Payments

The Intercreditor Agreement will permit payments in respect of the Credit Facility Liabilities at any time, in accordance with the provisions of the relevant Credit Facility Documents. Payments in respect of the Pari Passu Debt Liabilities will be permitted (subject to any restrictions thereon contained in the Credit Facility Documents) at any time, in accordance with the Pari Passu Debt Documents.

The Intercreditor Agreement prohibits any payments being made in respect of the High Yield Debt Liabilities until the occurrence of the Secured Debt Discharge Date (as such term is defined below), except with the prior consent of the Credit Facility Agent or as set out below.

The Intercreditor Agreement will permit payments in respect of High Yield Debt Liabilities prior to the Secured Debt Discharge Date to be made by the Debtors under the High Yield Debt Documents and in respect of any Issuer Liabilities including if (a) (i) the payment is of any principal amount or capitalized interest of the High Yield Debt Liabilities which is either not prohibited from being paid by the Credit Facility Documents or the Pari Passu Debt Documents or is paid on or after the final maturity date of the High Yield Debt Liabilities (provided that such maturity date is a date not earlier than six months after the latest originally scheduled maturity date of the Notes and Termination Date (as defined in the Credit Facility Documents) at the time of incurrence of such High Yield Debt or is a payment of any amount which is not an amount of principal or capitalized interest or a corresponding amount under the relevant proceeds loans for the High Yield Debt (if any), (ii) no High Yield Payment Stop Notice (as defined below) is outstanding; and (iii) no payment default under any Credit Facility, the Super Senior Hedging Liabilities (above an agreed threshold), the Pari Passu Debt Documents (above an agreed threshold) (together a “Secured Debt Payment Default”) has occurred and is continuing; (b) the Super Senior Creditors whose Super Senior credit participations at that time aggregate more than 66 $\frac{2}{3}$ % of the total Super Senior credit participations (the “Majority Super Senior Creditors”) and each Pari Passu Debt Representative (as defined below) give its prior consent to that payment being made; (c) the payment is of amounts owing to the High Yield Representative (as defined below) (the “High Yield Representative Amounts”); (d) the payment is by the Issuer of any borrowing liabilities with respect to any High Yield Debt Liabilities and such payment is not financed directly or indirectly by a payment to the Issuer from a member of the Group which was prohibited by the Credit Facility Documents or the Pari Passu Debt Documents; (e) the payment is of administrative and maintenance costs, fees, expenses and taxes of (in acting as the issuer or borrower of any High Yield Debt) including any reporting or listing requirements, as is not prohibited under the terms of any Credit Facility Document, Hedging Agreement, Pari Passu Debt Document or High Yield Debt Document (to the extent any High Yield Liabilities are secured by High Yield Debt Shared Security) (“Permitted Administration Costs”); (f) the payment is of costs, commissions, taxes, premiums and any expenses incurred in respect of (or reasonably incidental to) any refinancing of the High Yield Debt

Liabilities in compliance with the Intercreditor Agreement, the Credit Facility Documents and the Pari Passu Debt Documents or (g) if the payment is the principal amount of High Yield Liabilities and is paid on or after (x) the final originally scheduled maturity date of such High Yield Liabilities (provided that such maturity date is a date not earlier than 1 year after the originally scheduled maturity date of the Notes and the Termination Date (as defined in any Credit Facility Agreement) at the time of issuance of such High Yield Liabilities). On or following the Secured Debt Discharge Date, payments of the High Yield Debt Liabilities may be made by Debtors in accordance with the terms of the High Yield Debt Documents and to the Issuer in respect of Issuer Liabilities.

The Intercreditor Agreement will also permit payments of Intra Group Liabilities to be made from time to time when due unless an acceleration event has occurred under any Credit Facility, any Pari Passu Debt or any High Yield Debt (together, an “Acceleration Event”). However, payments of Intra Group Liabilities may nonetheless be made whilst an Acceleration Event has occurred if:

- (i) prior to the Secured Debt Discharge Date, either (A) if paragraph (B) does not apply, the Majority Super Senior Creditors and the Required Pari Passu Creditors have consented to such payment; or (B) if (at the time of payment) the Security Agent is obliged to give effect to the instructions of the High Yield Debt Creditors as to the manner of enforcement of Transaction Security pursuant to the provisions of the Intercreditor Agreement, the High Yield Debt Creditors whose High Yield credit participations at that time aggregate more than 50% of the total High Yield credit participations (the “Majority High Yield Creditors”) have consented to such payment;
- (ii) prior to the High Yield Discharge Date but following the Secured Debt Discharge Date, the Majority High Yield Creditors consent to such payment; or
- (iii) the payment is made solely to facilitate the making of a payment under a Credit Facility, a Hedging Agreement, a Pari Passu Debt Document or a High Yield Debt Document which is in each case permitted to be made under the terms of the Intercreditor Agreement.

The Intercreditor Agreement furthermore permits payments of the Subordinated Liabilities to be made as long as (a) such payment is not prohibited by the Credit Facility Documents, the Pari Passu Debt Documents, or the High Yield Debt Documents; (b) if prior to the Secured Debt Discharge Date, the consent of the Required Pari Passu Creditors, and the Required Super Senior Creditors has been obtained; or (c) on or after the Secured Debt Discharge Date, the consent of the Required High Yield Creditors has been obtained.

The Intercreditor Agreement will permit payments of Issuer Liabilities to be made as long as (a) such payment is not prohibited by the Credit Facility Documents and the Pari Passu Debt Documents; (b) the Required Super Senior Creditors and the Required Pari Passu Creditors consent to such payment being made; or (c) the payment is made before the Secured Debt Discharge Date and is equal to the amount of a payment in respect of (i) High Yield Borrowing Liabilities, (ii) fees, costs and expenses due to Creditor Representatives pursuant to the relevant Debt Documents or engagement letter, or (iii) Permitted Administration Costs then due by the Issuer and which is one of the permitted payments of High Yield Debt Liabilities referred to in the Intercreditor Agreement.

Creditor Representative

Under the Intercreditor Agreement, the parties will appoint various creditor representatives. “Creditor Representative” means:

- (a) in relation to the Credit Facility Lenders under any Credit Facility, the facility agent in respect of that credit facility (a “Credit Facility Agent”);
- (b) in relation to the Noteholders, the Notes Trustee;
- (c) in relation to the NSIA Notes, the NSIA;
- (d) in relation to any Pari Passu Creditors, the person who accedes to the Intercreditor Agreement as the creditor representative for those Pari Passu Creditors (together with the Notes Trustee and the NSIA, a “Pari Passu Debt Representative”); and

- (e) in relation to any High Yield Debt Creditors the person who accedes to the Intercreditor Agreement as the creditor representative for those High Yield Debt creditors a “High Yield Representative”).

Issue of High Yield Payment Stop Notice

- (a) Until the Secured Debt Discharge Date, except with the prior consent of the Credit Facility Agent, and the relevant Pari Passu Debt Representative(s), and subject to the provisions of the Intercreditor Agreement which will deal with the effects of an insolvency event, the Parent shall ensure that no member of the Group (other than the Issuer with respect to High Yield Debt Borrowing Liabilities and the Parent with respect to High Yield Parent Guarantee Liabilities) shall make, and no High Yield Debt Creditor may receive from any member of the Group (other than the Issuer with respect to High Yield Debt Borrowing Liabilities and the Parent with respect to High Yield Parent Guarantee Liabilities), any payment in respect of the High Yield Debt Liabilities which would otherwise be permitted as referred to above (other than (i) if the Credit Facility Agent and the Notes Trustee and the Pari Passu Debt Representative give prior consent to that payment being made; and (ii) the High Yield Representative Amounts) (or in lieu thereof, pay any amount to the Issuer or the Parent for the purposes of paying such amount not otherwise permitted) if:
 - (i) a Secured Debt Payment Default is continuing; or
 - (ii) an event of default under a Credit Facility Document or the Pari Passu Debt Documents (other than a Secured Debt Payment Default) (a “Secured Debt Event of Default”) is continuing, from the date on which the Credit Facility Agent or any Pari Passu Debt Representative (as the case may be) (the “Relevant Representative”) delivers a notice (a “High Yield Payment Stop Notice”) specifying the event or circumstance in relation to that Secured Debt Event of Default to the Parent, the Security Agent and each High Yield Representative, until the earliest of:
 - (A) the date falling 179 days after delivery of that High Yield Payment Stop Notice;
 - (B) in relation to payments of High Yield Debt Liabilities, if a High Yield Standstill Period (as defined below) is in effect at any time after delivery of that High Yield Payment Stop Notice, the date on which that High Yield Standstill Period expires;
 - (C) the date on which the relevant Secured Debt Event of Default is no longer continuing and, if the relevant Secured Liabilities have been accelerated, such acceleration has been rescinded;
 - (D) the date on which the Relevant Representative delivers a notice to the Parent, the Security Agent and any High Yield Representative cancelling the High Yield Payment Stop Notice;
 - (E) the Secured Debt Discharge Date; and
 - (F) the date on which the Security Agent or a High Yield Representative takes any enforcement action that it is permitted to take under the Intercreditor Agreement against a member of the Group.
- (b) Unless each High Yield Representative waives this requirement:
 - (i) a new High Yield Payment Stop Notice may not be delivered unless and until 360 days have elapsed since the delivery of the immediately prior High Yield Payment Stop Notice; and
 - (ii) no High Yield Payment Stop Notice may be delivered in reliance on a Secured Debt Event of Default more than 60 days after the date the Credit Facility Agent and the

Pari Passu Debt Representative(s) (as applicable) received notice of that Secured Debt Event of Default.

- (c) The Credit Facility Agent and the Pari Passu Debt Representative(s) may serve only one High Yield Payment Stop Notice with respect to the same event or set of circumstances.
- (d) The Credit Facility Agent, the Notes Trustee and the Pari Passu Debt Representative(s) may not serve a High Yield Payment Stop Notice with respect to a Secured Debt Event of Default which had been notified to each of them at the time at which an earlier High Yield Payment Stop Notice was issued.

Cure of payment stop: High Yield Debt Creditors

If at any time following the issuance of a High Yield Payment Stop Notice or the occurrence of a Secured Debt Payment Default:

- (a) the High Yield Payment Stop Notice ceases to be outstanding and/or the Secured Debt Payment Default ceases to be continuing, as the case may be; and
- (b) the relevant Debtor then promptly pays to the High Yield Debt Creditors an amount equal to any payments which had accrued under the High Yield Debt Documents and which would have been permitted payments pursuant to the Intercreditor Agreement but for that High Yield Payment Stop Notice or Secured Debt Payment Default,

then any event of default which may have occurred as a result of that suspension of payments shall be waived and any High Yield Enforcement Notice (as defined below) which may have been issued as a result of that event of default shall be waived, in each case without any further action being required on the part of the High Yield Debt Creditors.

Restrictions on Enforcement by High Yield Debt Creditors

Until the Secured Debt Discharge Date, except with the prior consent of or as required by the Instructing Group (as defined below), no High Yield Debt Creditor shall either (i) direct the Security Agent to enforce any of the Transaction Security Documents; or (ii) take or require the taking of any enforcement action in relation to the High Yield Debt Guarantee Liabilities, except as permitted under the Intercreditor Agreement (see “— *Permitted High Yield Debt Enforcement*” below).

Permitted High Yield Debt Enforcement

- (a) The above restrictions on enforcement will not apply if:
 - (i) any event or circumstance specified as an “Event of Default” in a High Yield Debt Document (a “High Yield Event of Default”) (such default being for the purposes of this section a “Relevant High Yield Default”) is continuing;
 - (ii) the Credit Facility Agent and each Pari Passu Debt Representative have received a notice of the Relevant High Yield Default specifying the event or circumstance in relation to the Relevant High Yield Default from the relevant High Yield Representative;
 - (iii) a High Yield Standstill Period (as defined below) has elapsed; and
 - (iv) the Relevant High Yield Default is continuing at the end of the relevant High Yield Standstill Period.
- (b) Promptly upon becoming aware of a High Yield Event of Default, the relevant High Yield Representative shall by notice (a “High Yield Enforcement Notice”) in writing notify the Credit Facility Agent and each Pari Passu Debt Representative of the existence of such High Yield Event of Default.

High Yield Debt Standstill Period

In relation to a Relevant High Yield Default, a High Yield Standstill Period shall mean the period beginning on the date (the “High Yield Debt Standstill Start Date”) the relevant High Yield Representative serves a High Yield Enforcement Notice on the Credit Facility Agent and each Pari Passu Debt Representative in respect of such Relevant High Yield Default and ending on the earliest to occur of:

- (a) the date falling 179 days after the High Yield Standstill Start Date (the “High Yield Standstill Period”);
- (b) the date the Super Senior Creditors and the Pari Passu Creditors (together the “Secured Creditors”) take any enforcement action in relation to a guarantor of the High Yield Debt Liabilities (a “High Yield Guarantor”) (excluding, for the avoidance of doubt, the Parent with respect to High Yield Parent Guarantee Liabilities), *provided* that (i) if a High Yield Standstill Period ends pursuant to this paragraph (b), the High Yield Debt Creditors may only take the same enforcement action (and against the same person) as that taken by the Secured Creditors; and (ii) “enforcement action” for the purpose of this paragraph does not include any action taken to preserve or protect any security as opposed to realize it;
- (c) the date of an insolvency event in relation to a High Yield Guarantor against whom enforcement action is to be taken;
- (d) a failure to pay the principal amount outstanding on any High Yield Debt at the final stated maturity of such High Yield Debt;
- (e) the expiration of any other High Yield Standstill Period outstanding at the date such first High Yield Standstill Period commenced (unless that expiration occurs as a result of a cure, waiver or other permitted remedy); and
- (f) the date on which the Credit Facility Agent and each Pari Passu Debt Representative give their consent to the termination of the relevant High Yield Standstill Period.

The High Yield Debt Creditors may take enforcement action as described above in relation to a Relevant High Yield Default even if, at the end of any relevant High Yield Standstill Period or at any later time, a further High Yield Standstill Period has begun as a result of any other Relevant High Yield Default.

If the Security Agent has notified each High Yield Representative that it is enforcing Transaction Security created over (directly or indirectly) shares of a High Yield Guarantor, no High Yield Debt Creditor may take any action referred to in “—*Permitted High Yield Debt Enforcement*”, above against that High Yield Guarantor while the Security Agent (i) has requested instructions of the Instructing Group (as defined below) as regards enforcement of that Collateral and the relevant instructions have not been given, or (ii) is taking steps to enforce that Collateral in accordance with the instructions of the Instructing Group where such action might be reasonably likely to adversely affect such enforcement or the amount of proceeds to be derived therefrom.

If the High Yield Debt Creditors are permitted to give instructions to the Security Agent to require the enforcement of Transaction Security in accordance with the Intercreditor Agreement, such enforcement action must require the realization of the relevant Transaction Security by way of a sale or disposal conducted as provided in the Intercreditor Agreement.

Enforcement Instructions

The Security Agent may refrain from enforcing the Transaction Security or taking any other enforcement action unless otherwise instructed by the relevant Instructing Group (as further described in “—*Enforcement Decision*” below).

Subject to the Transaction Security having become enforceable in accordance with its terms and subject to the terms of the Intercreditor Agreement, the Instructing Group may give, or refrain from giving, instructions to the Security Agent as to the enforcement of the Transaction Security as they see fit provided that such instructions are consistent with the Security Enforcement Principles (as defined below). The Security Agent shall enforce the Transaction Security or take such other action as to enforcement in such manner as the

Instructing Group shall instruct, provided that such instructions are consistent with the Security Enforcement Principles.

To the extent permitted under the Intercreditor Agreement (see “*Permitted High Yield Debt Enforcement*” above), the High Yield Representative(s) representing the Majority High Yield Creditors may give instructions to the Security Agent as to the enforcement of the High Yield Debt Shared Security, as they see fit.

Prior to the Secured Debt Discharge Date, if either (i) the Instructing Group has instructed the Security Agent not to enforce or to cease enforcing the Transaction Security; or (ii) there is an absence of instructions from the Instructing Group, and in each case the Instructing Group has not required any Debtor to make a Distressed Disposal (as defined below), the Security Agent shall give effect to any instructions to enforce the High Yield Debt Shared Security which the High Yield Representative(s) representing the Majority High Yield Creditors are then entitled to give under the terms of the Intercreditor Agreement. (see “*Permitted High Yield Debt Enforcement*” above).

Notwithstanding the foregoing, if at any time the High Yield Debt Creditors are entitled to instruct the Security Agent to enforce the High Yield Debt Shared Security pursuant to the above paragraph, and such instructions are given (or an intention to give them is shown), the Instructing Group may instruct the Security Agent to enforce the High Yield Debt Shared Security as it sees fit, in lieu of any instructions given by the High Yield Representative(s) on behalf of the Majority High Yield Creditors, and if the Instructing Group gives any instructions to enforce Transaction Security over shares in a holding company of any member of the Group whose shares are subject to Transaction Security with respect to which enforcement instructions have been given by the High Yield Representative(s), the Security Agent is not permitted to act on such enforcement instructions from the High Yield Representative(s), unless the Instructing Group so instructs it.

Enforcement decision

If either the Majority Super Senior Creditors or the Majority Pari Passu Creditors (acting through their Creditor Representatives) (the “Instructing Group”) wish to instruct the Security Agent to commence enforcement of any Transaction Security, such group of creditors must deliver a copy of the proposed instructions as to enforcement (the “Initial Enforcement Notice”) to the Security Agent at least 10 business days before the proposed date of issuance of those instructions. The Security Agent shall promptly forward the Initial Enforcement Notice to each Creditor Representative and each Hedge Counterparty which did not deliver that Initial Enforcement Notice.

Prior to the Super Senior Discharge Date, if the Security Agent has received any instructions as to enforcement from Creditor Representatives (and, if applicable, hedge Counterparties) representing (i) the Majority Super Senior Creditors, and (ii) the Majority Pari Passu Creditors, that are inconsistent as to the manner of enforcement (including any inconsistency as to timeframe for realizing value from an enforcement) of any Transaction Security (such instructions, including a failure to give instructions by a Creditor Representative or, if applicable, a Hedge Counterparty, being “Conflicting Enforcement Instructions”), the Security Agent is obliged to promptly notify the Creditor Representatives for each of the Super Senior Creditors, the Pari Passu Creditors (excluding any Pari Passu Hedge Counterparty) and the Hedge Counterparties, and such Creditor Representatives and Hedge Counterparties will consult with each other in good faith with a view to coordinating the instructions as to enforcement for not less than 30 days (unless the relevant Creditor Representatives and Hedge Counterparties agree on a shorter period), from the earlier of:

- (i) the date of the latest Conflicting Enforcement Instruction; and
- (ii) the date falling 10 business days after the date the Initial Enforcement Notice is delivered.

The Creditor Representatives (and, if applicable, Hedge Counterparties) representing the Majority Super Senior Creditors or Majority Pari Passu Creditors are not obliged to consult as set out above if either:

- (i) the Transaction Security has become enforceable as a result of an insolvency event in relation to any member of the Group; or

- (ii) the Majority Super Senior Creditors or the Majority Pari Passu Creditors determine in good faith that to enter into such consultations and thereby delay enforcement of the Transaction Security could reasonably be expected to have a material adverse effect on:
 - (A) the Security Agent's ability to enforce any of the Transaction Security; or
 - (B) the realization proceeds of any enforcement of any of the Transaction Security in any material respect; or
- (iii) the Creditor Representatives (and, if applicable, Hedge Counterparties) representing the Majority Super Senior Creditors or Majority Pari Passu Creditors agree that no such consultation is required.

In the event that the Security Agent receives Conflicting Enforcement Instructions and subject to compliance with the provisions of the Intercreditor Agreement, if the instructions from the Creditor Representatives representing the Majority Super Senior Creditors or Majority Pari Passu Creditors are instructions to enforce (or not enforce) the Transaction Security, or otherwise require a Distressed Disposal, then such enforcement instructions from the Creditor Representatives representing the Majority Pari Passu Creditors will prevail. However, if the Security Agent has not taken any steps in relation to the commencement of enforcement of the Transaction Security for three months after the initial enforcement instructions were issued, or if the Super Senior Liabilities have not been fully discharged within six months of the date of the initial enforcement instructions, the enforcement instructions from the Majority Super Senior Creditors will prevail.

If the Majority Super Senior Creditors or the Majority Pari Passu Creditors (in each case acting reasonably) believe that the Security Agent is not enforcing the Transaction Security in a manner consistent with the Security Enforcement Principles, the relevant Creditor Representatives (and Hedge Counterparties, if applicable) shall give notice to the other Creditor Representatives, who shall consult with the Security Agent for a period of 10 days (or a shorter period, if agreed) with a view to agreeing the manner of such enforcement.

Limitation on Enforcement of Subordinated Liabilities

Creditors in respect of the Subordinated Liabilities will not be permitted to take any enforcement action in respect of such liabilities prior to the Final Discharge Date save that, prior to the Final Discharge Date and after the occurrence of an insolvency event in relation to any member of the Group, each such Subordinated Creditor may (unless otherwise directed by the Security Agent or unless the Security Agent has taken, or has given notice that it intends to take, action on behalf of that Creditor in accordance with the terms of the Intercreditor Agreement) exercise any right it may otherwise have against that member of the Group to:

- (a) accelerate any of that member of the Group's Subordinated Liabilities or declare them prematurely due and payable or payable on demand;
- (b) make a demand under any guarantee, indemnity or other assurance against loss given by that member of the Group in respect of any Subordinated Liabilities;
- (c) exercise any right of set off or take or receive any payment in respect of any Subordinated Liabilities of that member of the Group; or
- (d) claim and prove in the liquidation of that member of the Group for the Subordinated Liabilities owing to it.

Limitation on Enforcement of Issuer Liabilities

The Issuer will not be permitted to take any enforcement action in respect of the Issuer Liabilities prior to the Final Discharge Date except that, prior to the Final Discharge Date and after the occurrence of an insolvency event in relation to a member of the Group, the Issuer may (unless otherwise directed by the Security Agent or unless the Security Agent has taken, or has given notice that it intends to take, action on behalf of the Issuer in accordance with the Intercreditor Agreement) exercise any right it may otherwise have against that member of the Group to:

- (a) accelerate any of that member of the Group's Issuer Liabilities or declare them prematurely due and payable or payable on demand;
- (b) make a demand under any guarantee, indemnity or other assurance against loss given by that member of the Group in respect of any Issuer Liabilities;
- (c) exercise any right of set off or take or receive any payment in respect of any Issuer Liabilities of that member of the Group; or
- (d) claim and prove in the liquidation of that member of the Group for the Issuer Liabilities owing to it.

Limitation on Enforcement of Intra-Group Liabilities

Creditors in respect of the Intra Group Liabilities will not be permitted to take any enforcement action in respect of such liabilities prior to the Final Discharge Date except that, prior to the Final Discharge Date and after the occurrence of an insolvency event in relation to any member of the Group, each Intra Group Lender may (unless otherwise directed by the Security Agent or unless the Security Agent has taken, or has given notice that it intends to take, action on behalf of that Intra Group Lender in accordance with the Intercreditor Agreement) exercise any right it may otherwise have against that member of the Group to:

- (a) accelerate any of that Group member's Intra Group Liabilities or declare them prematurely due and payable or payable on demand;
- (b) make a demand under any guarantee, indemnity or other assurance against loss given by that member of the Group in respect of any Intra Group Liabilities;
- (c) exercise any right of set off or take or receive any payment in respect of any Intra Group Liabilities of that member of the Group; or
- (d) claim and prove in the liquidation of that member of the Group for the Intra Group Liabilities owing to it.

Security Enforcement principles

The Intercreditor Agreement will provide that instructions as to enforcement must be consistent with the following security enforcement principles (the "Security Enforcement Principles"):

- (a) it shall be the primary and overriding aim of any enforcement of the Transaction Security to achieve the security enforcement objective, such objective being to maximize the recovery of the Secured Parties so far as such recovery is consistent with (i) prompt and expeditious enforcement action, and (ii) the rights and obligations of the Security Agent under the Intercreditor Agreement and under applicable law (the "Security Enforcement Objective");
- (b) the Transaction Security will be enforced and other action as to enforcement will be taken such that either:
 - (i) to the extent the Instructing Group is the Majority Super Senior Creditors, all proceeds of such enforcement are received by the Security Agent in cash for distribution in accordance with the payment waterfall set out in the Intercreditor Agreement (as further described in "*—Application of Proceeds from Enforcement of Transaction Security*" below); or
 - (ii) to the extent the Instructing Group is the Majority Pari Passu Creditors, either (A) all proceeds of enforcement are received by the Security Agent in cash for distribution in accordance with the payment waterfall set out in the Intercreditor Agreement (as further described in "*—Application of Proceeds from Enforcement of Transaction Security*" below), or (B) sufficient proceeds from that enforcement will be received by the Security Agent in cash to ensure that, when the proceeds are applied in accordance with the terms of the Intercreditor Agreement, the Super Senior

Discharge Date will occur (unless the Majority Super Senior Creditors agree otherwise);

- (c) any action as to enforcement must be prompt and expeditious, it being acknowledged that, subject to the other provisions of the Intercreditor Agreement, the timeframe for the realization of value from such enforcement will be determined by the Creditor Representatives (and Hedge Counterparties, if applicable) representing the Majority Super Senior Creditors or Majority Pari Passu Creditors or, failing which, the Instructing Group, provided (in each case) that it is consistent with the Security Enforcement Objective;
- (d) to the extent that the Transaction Security which is the subject of the proposed enforcement action is:
 - (i) securing assets other than shares in a member of the Group where the aggregate book value of such assets exceeds an amount to be agreed (or its equivalent in other currencies); or
 - (ii) over some or all of the shares in a member of the Group,

which in either case is not being effected through a public auction or other competitive sale process of assets, the Security Agent must, if requested by the Majority Super Senior Creditors or the Majority Pari Passu Creditors, and at the expense of the Group (to the extent that financial advisers have not adopted a general policy of not providing such opinions), appoint an internationally recognized investment bank or accountancy firm or, if it is not practicable for the Security Agent to appoint such bank or firm on commercially reasonable terms (including for reasons of conflicts of interest) as determined by the Security Agent (acting in good faith), any other independent internationally recognized professional services firm which in each case is regularly engaged in providing valuations in respect of the relevant type of assets (in each case not being the firm appointed as the relevant Debtor's administrator or other relevant officer holder) (a "Financial Adviser") to opine (A) that the consideration received from any disposal is fair from a financial point of view (taking into account all relevant circumstances), (B) on the optimal method of enforcing the Transaction Security so as to achieve the Security Enforcement Objective and maximize the recovery from such enforcement, and (C) that such sale is in accordance with the Security Enforcement Principles (a "Financial Adviser's Opinion"), *provided* that if the Security Agent is unable to obtain an opinion from the Financial Adviser covering paragraphs (B) and (C) above, then an opinion covering the matters set out in paragraph (A) will be sufficient to constitute a Financial Adviser's Opinion;

- (e) the Security Agent shall not be required to appoint a Financial Adviser nor to obtain a Financial Adviser's Opinion if a proposed enforcement:
 - (i) would result in the receipt of sufficient proceeds of such enforcement in cash by the Security Agent to ensure that (A) in the case of an enforcement requested by the Majority Super Senior Creditors, the Final Discharge Date would occur, or (B) in the case of an enforcement requested by the Majority Pari Passu Creditors, the Super Senior Discharge Date would occur;
 - (ii) is in accordance with any applicable law; and
 - (iii) complies with the provisions of the Intercreditor Agreement relating to Distressed Disposals, as described in "*—Release of the Guarantees and the Security*" below;
- (f) the Security Agent shall be under no obligation to appoint a Financial Adviser or to seek the advice of a Financial Adviser, unless expressly required to do so by the Intercreditor Agreement. Prior to making any appointment of a Financial Adviser, the Security Agent is entitled to ensure that cost cover (at a level it is satisfied with, acting reasonably) has been provided;

- (g) in the absence of written notice from a Secured Creditor or group of Secured Creditors that are not part of the relevant Instructing Group that such Secured Creditor(s) object to any enforcement of the Transaction Security on the grounds that such enforcement does not aim to achieve the Security Enforcement Objective, the Security Agent is entitled to assume that such enforcement of the Transaction Security is in accordance with the Security Enforcement Objective;
- (h) if the Security Agent is unable to obtain a Financial Advisers' Opinion after attempting to do so (and after considering making such modifications to the enforcement process as may be reasonably available and consistent with the Security Enforcement Principles to obtain such opinion) because such opinions are not generally available in the market in such circumstances it shall notify the Credit Facility Agent, each Pari Passu Debt Representative and each Hedge Counterparty and may proceed to enforce the Transaction Security without needing to demonstrate (by way of a Financial Adviser's Opinion or otherwise) that such enforcement is aiming to achieve the Security Enforcement Objective; and
- (i) the Financial Advisers' Opinion will be conclusive evidence that the Security Enforcement Objective has been met.

Exercise of voting rights

Each Creditor (other than each Creditor Representative or any arranger of a Credit Facility, Pari Passu Debt and any High Yield Debt (collectively, the "Arrangers")) will cast its vote in any proposal put to the vote by or under the supervision of any judicial or supervisory authority in respect of any insolvency, pre insolvency or rehabilitation or similar proceedings relating to any member of the Group as instructed by the Security Agent, and the Security Agent shall give instructions for these purposes as directed by the Instructing Group, *provided* that such instructions have been given in accordance with the terms of the Intercreditor Agreement.

Turnover

Turnover by Primary Creditors

The Intercreditor Agreement will provide that if, at any time prior to the Final Discharge Date, any Primary Creditor receives or recovers the proceeds of any enforcement of any Transaction Security, or certain other proceeds, in each case other than in accordance with the payment waterfall described in "*—Application of Proceeds from Enforcement of Transaction Security*", that Primary Creditor will, subject to certain exceptions:

- (a) in relation to receipts or recoveries not received or recovered by way of set off, (i) hold that amount on trust for the Security Agent and promptly pay that amount to the Security Agent for application in accordance with the terms of the Intercreditor Agreement; and (ii) promptly pay an amount equal to the amount (if any) by which receipt or recovery exceeds the relevant liabilities owed to such creditor to the Security Agent for application in accordance with the terms of the Intercreditor Agreement; and
- (b) in relation to receipts and recoveries received or recovered by way of set off, promptly pay an amount equal to that recovery to the Security Agent for application in accordance with the terms of the Intercreditor Agreement.

Turnover by the other Creditors

The Intercreditor Agreement will provide, subject to certain exclusions, that if any Creditor other than a Primary Creditor receives or recovers prior to the Final Discharge Date:

- (a) any payment or distribution of, or on account of, or in relation to any of the liabilities which is not otherwise permitted under the Intercreditor Agreement or made in accordance with the payment waterfall described in "*—Application of Proceeds from Enforcement of Transaction Security*";
- (b) other than by way of set off permitted under the Intercreditor Agreement, any amount by way of set off in respect of any the liabilities which does not give effect to a payment which is

otherwise permitted to be made or received by the relevant creditor under the Intercreditor Agreement;

- (c) other than by way of set off permitted under the Intercreditor Agreement, any amount on account of, or in relation to, or by way of set off in respect of, any of the liabilities after the enforcement of any acceleration rights under an Acceleration Event, or the enforcement of any Transaction Security (together with an Acceleration Event, a “Distress Event”) or as a result of any other litigation or proceedings against a member of the Group (other than after the occurrence of an insolvency event in respect of that member of the Group), other than, in each case, any amount received or recovered in accordance with the payment waterfall described in “—*Application of Proceeds from Enforcement of Transaction Security*”;
- (d) the proceeds of any Distressed Disposal; or
- (e) other than by way of set off permitted under the Intercreditor Agreement, any distribution or payment of, or on account of or in relation to, any of the liabilities owed by any member of the Group which is not made in accordance with the payment waterfall described in “—*Application of Proceeds from Enforcement of Transaction Security*” and which is made as a result of, or after, the occurrence of an insolvency event in respect of that Debtor,

the relevant Creditor will:

- (i) in relation to receipts or recoveries not received or recovered by way of set off, (A) hold that amount on trust for the Security Agent and promptly pay that amount to the Security Agent for application in accordance with the terms of the Intercreditor Agreement; and (B) promptly pay an amount equal to the amount (if any) by which receipt or recovery exceeds the relevant liabilities owed to such creditor to the Security Agent for application in accordance with the terms of the Intercreditor Agreement; and
- (ii) in relation to receipts and recoveries received or recovered by way of set off, promptly pay an amount equal to that recovery to the Security Agent for application in accordance with the terms of the Intercreditor Agreement.

Application of proceeds from Enforcement of Transaction Security

The Intercreditor Agreement will provide that all amounts received or recovered by the Security Agent pursuant to the terms of any Debt Document or in connection with the realization or enforcement of all or any part of the Transaction Security will be applied in the following order of priority:

- (a) *first*, in discharge of any sums owed to the Security Agent or any receiver or delegate, and in payment to the Creditor Representatives of the fees, costs and expenses owed to them pursuant to the Debt Documents or any engagement letter between a Creditor Representative and a Debtor, including any costs incurred by a Creditor Representative in connection with any enforcement action permitted by the Intercreditor Agreement;
- (b) *second*, in discharging all costs and expenses incurred by any Primary Creditor in connection with any realization or enforcement of the Transaction Security taken in accordance with the terms of the Intercreditor Agreement or any action taken at the request of the Security Agent pursuant to the Intercreditor Agreement;
- (c) *third, pari passu and pro rata* in payment or distribution to: (i) each Creditor Representative in respect of a Credit Facility (on its own behalf and on behalf of those Credit Facility Lenders for which it is the Creditor Representative), and (ii) the Super Senior Hedge Counterparties, for application towards the discharge of: (A) the Credit Facility Liabilities on a *pro rata* basis between Credit Facility Liabilities incurred under separate Credit Facility Documents, and (B) the Super Senior Hedging Liabilities on a *pro rata* basis between the Super Senior Hedging Liabilities of each Super Senior Hedge Counterparty;

- (d) *fourth, pari passu and pro rata* in payment or distribution to: (i) each Pari Passu Debt Representative in respect of the Pari Passu Debt Liabilities (on its own behalf and on behalf of those Pari Passu Creditors for which it is the Creditor Representative), and (ii) the Pari Passu Hedge Counterparties, for application towards the discharge of: (A) the Pari Passu Debt Liabilities on a *pro rata* basis between Pari Passu Debt Liabilities under separate Pari Passu Debt Documents, and (B) the Pari Passu Hedging Liabilities on a *pro rata* basis between the Pari Passu Hedging Liabilities of each Pari Passu Hedge Counterparty;
- (e) *fifth*, to the extent paid out of enforcement proceeds resulting from the enforcement of High Yield Debt Shared Security, in payment or distribution to: (i) prior to the High Yield Liabilities Assignment Date, each High Yield Representative in respect of the High Yield Liabilities (on its own behalf and on behalf of the High Yield Debt Creditors for which it is the Creditor Representative), for application towards the discharge of the High Yield Liabilities on a *pro rata* basis between High Yield Liabilities under separate High Yield Debt Documents; or (ii) on or after the High Yield Liabilities Assignment Date, each High Yield Representative on behalf of the High Yield Debt Sellers, or if there is no High Yield Debt Sellers Agent acting on behalf of the High Yield Debt Sellers, such High Yield Debt Sellers for application towards the discharge of the High Yield Liabilities Deferred Consideration;
- (f) *sixth*, if no Debtor is under any further liability (actual or contingent) under any Credit Facility Document, Hedging Agreement, Pari Passu Debt Document or High Yield Debt Document, in payment or distribution to any person to whom the Security Agent is obliged to pay or distribute in priority to any Debtor; and
- (g) *seventh*, the balance, if any, in payment or distribution to the relevant Debtors.

Release of the Guarantees and the Security

Non-Distressed Disposal

In circumstances where a disposal of an asset of a member of the Group or an asset which is subject to Transaction Security is being effected, to a person or persons outside the Group, or a merger, reorganization, amalgamation or combination of the foregoing which relates to any assets which is subject to Transaction Security is required to be released, where: (A) the Credit Facility Agent notifies the Security Agent that the disposal is not prohibited under the Credit Facility Documents or the Credit Facility Agent authorizes the release; (B) two directors of the Parent certify that the transaction and (if applicable) the release of Transaction Security is not prohibited under the Pari Passu Debt Documents (provided that such certificate has been provided to each Pari Passu Debt Representative and each Pari Passu Debt Representative has not objected within 5 days of receipt of such certificate) or each Pari Passu Debt Representative authorizes the release; (C) two directors of the Parent certify that the transaction and (if the disposal is of property secured by High Yield Debt Shared Security) the release of Transaction Security is not prohibited under the High Yield Debt Documents (provided that such certificate has been provided to the High Yield Representative(s) who have not objected within 5 days of receipt of such certificate) or the Required High Yield Creditors authorize the release; and (D) that disposal is not a Distressed Disposal (as defined below), such disposal will be treated for the purposes of the Intercreditor Agreement as a “Non Distressed Disposal”.

Where a Non Distressed Disposal is being effected, the Intercreditor Agreement will provide that the Security Agent is authorized (i) to release the Transaction Security or any other claim relating to a Debt Document over the relevant asset; (ii) if the relevant asset consists of shares in the capital of a member of the Group, to release the Transaction Security or any other claim relating to a Debt Document over the assets of that member of the Group and over such shares; and (iii) to execute and deliver any release of the Transaction Security or any claim described above and issue any certificates of non crystallization of any floating charge or any consent to dealing that may be considered necessary or desirable (in the Security Agent’s discretion).

If any proceeds from a Non Distressed Disposal are required to be applied in mandatory prepayment of any of the Credit Facility Liabilities, the Pari Passu Debt Liabilities or the High Yield Debt Liabilities, then such proceeds will be applied in or towards payment of such liabilities in accordance with the relevant Debt Documents and the consent of any other party will not be required for that application.

Distressed Disposal

The Intercreditor Agreement will contain provisions to govern disposals of any assets which are subject to the Transaction Security of a member of the Group and which are (a) being effected at the request of the Instructing Group in circumstances where the Transaction Security has become enforceable; (b) being effected by enforcement of the Transaction Security (or simultaneously therewith) subject to certain exclusions; or (c) being effected, after the occurrence of a Distress Event by a Debtor to a person or persons which is, or are, not a member, or members, of the Group (such disposal being a “Distressed Disposal” (and for these purposes “Distressed Disposal” shall include a foreclosure made in accordance with French law and any sale by a special purpose vehicle set up to beneficially own the Group, following such foreclosure)).

Where a Distressed Disposal is being effected, the Intercreditor Agreement will provide that the Security Agent is authorized:

- (1) to release the Transaction Security or any other claim over the asset subject to the Distressed Disposal, and execute and deliver any release of that Transaction Security or claim and issue any letters of non crystallization of any floating charge or any consent to dealing that may be considered necessary or desirable (in the Security Agent’s discretion);
- (2) if the asset subject to the Distressed Disposal consists of shares in the capital of a Debtor, to release: (i) the Transaction Security over the assets of that Debtor or any subsidiary of that Debtor; (ii) that Debtor and any subsidiary of that Debtor from all or any part of its borrowing liabilities in respect of the Debt Documents (“Borrowing Liabilities”), its liabilities as guarantor in respect of the Debt Documents (“Guarantee Liabilities”) and any trading or other liabilities it may have to a Subordinated Creditor, Intra Group Lender or another Debtor (“Other Liabilities”); and (iii) any other claim of a Subordinated Creditor, an Intra Group Lender or another Debtor over the relevant assets;
- (3) if the asset subject to the Distressed Disposal consists of shares in the capital of any holding company of a Debtor, to release: (i) any Transaction Security over the assets of any subsidiary of that holding company; (ii) that holding company and any subsidiary of that holding company from all or any part of its borrowing liabilities in respect of the Debt Documents, its liabilities as a guarantor in respect of the Debt Documents and any Other Liabilities; (iii) any other claim of a Subordinated Creditor, an Intra Group Lender or another Debtor over the relevant assets;
- (4) if the asset subject to the Distressed Disposal consists of shares in the capital of a Debtor or the holding company of a Debtor, and the Security Agent decides to dispose of all or any part of: (i) the liabilities owed by any member of the Group to any Creditor under the Debt Documents (the “Liabilities”) (other than Liabilities owed to any Creditor Representative or an Arranger); or (ii) the receivables owed to any Debtor by any member of the Group (the “Debtors’ Intra Group Receivables”), which in each case are owed by that Debtor or holding company or subsidiary of that Debtor or holding company, on the basis that the transferee of such Liabilities or Debtor’s Intra Group Receivables will not be treated as a Primary Creditor or Secured Party for the purposes of the Intercreditor Agreement, to execute and deliver or enter into any agreement to dispose of all or part of those Liabilities or Debtors’ Intra Group Receivables on behalf of the relevant creditors and Debtors;
- (5) if the asset subject to the Distressed Disposal consists of shares in the capital of a Debtor or the holding company of a Debtor and the Security Agent decides to dispose of all or any part of: (i) the Liabilities (other than Liabilities owed to any Creditor Representative of an Arranger); or (ii) the Debtors’ Intra Group Receivables, owed in each case by that Debtor or holding company or any subsidiary of that Debtor or holding company, on the basis that the proposed transferee will be treated as a Primary Creditor or Secured Party for the purposes of the Intercreditor Agreement, to execute and deliver or enter into any agreement to dispose of: (A) all (but not part only) of the Liabilities owed to the Primary Creditors (other than to any Creditor Representative or Arranger); and (B) all or part of any Other Liabilities (other than to any Creditor Representative or Arranger) and the Debtors’ Intra Group Receivables; and

- (6) if the asset subject to the Distressed Disposal consists of shares in the capital of a Debtor or the holding company of a Debtor and the Security Agent decides to transfer to another Debtor any of that entity's obligations (or the obligations of any of its subsidiaries) in respect of the Intra Group Liabilities, the Debtors' Intra Group Receivables or the Subordinated Liabilities, to execute and deliver or enter into any agreement to: (i) agree to the transfer of all or part of the obligations in respect of those Intra Group Liabilities, Debtors' Intra Group Receivables or Subordinated Liabilities on behalf of the relevant persons to which those obligations are owed and on behalf of the Debtors which owe those obligations; and (ii) to accept the transfer of all or part of the obligations in respect of those Intra Group Liabilities, Debtors' Intra Group Receivables or Subordinated Liabilities on behalf of the person or persons to whom such obligations will be transferred.

The net proceeds of each Distressed Disposal (and the net proceeds of any disposal of Liabilities or Debtors' Intra Group Receivables) shall be paid to the Security Agent for application in accordance with the payment waterfall described in "*—Application of Proceeds from Enforcement of Transaction Security*" above, and to the extent a disposal of Liabilities or Debtors' Intra Group Receivables has occurred under paragraph (5) above, as if that disposal of Liabilities or Debtors' Intra Group Receivables had not occurred. Where liabilities resulting from borrowing in respect of any Super Senior Liabilities, Pari Passu Debt Liabilities or High Yield Debt Liabilities would otherwise be released pursuant to the application of disposal proceeds described in the paragraph above, the Creditor concerned may elect to have those borrowing liabilities transferred to, in which case the Security Agent is authorized to execute such documents as are required to transfer such borrowing liabilities.

If a Distressed Disposal is being effected at a time when the Majority High Yield Creditors have validly given enforcement instructions in accordance with the terms of the Intercreditor Agreement, the Security Agent is not authorized to release any Debtor, subsidiary or holding company from any Borrowing Liabilities, Guarantee Liabilities or Other Liabilities which are owed to any Secured Creditor unless such liabilities will be paid in full following that release. Notwithstanding the foregoing, if any High Yield Debt Liabilities are outstanding and a Distressed Disposal is being effected such that the High Yield Debt Shared Security and the guarantees given by the High Yield Guarantors in respect of the High Yield Debt Liabilities will be released, the Intercreditor Agreement will require as a further condition to such release or disposal that either the Majority High Yield Creditors approve such release or disposal, or where such shares or assets are sold or disposed of:

- (1) the proceeds of such sale or disposal are substantially in cash;
- (2) all claims of the Primary Creditors against any member of the Group and any subsidiary of such member of the Group whose shares which are owned by a Debtor are pledged in favor of the Primary Creditors are sold or disposed of pursuant to such Distressed Disposal, are unconditionally released and discharged concurrently with such sale, and all Collateral in respect of the assets sold is released and discharged concurrently, provided that in the event of a sale or disposal of any such claim (as opposed to a release or discharge):
- (3) the Instructing Group determines (acting reasonably and in good faith) that the Secured Parties will recover more than if such claim was released or discharged; and
- (4) the Creditor Representatives (and Hedge Counterparties, if applicable) representing the Instructing Group serve a notice on the Security Agent, notifying it of the same, whereupon the Security Agent is entitled to immediately sell and transfer such claim to the purchaser; and
- (5) either:
 - (i) such sale or disposal is made pursuant to a public auction or other competitive sale process by or on behalf of the Security Agent (subject to further conditions as set out in the Intercreditor Agreement); or
 - (ii) an opinion is obtained from an independent internationally recognized investment bank or accountancy firm which states (A) that the consideration received is fair from a financial point of view; (B) the optimal method of enforcing the Transaction Security so as to achieve the Enforcement Objective (as described in "*—Security Enforcement Principles*" above) and maximize the recovery of any such enforcement

action; and (C) that such sale is otherwise in accordance with the Security Enforcement Principles.

Refinancing and increase of Primary Creditor Liabilities

Primary Creditor Liabilities Refinancing. The Primary Creditor liabilities may be refinanced, replaced or increased or otherwise restructured in whole or in part on terms that do not breach the terms of the Intercreditor Agreement, the Credit Facility Documents, any Pari Passu Debt Document or any High Yield Debt Document without the consent of any other creditors under the Intercreditor Agreement so that:

- any obligations incurred by any Debtor or other member of the Group pursuant to such increase, refinancing or replacement of any Credit Facility Liabilities (the “Credit Facility Refinancing Liabilities”), any Pari Passu Debt Liabilities (the “Pari Passu Refinancing Liabilities”) or any High Yield Debt Liabilities (the “High Yield Refinancing Liabilities”) (together, the “Secured Refinancing Liabilities”) will, to the extent so designated by the Parent or the Issuer, (A) in the case of Credit Facility Refinancing Liabilities rank as Credit Facility Liabilities, (B) in the case of Pari Passu Debt Refinancing Liabilities rank as Pari Passu Debt Liabilities and (C) in the case of High Yield Refinancing Liabilities rank as High Yield Debt Liabilities as provided for in the Intercreditor Agreement; and
- the Transaction Security Documents shall secure such Secured Refinancing Liabilities and in respect of such Transaction Security Documents and any new security granted by any member of the Group to secure such Secured Refinancing Liabilities, such Secured Refinancing Liabilities will, (A) in the case of Credit Facility Refinancing Liabilities rank as Credit Facility Liabilities, (B) in the case of Pari Passu Debt Refinancing Liabilities rank as Pari Passu Debt Liabilities and (C) in the case of High Yield Refinancing Liabilities rank as High Yield Debt Liabilities, (A) in the case of Credit Facility Refinancing Liabilities rank as Credit Facility Liabilities, (B) in the case of Pari Passu Debt Refinancing Liabilities rank as Pari Passu Debt Liabilities and (C) in the case of High Yield Refinancing Liabilities rank as High Yield Debt Liabilities as provided for in the Intercreditor Agreement; and
- the Intercreditor Agreement shall be construed to permit the assumption of any Secured Refinancing Liabilities and to give effect to the ranking set out in the two preceding paragraphs, provided that: (A) any trustee or representative of the creditors of such Secured Refinancing Liabilities (a “Refinancing Representative”), accedes to the Intercreditor Agreement in accordance with its terms on the same terms as the applicable creditor representative; and (B) each creditor in relation to such Secured Refinancing Liabilities (that is not a Refinancing Representative) accedes to the Intercreditor Agreement in accordance with its terms or is deemed to accede to the Intercreditor Agreement pursuant to the terms of its relevant finance documents, in each case on the same terms as the applicable secured creditor.

Further assurance. The Security Agent and each Note Trustee is authorized by the Intercreditor Agreement to enter into such documentation with the relevant Debtors as may be necessary to ensure that any obligations and liabilities incurred by the Debtors in respect of such New Money and Refinancing Liabilities will have the ranking and the benefit of the Transaction Security (and that the creditors under such New Money and Refinancing Liabilities will have the rights and obligations) permitted to be conferred upon it in accordance with the Debt Documents (including, without limitation, the entry into a new intercreditor agreement).

Release of Security. Where the terms of a refinancing, restructuring, replacement, or increase in the above context requires the amendment, confirmation or release of any security by the Security Agent, the Security Agent shall confirm, amend or release such security which has been granted to it provided that such amendment, confirmation or release occurs on the date of such refinancing, restructuring, replacement or increase and in respect of any such release, such security released is immediately retaken and there is no reasonable alternative for achieving the same result without triggering security hardening periods.

Amendment

In addition to customary minor, technical or administrative matter amendments by the Security Agent, and subject to the exceptions set out below, the Intercreditor Agreement will provide that it may be amended

with only the consent of the Creditor Representatives, the Required Super Senior Creditors, the Required Pari Passu Creditors, the Required High Yield Creditors and the Security Agent.

The Intercreditor Agreement will further provide that any amendments, waivers or consents which have the effect of changing or which relate to: (a) the order of priority or subordination set out in the Intercreditor Agreement; or (b) the provisions of the Intercreditor Agreement relating to redistribution, the application of proceeds, enforcement of Transaction Security, certain instructions to the Security Agent, new money and refinancing, or amendments and consents, may not be made without the consent of (i) the Creditor Representatives; (ii) the Credit Facility Lenders; (iii) the Notes Trustee and any other notes trustee in respect of notes which constitute Pari Passu Debt Liabilities; (iv) the Pari Passu Creditors which are lenders of a credit facility constituting Pari Passu Debt Liabilities; (v) each Hedge Counterparty (to the extent that the amendment or waiver would adversely affect the Hedge Counterparty); (vi) each High Yield Notes Trustee and any High Yield Debt Creditors in respect of any credit facility constituting High Yield Debt Liabilities; (vii) the Security Agent; and (viii) the Parent. The Security Enforcement Principles may be amended or waived with the consent of the Required Super Senior Creditors and the Required Pari Passu Creditors and the Security Agent, without the consent of the Parent, any Debtor, Intra Group Lender or Subordinated Creditor to the extent that the amendment or waiver does not impose obligations on such person.

If, however, an amendment, waiver or consent may impose new obligations on or withdraw or reduce the rights of any party to the Intercreditor Agreement, the consent of that party is required, unless (i) in the case of a Primary Creditor, in a way which affects the Primary Creditors of that party's class generally; or (ii) in the case of a Debtor, to the extent consented to by the Parent in accordance with the Intercreditor Agreement.

Option to purchase: Notes Creditors and Pari Passu Creditors

After a Distress Event, by giving not less than ten days' prior written notice to the Security Agent, some or all of the Pari Passu Creditors (the "Purchasing Secured Creditors"), having given all other Pari Passu Creditors the opportunity to participate in such purchase, may require the transfer to them of all (but not part) of the rights, benefits and obligations in respect of the Credit Facility Liabilities if:

- (1) the transfer is lawful and otherwise permitted by the terms of the relevant Credit Facility Document;
- (2) any conditions relating to such transfer contained in the relevant Credit Facility Document are complied with;
- (3) the Credit Facility Agent (on behalf of the Credit Facility Lenders) is paid an amount by the Purchasing Secured Creditors equal to (i) any amounts provided as cash cover by the Purchasing Secured Creditors for any letter of credit, (ii) all of the Credit Facility Liabilities at that time (whether or not due) including all amounts which would have been payable under the Credit Facility Documents if the relevant Debtors were prepaying all the Credit Facility Liabilities on that date, and (iii) all costs and expenses (including legal fees) incurred by the relevant agent and/or Credit Facility Lenders as a consequence of that transfer;
- (4) as a result of that transfer the Credit Facility Lenders have no further actual or contingent liabilities to any Debtor under the Debt Documents;
- (5) an indemnity is given by the Purchasing Secured Creditors in a form satisfactory to each Credit Facility Lender in respect of all losses which may be sustained or incurred by any Credit Facility Lender as a result of any sum received or recovered by such lender from any person being required to be paid back by or clawed back from any such lender; and
- (6) the transfer is made without recourse to, or representation or warranty from, the Credit Facility Lenders, save that each Credit Facility Lender is deemed to represent and warrant on the transfer date that it has the corporate power to effect the transfer and has taken all necessary action to authorize the making of that transfer.

Subject to certain exceptions, the Purchasing Secured Creditors may only require a transfer of the Credit Facility Liabilities under the Intercreditor Agreement if at the same time they require a transfer to them of

each Hedging Agreement to the extent it constitutes Super Senior Hedging Liabilities (together with all related rights and obligations).

Option to purchase: High Yield Debt Creditors

After a Distress Event, by giving not less than ten days' prior written notice to the Security Agent, some or all of the High Yield Debt Creditors (the "Purchasing High Yield Creditors"), having given all other High Yield Debt Creditors the opportunity to participate in such purchase, may, until the date on which a public auction or other competitive sale process by or on behalf of the Security Agent takes place in respect of Investment Instruments issued by the Parent or the Issuer, require the transfer to them of all (but not part) of the rights, benefits and obligations in respect of the Credit Facility Liabilities and the Pari Passu Debt Liabilities (a "Secured Creditor Liabilities Transfer") if:

- (1) the transfer is lawful and otherwise permitted by the terms of the relevant Credit Facility Document (in the case of the Credit Facility Liabilities) and the relevant Pari Passu Debt Document (in the case of the Pari Passu Debt Liabilities);
- (2) any conditions relating to such transfer contained in the relevant Credit Facility Document or Pari Passu Debt Document (as applicable) are complied with;
- (3) the Credit Facility Agent (on behalf of the Credit Facility Lenders) is paid an amount by the Purchasing High Yield Creditors equal to (i) any amounts provided as cash cover by the Purchasing High Yield Creditors for any letter of credit, (ii) all of the Credit Facility Liabilities at that time (whether or not due) including all amounts which would have been payable under the Credit Facility Documents if the relevant Debtors were prepaying all the Credit Facility Liabilities on that date, and (iii) all costs and expenses (including legal fees) incurred by the relevant agent and/or Credit Facility Lenders as a consequence of that transfer;
- (4) the Pari Passu Debt Representative(s) (on behalf of the Pari Passu Creditors) is paid an amount by the Purchasing High Yield Creditors equal to (i) all of the Pari Passu Debt Liabilities at that time (whether or not due) including all amounts which would have been payable under the Pari Passu Debt Documents if the relevant Debtors were prepaying all the Pari Passu Debt Liabilities on that date, and (iii) all costs and expenses (including legal fees) incurred by the relevant agent and/or Pari Passu Creditors as a consequence of that transfer;
- (5) as a result of that transfer the Credit Facility Lenders and the Pari Passu Creditors have no further actual or contingent liabilities to any Debtor under the Debt Documents;
- (6) an indemnity is given by the Purchasing High Yield Creditors in a form satisfactory to each Credit Facility Lender and Pari Passu Creditor in respect of all losses which may be sustained or incurred by any Credit Facility Lender and Pari Passu Creditor as a result of any sum received or recovered by such lender from any person being required to be paid back by or clawed back from any such lender; and
- (7) the transfer is made without recourse to, or representation or warranty from, the Credit Facility Lenders or the Pari Passu Creditors, save that each Credit Facility Lender and Pari Passu Creditor is deemed to represent and warrant on the transfer date that it has the corporate power to effect the transfer and has taken all necessary action to authorize the making by it of that transfer.

Subject to certain exceptions, the Purchasing High Yield Creditors may only require a Secured Creditor Liabilities Transfer under the Intercreditor Agreement if at the same time they require a transfer to them of each Hedging Agreement (together with all related rights and obligations).

Governing Law

The Intercreditor Agreement will be governed by and construed in accordance with English law.

DESCRIPTION OF NOTES

Seven Energy Finance Limited (the “Issuer”) will issue the Notes under an indenture (the “Indenture”) among, *inter alios*, itself, as issuer, Seven Energy International Limited (the “Company”), the Subsidiary Guarantors, Law Debenture Trustees Limited, as trustee (the “Trustee”), The Law Debenture Trust Corporation p.l.c., as security agent (the “Security Agent”), and Deutsche Bank Luxembourg S.A., 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. 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 terms of the Notes include those set forth in the Indenture. 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 the Intercreditor Agreement and certain other agreements relating to the Notes. This description does not restate those agreements in their entirety. We urge you to read the Indenture, the Notes and the Intercreditor Agreement because they, and not this description, define your rights as holders of the Notes. Copies of the Indenture, the form of Note and the Intercreditor Agreement are available as set forth below under “—Additional Information.”

Certain defined terms used in this “Description of Notes” but not defined below under “—Certain Definitions” have the meanings assigned to them in the Indenture. You can find the definitions of certain terms used in this “Description of Notes” under the subheading “—Certain Definitions.” For purposes of this “Description of Notes,” the term “Issuer” refers only to Seven Energy Finance Limited and not to any of its subsidiaries, and the term “Company” refers only to Seven Energy International Limited and not to any of its subsidiaries. Unless the context requires otherwise, references in this “Description of Notes” to the “Notes” include the Notes and any additional Notes that are issued under the Indenture.

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 senior obligations of the Issuer;
- be secured as described under “—Notes Security”;
- be effectively subordinated to any existing and future Indebtedness of the Issuer, to the extent such Indebtedness is secured by Liens senior to the Liens securing the Notes, or secured by property and assets that do not secure the Notes, to the extent of the value of the property and assets securing such Indebtedness;
- rank *pari passu* in right of payment with all existing and future Indebtedness of the Issuer that is not expressly subordinated in right of payment to the Notes;
- rank senior in right of payment to any future Indebtedness of the Issuer that is expressly subordinated in right of payment to the Notes;
- be fully and unconditionally guaranteed on a senior basis by the Guarantors, subject to limitations under applicable law as set forth below under the caption “—Note Guarantees”;
- be subject to collateral sharing provisions with certain creditors under any future Indebtedness that is permitted to share in the Collateral (as defined below) pursuant to clauses (3) or (4) of the definition of Permitted Collateral Liens, including Indebtedness that is entitled to receive priority with respect to certain proceeds received upon any enforcement over any Collateral pursuant to the terms of the Intercreditor Agreement as described under the caption “Description of Certain Financing Arrangements—Intercreditor Agreement”; and

- be structurally subordinated to all obligations of the Company’s Subsidiaries that are not Guarantors (other than the Issuer), including obligations under the Accugas Facilities, the Akwa Ibom State Loan and the Bank of Industry Loan.

The Note Guarantees

The Notes will be guaranteed by the Guarantors.

Each Note Guarantee will:

- be a general obligation of the applicable Guarantors;
- be secured as described under “—Security”;
- be effectively subordinated to any existing and future Indebtedness of the applicable Guarantor, to the extent such Indebtedness is secured by Liens senior to the Liens securing such Note Guarantee, or secured by property and assets that do not secure the Note Guarantee, to the extent of the value of the property and assets securing such Indebtedness, including, with respect to the Company, obligations under the Accugas Facilities;
- rank *pari passu* in right of payment with all existing and future Indebtedness of that Guarantor that is not expressly subordinated in right of payment to such Note Guarantee, including, with respect to Seven Uquo Gas Limited, obligations under the Accugas Facilities;
- be senior in right of payment to any future Indebtedness of that Guarantor that is expressly subordinated in right of payment to the relevant Note Guarantee; and
- be subject to collateral sharing provisions with certain creditors under any future Indebtedness that is permitted to share in the Collateral pursuant to clauses (3) or (4) of the definition of Permitted Collateral Liens, including Indebtedness that is entitled to receive priority with respect to certain proceeds received upon any enforcement over any Collateral pursuant to the terms of the Intercreditor Agreement as described under the caption “Description of certain financing arrangements—Intercreditor Agreement”.

Not all of the Company’s Subsidiaries will guarantee the Notes on the Issue Date and the Issuer will not have any obligation to cause any of the Company’s 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 non-guarantor Subsidiary, the non-guarantor 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. The Issuer and the Guarantors represented 97.9% of our 1P reserve base as of December 31, 2013, 45.1% of our property plant and equipment – oil and gas assets as of June 30, 2014 and 100% of our current production and 96.2% of our combined *pro forma* EBITDAX as of and for the twelve months ended June 30, 2014, after giving effect to the EHGC Acquisition as if it occurred on January 1, 2013 (percentage of *pro forma* EBITDAX calculation includes only entities with positive EBITDAX). After giving effect to the EHGC Acquisition as if it occurred on January 1, 2013 (the percentage of *pro forma* EBITDAX calculation has been calculated to include only entities with positive EBITDAX). Based on internal projections, we expect that over the life of the Notes the contribution to our revenue and EBITDAX from the Issuer and the Guarantors will decline as a percentage of our total consolidated revenue and EBITDAX. After giving effect to the use of proceeds from the Offering, debt at non-guarantor subsidiaries as of June 30, 2014 included (i) \$325.0 million outstanding under the Accugas Facilities, (ii) \$9.9 million outstanding under the Akwa Ibom State Loan and (iii) \$44.0 million outstanding under the Bank of Industry Loan. See “Description of certain financing arrangements,” “Capitalization” and “Risk factors—Risk factors relating to the Notes—The Notes and Note Guarantees will be structurally subordinated to the liabilities and any preferred stock of our non-guarantor subsidiaries.”

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.

Principal, Maturity and Interest

The Issuer will issue \$300.0 million in aggregate principal amount of Notes in this offering. The Issuer may issue additional Notes (the “Additional Notes”) under the Indenture from time to time after this offering. Any issuance of Additional Notes is 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. The Issuer will issue Notes in minimum denominations of \$200,000 and integral multiples of \$1,000 in excess thereof. The Notes will mature on October 11, 2021.

Interest on the Notes will accrue at the rate of 10.250% per annum and will be payable semi-annually in arrears on April 11 and October 11, commencing on April 11, 2015. 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 Issuer will make each interest payment to the holders of record on the immediately preceding April 1 and October 1.

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 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 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 Euroclear or Clearstream, as the case may be, or persons that may hold interests through such participants, including through Euroclear and Clearstream. 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 Euroclear or participants in Clearstream will be effected by Euroclear or Clearstream pursuant to customary procedures and subject to the applicable rules and procedures established by 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.

Any Book-Entry Interest that is transferred 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 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, opinions and other documentation required by the Indenture. It is expected that such instructions will be based upon directions received by Euroclear or Clearstream, as the case may be, from the participant that 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 Issuer 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 denominations of \$200,000 in principal amount or integral multiples of \$1,000 in excess thereof. In connection with any such transfer or exchange, the Indenture will require the transferring or exchanging holder, among other things, to furnish appropriate endorsements and transfer documents, to furnish information regarding the account of the transferee at 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 taxes, duties and governmental charges payable in connection with such transfer or exchange.

Notwithstanding the foregoing, the Issuer 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 Issuer will maintain one or more paying agents (each, a “Paying Agent”) for the Notes. The Issuer will ensure that it maintains a Paying Agent in a member state of the European Union that will not be obligated to withhold or deduct tax pursuant to the European Union Directive 2003/48/EC as amended or supplemented from time to time, including through European Council Directive 2014/48/EU, or any other directive implementing the conclusions of the ECOFIN Council meeting of 26 and 27 November 2000 on the taxation of savings income, or any law implementing, or complying with or introduced in order to conform to, such directive. The initial Paying Agent will be Deutsche Bank AG, London Branch.

The Issuer will also maintain both a registrar (the “Registrar”) and a transfer agent (the “Transfer Agent”). The initial Registrar will be Deutsche Bank Luxembourg S.A. and the initial Transfer Agent will be Deutsche Bank Luxembourg S.A.. 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 facilitate transfers of any Definitive Registered Notes on behalf of the Issuer.

The Issuer 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 Irish Stock Exchange and its rules so require, the Issuer will publish a notice of any change of Paying Agent, Registrar or Transfer Agent in a newspaper having a general circulation in Dublin (which is expected to be *The Irish Times*) or, to the extent and in the manner permitted by such rules, post such notice on the official website of the Irish Stock Exchange (www.ise.ie).

Note Guarantees

The Notes will be guaranteed on a senior basis by the Company, Seven Energy Ltd., Seven Energy (BVI) Limited, Seven Uquo Gas Limited, Seven Energy (Jersey) Limited and Seven Exploration & Production Limited. These Note Guarantees will be joint and several obligations of the Guarantors.

The obligations of the Guarantors will be 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 “Risk factors—Risk factors relating to the Notes—Each Guarantee will be subject to certain limitations on enforcement and may be limited by applicable laws or subject to certain defenses that may limit its validity and enforceability.”

Note Guarantees Release

The Note Guarantee of a Guarantor will be automatically and unconditionally released (and thereupon will terminate and be discharged and be of no further force and effect):

- (1) (with respect to a Note Guarantee provided by a Subsidiary Guarantor only), in connection with any sale or other disposition of all or substantially all of the properties or assets of that

Guarantor or any holding company of that Subsidiary Guarantor other than the Company (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) (with respect to a Note Guarantee provided by a Subsidiary Guarantor only), in connection with any sale or other disposition of all of the Capital Stock of that Subsidiary Guarantor or any holding company of that Subsidiary Guarantor other than the Company (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”;
- (3) (with respect to a Note Guarantee provided by a Subsidiary Guarantor only), if the Company designates such Subsidiary 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 no Default or Event of Default has occurred or is continuing;
- (6) as described under “—Amendment, Supplement and Waiver”;
- (7) 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;
- (8) as described in the fourth paragraph of the covenant described below under “—Certain Covenants— Limitation on Guarantees of Indebtedness by Restricted Subsidiaries”; or
- (9) in connection with certain enforcement actions taken by the creditors under the Intercreditor Agreement or any Additional Intercreditor Agreement.

Upon any occurrence giving rise to a release of a Note Guarantee as specified above, the Trustee will execute any documents reasonably required in order to evidence or effect such release, discharge and termination in respect of such Note Guarantee. Notwithstanding the foregoing, neither the consent nor the acknowledgement of the Trustee shall be necessary to affect any such release. Neither the Trustee, the Issuer nor any Guarantor will be required to make a notation on the Notes to reflect any such release, termination or discharge.

Notes Security

The Notes and the Note Guarantees will initially be secured by contractual first priority Liens over the following assets (together, the “Collateral”):

- (1) the capital stock of Seven Energy Ltd. (Bermuda), Seven Energy (BVI) Limited, Seven Energy Finance Limited, Seven Exploration & Production Limited, Seven Uquo Gas Limited, Energy 905 Nigeria Limited and Seven Energy (Jersey) Limited;
- (2) the assets of Seven Energy Finance Limited (including receivables under the Proceeds Loan), Seven Energy (BVI) Limited, Seven Energy Ltd. (Bermuda) and Seven Energy International Limited pursuant to an English law debenture;
- (3) the assets of Seven Energy International Limited (subject to certain exceptions including for assets pledged to secure the Accugas Facilities) pursuant to a Mauritian law floating charge;

- (4) the assets of Seven Exploration & Production Limited (subject to certain exceptions including for assets pledged to secure the Accugas Facilities and shares of Accugas Limited) pursuant to a Nigerian law debenture; and
- (5) the assets of Seven Energy (Jersey) Limited pursuant to a Jersey law general security agreement.

The security interests will not extend to (a) assets, including bank accounts, held jointly with our commercial partners, (b) assets of Seven Energy International Limited and Seven Exploration & Production Limited pledged to secure the Accugas Facilities and (c) shares of Accugas and Universal Energy Resources Limited, Domestic Gas Development Company Limited, Septa Oil Trading Company Limited, East Horizon Gas Limited, Seven Energy (UK) Limited, Exoro Energy Limited and Exoro Holdings B.V. For a description of the Accugas Facilities, see “Description of certain financing arrangements—Accugas II Facility” and “Description of certain financing arrangements—Accugas III Facility.”

To the extent that all Liens securing the Notes on such assets comprising part of Collateral are released in accordance with the provisions described under the caption “—Release of the Collateral”, such assets shall no longer be considered part of the “Collateral”.

Under the Indenture, the Company and the Restricted Subsidiaries will be permitted to pledge the Collateral in connection with future issuances of Indebtedness, including any Additional Notes, in each case, permitted under the Indenture. The amount of any Permitted Collateral Liens will be limited by the covenants described under the captions “—Certain Covenants—Liens” and “—Certain Covenants—Incurrence of Indebtedness and Issuance of Preferred Stock.” Under certain circumstances, the amount of such additional Indebtedness secured by Permitted Collateral Liens could be significant.

Any additional security interests that are in the future pledged to secure obligations under the Notes, the Note Guarantees and the Indenture will also constitute Collateral. The Issuer, the Guarantors and the Security Agent will enter into certain security agreements defining the terms of the Collateral that secures the Notes and the Note Guarantees (the “Security Documents”).

Subject to the terms of the Indenture and the Security Documents, the Issuer and the Guarantors, as the case may be, will have the right to remain in possession and retain exclusive control of the Collateral, to freely operate the property and assets constituting Collateral and to exercise any and all voting rights and to receive and retain any and all cash dividends, stock dividends, liquidating dividends, non-cash dividends, shares of stock resulting from stock splits or reclassifications, rights issue, warrants, options and other distributions (whether similar or dissimilar to the foregoing) in respect of the shares that are part of the Collateral.

The Security Documents, respectively, will be governed by applicable local laws and provide that the rights with respect to the Notes and the Indenture must be exercised by the Security Agent and in respect of the entire outstanding amount of the Notes. See “Risk factors—Risks related to our structure and the Notes—Your ability to enforce on the security granted over our assets, particularly our Nigerian assets and shares of our Nigerian subsidiaries, may be limited.”

The Indenture will also provide that the Security Documents may be enforced only upon an acceleration of the amounts due under the Notes following an Event of Default. The Security Agent will enter into the Security Documents in its own name for the benefit of the Trustee and the Holders. Each Holder, by accepting a Note, appoints the Security Agent as its agent under the Security Documents and authorizes it to act as such. Neither the Trustee nor the Holders may, individually or collectively, take any direct action to enforce any rights in their favor under the Security Documents. The Holders may only act through the Security Agent. The Security Agent will agree to any release of the security interest created by the Security Documents that is in accordance with the Indenture without requiring any consent of the Holders.

Enforcement of the Collateral

The proceeds from any sale of the Collateral may not be sufficient to satisfy the obligations owed to the holders of the Notes. No appraisals of the Collateral have been made in connection with this offering of the Notes. By its nature, some or all of the Collateral will be illiquid and may have no readily ascertainable market value. Accordingly, the Collateral may not be able to be sold in a short period of time, or at all. Furthermore, the Collateral securing the Notes may be reduced or diluted under certain circumstances, including the issuance

of Additional Notes and the disposition of assets comprising the Collateral, subject to the terms of the Indenture. See “Risk factors—Risk factors related to the Notes—Your ability to enforce on the security granted over our assets, particularly our Nigerian assets and shares of our Nigerian subsidiaries, may be limited” and “Risk factors—Risk factors related to the Notes—The value of the Collateral securing the Notes and the Guarantees may not be sufficient to satisfy the Issuer’s and the Guarantors’ obligations under the Notes and the Guarantees, and the Collateral securing the Notes may be reduced or diluted under certain circumstances.”

In addition, the creation of enforceable security interests under Security Documents (a) entered into by the Company’s Nigerian Subsidiaries and/or (b) governed by Nigerian law will attract stamp duties and registration fees, which will not be fully stamped or paid until enforcement. Enforcement of Collateral under such Security Documents will therefore attract an “upstamping” and registration cost of up to 1.375% of the total amount of Indebtedness secured by such Collateral (or such other amount reflecting the relevant stamp duty and registration at the time), less the amount of stamp duties and registration fees initially stamped for and registered. See “Risk Factors—Risk factors relating to the Notes—Certain Collateral securing the Notes will neither be perfected nor enforceable for the full amount of the indebtedness thereby secured unless and until additional stamp duties and registration fees are paid in respect thereof by or on behalf of holders of Notes.” For further information regarding enforcement of Nigerian security, see “Legal and regulatory—Nigeria—Enforcement of Security under Nigerian law” and “Certain insolvency law considerations.”

Pursuant to the Intercreditor Agreement, the Security Agent will act on behalf of, and the Collateral will be shared equally and ratably among (but without prejudice to the agreed order of application of proceeds following the enforcement thereof), the holders of all indebtedness entitled to first-priority security in the Collateral under the Indenture. This indebtedness initially includes only the Notes, however, the Company and its Restricted Subsidiaries will be permitted to create, incur, assume or otherwise cause or suffer to exist other Permitted Collateral Liens as provided for under the caption “—Certain Covenants—Liens.” Under certain circumstances, the amount of such additional Debt secured by the Collateral could be significant.

Any liabilities in respect of obligations under revolving credit facility and certain obligations under Hedging Agreements that are permitted to share in the Collateral pursuant to clauses (3) or (4) of the definition of Permitted Collateral Liens and receive priority with respect to certain proceeds received upon any enforcement over any Collateral, will be so permitted pursuant to the terms of the Intercreditor Agreement as described under the caption “Description of certain financing arrangements—Intercreditor Agreement”. Any proceeds received upon any enforcement over any Collateral, after all obligations under any such future debt entitled to receive priority with respect to the application of proceeds have been discharged from such recoveries, will be applied *pro rata* in repayment of all obligations under the Indenture and the Notes and any other indebtedness of the Issuer and the Guarantors permitted to be incurred and secured by the Collateral pursuant to the Indenture and the Intercreditor Agreement.

The Intercreditor Agreement will also provide that if additional indebtedness is to be incurred which is permitted to share in the Collateral pursuant to the terms of the Indenture, all required documentation (including, if required, an Additional Intercreditor Agreement) will be entered into in order to ensure that any such indebtedness will have the ranking permitted to be conferred upon it in accordance with the terms of the Indenture; *provided* that such documentation does not adversely affect the interests of the Holders. Such amendments may be made without the consent of the Holders provided that such conditions are satisfied.

Priority of Payment

Subject to the Intercreditor Agreement, all moneys received as a result of any enforcement of the Collateral and credited to the Enforcement Proceeds Account will be applied promptly by the Security Agent in payment to the Trustee for application in making the following payments in the following order of priority:

- *first*, in payment to the payment of any fees, costs, indemnities, charges, disbursements, liabilities and expenses and all other amounts payable to (i) the Security Agent and the Trustee and then (ii) to the Paying Agent, Registrar and Transfer Agent, and any of their respective agents pursuant to the Indenture;
- *second*, in payment to the holders of the Notes of an amount equal to the unpaid fees and expenses and all other amounts (including principal) then due and payable to such holders of the Notes under the Indenture; and

- *third*, the balance, if any, to the Obligor that owned the assets the subject of the Collateral giving rise to such moneys (or its successors) or as a court of competent jurisdiction may otherwise direct.

The Company will provide the Trustee with any requested additional information in its possession necessary for the Trustee to make the payments mentioned above.

Release of the Collateral

The Issuer and the Guarantors will be entitled to the release of the Liens on property and other assets constituting the Collateral under any one or more of the following circumstances:

- (1) in connection with any sale, assignment, transfer, conveyance or other disposition of such property or other assets that does not violate the provisions set forth below under “—Repurchase at the Option of Holders—Asset Sales”;
- (2) in the case of a Subsidiary Guarantor that is released from its Note Guarantee pursuant to the terms of the Indenture, the release of the property and assets, and Capital Stock, of such Subsidiary Guarantor;
- (3) if the Company designates any of its Restricted Subsidiaries (other than the Issuer) to be an Unrestricted Subsidiary in accordance with the applicable provisions of the Indenture, the release of the property and assets of such Restricted Subsidiary;
- (4) upon repayment in full of the Notes or upon legal defeasance, covenant defeasance or satisfaction and discharge of the Indenture as provided below under the captions “—Legal Defeasance and Covenant Defeasance” and “—Satisfaction and Discharge”;
- (5) as described under “—Amendment, Supplement and Waiver”;
- (6) upon the release and discharge of the initial lien giving rise to the obligation to provide such lien as described below under “Liens”; and
- (7) as otherwise permitted in accordance with the Indenture or required under the Intercreditor Agreement.

The Security Agent and the Trustee (but only to the extent action is required from the Trustee) will take all necessary action as reasonably requested by the Issuer required to effectuate any release of Collateral securing the Notes and the Note Guarantees, in accordance with the provisions of the Indenture and the relevant Security Document, the Intercreditor Agreement or any Additional Intercreditor Agreement. Each of the releases set forth above shall be effected by the Security Agent without the consent of the holders of the Notes or any action on the part of the Trustee.

In addition, subject to compliance with the covenants described under the headings “Certain Covenants— Impairment of Security Interests” and “Certain Covenants—Liens,” if an incurrence of Indebtedness permitted by the covenant described under the heading “Certain Covenants—Incurrence of Indebtedness and Issuance of Preferred Stock” is implemented in a manner that requires the release of the first priority security interest over all or some of the Collateral, the security interest over such Collateral will be automatically released and replaced by new security in favor of the Notes and Note Guarantees, on substantially the same terms as prior to release.

Intercreditor Agreement

On the Issue Date, the Trustee and the Security Agent shall enter into the Intercreditor Agreement, as described under “Description of certain financing arrangements—Intercreditor Agreement.”

The Proceeds Loan

The Issuer will loan the proceeds of the Offering issued on the Issue Date to the Company pursuant to one or more proceeds loans (the “Proceeds Loan”) issued under one or more proceeds loan agreements (the “Proceeds Loan Agreement”) to be dated as of the Issue Date.

The Proceeds Loan will be denominated in US dollars in an aggregate principal amount equal to the aggregate principal amount of the Notes issued on the Issue Date. The Proceeds Loan will bear interest at a rate at least equal to the interest rate applicable to the Notes. Interest on the Proceeds Loan will be payable semi-annually, in arrears on or prior to each interest payment date applicable to the Notes. The Proceeds Loan Agreement will provide that the Company will pay the Issuer interest and principal that becomes payable on the Notes, as well as any additional amounts due thereunder. The Proceeds Loan Agreement will have the same maturity as the Notes.

The Proceeds Loan Agreement will provide that all payments made pursuant thereto will be made by the Company on a timely basis in order to ensure that the Issuer can satisfy its payment obligations under the Notes and the Indenture.

Additional Amounts

All payments made by or on behalf of the Issuer 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 Issuer or any Guarantor is then incorporated, organized, engaged in business 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 Issuer or any Guarantor under or in respect of the Notes or Note Guarantees (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 or on behalf of the Issuer 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 Issuer 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 by each holder in respect of such payments 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 but for the existence of any present or former connection between the holder or the beneficial owner of the Notes (or between a fiduciary, settlor, beneficiary, member, partner or shareholder of, or possessor of power over, the relevant holder or beneficial owner, if the relevant holder or beneficial owner is an estate, nominee, trust, partnership, limited liability company or corporation) and the relevant Tax Jurisdiction (including, but not limited to, citizenship, nationality, residence, domicile, or existence of a business, a permanent establishment, a dependent agent, a place of business or a place of management present or deemed present within the relevant Tax Jurisdiction), other than any connection arising merely from the receipt or holding of any Note or Note Guarantee, 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 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 withheld, deducted or imposed pursuant to European Council Directive 2003/48/EC (as amended or supplemented from time to time, including through European Council Directive 2014/48/EU) or any other directive implementing the conclusions of the ECOFIN Council meeting of November 26 and 27, 2000 on the taxation of savings income, or any law implementing or complying with or introduced in order to conform to, such directive;
- (5) Taxes imposed on or with respect to a payment made to a holder or beneficial owner of Notes who would have been able to avoid such withholding or deduction by presenting the relevant Notes for payment to another Paying Agent in a Member State of the European Union;

- (6) 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;
- (7) any Taxes, to the extent such Taxes are imposed, withheld or deducted by reason of the failure of a holder or beneficial owner of Notes to comply with any reasonable written request of the Issuer 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 requirements;
- (8) any Taxes imposed on or with respect to any payment to a holder if such holder is a fiduciary, partnership, limited liability company or person other than the sole beneficial owner of such payment to the extent that Taxes would not have been imposed on such payment had such holder been the sole beneficial owner of such Note;
- (9) any Taxes imposed pursuant to Sections 1471 through 1474 of the United States Internal Revenue Code of 1986, as amended (the “Code”), any regulations or other official guidance thereunder or agreements (including any intergovernmental agreements or any laws, rules or practices implementing such intergovernmental agreements) entered into in connection therewith; or
- (10) any combination of items (1) through (9) above.

In addition to the foregoing, the Issuer and the Guarantors will also pay and indemnify the holder for any present or future stamp, issue, registration, transfer, 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 (i) any Tax Jurisdiction on the execution, delivery, issuance, or registration of any of the Notes, the Indenture, any Note Guarantee or any other document or instrument referred to therein (except for any such taxes, charges or levies imposed or levied as a result of a transfer of the Notes other than the initial resale of the Notes by the initial purchasers); (ii) any Tax Jurisdiction on any payments with respect to the Notes, the Indenture, the Note Guarantees or any other document or instrument referred to therein (limited to any such taxes, charges or levies that are not excluded under clauses (1) through (5) or (7) through (9) above or any combination thereof); and (iii) any jurisdiction as a result of, or in connection with, the enforcement of the Notes, the Indenture, the Note Guarantees or any other document or instrument referred to therein following the occurrence of any Event of Default with respect to the Notes. Notwithstanding the foregoing and for the avoidance of doubt, prior to a demand by the Security Agent pursuant to the relevant Security Documents that is permitted by the Intercreditor Agreement to pay such stamp duty or registration fee, any stamp duty or registration fee arising in respect of any Nigerian Collateral or the Security Documents entered into by the Company’s Nigerian Subsidiaries or governed by Nigerian law will only be payable to the extent required under the first paragraph of the covenant described under “Certain covenants—Additional obligations with respect to Collateral”, and not pursuant to the covenant described in this “Additional Amounts” section.

If the Issuer 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, each of the Issuer or the relevant Guarantor, as the case may be, will deliver to the Trustee copied to the 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 45 days prior to that payment date, in which case the Issuer 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’ certificates must also set forth any other information reasonably necessary to enable the Paying Agent to pay Additional Amounts to holders on the relevant payment date. The Trustee shall be entitled to rely solely on such officers’ certificate as conclusive proof that such payments are necessary.

The Issuer or the relevant Guarantor will make or cause to be made all withholdings and deductions for, or on account of, Tax required by law and will remit the full amount deducted or withheld to the relevant Tax authority in accordance with applicable law. The Issuer 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 Issuer or the relevant Guarantor will furnish to the Trustee (or to a holder upon written request), within 30 days after the date the payment of any Taxes so deducted or withheld is made, certified copies of Tax receipts evidencing payment by the Issuer or a 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 Issuer or any Guarantor is incorporated, organized, engaged in business or resident for tax purposes or any jurisdiction from or through which payment on the Notes or the Note Guarantees is made by or on behalf of such Person and any political subdivision thereof or therein.

Optional Redemption

Except as otherwise described below, the Notes will not be redeemable at the Issuer's option prior to maturity. The Issuer and any Restricted Subsidiary may, however, acquire or cause to be acquired, 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 October 11, 2018, the Issuer may, at its option, on any one or more occasions, redeem up to 35% of the aggregate principal amount of the Notes (including any Additional Notes issued after the Issue Date) at a redemption price equal to 110.250% of the principal amount thereof, plus accrued and unpaid interest thereon to, but not including, the redemption date, with all or a portion of the net proceeds of one or more Equity Offerings; *provided* that at least 65% 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 October 11, 2018 the Issuer 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 as of, and accrued and unpaid interest to, but not including, 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 Issuer's option prior to October 11, 2018.

On or after October 11, 2018 the Issuer 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 and Additional Amounts, if any, on the Notes redeemed, to the applicable date of redemption, if redeemed during the twelve month period beginning on October 11 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
2018	105.125%
2019	102.562%
2020 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 Issuer 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 Issuer's discretion, be subject to one or more conditions precedent, including, but not limited to, completion of the related Equity Offering.

Redemption for Changes in Taxes

The Issuer 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 Issuer 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 the relevant interest payment 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 Issuer or a Guarantor is or would be required to pay Additional Amounts (but, in the case of a Guarantor, only if such amount cannot be paid by the Issuer or another Guarantor who can pay such amount, through the use of reasonable measures available to it, without the obligation to pay Additional Amounts), and the Issuer or Guarantor cannot avoid any such requirement by taking reasonable measures available to it (including making payment through a Paying Agent located in another jurisdiction where this would be reasonable), 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, or the introduction of, an official written 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).

The Issuer will not give any such notice of redemption (i) earlier than 60 days prior to the earliest date on which the Issuer or Guarantor would be obligated to make such payment of Additional Amounts if a payment in respect of the Notes was then due and (ii) unless at the time such notice is given, the obligation to pay Additional Amounts remains in effect. Prior to the publication or, where relevant, mailing of any notice of redemption of the Notes pursuant to the foregoing, the Issuer will deliver to the Trustee an opinion of independent tax counsel of recognized standing, qualified under the laws of the relevant Tax Jurisdiction and reasonably acceptable to the Trustee, to the effect that there has been such amendment, change or introduction which would entitle the Issuer to redeem the Notes hereunder. In addition, before the Issuer 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 Issuer 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.

For the avoidance of doubt, the implementation of European Council Directive 2003/48/EC or any other directive implementing the conclusions of the ECOFIN Council meeting of 26 and 27 November 2000 on the taxation of savings income, or any law implementing or complying with or introduced in order to conform to, such directive will not be a change or amendment for such purposes.

The foregoing provisions will apply *mutatis mutandis* to any successor person, after such successor person becomes a party to the Indenture.

Mandatory Redemption

The Issuer will not be required to make mandatory redemption or sinking fund payments with respect to the Notes. However, under certain circumstances, the Issuer 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 Issuer 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 (a “Change of Control Offer”) on the terms set forth in the Indenture. In a Change of Control Offer, the Issuer 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 Issuer will deliver 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 30 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 Issuer 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 (or its authenticating agent) 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 Issuer defaults in making the Change of Control Payment. The Issuer 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 Issuer 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 Issuer repurchase or redeem the Notes in the event of a takeover, recapitalization or similar transaction.

The Issuer 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 Issuer 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 any of the Accugas Facilities, the Akwa Ibom Term Loan and/or the Bank of Industry Loan. 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 Issuer 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 Issuer 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 or repay any other debt that may be required to be repaid following a change of control. See “Risk Factors—Risk factors relating to the Notes—We may not be able to raise 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 Issuer 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 taken as a whole to another Person or group may be uncertain.

In certain jurisdictions, incumbent directors are permitted to approve as a continuing director any person, including one nominated by a dissident stockholder and not recommended by the board, as long as the approval is granted in good faith and in accordance with the board’s fiduciary duties. Accordingly, you may not be able to require us to purchase your notes as a result of the change in the composition of our Board of Directors. Certain provisions in indentures, such as continuing director provisions, could function to entrench an incumbent board of directors and could raise enforcement concerns if adopted in violation of a board’s fiduciary duties. If such a provision were found unenforceable, you would not be able to require us to repurchase your notes as a result of a change of control resulting from a change in the composition of our Board of Directors.

The provisions under the Indenture relating to the Issuer’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 Irish Stock Exchange and admitted for trading on the Global Exchange Market and the rules of the Irish Stock Exchange so require, the Issuer will publish notices relating to the Change of Control Offer in a leading newspaper of general circulation in Dublin (which is expected to be *The Irish Times*) or, to the extent and in the manner permitted by such rules, post such notices on the official website of the Irish Stock Exchange (www.ise.ie).

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:
 - (a) 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;
 - (b) 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;

- (c) any Capital Stock or other assets of the kind referred to in clauses (3) or (4) of the next paragraph of this covenant;
- (d) 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;
- (e) consideration consisting of Indebtedness of the Issuer or any Guarantor received from Persons who are not the Company or any Restricted Subsidiary;
- (f) 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
- (g) any Designated Non-Cash Consideration received by the Company or any Restricted Subsidiary in such Asset Sale 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) \$15.0 million and (y) 1.0% of Adjusted Consolidated Net Tangible 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 (but not including) the date of purchase (a "Notes Offer");
- (2) to repay Indebtedness at a price of no more than 100% of the principal amount thereof, plus accrued and unpaid interest (i) that is *pari passu* in right of payment to the Notes and the Guarantees incurred under a Credit Facility (other than Public Indebtedness) that is secured by a Lien on the Collateral; (ii) of a non-guarantor Restricted Subsidiary; (iii) that is secured by a Lien on assets or property which were the subject of the Asset Sale and which did not constitute Collateral (other than Subordinated Obligations of the Issuer or a Guarantor or Indebtedness owed to the Company or any Restricted Subsidiary); (iv) that is *pari passu* in right of payment to the Notes and the Note Guarantees (other than as set forth in clause (2)(i)) that is secured by a Lien on the Collateral that ranks *pari passu* with the Liens securing the Notes and the Note Guarantees; *provided* that, in the case of this clause (iv), the Issuer (or the Company or its applicable Restricted Subsidiary) shall make an offer to all holders of the Notes on a *pro rata* basis to purchase their Notes in accordance with the provisions set forth below for an Asset Sale Offer;
- (3) to invest in Additional Assets;
- (4) to make capital expenditures; or
- (5) 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 as provided in the second paragraph of this covenant will constitute “Excess Proceeds.”

When the aggregate amount of Excess Proceeds exceeds \$20.0 million, within ten Business Days thereof, either the Company or the Issuer 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 and Additional Amounts, 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 the 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 Paying Agent will select the Notes and such other Indebtedness that is *pari passu* with the Notes or the Note Guarantees, as 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 Paying Agent 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 the completion of each Asset Sale Offer, the amount of Excess Proceeds will be reset to 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 Registrar or Paying Agent 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. Neither the Trustee, the Registrar nor the Paying Agent will be liable for any selections made in accordance with this paragraph.

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 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 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. In case of certificated Notes, 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. A notice of redemption shall state whether the redemption is conditioned on any events and, if so, a detailed explanation of such conditions. Subject to the satisfaction of any conditions precedent set forth in a notice of redemption, Notes called for redemption become due on the date fixed for redemption. On or after the redemption date, interest ceases to accrue on Notes or portions of Notes called for redemption.

For Notes that are represented by global certificates held on behalf of Euroclear or Clearstream, notices may be given by delivery of the relevant notices to Euroclear or Clearstream 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 Irish Stock Exchange and admitted to trading on the Global Exchange Market and the rules of the Irish 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 Dublin (which is expected to be *The Irish Times*) or, to the extent and in the manner permitted by such rules, posted on the official website of the Irish Stock Exchange (www.ise.ie) and, in connection with any redemption, the Issuer will notify the Irish 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:

- A. 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);
- B. repurchase, purchase, 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;
- C. 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 Issuer 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 purchased 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
- D. make any Restricted Investment;

(all such payments and other actions set forth in clauses (A) through (D) 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 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 by clauses (14) and (16) 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 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 (other than to a Subsidiary of the Company) of Equity Interests of the Company (other than Disqualified Stock) or from the issue or sale (other than to a Subsidiary of the Company) of convertible or exchangeable Disqualified Stock or convertible or exchangeable debt securities of the Company that have been converted into or exchanged for such Equity Interests (except, in each case, to the extent that any Restricted Payment has been made using such proceeds in reliance on clause (2) or (5) of the next succeeding paragraph); plus
- (c) 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
- (d) 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 (d) and were not previously repaid or otherwise reduced; plus
- (e) 100% of any dividends or distributions received 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 Issuer 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) 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 \$2.0 million in any calendar year (with unused amounts in any calendar year being permitted to be carried over into succeeding calendar years) and *provided, further*, that such amount in any calendar year may be increased by an amount not to exceed the sum of the aggregate amount of (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) 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 covenant 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) 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 clause (12) does not exceed \$2.0 million in any calendar year;
- (13) 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 clause (13) does not exceed \$2.0 million in any calendar year;
- (14) so long as no Default has occurred and is continuing or would be caused thereby, following the Initial Public Offering of the Capital Stock of the Company or any Parent Entity, the declaration or payment of dividends or distributions, or the making of any cash payments, advances, loans or expense reimbursements on the Capital Stock of the Company or any Parent Entity; *provided* that the aggregate amount of all such dividends or distributions under this clause (14) shall not exceed in any fiscal year the greater of (a) 6% of the net cash proceeds received by the Company from one or more Public Equity Offerings or contributed to the equity of the Company and (b) an amount equal to the greater of (i) 5% of the Market Capitalization and (ii) 5% of the IPO Market Capitalization, *provided* that in the case of this subclause (b), after giving *pro forma* effect to the payment of any such dividend or making of any such distribution, the Consolidated Leverage Ratio of the Company would not exceed 2.0 to 1.0; and *provided, further*, that in each case, if such Public Equity Offering was of Capital Stock of a Parent Entity, the net proceeds of any such dividend are used to fund a corresponding dividend in equal or greater amount on the Capital Stock of such Parent Entity;
- (15) Permitted Parent Payments; and
- (16) so long as no Default has occurred and is continuing or would be caused thereby, other Restricted Payments in an aggregate amount not to exceed \$20.0 million since the Issue Date.

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 the 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.

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 or preferred stock and any Restricted Subsidiary of the Company may incur Indebtedness (including Acquired Debt) or issue preferred stock, if the Fixed Charge Coverage Ratio for the Company’s most recently ended four full 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 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 Indebtedness under Credit Facilities in an aggregate principal amount at any one time outstanding under this clause (1) not to exceed the greater of (a) \$450.0 million and (b) 20 % of Adjusted Consolidated Net Tangible Assets determined as of the date of the incurrence of such Indebtedness after giving *pro forma* effect to such incurrence and the application of the proceeds therefrom, *plus* in the case of any refinancing of any Indebtedness permitted under this clause (1) or any portion thereof, the aggregate amount of fees, underwriting discounts, premiums and other costs and expenses 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 (other than Guarantees of Additional Notes) at any time;
- (4) the incurrence by the Company and any Restricted Subsidiary of Indebtedness under Credit Facilities in an aggregate principal amount not to exceed of \$100.0 million at any time outstanding *plus* in the case of any refinancing of any Indebtedness permitted under this clause (4) or any portion thereof, the aggregate amount of fees, costs and expenses (including underwriting commissions paid as discounts) incurred in connection with such refinancing;
- (5) 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, charter 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 (5), not to exceed the greater of (x) \$15.0 million and (y) 1.0% of Adjusted Consolidated Net Tangible Assets at any time outstanding, whether such Indebtedness is incurred for the charter of, 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 within 180 days 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);
- (6) 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), (11) or (16) of this paragraph or this clause (6);
- (7) 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 Issuer or any Guarantor is the obligor on such Indebtedness and the payee is not the Issuer 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 Issuer, or the Note Guarantee, in the case of a Guarantor; and

- (b) (i) 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 (7);
- (8) 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 (8);
- (9) 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 financial or accounting officer of the Company);
- (10) the incurrence by the Company of any of its Restricted Subsidiaries of obligations relating to production imbalances arising in the ordinary course of business;
- (11) 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;
- (12) 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;
- (13) 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;
- (14) 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;
- (15) 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, judgments, advance payments, 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;

- (16) 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 a Restricted Subsidiary or merged, consolidated, amalgamated or otherwise combined with (including pursuant to any acquisition of assets and assumption of related liabilities) the Company or a Restricted Subsidiary in accordance with the Indenture (other than Indebtedness incurred (i) 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 a Restricted Subsidiary or (ii) otherwise in connection with, or in contemplation of, such acquisition); *provided, however*, with respect to this clause (16) that at the time of the acquisition or other transaction pursuant to which such Indebtedness was deemed to be 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 pursuant to this clause (16) 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;
- (17) Guarantees by the Company or any of its Restricted Subsidiaries of any Management Advances;
- (18) 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;
- (19) 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;
- (20) 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);
- (21) the incurrence by the Company or any Restricted Subsidiary of Indebtedness through the provision of bonds, Guarantees, letters of credit or similar instruments required by any national or international maritime commission or authority or other governmental or regulatory agencies, including, without limitation, customs authorities; in each case, for vessels owned or chartered by, and in the ordinary course of business of, the Company or any of its Restricted Subsidiaries at any time outstanding not to exceed the amount required by such governmental or regulatory authority;
- (22) 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;
- (23) any obligation 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;

- (24) the incurrence by any non-Guarantor Restricted Subsidiary of Indebtedness that is Project Debt; and
- (25) 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 renew, refund, replace, defease or discharge any Indebtedness incurred pursuant to this clause (25) not to exceed the greater of (a) \$35.0 million and (b) 2.12% of Adjusted Consolidated Net Tangible Assets.

Notwithstanding any other provision of this “—Incurrence of Indebtedness and Issuance of Preferred Stock” covenant or the covenant described below under the caption “—Liens”, the Company will not, and will not permit any of its Restricted Subsidiaries to incur Limited Indebtedness, or permit any Indebtedness to become Limited Indebtedness by virtue of the granting of a Lien or by reclassifying any such Indebtedness such that it becomes Limited Indebtedness, where the aggregate amount of Limited Indebtedness of the Company and its Restricted Subsidiaries would exceed the greater of (i) \$450.0 million and (ii) 20% of Adjusted Consolidated Net Tangible Assets, determined as of the date of incurrence of such Indebtedness (or the date such Indebtedness becomes Limited Indebtedness by such granting of a Lien or such debt reclassification, as the case may be) after giving pro forma effect to the incurrence and application of the proceeds from such Indebtedness.

Notwithstanding anything to the contrary contained herein, if the Indebtedness (or any part thereof) to be incurred pursuant to this “—Incurrence of Indebtedness and Issuance of Preferred Stock” covenant is intended to have priority with respect to the Notes or the Note Guarantees with respect to proceeds distributions of any enforcement of any of the Collateral, such Indebtedness (or any part thereof) may only be incurred pursuant to the following clauses of the definition of Permitted Debt: (i) clause (1) and (ii) clause (9) (but only to the extent the Hedging Obligations are only of the type referred to in clause (4) of the definition of Permitted Collateral Liens).

The Company will not incur, and will not permit the Issuer or any Guarantor to incur, any Indebtedness (including Permitted Debt) that is contractually subordinated in right of payment to any other Indebtedness of the Issuer 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 terms; *provided, however*, that no Indebtedness will be deemed to be contractually subordinated in right of payment to any other Indebtedness of the Issuer or any Guarantor solely by virtue of being unsecured, by virtue of being secured with different collateral or by virtue of being secured on a junior priority basis or 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 (25) 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, except that all Indebtedness outstanding on the Issue Date under the Accugas Facilities, the Akwa Ibom Term Loan and the Bank of Industry Loan shall be deemed initially incurred under clause (1) of the second paragraph of this covenant and Indebtedness outstanding on the Issue Date under the NSIA Notes shall be deemed initially incurred under clause (4) of the second paragraph of this covenant (it being understood that some or all of such Indebtedness may in the future be reclassified);
- (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 (the amount of any such Indebtedness to be equal at any time to either (a) zero if such Hedging Obligation is incurred pursuant to clause (9) 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:
 - (a) the Fair Market Value of such assets at the date of determination; and
 - (b) 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
- (5) 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 (1) in the case of any property or asset that does not constitute Collateral, Permitted Liens and (2) in the case of any property or asset that constitutes Collateral, Permitted Collateral Liens, unless:

- (1) in the case of any Lien securing Subordinated Obligations of the Issuer or a Guarantor, the Notes and the Note Guarantees are secured by a Lien on such property or assets on a senior basis to the Subordinated Obligations so secured until such time as such Subordinated Obligations are no longer so secured by that Lien; and
- (6) in the case of any other Lien securing Indebtedness, the Notes and the Note Guarantees are secured by a Lien on such property or assets on an equal and ratable basis with the obligation or liability so secured until such time as such obligation or liability is no longer so secured by that Lien.

Notwithstanding any other provision of the covenant described above under the caption “—Incurrence of Indebtedness and Issuance of Preferred Stock” or this “Liens” covenant, 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 securing Borrowed Money Indebtedness over assets located in Nigeria and owned by a Restricted Subsidiary incorporated in Nigeria (a “Nigerian Company”) that also constitute Collateral (the “Nigerian Collateral”) and on which, under Nigerian law, stamp duty or registration fees are due and payable, unless the creditors under such Borrowed Money Indebtedness have entered into the Intercreditor Agreement or an Additional Intercreditor Agreement with the Trustee or the Security Agent containing Nigerian Upstamping Protection Provisions.

The requirement to enter into the Intercreditor Agreement or an Additional Intercreditor Agreement containing Nigerian Upstamping Protection Provisions shall not be applicable to the extent that the Borrowed Money Indebtedness is permitted to be incurred under the covenant described above under the caption “—Incurrence of Indebtedness and Issue of Preferred Stock” and is secured on the Collateral pursuant to a Lien incurred under clause (3) or clause (4) of the definition of “Permitted Collateral Liens” and in either case is entitled to receive priority as to the receipt of distributions of proceeds of any enforcement of Collateral.

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;
- (7) make loans or advances to the Company or any of its Restricted Subsidiaries; or
- (8) 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) agreements governing Existing Indebtedness, the Accugas II Facility, the Accugas III Facility, the Accugas Intercreditor Agreement, the Akwa Ibom Term Loan, the Bank of Industry Loan and Credit Facilities 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 Issuer'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 or the Issuer);
- (9) the Indenture, the Notes (including Additional Notes) and the Note Guarantees, the Intercreditor Agreement, any Additional Intercreditor Agreement and the Security Documents;
- (10) applicable law, rule, regulation or order or the terms of any license, authorization, approval, concession or permit or similar restriction;
- (11) 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;
- (12) 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;
- (13) 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;
- (14) 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;
- (15) 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 Issuer'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 or the Issuer);
- (16) 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;
- (17) 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;
- (18) agreements governing other Indebtedness of the Company or any of its Restricted Subsidiaries or the issuance of preferred stock by a Restricted Subsidiary or the payment of dividends thereon in accordance with the terms thereof permitted to be incurred pursuant to an agreement entered into subsequent to the Issue Date or issued, as applicable, 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 (in each case, as determined in good faith by a responsible accounting or financial officer of the Company or the Issuer);

- (19) supermajority voting requirements existing under corporate charters, bylaws, stockholders agreements, joint venture agreements and similar documents and agreements;
- (20) customary provisions restricting subletting or assignment of any lease governing a leasehold interest;
- (21) encumbrances or restrictions contained in Hedging Obligations permitted from time to time under the Indenture;
- (22) 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
- (23) 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 Issuer’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 or the Issuer).

Merger, Consolidation or Sale of Assets

The Company and the Issuer

Neither the Company nor the Issuer will, directly or indirectly, (i) consolidate, amalgamate or merge with or into another Person (whether or not the Company or the Issuer, as the case may be, 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, or the rights of the Issuer under the Proceeds Loan in one or more related transactions, to another Person, unless:

- (1) either: (a) the Company or the Issuer, as the case may be, is the surviving corporation; or (b) the Person formed by or surviving any such consolidation, amalgamation or merger (if other than the Company or the Issuer, as the case may be) 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, British Virgin Islands, Mauritius, Australia, Japan, Canada, any state of the United States or the District of Columbia;
- (24) the Person formed by or surviving any such consolidation, amalgamation or merger (if other than the Company or the Issuer, as the case may be) or the Person to which such sale, assignment, transfer, conveyance, lease or other disposition has been made assumes all the obligations of the Company or the Issuer, as applicable, under the Notes, the Indenture, the Security Documents, the Intercreditor Agreement and any Additional Intercreditor Agreement;
- (25) immediately after such transaction or transactions, no Default or Event of Default exists;
- (26) the Company or the Issuer, as applicable, or the Person formed by or surviving any such consolidation, amalgamation or merger (if other than the Company or the Issuer, as the case may be), 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 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;

(27) in the case of a consolidation, amalgamation or merger involving the Issuer, 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

(28) the Company or the Issuer shall have delivered to the Trustee an officers’ certificate and an opinion of counsel, each stating that such consolidation, amalgamation, merger or transfer and such supplemental indenture (if any) comply with this covenant; *provided* that in giving an opinion of counsel, counsel may rely on an officer’s certificate as to any matters of fact.

The Subsidiary Guarantors

A Subsidiary Guarantor (other than a Subsidiary 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 Subsidiary Guarantor is the surviving Person), another Person, other than the Issuer, the Company or another Subsidiary Guarantor, unless:

(1) immediately after giving effect to that transaction, no Default or Event of Default exists; and

(29) either:

- (a) the Person acquiring the property in any such sale or disposition or the Person formed by or surviving any such consolidation, amalgamation or merger (if other than the Issuer, the Company or another Subsidiary Guarantor) unconditionally assumes, pursuant to a supplemental indenture substantially in the form specified in the Indenture, all the obligations of such Subsidiary Guarantor under such Indenture, its Note Guarantee, the Security Documents, the Intercreditor Agreement or any Additional Intercreditor Agreement on terms set forth therein; or
- (b) 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.”

The surviving entity will succeed to, and be substituted for, and may exercise every right and power of, the Issuer, the Company or the relevant Subsidiary Guarantor, as applicable under the Indenture, but, in the case of a lease of all or substantially all of the assets of the Company, the Company will not be released from the obligation to pay the principal of and interest and premium, if any, on the Notes.

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.

For purposes of this covenant, the sale, lease, conveyance, assignment, transfer or other disposition of all or substantially all of the properties and assets of one or more Subsidiaries of the Company, which properties and assets, if held by the Company, instead of such Subsidiaries, would constitute all or substantially all of the properties and assets of the Company on a consolidated basis, shall be deemed to be the transfer of all or substantially all of the assets of the Company.

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 that is not a Guarantor or the Issuer

consolidating, amalgamating or merging with or into, or disposing of all or part of its properties or assets to, (a) another Restricted Subsidiary that is not a Guarantor or (b) the Issuer or a Guarantor *provided, however*, clauses (3) and (4) of the first paragraph will apply to such transaction, if such Restricted Subsidiary (A) has incurred Indebtedness pursuant to and that is outstanding under clause (16) of the definition of Permitted Debt and (B) has secured such Indebtedness pursuant to and which Lien remains outstanding under clause (4) of the definition of Permitted Liens, and (ii) any Guarantor consolidating or amalgamating with, merging with or into or disposing of all or part of its properties or assets to the Issuer or another Guarantor.

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 \$2.0 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
- (30) the Company delivers to the Trustee:
 - (a) with respect to any Affiliate Transaction or series of related Affiliate Transactions involving aggregate consideration in excess of \$10.0 million, 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
 - (b) with respect to any Affiliate Transaction or series of related Affiliate Transactions involving aggregate consideration in excess of \$30.0 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) any employment agreement or arrangement, collective bargaining agreement, consultant agreement, stock option, stock appreciation, stock incentive or stock ownership or similar plan, employee benefit arrangements, officer or director indemnification agreement, restricted stock agreement, severance agreement or other compensation plan or arrangement, in each case entered into by the Company or any of its Restricted Subsidiaries in the ordinary course of business (as determined in good faith by a responsible financial or accounting officer of the Company) with officers, directors, consultants or employees of the Company and its Restricted Subsidiaries and payments, awards, grants or issuances of securities pursuant thereto;
- (31) transactions between or among the Company and/or its Restricted Subsidiaries;
- (32) Management Advances and Permitted Parent Payments;
- (33) 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), (13) or (22) of the definition thereof);

- (34) 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;
- (35) payment of customary directors' fees, indemnification and similar arrangements (including the payment of directors' and officers' insurance premiums), consulting fees, employee salaries, bonuses, employment agreements and arrangements, compensation or employee benefit arrangements, including stock options or legal fees (as determined in good faith by a majority of the disinterested members of the Board of Directors of the Company or otherwise in compliance with the Company's code of corporate governance);
- (36) any issuance of Equity Interests (other than Disqualified Stock) of the Company to Affiliates of the Company;
- (37) transactions with a joint venture or similar entity that would constitute an Affiliate Transaction solely because the Company owns, directly or through a Restricted Subsidiary, an Equity Interest in, or controls, such joint venture or similar entity;
- (38) transactions pursuant to, or contemplated by, any agreement or arrangement in effect on the Issue Date 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;
- (39) (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 members of the Board of Directors of the Company or the senior management thereof, 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;
- (40) the execution, delivery and performance of any tax sharing agreement or any arrangement pursuant to which the Company or any of its Restricted Subsidiaries is required or permitted to file a consolidated tax return, or the formation and maintenance of any consolidated group for tax, accounting or cash pooling or management purposes in the ordinary course of business; *provided* that payments pursuant to taxing sharing agreements shall not be duplicative of the amounts described under clause (15) of the second paragraph under the heading "—Restricted Payments"; and
- (41) 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.

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 Indebtedness of the Issuer (other than the Notes) (excluding any Additional Notes) or a Guarantor (other than a Guarantee of the Notes (excluding a Guarantee of any Additional 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 on the same terms as the Guarantee of such Indebtedness; *provided, however*, that with respect to any Guarantee of Subordinated Obligations by such Restricted Subsidiary, any such Guarantee shall be subordinated to such Restricted Subsidiary's Guarantee with respect to the Notes at least to the same extent as such Subordinated Obligation is explicitly subordinated to the Notes in right of payment.

The foregoing paragraph will not be applicable to any Guarantees of any Restricted Subsidiary:

- (1) existing on the date of the Indenture;
- (42) 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;
- (43) arising due to the granting of a Permitted Lien;
- (44) given to a bank or trust company having combined capital and surplus and undivided profits of not less than \$500 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; or
- (45) of any Indebtedness incurred pursuant to the first paragraph or clause (1) of the second paragraph of the covenant described under "—Incurrence of Indebtedness and Issuance of Preferred Stock."

In addition, notwithstanding anything to the contrary herein:

- (1) (no Guarantee 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;
- (46) no Guarantee shall be required if the Company has used reasonable best efforts to cause such entity to become a Guarantor; and
- (47) 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 and the Security Agent, as applicable, shall each take all necessary actions, including the granting of releases or waivers under the Intercreditor Agreement or any Additional Intercreditor Agreement, to effectuate any release of a Guarantee in accordance with these provisions, subject to customary protections and indemnifications.

Impairment of Security Interest

The Company will not, and will not cause or permit any of its Restricted Subsidiaries to, take or knowingly or negligently omit to take, any action which action or omission might or would have the result of materially impairing the security interest with respect to the Collateral (it being understood that the incurrence of Liens on the Collateral permitted by the definition of Permitted Collateral Liens shall under no circumstances be deemed to materially impair the security interest with respect to the Collateral) for the benefit of the Trustee and the holders of the Notes, and the Company will not, and will not cause or permit any of its Restricted Subsidiaries to, grant to any Person other than any Security Agent, for the benefit of the Trustee and the holders of the Notes and the other beneficiaries described in the Security Documents, the Intercreditor Agreement and any Additional Intercreditor Agreement, any interest whatsoever in any of the Collateral; *provided that* (i) nothing in this provision shall restrict the discharge or release of the Collateral in accordance with the Indenture, the Security Documents and the Intercreditor Agreement or any Additional Intercreditor Agreement and (ii) the Company and its Restricted Subsidiaries may incur Permitted Collateral Liens; and *provided further, however,* that no Security Document may be amended, extended, renewed, restated, supplemented or otherwise modified or replaced, unless contemporaneously with such amendment, extension, renewal, restatement, supplement, modification or replacement, the Company delivers to the Trustee either (1) a solvency opinion, in form and substance reasonably satisfactory to the Trustee from an accounting, appraisal or investment banking of national standing confirming the solvency of the Company and its Subsidiaries, taken as a whole, after giving effect to any transactions related to such amendment, extension, renewal, restatement, supplement, modification or replacement, (2) a certificate in the form attached to the Indenture from the chief financial officer or the Board of Directors of the relevant Person which confirms the solvency of the person granting Security Interest after giving effect to any transactions related to such amendment, extension, renewal, restatement, supplement, modification or replacement, or (3) an opinion of counsel, in form and substance reasonably satisfactory to the Trustee (subject to customary exceptions and qualifications), confirming that, after giving effect to any transactions related to such amendment, extension, renewal, restatement, supplement, modification or replacement, the Lien or Liens securing the Notes created under the Security Documents so amended, extended, renewed, restated, supplemented, modified or replaced are valid and perfected Liens not otherwise subject to any limitation, imperfection or new hardening period, in equity or at law, and that such Lien or Liens were not otherwise subject to immediately prior to such amendment, extension, renewal, restatement, supplement, modification or replacement.

Notwithstanding the preceding paragraph, which shall not apply to the actions described in this paragraph, at the direction of the Company and without the consent of the holder of Notes, a Security Agent may from time to time enter into one or more amendments to the Security Documents to: (i) cure any ambiguity, omission, defect or inconsistency therein; (ii) (but subject to compliance with the foregoing paragraph) provide for Permitted Collateral Liens to the extent permitted by the Indenture; (iii) add to the Collateral; (iv) comply with the terms of the Intercreditor Agreement or any Additional Intercreditor Agreement; (v) evidence the succession of another Person to the Issuer or any Guarantor and the assumption by such successor of the obligations under the Indenture, the Notes and the Security Documents, in each case, in accordance with “— Certain Covenants— Merger, Consolidation or Sale of Assets”; (vi) provide for the release of property and assets constituting Collateral from the Lien of the Security Documents and/or the release of the Note Guarantee of a Guarantor, in each case, in accordance with (and if permitted by) the terms of the Indenture; (vii) conform the Security Documents to this “Description of Notes”; (viii) evidence and provide for the acceptance of the appointment of a successor Trustee or Security Agent; or (ix) make any other change thereto that does not adversely affect the rights of the holders of the Notes in any material respect.

In the event that the Company complies with this covenant, the Trustee and the Security Agent shall (subject to customary protections and indemnifications) consent to such amendment, extension, renewal, restatement, supplement, modification or replacement with no need for instructions from holders of the Notes.

Additional obligations with respect to Collateral

The Issuer will pay the relevant stamp duty and registration fee due and payable on any Nigerian Collateral for a minimum of \$1.0 million as soon as practicable following the closing of the Offering.

In addition, the Company will use its commercially reasonable efforts to, within six months after the Issue Date, obtain the consent of NPDC to the assignment of its interests under the Strategic Alliance Agreement. For the avoidance of doubt, provided the Company has used commercially reasonable efforts,

failure to so deliver within six months after the Issue Date will not constitute a default under the Indenture or any Security Document.

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 an Investment made as of the time of the designation and will reduce the amount available for Restricted Payments under the covenant described above under the caption “—Restricted Payments” or under one or more clauses of the definition of Permitted Investments, as determined by 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

For so long as any Notes remain outstanding, the Company will make available, upon request, to any holder of Notes or prospective purchaser of Notes, in connection with any proposed transfer thereof, any information required to be provided by 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 or is exempt therefrom pursuant to and in compliance with Rule 12g3-2(b) under the U.S. Exchange Act.

So long as any Notes are outstanding, the Company shall furnish to the Trustee and publish on its website:

- (a) 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 with a level of detail that is substantially comparable and similar in scope to this Offering Memorandum: (i) 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 three most recent fiscal years, including complete notes to such financial statements and the report of the independent auditors on the financial statements; (ii) *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 following a Public Equity Offering on the London Stock Exchange, such *pro forma* financial information will be provided only to the extent required to be disclosed by the U.K. Listing Authority and the London Stock Exchange or, in the event the Company is not listed on the London Stock Exchange, to the extent available without unreasonable expense; (iii) 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; (iv) 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 (following a Public Equity Offering on the London Stock Exchange) and for so long as the U.K. Listing Authority and London Stock Exchange require annual reports and the Company is subject to such requirements thereto) any item of disclosure that complies in all material respects with the requirements of the U.K. Listing Authority and London Stock Exchange for annual reports with respect to such item will be deemed to satisfy the Company's obligations under this clause (a) with respect to such item;

- (b) within 60 days after the end of the first three fiscal quarters in each fiscal year of the Company (or in the case of the quarter ended June 30, 2014, 90 days), quarterly reports containing the following information: (i) an unaudited condensed consolidated balance sheet as of the end of such three month period and unaudited condensed statements of income and cash flow for the year-to-date periods ending on the unaudited condensed balance sheet date, and the comparable prior year periods for the Company, together with condensed note disclosure; (ii) 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 following a Public Equity Offering on the London Stock Exchange, such *pro forma* financial information will be provided only to the extent required to be disclosed by the U.K. Listing Authority and the London Stock Exchange or, in the event the Company is not listed on the London Stock Exchange, to the extent available without unreasonable expense; (iii) 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 quarterly period and the corresponding period of the prior year; and (iv) material recent developments; *provided* that (following a Public Equity Offering on the London Stock Exchange, and for so long as the U.K. Listing Authority and London Stock Exchange require interim reports and the Company is subject to such requirements thereto) any item of disclosure that complies in all material respects with the requirements of the U.K. Listing Authority and London Stock Exchange for interim reports with respect to such item will be deemed to satisfy the Company's obligations under this clause (b) with respect to such item (and for the avoidance of doubt, quarterly, rather than semiannual, reports shall be furnished); and
- (c) 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.

For so long as the Holdco Limitation Conditions are satisfied, the reports set forth in clauses (a), (b) and (c) may include financial statements of, and refer to, a Successor Parent in lieu of the Company, in which case the reports set forth in clauses (a), (b) and (c) shall give a reasonably detailed description of any material differences between the management, business, assets, shareholding or results of operations or financial condition of such Successor Parent and the Company and include an unaudited reconciliation of the Company's financial statements or other financial information to the Successor Parent's financial statements or other financial information, as applicable.

The Company will, on an ongoing basis, monitor that the Holdco Limitation Conditions are satisfied by the Successor Parent. Starting with the reporting period in which the Holdco Limitation Conditions are no longer satisfied and at any time thereafter, the reports set forth in clauses (a), (b), and (c) will include consolidated financial statements and financial information of the Company.

All financial statements other than any pro forma financial information provided pursuant to clauses (a) and (b) 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 by the preceding paragraph 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 (a) through (c) of the second paragraph of this covenant, if and so long as the Notes are listed on the Official List of the Irish Stock Exchange and admitted for trading on the Global Exchange Market and the rules of the Irish Stock Exchange so require, at the offices of the Paying Agent.

The Successor Parent will be deemed to satisfy the “Holdco Limitation Conditions” during any applicable period in which the Successor Parent and any Subsidiaries of the Successor Parent (other than the Company and the Company’s Subsidiaries) do not carry on any business or own any assets other than:

- (1) ownership of the Company and other assets that are *de minimis* in nature;
- (2) the provision of administrative services, legal, accounting and management services to its Subsidiaries of a type customarily provided by a holding company to its Subsidiaries and the ownership of assets necessary to provide such services;
- (3) incurring Indebtedness (or other items that are specifically excluded from the definition of Indebtedness) (including activities reasonably incidental thereto, including performance of the terms and conditions of such Indebtedness or other items that are specifically excluded from the definition of Indebtedness) or granting Liens or distributing, lending or otherwise advancing funds to the extent consistent with the activities of a holding company in the ordinary course of its business as a holding company;
- (4) activities undertaken with the purpose of fulfilling its obligations or exercising its rights under Indebtedness (or any item specifically excluded from the definition of Indebtedness), including any activity related to any document entered into in connection with the incurrence of Indebtedness;
- (5) the establishment, maintenance and use of bank accounts and the ownership of cash and Cash Equivalents;
- (6) making Investments in the Notes or other Indebtedness;
- (7) directly related or reasonably incidental to the establishment and/or maintenance of its Subsidiaries’ corporate existence or otherwise to comply with applicable law;
- (8) issuing directors’ qualifying shares and shares to its shareholders, and pay dividends and make other distributions on its shares and on loaning funds to its shareholders or Subsidiaries;
- (9) any activity reasonably related to a Public Equity Offering, including, *inter alia*, sale of common stock or common equity interests, the listing of such securities on an internationally-recognized securities exchange, all relevant reporting and disclosure obligations in connection therewith and other activities undertaken with the purpose of fulfilling obligations thereunder or exercising rights in connection therewith; and
- (10) any activity reasonably related to the foregoing and other activities not specifically enumerated above that are *de minimis* in nature.

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 “Description of Notes” 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”;
- (48) “—Certain Covenants—Restricted Payments”;
- (49) “—Certain Covenants—Incurrence of Indebtedness and Issuance of Preferred Stock”;
- (50) “—Certain Covenants—Dividend and other Payment Restrictions Affecting Subsidiaries”;
- (51) “—Certain Covenants—Designation of Restricted and Unrestricted Subsidiaries”;
- (52) “—Certain Covenants—Transactions with Affiliates”;
- (53) “—Certain Covenants—Limitation on Guarantees of Indebtedness by Restricted Subsidiaries”; and
- (54) clause (4) of the first paragraph of the covenant described under “—Certain Covenants—Merger, Consolidation or Sale of Assets.”

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 (a) with respect to the Restricted Payments made after any such reinstatement, 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 (b) 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”. The Company shall notify the Trustee that the conditions set forth in the first paragraph under this caption have been satisfied, *provided* that, no such notification shall be a condition for the suspension of the covenants described under this caption to be effective. Upon the occurrence of a Suspension Period, the amount of Excess Proceeds shall be reset at zero.

There can be no assurance that the Notes will ever achieve or maintain an Investment Grade Status.

Maintenance of Listing

The Issuer will use its commercially reasonable efforts to maintain the listing of the Notes on the Global Exchange Market for so long as such Notes are outstanding; *provided* that if the Issuer is unable to obtain admission to listing of the Notes on the Irish Stock Exchange or if at any time the Issuer 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 “recognised stock exchange” as defined in Section 1005 of the Income Tax Act 2007 of the United Kingdom or exchange regulated market in Western Europe.

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;
- (55) default in the payment when due (at maturity, upon redemption or otherwise) of the principal of, or premium, if any, on, the Notes;
- (56) failure by the Issuer or any Guarantor to comply with the provisions described under the caption “—Certain Covenants—Merger, Consolidation or Sale of Assets”;

- (57) failure by the Company or any of its Restricted Subsidiaries to comply for 30 days after notice with any of the provisions described under the caption “—Repurchase at the Option of Holders—Change of Control”;
- (58) 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 voting as a single class to comply with any of the other agreements in the Indenture (other than a default in performance, or breach, or a covenant or agreement which is specifically dealt with in clauses (1), (2), (3) or (4) of this paragraph);
- (59) 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 Stated 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 \$15.0 million or more;
- (60) failure by the Company or any Significant Subsidiary or group of Restricted Subsidiaries that, taken together, would constitute a Significant Subsidiary, to pay final judgments entered by a court or courts of competent jurisdiction aggregating in excess of \$15.0 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);
- (61) 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;
- (62) with respect to Collateral having a Fair Market Value in excess of \$5.0 million, one or more of the Security Documents shall, at any time, cease to be in full force and effect, or a Security Document shall be declared invalid or unenforceable by a court of competent jurisdiction or the relevant grantor of the security granted pursuant to a Security Document asserts, in any pleading in any court of competent jurisdiction, that any such Security Document is invalid or unenforceable for any reason other than the satisfaction in full of all obligations under the Indenture and the Notes and discharge of the Indenture and the Notes, other than, in each case, pursuant to limitations on enforceability, validity or effectiveness imposed by applicable law, regulation or order of a regulator or the terms of such Security Document or except in accordance with the terms of such Security Document, the Intercreditor Agreement, any Additional Intercreditor Agreements or the Indenture, including the release provisions thereof, and any such Default continues for 10 days; and
- (63) certain events of bankruptcy or insolvency described in the Indenture with respect to the Issuer, the Company or any of its Restricted Subsidiaries that is a Significant Subsidiary or any group of Restricted Subsidiaries that, taken together, would constitute a Significant Subsidiary.

If an Event of Default described in clause (10) above occurs and is continuing, 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 may, and at the direction of the holders of at least 25% in aggregate

principal amount of the then outstanding Notes shall, declare all of the then outstanding Notes to be due and payable immediately by notice in writing to the Issuer 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 and 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;
- (64) holders of at least 25% in aggregate principal amount of the then outstanding Notes have requested the Trustee to pursue the remedy;
- (65) such holders have offered the Trustee security and indemnity satisfactory to it against any loss, liability or expense;
- (66) the Trustee has not complied with such request within 60 days after the receipt of the request and the offer of such security or indemnity; and
- (67) 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 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 be waived with the consent of each holder of Notes affected).

The Issuer is required to deliver to the Trustee annually a statement regarding compliance with the Indenture.

Additional Intercreditor Agreements

At the request of the Company, at the time of, or prior to, the incurrence of Indebtedness by (1) the Company or a Restricted Subsidiary or (2) a Restricted Subsidiary that will also guarantee any Indebtedness (or any Permitted Refinancing Indebtedness in respect thereof), the Company, the relevant Restricted Subsidiaries, the Trustee and the Security Agent shall enter into an intercreditor agreement (each an “Additional Intercreditor Agreement”) in substantially the form of and on the same terms or terms substantially similar to the Intercreditor Agreement or on terms more favorable to the holders of the Notes.

The Indenture will also provide that, at the direction of the Company and without the consent of the holders of the Notes, the Trustee and the Security Agent may from time to time enter into one or more amendments to the Intercreditor Agreement or any Additional Intercreditor Agreement or deed to: (i) cure any ambiguity, omission, defect or inconsistency therein that does not adversely affect the rights of holders of Notes in any material respect; (ii) increase the amount of Indebtedness of the types covered by the Intercreditor Agreement or any Additional Intercreditor Agreement in a manner not prohibited by the Indenture and in a manner in substantially the form of and consistent with the ranking and terms of such Intercreditor Agreement or Additional Intercreditor Agreement; (iii) add Guarantors or other parties (such as representatives of new issuances of Indebtedness) thereto; (iv) make any change necessary or desirable, in the good faith determination of the Board of Directors of the Company, in order to implement any transactions permitted under the first paragraph under the caption “Merger, Consolidation or Sale of Assets”; *provided* that such change does not

adversely affect the rights of the holders of the Notes in any material respect; and *provided further* that such Additional Intercreditor Agreement will not impose any personal obligations on the Trustee or Security Agent or, in the opinion of the Trustee or Security Agent, as applicable, adversely affect the rights, duties, liabilities, indemnities or immunities of the Trustee or Security Agent under the Indenture or the Intercreditor Agreement; (v) provide that the Nigerian Upstamping Protection Provisions do not apply to certain creditors as permitted by the covenant described under the caption “—Certain Covenants—Liens”; or (vi) make any other such change thereto that does not adversely affect the rights of the holders of the Notes in any material respect. The Company shall not otherwise direct the Trustee to enter into any amendment to the Intercreditor Agreement or any Additional Intercreditor Agreement or deed without the consent of the holders of a majority in aggregate principal amount of the Notes then outstanding, except as otherwise permitted below under “—Amendment, Supplement and Waiver”.

The Intercreditor Agreement or any Additional Intercreditor Agreement may be discharged (subject to survival of certain provisions pertaining to the appointment of, and protections, indemnities and immunities of, the Trustee and the Security Agent) at the option of the Company if at the date of such discharge, the Indebtedness of the Company or a Restricted Subsidiary in respect of any relevant Credit Facility covered thereby has been discharged or refinanced. The Trustee and the Security Agent shall each take all necessary actions to effectuate the discharge of the Intercreditor Agreement or any Additional Intercreditor Agreement in accordance with these provisions, subject to customary protections and indemnifications.

Each holder of a Note, by accepting such Note, will be deemed to have:

- (1) appointed and authorized the Trustee and the Security Agent to give effect to such provisions;
- (68) authorized the Trustee and the Security Agent to become a party to any future intercreditor arrangements or deeds described above;
- (69) agreed to be bound by such provisions and the provisions of any future intercreditor arrangements or deeds described above; and
- (70) irrevocably appointed the Trustee to act on its behalf to enter into and comply with such provisions and the provisions of any future intercreditor arrangements or deeds described above.

No Personal Liability of Directors, Officers, Employees and Stockholders

No director, officer, employee, incorporator or stockholder of the Issuer or any Guarantor (other than the Issuer and any Guarantor), as such, will have any liability for any obligations of the Issuer 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 the U.S. federal securities laws.

Legal Defeasance and Covenant Defeasance

The Issuer 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;
- (71) the Issuer’s obligations with respect to the Notes concerning issuing temporary Notes, 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;
- (72) the rights, powers, trusts, duties and immunities of the Trustee, and the Issuer’s and the Guarantors’ obligations in connection therewith; and
- (73) the Legal Defeasance and Covenant Defeasance provisions of the Indenture.

In addition, the Issuer may, at its option and at any time, elect to have the obligations of the Issuer and the Guarantors released with respect to certain covenants (including the Issuer'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 Issuer, 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 Issuer exercises either its Legal Defeasance or Covenant Defeasance option, each Guarantor will be released and relieved of any obligations under its Note Guarantee and any security for the Notes (other than the trust) will be released.

In order to exercise either Legal Defeasance or Covenant Defeasance:

- (1) the Issuer must irrevocably deposit with the Trustee (or such other entity designated or appointed (as agent) by the Trustee for such 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 Issuer must specify whether the Notes are being defeased to such stated date for payment or to a particular redemption date;
- (74) in the case of Legal Defeasance, the Issuer must deliver to the Trustee an opinion of United States counsel reasonably acceptable to the Trustee confirming that (a) the Issuer 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 and beneficial owners 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;
- (75) in the case of Covenant Defeasance, the Issuer must deliver to the Trustee an opinion of United States counsel reasonably acceptable to the Trustee confirming that the holders and beneficial owners 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;
- (76) 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 Issuer or any of its Subsidiaries is a party or by which the Issuer or any of its Subsidiaries is bound;
- (77) the Issuer must deliver to the Trustee an officers' certificate stating that the deposit was not made by the Issuer with the intent of preferring the holders of Notes over the other creditors of the Issuer with the intent of defeating, hindering, delaying or defrauding any creditors of the Issuer or others; and
- (78) the Issuer 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, the Note Guarantees, the Intercreditor Agreement, any Additional Intercreditor Agreement or any Security Document may be amended or supplemented with the consent of the holders of at least 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, the Note Guarantees, the Intercreditor Agreement,

any Additional Intercreditor Agreement or any Security Document 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 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;
- (79) 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”);
- (80) reduce the rate of or change the time for payment of interest, including default interest, on any Note;
- (81) 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 at least a majority in aggregate principal amount of the then outstanding Notes and a waiver of the payment default that resulted from such acceleration);
- (82) make any Note payable in money other than that stated in the Notes;
- (83) make any change in the provisions of the Indenture relating to waivers of past Defaults or the rights of holders of Notes to receive payments of principal of, or interest, Additional Amounts or premium, if any, on, the Notes (other than as permitted in clause (7) below);
- (84) waive a redemption 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”);
- (85) 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 and the Intercreditor Agreement (or any Additional Intercreditor Agreement);
- (86) release any Lien on the Collateral except as permitted by the Indenture, and the Intercreditor Agreement (or any Additional Intercreditor Agreement) or the Security Documents;
- (87) impair the right of any holder of Notes to receive payment of principal of and interest on such holder’s Notes on or after the due dates therefor or 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;
- (88) 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
- (89) make any change in the preceding amendment, supplement and waiver provisions.

Notwithstanding the preceding, without the consent of any holder of Notes, the Issuer, the Guarantors and the Trustee and the Security Agent (to the extent such party is party to the relevant agreement) may amend or supplement the Indenture, the Notes, the Note Guarantees and the Intercreditor Agreement:

- (1) to cure any ambiguity, defect or inconsistency;
- (90) to provide for uncertificated Notes in addition to or in place of certificated Notes;
- (91) to provide for the assumption of the Issuer’s or a Guarantor’s obligations to holders of Notes and Note Guarantees in the case of a merger or consolidation or sale of all or substantially all of the Issuer’s or such Guarantor’s assets, as applicable, in accordance with the terms of the Indenture;

- (92) 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;
- (93) to conform the text of the Indenture, the Note Guarantees or the Notes 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 Note Guarantees or the Notes;
- (94) to provide for the issuance of Additional Notes in accordance with the limitations set forth in the Indenture as of the Issue Date;
- (95) to allow any Guarantor to execute a supplemental indenture and/or a Note Guarantee with respect to the Notes or release Note Guarantees pursuant to the terms of the Indenture;
- (96) to secure the Notes; or
- (97) to evidence and provide for the acceptance and appointment under the Indenture of a successor trustee.

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.

The Trustee shall be entitled to require and rely absolutely on such evidence as it deems necessary, including Officer’s Certificates and Opinions of Counsel.

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, 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 Issuer, have been delivered to the Paying Agent for cancellation; or
 - (b) all Notes that have not been delivered to the Trustee 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 Issuer 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 interest, to pay and discharge the entire Indebtedness on the Notes not delivered to the Trustee for cancellation for principal, premium, Additional Amounts, if any, and accrued interest to the date of maturity or redemption;
- (98) in the case of (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 Issuer or any Guarantor is a party or by which the Issuer or any Guarantor is bound;
- (99) the Issuer or any Guarantor has paid or caused to be paid all sums payable by it under the Indenture; and
- (100) the Issuer has delivered irrevocable instructions to the Trustee under the Indenture to apply the deposited money toward the payment of the Notes at maturity or on the redemption date, as the case may be.

In addition, the Issuer 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 officer's certificate as to matters of fact (including as to compliance with the foregoing clauses (1), (2), (3) and (4).

Listing

Application has been made to list the Notes on the Official List of the Irish Stock Exchange and for admission and trading on the Global Exchange Market. There can be no assurance that the application will be accepted.

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 Issuer or any Guarantor, shall constitute a discharge of the Issuer 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 Issuer 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 Issuer shall deliver written notice to the Trustee within 30 days of becoming aware of the occurrence of a Default or an Event of Default.

The Trustee will be permitted to engage in transactions with the Issuer or any Guarantor; 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 power, to use the degree of care of a prudent man in the conduct of his 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, and if requested, the Trustee has received, security and indemnity satisfactory to it against any loss, liability or expense. The Security Agent shall be required to act under the Indenture and the Intercreditor Agreement and any Additional Intercreditor Agreement only upon instructions and only if indemnified and/or secured to its satisfaction.

The Issuer and the Guarantors, jointly and severally, will indemnify the Trustee for certain claims, liabilities and expenses incurred without gross negligence, 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 Seven Energy Finance Limited, 9 Columbus Centre, Pelican Drive, PO Box 805, Road Town, Tortola, VG 1110, British Virgin Islands, care of Chief Financial Officer.

So long as the Notes are listed on the Official List of the Irish Stock Exchange and admitted for trading on the Global Exchange Market and the rules of the Irish 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 offices of the Paying Agent.

Consent to Jurisdiction and Service of Process

The Indenture will provide that the Issuer and each Guarantor, will appoint CT Corporation 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 jurisdiction.

Enforceability of Judgments

Since substantially all of the assets of the Issuer and the Guarantors are outside the United States, any judgment obtained in the United States against the Issuer or any Guarantor may not be collectable within the United States. See “Service of Process and Enforcement of Civil Liabilities”.

Prescription

Claims against the Issuer 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 Issuer or any Guarantor for the payment of interest on the Notes will not be permitted six 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.

“*Accugas II Facility*” means a term facility agreement dated June 24, 2010 as amended and restated by a deed of amendment and restatement dated March 27, 2013, as further amended on October 16, 2013 and made between, among others, Accugas Limited as borrower, Seven Energy International Limited as sponsor, the financial institutions named therein as term facility lenders and Stanbic IBTC Trustees Limited as facility agent.

“*Accugas III Facility*” means the medium term facility agreement dated March 25, 2014, as may be amended from time to time, between, *inter alios*, Accugas Limited, as borrower, FBN Capital Limited, as mandated lead arranger and facility agent, First Trustees Nigeria Limited, as collateral agent and Seven Energy International Limited, as guarantor.

“*Accugas Facilities*” means the Accugas II Facility and Accugas III Facility, collectively.

“*Accugas Intercreditor Agreement*” means the intercreditor agreement dated 26 March 2012, as may be amended from time to time, between, *inter alios*, Seven Exploration & Production Limited (formerly known as Septa Energy Nigeria Limited), Seven Energy International Limited, Standard Chartered Bank and CSL Trustee Limited as senior security agents and Standards Chartered Bank as senior agent.

“*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.

“*Adjusted Consolidated Net Tangible Assets*” means (without duplication), as of the date of determination:

- (1) the sum of:
- (a) discounted future net revenue from proved crude oil and natural gas reserves of the Company and its Restricted Subsidiaries calculated in accordance with the Calculation Method before any applicable income taxes, as estimated by the Company in a reserve report prepared as of the end of the Company’s most recently completed fiscal year for which audited financial statements are available, as *increased* by, as of the date of determination, the discounted future net revenue of:

- (A) estimated proved crude oil and natural gas reserves of the Company and its Restricted Subsidiaries acquired since the date of such reserve report (including oil and gas reserves to be acquired as of the date of such determination), calculated in accordance with the Calculation Method, and
- (B) estimated crude oil and natural gas reserves of the Company and its Restricted Subsidiaries attributable to extensions, discoveries and other additions and upward revisions of estimates of proved crude oil and natural gas reserves (including the impact to proved reserves and future net reserves from previously estimated development costs incurred and the accretion of discount since the prior period end) due to exploration, development or exploitation, production or other activities, which reserves were not reflected in such reserve report which would, in accordance with standard industry practice, result in such determinations, calculated in accordance with the Calculation Method,

and *decreased* by, as of the date of determination, the discounted future net revenue attributable to:

- (C) estimated proved crude oil and natural gas reserves of the Company and its Restricted Subsidiaries reflected in such reserve report produced or disposed of since the date of such reserve report calculated in accordance with the Calculation Method, and
- (D) reductions in the estimated oil and natural gas reserves of the Company and its Restricted Subsidiaries reflected in such reserve report since the date of such reserve report attributable to downward determinations of estimates of proved crude oil and natural gas reserves due to exploration, development or exploitation, production or other, activities conducted or otherwise occurring since the date of such reserve report which would, in accordance with standard industry practice, result in such determinations, in each case calculated in accordance with the Calculation Method;

utilizing in the case of clauses (i) through (iv), prices and costs calculated in accordance with the Calculation Method as if the end of the most recent fiscal quarter preceding the date of determination for which such information is available to the Company, were year end; *provided, however*, that such increases and decreases shall be estimated by the Company’s engineers;

- (b) the capitalized costs that are attributable to crude oil and natural gas properties of the Company and its Restricted Subsidiaries to which no proved crude oil and natural gas reserves are attributable, based on the Company’s books and records as of a date no

earlier than the date of the Company's latest available annual or quarterly financial statements;

- (c) the Net Working Capital as of a date no earlier than the date of the Company's latest available annual or quarterly financial statements; and
 - (d) the greater of (i) the net book value of other tangible assets (including Investments in unconsolidated Subsidiaries) of the Company and its Restricted Subsidiaries as of a date no earlier than the date of the Company's latest available annual or quarterly financial statements and (ii) the appraised value, as estimated by independent appraisers or a recognized independent expert of national standing, of other tangible assets of the Company and its Restricted Subsidiaries as of a date no earlier than the date of the Company's latest available annual or quarterly financial statements (*provided* that the Company shall not be required to obtain such an appraisal of such assets if no such appraisal has been performed and only clause (d)(i) of this definition shall apply); *minus*
- (2) the sum of:
- (a) Minority Interests;
 - (b) any net natural gas balancing liabilities of the Company and its Restricted Subsidiaries reflected in the Company's latest audited financial statements (to the extent not deducted in calculating Net Working Capital of such Person in accordance with clause (1)(c) above of this definition);
 - (c) to the extent included in clause (1)(a) above, the discounted future net revenue, calculated in accordance with the Calculation Method (utilizing the same prices in the Company's year end reserve report), attributable to reserves subject to participation interests, overriding royalty interests or other interests of third parties, pursuant to participation, partnership, vendor financing or other agreements then in effect, or which otherwise are required to be delivered to third parties;
 - (d) to the extent included in clause (1)(a) above, the discounted future net revenue calculated in accordance with the Calculation Method (utilizing the same prices utilized in the Company's year end reserve report), attributable to reserves that are required to be delivered to third parties to fully satisfy the obligations of the Company and its Restricted Subsidiaries with respect to Volumetric Production Payments on the schedules specified with respect thereof; and
 - (e) the discounted future net revenue, calculated in accordance with the Calculation Method, attributable to reserves subject to Dollar Denominated Production Payments that, based on the estimates of production included in determining the discounted future net revenue specified in the immediately preceding clause (1)(a) (utilizing the same prices utilized in the Company's year end reserve report), would be necessary to satisfy fully the obligations of the Company and its Restricted Subsidiaries with respect to Dollar Denominated Production Payments on the schedules specified with respect thereof.

If the Company changes its method of accounting from the successful efforts method to the full cost method or a similar method of accounting, "Adjusted Consolidated Net Tangible Assets" will continue to be calculated as if the Company were still using the successful efforts method of accounting.

"*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.

“*Akwa Ibom Term Loan*” means the loan made pursuant to an agreed form loan agreement between, inter alios, Universal Energy Resources Limited as borrower and Akwa Ibom State Government (acting through Akwa Ibom Investment and Industrial Promotion Council) as lender.

“*Applicable Premium*” means, with respect to any Note on any redemption date, the greater of (a) 1% of the principal amount of such Note and (b) the excess of:

- (1) the present value at such redemption date of (i) the redemption price of the Note on October 11, 2018 (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 October 11, 2018 (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 redemption date plus 50 basis points; over
- (2) the then-outstanding principal amount of the Note,

as calculated by the Issuer or another party appointed by it for this purpose. For the avoidance of doubt, calculation of Applicable Premium shall not be an obligation or duty of the Trustee 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 the greater of (a) \$15.0 million and (b) 0.91% of Adjusted Consolidated Net Tangible Assets;
- (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-in, farm-out, lease or sublease of any oil and gas properties or the forfeiture or other disposition of such properties, 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 made in accordance with 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 or direct or indirect interests in real property; *provided*, that at the time of such sale or other disposition such properties do not have associated with them any proved 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) transactions permitted under “—Certain Covenants—Mergers, Consolidation or Sale of Assets”;
- (16) 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;
- (17) foreclosure, condemnation or any similar action with respect to any property or other assets; and
- (18) any Production Payments and Reserve Sales.

“*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”.

“*Bank of Industry Loan*” means the loan made pursuant to an agreed form facility agreement between, inter alios, East Horizon Gas Company Nigeria, the financial institutions listed in Schedule 1 therein as the new lenders and FBN Capital Limited as facility agent.

“*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.

“*Borrowed Money Indebtedness*” means any Indebtedness (other than any Additional Notes the holders of which (or their representatives) have entered into the Intercreditor Agreement or an Additional Intercreditor Agreement) incurred pursuant to the first paragraph or Clauses (1) or (25) of the second paragraph of the covenant entitled “—Certain Covenants—Incurrence of Indebtedness and Issuance of Preferred Stock.”

“*Business Day*” means each day that is not a Saturday, Sunday or other day on which banking institutions in London, Ireland, 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.”

“*Calculation Method*” means (i) the methodology used by the Company on the Issue Date or (ii) a determination by the Company in accordance with acceptable industry practice (as calculated by a responsible accounting or financial officer of the Company) and in each case either as published in the Company’s most recent annual financial statements or quarterly reports as described above under “—Certain Covenants—Reports” or as otherwise published by the Company on the “Investor Relations” section of its website.

“*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 or Canada (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 or Canada, 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 “A” or the equivalent thereof by Standard & Poor’s Ratings Services, or “A” or the equivalent thereof by Moody’s Investors Service, Inc. 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 "A" or the equivalent thereof by Standard & Poor's Ratings Services, or "A" or the equivalent thereof by Moody's Investors Service, Inc. or the equivalent rating category of another internationally recognized rating agency, and having combined capital and surplus in excess of \$500 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) above 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 Standard & Poor's Ratings Services or "P-2" or the equivalent thereof by Moody's Investors Service, Inc., 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) with respect to a jurisdiction in which (a) the Company or a Restricted Subsidiary conducts its business or is organized and (b) it is not commercially practicable to make investments of the kind described in clauses (1) through (4) above, any substantially similar investment to the kinds described in clauses (2) and (3) of this definition obtained in the ordinary course of business and 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 that 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 Issuer or the Company other than in a transaction which complies with the provisions described under "—Certain Covenants— Merger, Consolidation or Sale of Assets";
- (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; or
- (4) during any 24 month period, Continuing Directors cease to constitute a majority of the Board of Directors of the Company,

provided that no Change of Control shall be deemed to occur by reason of the Company becoming a Subsidiary of a Successor Parent.

"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) provision for 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 equity 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) consolidated exploration and abandonment expense of the Company and its Restricted Subsidiaries; of the Company and its Restricted Subsidiaries; *minus*
- (9) non-cash items increasing such Consolidated Net Income for such period, other than items that were accrued in the ordinary course of business; and *minus*
- (10) the sum of (a) the amount of deferred revenue 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 Leverage*” means, as of any date of determination, with respect to any specified Person, the total amount of Indebtedness (other than Indebtedness of the type specified in clauses (7), (9), (12), (13), (14), (15), (19), (20), (21), (22) or (23) of the definition of “Permitted Debt”) of such Person and its Restricted Subsidiaries on a consolidated basis.

“*Consolidated Leverage Ratio*” means, as of any date of determination, with respect to any specified Person, the ratio of (a) the Consolidated 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 Subsidiaries which are 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 Subsidiaries which are Restricted Subsidiaries acquired by the specified Person or any of its Subsidiaries which are 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 (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 on or prior to the date of determination 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 such Person. 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 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 and the Person’s equity in a net loss of any such Person for such period will be excluded;
- (2) solely for the purpose of determining the amount available for Restricted Payments under clause (3)(a) of the first paragraph under the caption “—Certain Covenants—Restricted Payments”, any net income (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 the Company (or any Subsidiary 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) 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 the Company’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 the Company 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 the Company) 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 in each case will be excluded.

“*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.

“*Continuing Directors*” means, as of any date of determination, any member of the Board of Directors of the Company who:

- (1) was a member of such Board of Directors on the Issue Date; or

- (2) was nominated for election or elected to such Board of Directors with the approval of a majority of the Continuing Directors who were members of such Board of Directors at the time of such nomination or election.

“*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 Accugas Facilities, the Akwa Ibom Term Loan and the Bank of Industry Loan or commercial paper facilities and overdraft facilities) with banks 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 or institutions and whether provided under the Accugas Facilities, the Akwa Ibom Term Loan and the Bank of Industry Loan 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 or 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 (including preferred 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.

“*Dollar Denominated Production Payments*” means production payment obligations recorded as liabilities in accordance with IFRS, together with all undertakings and obligations in connection therewith.

“*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 Offering*” means any public or private sale of Capital Stock (other than Disqualified Stock) by the Company after the Issue Date.

“*Escrowed Proceeds*” means the proceeds from the offering of any debt securities or other Indebtedness paid into an escrow account with an independent escrow agent on the date of the applicable offering or incurrence pursuant to escrow arrangements that permit the release of amounts on deposit in such escrow account upon satisfaction of certain conditions or the occurrence of certain events. The term “Escrowed Proceeds” shall include any interest earned on the amounts held in escrow.

“*Existing Indebtedness*” means Indebtedness of the Company and its Restricted Subsidiaries in existence on the date of the Indenture after giving effect to the use of proceeds of the Notes (other than the Accugas Facilities, the Akwa Ibom Term Loan and the Bank of Industry Loan), until such amounts are repaid.

“*Fair Market Value*” means the value that would be paid by a willing buyer to an unaffiliated willing seller in a transaction not involving the 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 Issuer 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 period;
- (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 period; and
- (6) if any Indebtedness bears a floating rate of interest, the interest expense on such Indebtedness will be calculated as if the rate in effect on the Calculation Date had been the applicable rate for the entire period (taking into account any Hedging Obligation applicable to such Indebtedness if such Hedging Obligation has a remaining term as at the Calculation Date in excess of 12 months, or, if shorter, at least equal to the remaining term of such Indebtedness).

“*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 preferred stock of such Person or any of its Restricted Subsidiaries, other than dividends on Equity Interests payable solely in Equity Interests of such Person (other than Disqualified Stock) to such 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 combined national, state and local statutory tax rate of such Person, expressed as a decimal; *minus*,
- (5) to the extent included above, write-off deferred financing costs (and interest) attributable to Dollar Denominated Production Payments.

“*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 each of:

- (1) the Company, the Initial Subsidiary Guarantors; and
- (2) any other Person that executes a Guarantee in accordance with the provisions of the Indenture,

and each of their respective successors and assigns, in each case, until the Note Guarantee of such Person has been released in accordance with the provisions of 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 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;
- (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, including Currency Exchange Protection Agreements.

“*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 as adopted by the European Union and in effect on the Issue Date or, with respect to the covenant “Reports,” as in effect from time to time.

“*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 banker’s acceptances (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) the principal component or liquidation preference of all obligations of such Person with respect to the redemption, repayment or other repurchase of any Disqualified Stock or, with respect to any Subsidiary, any Preferred Stock (but excluding, in each case, any accrued dividends);
- (7) representing any Hedging Obligations;

- (8) 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
- (9) 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. 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 (9) above, 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; or
- (3) 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.

"*Initial Public Offering*" means the first Public Equity Offering of common stock or common equity interests of the Company or any Parent Entity (the "*IPO Entity*") following which such common stock or common equity interests are listed on an internationally recognized securities exchange and have a market value in excess of \$150 million (or its equivalent in another currency) on the date of such Initial Public Offering.

"*Initial Subsidiary Guarantors*" means Seven Energy (BVI) Limited, Seven Energy (Jersey) Limited, Seven Energy Ltd., Seven Exploration & Production Limited and Seven Uquo Gas Limited.

"*Intercreditor Agreement*" means the intercreditor agreement dated on or about the Issue Date between, inter alios, Seven Energy International Limited as parent, Seven Energy Finance Limited as the company, the debtors named therein as original debtors and the Security Agent.

"*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" within the meaning of Rule 15c3-1(c)(2)(vi)(F) under 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 second to last 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 second to last 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.

"*IPO Entity*" has the meaning given in the definition of "Initial Public Offering."

"*IPO 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 IPO Entity at the time of closing of the Initial Public Offering multiplied by (ii) the price per share at which such shares of common stock or common equity interests are sold in such Initial Public Offering.

"*Issue Date*" means October 10, 2014.

"*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.

"*Limited Indebtedness*" means Indebtedness (without double counting):

- (a) directly incurred by any Restricted Subsidiary of the Company that is not a Guarantor or the Issuer outstanding at any time under the first paragraph or clauses (1) and (25) of the second paragraph of the covenant described above under the caption "—Certain Covenants—Incurrence of Indebtedness and Issuance of Preferred Stock"; or
- (b) incurred by the Company or any Restricted Subsidiary and secured by means of any Lien (to the extent the assets that secure such Indebtedness do not also secure the Notes on a *pari passu* or senior basis) permitted in accordance with clauses (1), (2) or (31)(f) of the definition of "Permitted Liens"; or
- (c) incurred by the Company or any Restricted Subsidiary under clause (1) of the second paragraph of the covenant described above under the caption "—Certain Covenants—Incurrence of Indebtedness and Issuance of Preferred Stock" and secured by a Permitted Collateral Lien that receives priority as to the receipt of distributions of proceeds of any enforcement of Collateral,

provided, however, that Limited Indebtedness shall not include Indebtedness of the Company or a Restricted Subsidiary which is secured by Liens permitted in accordance with clauses (1), (2) or (31)(f) of the definition of "Permitted Liens" on assets that do not constitute Collateral if the Company has used reasonable best efforts to grant a Lien in favor of the Notes and the Note Guarantees.

"*Management Advances*" means loans or advances made to, or Guarantees with respect to loans or advances made to, directors, officers or employees of the 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 \$2.0 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 IPO Entity 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 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 federal, state, provincial, foreign and local 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.

“*Net Working Capital*” means (a) the sum of (i) all current assets of the Company and its Restricted Subsidiaries except current assets from commodity price risk management activities arising in the ordinary course of business and (ii) the amount of revolving credit borrowings available to be incurred under committed facilities, less (b) all current liabilities of the Company and its Restricted Subsidiaries, except current liabilities (i) associated with asset retirement obligations relating to oil and gas properties, (ii) included in Indebtedness and (iii) any current liabilities from commodity price risk management activities arising in the ordinary course of business, in each case as set forth in the consolidated financial statements of the Company prepared in accordance with IFRS (excluding any adjustments made pursuant to IAS 39).

“*Nigerian Collateral*” has the meaning ascribed to such term in the covenant described above under the caption “—Certain Covenants—Liens”.

“*Nigerian Upstamping Protection Provisions*” means provisions set out in an intercreditor agreement providing that:

- (1) no creditor party thereto may, without the prior written agreement of the other creditors party to such agreement, directly or indirectly, pay stamp duty and registration fees or procure that such duty or fees are paid on its behalf due and payable on any Nigerian Collateral for more than \$1.0 million principal amount of indebtedness, except in accordance with clause (2) of this definition;
- (2) creditors party thereto shall “upstamp” to pay any stamp duty and registration fees due and payable in order of the ranking set out in such intercreditor agreement, such that no creditors are permitted to upstamp prior to any creditor that ranks senior in right of payment to such creditor and *pari passu* creditors shall upstamp substantially simultaneously or otherwise in such a manner that would not result in any preference as between the creditors, unless such “upstamping” creditor notifies all other parties to such intercreditor agreement and shares the proceeds of any enforcement action against the relevant Nigerian Collateral in accordance with clause (3) below; and

- (3) creditors party thereto shall agree to turnover provisions requiring any creditor receiving proceeds in any enforcement of shared Nigerian Collateral subject to such intercreditor agreement to share proceeds in accordance with the relevant ranking in such intercreditor agreement.

“*Note Guarantee*” means the Guarantee by each Guarantor of the Issuer’s Obligations under the Indenture and the Notes, executed pursuant to the provisions of the Indenture.

“*NSIA Notes*” means the senior secured New York law-governed notes to be issued by the Issuer on or around the Issue Date to the Nigerian Sovereign Investment Authority, which notes shall be guaranteed by the Guarantors and be secured on a first-ranking basis by the Collateral.

“*Obligations*” means any principal, interest, penalties, fees, expenses, indemnifications, reimbursements, damages and other liabilities payable under the documentation governing any Indebtedness.

“*Offering Memorandum*” means this offering memorandum dated October 2, 2014.

“*Oil and Gas Business*” means:

- (1) the acquisition, exploration, exploitation, development, production, operation and disposition of interests in oil, natural gas, liquid 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.

“*Parent Entity*” means any Person of which the Company at any time is or becomes a direct or indirect Subsidiary after the Issue Date.

“*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, including but not limited to investments or expenditures for actively exploiting, exploring for, acquiring, developing, producing, processing, gathering, marketing 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 risk 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 properties or any interest therein or gathering, transportation, processing, storage or related systems or ancillary real property interests;
- (2) the entry into 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 and related equipment, including, without limitation, transportation equipment.

“*Permitted Collateral Liens*” means:

- (1) Liens on the Collateral to secure the Notes issued on the Issue Date, any Note Guarantees and, in each case, any Permitted Refinancing Indebtedness in respect thereof (and any Permitted Refinancing Indebtedness in respect of such Permitted Refinancing Indebtedness);
- (2) Liens on the Collateral to secure Indebtedness under Credit Facilities incurred pursuant to the first paragraph of the covenant entitled “—Certain Covenants—Incurrence of Indebtedness and Issuance of Preferred Stock” (and any Permitted Refinancing Indebtedness in respect of such Indebtedness and any Permitted Refinancing Indebtedness in respect of such Permitted Refinancing Indebtedness);
- (3) Liens on the Collateral to secure Indebtedness under Credit Facilities incurred pursuant to clause (1), (4) or (25) of the second paragraph of the covenant entitled “—Certain Covenants—Incurrence of Indebtedness and Issuance of Preferred Stock”; *provided* that up to \$50.0 million in aggregate principal amount at any time outstanding of Indebtedness to be incurred under a revolving credit facility pursuant to clause (1) of the of the second paragraph of the covenant entitled “—Certain Covenants—Incurrence of Indebtedness and Issuance of Preferred Stock”, may receive priority as to the receipt of distributions of proceeds of any enforcement of Collateral;
- (4) Liens on the Collateral to secure Hedging Obligations permitted to be incurred by clause (9) of the of the second paragraph of the covenant entitled “—Certain Covenants—Incurrence of Indebtedness and Issuance of Preferred Stock”; *provided* that any currency and interest obligations incurred pursuant to clause (9) of the second paragraph of the covenant entitled “—Certain Covenants—Incurrence of Indebtedness and Issuance of Preferred Stock” under Hedging Obligations in respect of (x) the Notes, any Additional Notes and any Permitted Refinancing Indebtedness in respect thereof and (y) up to \$50.0 million in aggregate principal amount at any one time outstanding of Indebtedness to be Incurred under a revolving credit facility pursuant to clause (1) of the of the second paragraph of the covenant entitled “—Certain Covenants—Incurrence of Indebtedness and Issuance of Preferred Stock”, in each case secured by the Collateral, may receive priority as to the receipt of distributions of proceeds of any enforcement of Collateral;
- (5) Liens on the Collateral arising by operation of law described in one or more of clauses (8), (9), (11), (15), (22), (24), (25) and (28) of the definition of “Permitted Liens” and that, in each case, would not materially interfere with the ability of the Security Agent to enforce any Lien over the Collateral; and
- (6) Liens incurred in the ordinary course of business of the Company or any of its Restricted Subsidiaries with respect to Indebtedness at any one time outstanding that does not exceed \$5.0 million 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 and that do not in the aggregate materially detract from the value of the property or materially impair the use thereof in the operation of the Company’s or such Restricted Subsidiary’s business, and any Permitted Refinancing Indebtedness in respect thereof (and any Permitted Refinancing Indebtedness in respect of such Permitted Refinancing Indebtedness).

“*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;
- (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) loans or grants in respect of community development projects made in the ordinary course of business customary in the Oil and Gas Business as appropriate for the Company's regions of operation and consistent with past practice or counterparty requirements, and not exceeding the aggregate at any time outstanding of \$2.0 million per calendar year (with unutilized amounts in any calendar year being carried over into succeeding years); and
- (22) 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 (22) that are at the time outstanding not to exceed the greater of (a) \$10.0 million and (b) 0.66% of Adjusted Consolidated Net Tangible 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 (including, without limitation, pursuant to clause (1) of the second paragraph of the covenant described under the caption "—Certain Covenants—Incurrence of Indebtedness and Issuance of Preferred Stock";
- (2) Liens existing on the Issue Date;
- (3) Liens in favor of the Company or any Restricted Subsidiary;
- (4) 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 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 and its shares;
- (5) 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;
- (6) Liens on Capital Stock of and assets of any Restricted Subsidiary that is not a Guarantor that secure 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 (other than any Additional Notes) (or the Note Guarantees) (other than Guarantees of any Additional Notes);
- (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 renewed, refunded, refinanced, replaced, defeased or discharged with such Permitted Refinancing Indebtedness and (y) an amount necessary to pay any fees and expenses, including premiums, related to such renewal, refunding, refinancing, replacement, 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; and 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; *provided that* (x) the aggregate principal amount of Indebtedness secured by such Liens is otherwise permitted to be incurred under the Indenture and does not exceed the cost of the assets or property so acquired or repaired, improved or constructed plus fees and expenses in connection therewith and (y) such Lien shall be limited to all or any part of the asset or property so acquired or repaired, improved or constructed and shall not encumber any other assets or property of the Company or its Restricted Subsidiaries;
- (15) Liens on cash, Cash Equivalents or other property arising in connection with the defeasance, discharge or redemption of Indebtedness;
- (16) Liens in respect of Production Payments and Reserve Sales;
- (17) Liens on pipelines and pipeline facilities that arise by operation of law;
- (18) Liens arising under oil and gas leases or subleases, assignments, farmout 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, partnership agreements, operating agreements, royalties, working interests, carried working interest, net profit interests, joint interest billing arrangements, 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;

- (19) 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 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 clause (b);
- (20) 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;
- (21) Liens securing Hedging Obligations, which obligations are permitted by clause (9) of the second paragraph of the covenant described under “—Certain Covenants—Incurrence of Indebtedness and Issuance of Preferred Stock”;
- (22) 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);
- (23) 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;
- (24) (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;
- (25) Liens (including put and call arrangements) on Capital Stock or other securities of any Unrestricted Subsidiary or joint venture that secure Indebtedness of such Unrestricted Subsidiary or joint venture or of a Restricted Subsidiary that is not a Guarantor (but only to the extent that such Indebtedness is not Indebtedness of the Issuer or a Guarantor);
- (26) 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;
- (27) 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;
- (28) 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;
- (29) 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;
- (30) 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;
- (31) 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 (i) in connection with leases, tenders, bids, statutory obligations, surety or appeal bonds, government contracts, performance bonds and similar obligations, or (ii) 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);
 - (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) Liens incurred in the ordinary course of business of the Company or any Subsidiary of the Company with respect to Indebtedness at any one time outstanding that does not exceed \$5.0 million after giving *pro forma* effect to such incurrence and the application of the proceeds therefrom;
 - (g) leases, licenses, subleases and sublicenses of assets in the ordinary course of business;
 - (h) 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;
- (32) Liens on Escrowed Proceeds for the benefit of the related holders of debt securities or other Indebtedness (or the underwriters or arrangers thereof) or on cash set aside at the time of the incurrence of any Indebtedness or government securities purchased with such cash, in either case to the extent such cash or government securities prefund the payment of interest on such Indebtedness and are held in an escrow account or similar arrangement to be applied for such purpose; and
- (33) any extension, renewal, refinancing or replacement, in whole or in part, of any Lien described in the foregoing clauses (2) through (32) (but excluding clauses (13), (14) and (31)(f)); *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 Parent Payments*” means the declaration and payment of dividends or other distributions, or the making of loans, by the Company or any of its Restricted Subsidiaries to any direct or indirect parent of the Company in amounts and at times required to pay:

- (1) franchise fees and other fees, taxes and expenses required to maintain the corporate existence of any direct or indirect parent of the Company of the Company;

- (2) general corporate overhead expenses of any direct or indirect parent of the Company to the extent such expenses are attributable to the ownership or operation of the Company and its Restricted Subsidiaries (including, without limitation, accounting, legal, audit, corporate reporting and administrative expenses) not to exceed \$2.0 million in any 12-month period;
- (3) directors' fees, remuneration and expenses and other reasonable normal course expenses of any direct or indirect parent of the Company (including payments in respect of services provided by employees of any such direct or indirect parent of the Company or a management consultant) to the extent relating to the Company and its Restricted Subsidiaries;
- (4) for so long as the Company or any of its Restricted Subsidiaries is a member of a group for tax purposes with any direct or indirect parent of the Company, payments to that parent in respect of an allocable portion of the tax liabilities of such group that is attributable to the Company or the relevant Restricted Subsidiary ("Tax Payments"); *provided* that the Tax Payments shall not exceed the lesser of (a) the amount of the relevant tax (including any penalties and interest) that the Company or the relevant Restricted Subsidiary would owe if they were not part of a group for tax purposes, taking into account any carryovers and carrybacks of tax attributes (such as net operating losses) of the Company and Restricted Subsidiary from other taxable years and (b) the net amount of the relevant tax that any parent actually owes to the appropriate taxing authority;
- (5) obligations of any direct or indirect parent of the Company in respect of director and officer insurance (including premiums therefor) to the extent relating to the Company and its Subsidiaries, customary indemnification obligations of any direct or indirect parent of the Company owing to directors, officers, employees or other Persons under its charter or by-laws or pursuant to written agreements with any such Person to the extent relating to the Company and its Subsidiaries;
- (6) costs (including all professional fees and expenses) incurred by any direct or indirect parent of the Company in connection with reporting obligations under or otherwise incurred in connection with compliance with applicable laws, rules or regulations of any governmental, regulatory or self-regulatory body or stock exchange, the Indenture or any other agreement or instrument relating to Indebtedness of the Company or any of its Restricted Subsidiaries, including in respect of any reports filed with respect to the U.S. Securities Act, U.S. Exchange Act or the respective rules and regulations promulgated thereunder; and
- (7) fees and expenses of any direct or indirect parent of the Company incurred in relation to any public offering or other sale of Capital Stock or Indebtedness (whether or not completed) (a) where the net proceeds of such offering or sale are intended to be received by or contributed to the Company or any of its Restricted Subsidiaries; (b) in a prorated amount of such expenses in proportion to the amount of such net proceeds intended to be so received or contributed; or (c) otherwise on an interim basis prior to completion of such offering so long as any direct or indirect parent of the Company will cause the amount of such expenses to be repaid to the Company or the relevant Restricted Subsidiary out of the proceeds of such offering promptly if completed.

"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 Issuer 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 Issuer, 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.

“*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, 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.

“*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 by the Company’s chief financial officer in good faith 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.

“*Project Debt*” means Indebtedness as to which neither the Issuer nor any Guarantor provides a guarantee or security interest and with respect to which creditors have no recourse to any assets of the Issuer or any Guarantor (other than the shares such entity may own in a non-Guarantor Restricted Subsidiary).

“*Public Equity Offering*” means, with respect to any Person, a bona fide underwritten primary public offering of the ordinary shares or common equity of such Person, either:

- (1) pursuant to a flotation on the London Stock Exchange or any other nationally recognized stock exchange or listing authority in a member state of the European Union; or
- (2) pursuant to an effective registration statement under the U.S. Securities Act (other than a registration statement on Form S-8 or otherwise relating to Equity Interests issued or issuable under any employee benefit plan).

“*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 sold in accordance with an exemption from or in a transaction not subject to 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. 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*” is 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 Issuer, which shall be substituted for S&P, Moody’s, Fitch or any of these, as the case may be.

“*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.

“*S&P*” means Standard & Poor’s Ratings Group or any successor to its ratings business.

“*SEC*” means the U.S. Securities and Exchange Commission.

“*Security Documents*” has the meaning provided under “—Notes Security”.

“*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 revenue 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 documentation governing such Indebtedness as of the Issue Date, 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 Issuer (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) of which more than 50% of the total ordinary voting power of shares of Capital Stock entitled (without regard to the occurrence of any contingency and after giving effect to any voting agreement or stockholders’ agreement that effectively transfers voting power) to vote in the election of directors, managers or trustees of the corporation, association or other business entity 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); and
- (2) 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.

“*Subsidiary Guarantors*” means each Guarantor that is a subsidiary of the Company.

“*Successor Parent*” with respect to any person, means any other Person that holds more than 50% of the total voting power of the Voting Stock of such first Person which is, at the time the first Person becomes a Subsidiary of such other Person, “beneficially owned” (as defined below) by one or more third Persons that “beneficially owned” (as defined below) more than 50% of the total voting power of the Voting Stock of the first Person immediately prior to the first Person becoming a Subsidiary of such other Person. For purposes hereof, “beneficially own” has the meaning correlative to the term “beneficial owner,” as such term is defined in Rules 13d-3 and 13d-5 under the U.S. Exchange Act (as in effect on the Issue Date).

“Tax” means any tax, duty, levy, impost, assessment or other governmental charge (including penalties, interest and any other additions thereto, and, for the avoidance of doubt, including any withholding or deduction for or on account of Tax). “Taxes” and “Taxation” shall be construed to have corresponding meanings.

“Treasury Rate” means, as of any redemption date, the yield to maturity as of such redemption date 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 October 11, 2018; *provided, however*, that if the period from the redemption date to October 11, 2018 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.

“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) 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
- (2) does not hold any Liens on any property of the Company or any of its Restricted Subsidiaries that is not a Subsidiary of the Subsidiary to be so designated (other than Liens in the ordinary course of business not securing Indebtedness) and to which neither the Company nor any Restricted Subsidiary 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. 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.

“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

General

The Notes sold within the United States to qualified institutional buyers (“QIBs”) in reliance on Rule 144A under the U.S. Securities Act will initially be represented by a global note in registered form without interest coupons attached (the “Rule 144A Global Note”). The Notes sold in offshore transactions outside the United States in compliance with Regulation S under the U.S. Securities Act will initially be represented by a global note in registered form without interest coupons attached (the “Regulation S Global Note” and, together with the Rule 144A Global Note, the “Global Notes”). The Global Notes will be deposited, on the Issue Date, with a common depository and registered in the name of the nominee of the common depository for the accounts of Euroclear and Clearstream.

Ownership of interests in the Rule 144A Global Note (“Rule 144A Book Entry Interests”) and ownership of interests in the Regulation S Global Note (the “Regulation S Book Entry Interests” and, together with the Rule 144A Book Entry Interests, the “Book Entry Interests”) will be limited to persons that have accounts with Euroclear and/or Clearstream or persons who hold interests through such participants. Euroclear and Clearstream will hold interests in the Global Notes on behalf of their participants through customers’ securities accounts in their respective names on the books of their respective depositories. Except under the limited circumstances described below, Book Entry Interests will not be issued in definitive certificated form.

Book Entry Interests will be shown on, and transfers thereof will be done only through, records maintained in the book entry form by Euroclear and Clearstream and their participants. The Book Entry Interests in the Global Notes will be issued only in denominations of \$200,000 and in integral multiples of \$1,000 and will not be held in definitive form. Instead Euroclear or Clearstream will credit on its Book Entry transfer and registration systems a participants account with the interest beneficially owned by such participant. The laws of some jurisdictions, including certain states of the United States, may require that certain purchasers of securities take physical delivery of such securities in definitive certificated 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.

So long as the Notes are held in global form, the common depository for Euroclear and/or Clearstream (or the common depository’s nominee), will be considered the sole holder of the Global Notes for all purposes under the Indenture. In addition, participants must rely on the procedures of Euroclear and Clearstream, and indirect participants must rely on the procedures of Euroclear, Clearstream and the participants through which they own Book Entry Interests, to transfer their interests or to exercise any rights of holders of Notes under the Indenture.

We, the Trustee, the Registrar, the Paying Agent or the Transfer Agent will not have any responsibility, or be liable, for any aspect of the records relating to the Book Entry Interests.

Redemption of the Global Notes

In the event that any Global Note (or any portion thereof) is redeemed, Euroclear and/or Clearstream, as applicable, will redeem an equal amount of the Book Entry Interests in such Global Note from the amount received by it in respect of the redemption of such Global Note. The redemption price payable in connection with the redemption of such Book Entry Interests will be equal to the amount received by Euroclear and/or Clearstream, as applicable in connection with the redemption of such Global Note (or any portion thereof). We understand that, under the existing practices of Euroclear and Clearstream, if fewer than all of the Notes are to be redeemed at any time, Euroclear and Clearstream, as applicable will credit their respective participants’ accounts on a proportionate basis (with adjustments to prevent fractions) or on such other basis as they deem fair and appropriate unless otherwise required by law or applicable stock exchange or depository requirements; provided, however, that no Book Entry Interest of \$200,000 principal amount or less may be redeemed in part.

Payments on Global Notes

We will make payments of any amounts owing in respect of the Global Notes (including principal, premium, if any, and interest) to the Paying Agent, which will in turn make such payments to Euroclear and Clearstream, which will distribute such payments to participants in accordance with their customary procedures. We will make payments of all such amounts without deduction or withholding for, or on account of, any present

or future taxes, duties, assessments or governmental charges of whatever nature, except as may be required by law and as described under “Description of Notes—Additional amounts”. If any such deduction or withholding is required to be made, then, to the extent described under “Description of Notes—Additional amounts” above, we will pay additional amounts as may be necessary in order for the net amounts received by any holder of the Global Notes or owner of Book Entry Interests after such deduction or withholding to equal the net amounts that such holder or owner would have otherwise received in respect of such Global Note or Book Entry Interest, as the case may be, absent such withholding or deduction. We expect that standing customer instructions and customary practices will govern payments by participants to owners of Book Entry Interests held through such participants.

Under the terms of the Indenture, the Issuer, the Transfer Agent, the Paying Agent, Registrar and the Trustee will treat the registered holders of the Global Notes (i.e. the common depositary (or its nominee)) as the owner thereof for the purpose of receiving payments and for all other purposes. Consequently, none of the Issuer, the Trustee, the Security Agent, the Paying Agent, the Transfer Agent, Registrar nor any of their respective agents has or will have any responsibility or liability for any aspect of the records of Euroclear, Clearstream or any participant or indirect participant relating to, or payments made on account of, a Book Entry Interest or for maintaining, supervising or reviewing the records of Euroclear, Clearstream or any participant or indirect participant relating to, or payments made on account of, a Book Entry Interest or Euroclear, 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.

Currency of payment for the Global Notes

The principal of, premium, if any, and interest on, and all other amounts payable in respect of, the Global Notes will be paid to holders of interests to such Notes through Euroclear or Clearstream in US dollars.

Action by owners of Book Entry Interests

Euroclear and Clearstream have advised us that they will take any action permitted to be taken by a holder of Notes (including the presentation of Notes for exchange as described below) only at the direction of one or more participants to whose account the Book Entry Interests are credited and only in respect of such portion of the aggregate principal amount of Notes as to which such participant or participants has or have given such direction. 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, Euroclear and/or Clearstream, at the request of the holders of the Notes, reserves the right to exchange the Global Notes for definitive registered Notes in certificated form (the “Definitive Registered Notes”), and to distribute such Definitive Registered Notes to its participants.

Transfers

Transfers between participants in Euroclear and Clearstream will be effected in accordance with Euroclear and Clearstream rules and will be settled in immediately available funds. If a holder of Notes requires physical delivery of Definitive Registered Notes for any reason, including to sell Notes to persons in jurisdictions that require physical delivery of securities or to pledge such Notes, such holder of Notes must transfer its interests in the Global Notes in accordance with the normal procedures of Euroclear and Clearstream and in accordance with the procedures set out in the Indenture.

The Global Notes will have a legend to the effect set out under “Transfer restrictions”. Book Entry Interests in the Global Notes will be subject to the restrictions on transfers and certification requirements discussed under “Notice to investors”.

Transfers of Rule 144A Book Entry Interests to persons wishing to take delivery of Rule 144A Book Entry Interests will at all times be subject to such transfer restrictions.

Rule 144A Book Entry Interests may be transferred to a person who takes delivery in the form of a Regulation S Book Entry Interest 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 or Rule 144 under the Securities Act or any other exemption (if available under the Securities Act).

Regulation S Book Entry Interests may be transferred to a person who takes delivery in the form of a Rule 144A Book Entry Interest 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 QIB as defined under the U.S. Investment Company Act as well as a QIB 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 laws of any other jurisdiction.

In connection with transfers involving an exchange of a Regulation S Book Entry Interest for a Rule 144A Book Entry Interest, appropriate adjustments will be made to reflect a decrease in the principal amount of the Regulation S Global Note and a corresponding increase in the principal amount of the Rule 144A Global Note.

Any Book Entry Interest in one of the Global Notes that is transferred to a person who takes delivery in the form of a Book Entry Interest in any other Global Note will, upon transfer, cease to be a Book Entry Interest in the first mentioned Global Note and become a Book Entry Interest in such other Global Note, and accordingly will thereafter be subject to all transfer restrictions, if any, and other procedures applicable to Book Entry Interests in such other Global Note for as long as it remains such a Book Entry Interest.

Definitive registered notes

Under the terms of the Indenture, owners of the Book Entry Interests will receive Definitive Registered Notes:

- if Euroclear or Clearstream notifies the Issuer that it is unwilling or unable to continue to act as depository and a successor depository is not appointed by us within 120 days; or
- if the owner of a Book Entry Interest requests such an exchange in writing delivered through either Euroclear or Clearstream following an Event of Default under the Indenture and enforcement action is being taken in respect thereof.

In the case of the issuance of Definitive Registered Notes, the holder of a Definitive Registered Note may transfer such Note by surrendering it to the Registrar or Transfer Agent. In the event of a partial transfer or a partial redemption of a holding of Definitive Registered Notes represented by one Definitive Registered Note, a Definitive Registered Note will be issued to the transferee in respect of the part transferred and a new Definitive Registered Note in respect of the balance of the holding not transferred or redeemed will be issued to the transferor or the holder, as applicable; provided that no Definitive Registered Note in a denomination less than \$200,000 will be issued. We will bear the cost of preparing, printing, packaging and delivering the Definitive Registered Notes.

We will not be required to register the transfer or exchange of Definitive Registered Notes for a period of 15 calendar days preceding (i) the record date for any payment of interest on the Notes, (ii) any date fixed for redemption of the Notes or (iii) the date fixed for selection of the Notes to be redeemed in part. Also, we are not required to register the transfer or exchange of any Notes selected for redemption or which the holder has tendered (and not withdrawn) for repurchase in connection with a change of control offer. In the event of the transfer of any Definitive Registered Note, the Trustee, the transfer agents and the Registrar may require a holder, among other things, to furnish appropriate endorsements and transfer documents as described in the Indenture. We may require a holder to pay any taxes and fees required by law and permitted by the Indenture and the Notes.

If Definitive Registered Notes are issued and a holder thereof claims that such Definitive Registered Note has been lost, destroyed or wrongfully taken, or if such Definitive Registered Note is mutilated and is surrendered to the Registrar or at the office of the Transfer Agent, we will issue and the Trustee (or an authentication agent appointed by it) will authenticate a replacement Definitive Registered Note if the Trustee’s and our requirements are met. The Issuer or the Trustee may require a holder requesting replacement of a Definitive Registered Note to furnish an indemnity bond sufficient in the judgment of both to protect themselves, the Trustee or the paying agents appointed pursuant to the Indenture from any loss which any of them may suffer if a Definitive Registered Note is replaced. The Issuer may charge for any expenses incurred by us in replacing a Definitive Registered Note.

In case any such mutilated, destroyed, lost or stolen Definitive Registered Note has become or is about to become due and payable, or is about to be redeemed or purchased by the Issuer pursuant to the provisions of the Indenture, the Issuer, in its discretion, may, instead of issuing a new Definitive Registered Note, pay, redeem or purchase such Definitive Registered Note, as the case may be.

Definitive Registered Notes may be transferred and exchanged for Book Entry Interests in the Global Notes only after the transferor first delivers to the Trustee a written certification (in the form provided in the Indenture) to the effect that such transfer will comply with the transfer restrictions applicable to such Notes. See “Notice to investors”.

Payment of principal, any repurchase price, premium and interest on Definitive Registered Notes will be payable at the office of the Issuer’s paying agent in Ireland so long as the Notes are listed on the Official List of the Irish Stock Exchange and the rules of such exchange so require.

To the extent permitted by law, the Issuer, the Trustee, the Paying Agent, the Transfer Agent and the Registrar shall be entitled to treat the registered holder of any Global Note as the absolute owner thereof and no person will be liable for treating the registered holder as such. Ownership of the Global Notes will be evidenced through registration from time to time at the registered office of the Registrar, and such registration is a means of evidencing title to the Notes.

The Registrar will send a copy of the Register to the Issuer on the Issue Date and after any change to the Register made by the Registrar, with such copy to be held by the Issuer at its registered office. For purposes of Irish law, ownership of the Notes will be evidenced through registration from time to time at the registered office of the Issuer, and such registration is a means of evidencing title to the Notes.

The Issuer will not impose any fees or other charges in respect of the Notes; however, owners of the Book Entry Interests may incur fees normally payable in respect of the maintenance and operation of accounts in Euroclear and Clearstream.

Information concerning Euroclear and Clearstream

All Book Entry Interests will be subject to the operations and procedures of 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 nor the Trustee, Paying Agent, Transfer Agent or Registrar are responsible for those operations or procedures.

We understand as follows with respect to Euroclear and Clearstream. 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 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 or Clearstream participant, either directly or indirectly.

Because Euroclear and Clearstream can only act on behalf of participants, who in turn act on behalf of indirect participants and certain banks, the ability of an owner of a beneficial interest to pledge such interest to persons or entities that do not participate in the Euroclear or Clearstream systems, or otherwise take actions in respect of such interest, may be limited by the lack of a definitive certificate for that interest. The laws of some jurisdictions require that certain persons take physical delivery of securities in definitive form. Consequently, the ability to transfer beneficial interests to such persons may be limited. In addition, owners of beneficial interests through the Euroclear or Clearstream systems will receive distributions attributable to the 144A Global Notes only through Euroclear or Clearstream participants.

Global clearance and settlement under the Book Entry System

The Notes represented by the Global Notes are expected to be admitted to the Official List of the Irish Stock Exchange and admitted to trading on the Global Exchange Market of the Irish Stock Exchange. Transfers of interests in the Global Notes between participants in Euroclear or Clearstream will be effected in the ordinary way in accordance with their respective rules and operating procedures.

Although Euroclear and Clearstream currently follow the foregoing procedures in order to facilitate transfers of interests in the Global Notes among participants in 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 us, the Trustee or the Paying Agent will have any responsibility for the performance by Euroclear or Clearstream or their respective participants or indirect participants of their respective obligations under the rules and procedures governing their operations.

Initial settlement

Initial settlement for the Notes will be made in US dollars. Book Entry Interests owned through Euroclear or Clearstream accounts will follow the settlement procedures applicable to conventional bonds in registered form. Book Entry Interests will be credited to the securities custody accounts of Euroclear and Clearstream holders on the business day following the settlement date against payment for value on the settlement date.

Secondary market trading

The Book Entry Interests will trade through participants of Euroclear or Clearstream and 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.

TAXATION

Prospective purchasers of the Notes are advised to consult their own tax advisors as to the tax consequences, under the tax laws of the country in which they are resident, of a purchase of Notes including, without limitation, the consequences of receipt of interest and premium, if any, on and sale or redemption of, the Notes or any interest therein.

Certain United States federal income tax considerations

The following is a discussion of certain U.S. federal income tax consequences 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 limited to consequences relevant to a U.S. holder (as defined below), except for discussions on FATCA (as defined under “—*Foreign Account Tax Compliance Act*”), and does not address 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. This discussion is based upon the Internal Revenue Code of 1986, as amended (the “Code”), Treasury regulations issued thereunder, 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. 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, including the impact of the unearned income Medicare contribution tax, or to holders subject to special rules, such as certain financial institutions, United States expatriates, insurance companies, dealers in securities or currencies, traders in securities, U.S. holders whose functional currency is not the United States dollar, tax-exempt entities, regulated investment companies, real estate investment trusts, partnerships or other pass through entities and investors in such entities, persons liable for alternative minimum tax, U.S. holders that hold Notes through non-United States brokers or other non-United States intermediaries 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 to the public for cash, excluding 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 for U.S. federal income tax purposes created or organized in the United States or under the laws of the United States or of any political subdivision thereof; (iii) any estate the income of which is subject to U.S. federal income taxation regardless of its source; or (iv) any 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 treated as a partnership for U.S. federal income tax purposes holds the Notes, the U.S. tax treatment of a partner in the partnership generally will depend upon the status of the partner and the activities of the partnership. A partnership considering an investment in the Notes, and partners in such a partnership, 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 other federal, state, local, foreign or other tax laws.

Characterization of the Notes

Under certain circumstances, the Notes provide for payments in excess of stated interest and principal and/or redemption prior to their stated maturity. The Issuer intends to take the position that these provisions will

not cause the Notes to be subject to the contingent payment debt instrument rules of applicable Treasury regulations (the “CPDI Rules”). This position is based in part on assumptions regarding the likelihood, as of the issue date, that such additional amounts will have to be paid and relating to the expected yield to maturity of the Notes. The Issuer’s position is binding on a U.S. holder, unless the U.S. holder discloses in the proper manner to the IRS that it is taking a different position. The Issuer’s position is not, however, binding on the IRS. If the IRS successfully challenged the Issuer’s position, the tax consequences of owning and disposing of the Notes could be materially different than those described herein, including with respect to the character, timing and amount of income, gain or loss recognized. The remainder of this discussion assumes that the Notes are not subject to the CPDI Rules, but there can be no assurances in this regard. U.S. holders are urged to consult their own tax advisors regarding the potential application to the Notes of the CPDI Rules and the consequences thereof.

Payments of stated interest

Payments of stated interest on the Notes (including any Additional Amounts paid in respect of withholding taxes and without reduction for any amounts withheld) generally will be taxable to a U.S. holder as ordinary income at the time that such payments are received or accrued, in accordance with such U.S. holder’s method of accounting for U.S. federal income tax purposes.

Foreign tax credit

Stated interest income on a Note generally will constitute foreign source income and generally will be considered “passive category income” or, in the case of certain U.S. holders, “general category income” in computing the foreign tax credit allowable to U.S. holders under U.S. federal income tax laws. There are significant complex limitations on a U.S. holder’s ability to claim foreign tax credits. U.S. holders should consult their tax advisors regarding the creditability or deductibility of any withholding taxes.

Sale, exchange, retirement, redemption or other taxable disposition of Notes

Upon the sale, exchange, retirement, redemption or other taxable disposition of a Note, a U.S. holder generally will recognize gain or loss equal to the difference, if any, between the amount realized upon such disposition (less any amount equal to any accrued but unpaid stated interest, which will be taxable as stated interest income as discussed above to the extent not previously included in income by the U.S. holder) and such U.S. holder’s adjusted tax basis in the Note. A U.S. holder’s adjusted tax basis in a Note will, in general, be the cost of such Note to such U.S. holder.

Any gain or loss recognized upon the sale, exchange, retirement, redemption or other taxable disposition of a Note generally will be U.S. source gain or loss and generally will be capital gain or loss. Capital gains of non-corporate U.S. holders (including individuals) derived in respect of capital assets held for more than one year are generally eligible for reduced rates of taxation. The deductibility of capital losses is subject to limitations.

Information reporting and backup withholding

In general, information reporting requirements may apply to payments of stated interest on the Notes and to the proceeds of the sale or other disposition (including a retirement or redemption) of a Note paid to a U.S. holder unless such U.S. holder is an exempt recipient, and, when required, provides evidence of such exemption. Backup withholding may apply to such payments if the U.S. holder fails to provide a taxpayer identification number or a certification that it is not subject to backup withholding.

Backup withholding is not an additional tax and any amounts withheld under the backup withholding rules may be allowed as a refund or a credit against a U.S. holder’s U.S. federal income tax liability provided the required information is timely furnished to the IRS.

Tax return disclosure requirements

Individuals that own “specified foreign financial assets” with an aggregate value in excess of certain thresholds generally are required to file an information report (IRS Form 8938) with respect to such assets with their tax returns. The Notes generally will constitute specified foreign financial assets subject to these reporting

requirements, unless the Notes are held in an account at a financial institution. Under certain circumstances, an entity may be treated as an individual for purposes of these rules.

U.S. holders are urged to consult their tax advisors regarding the application of the foregoing disclosure requirements to their ownership of the Notes, including the significant penalties for non-compliance.

Additional Notes

The Issuer may, without the consent of the holders of outstanding Notes, issue additional Notes with identical terms. These additional Notes, even if they are treated for non-tax purposes as part of the same series as the original Notes, in some cases may be treated as a separate series for U.S. federal income tax purposes. In such a case, the additional Notes may be considered to have been issued with original issue discount for U.S. federal income tax purposes. These differences may affect the market value of the original Notes if the additional Notes are issued with the same ISIN or Common Code as the original 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 pass thru payments made after December 31, 2016 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 pass-through payments are filed generally would be “grandfathered” unless materially modified after such date. Accordingly, if the Issuer 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. However, if additional Notes are issued after the expiration of the grandfathering period, such additional Notes have the same ISIN or Common Code as the original Notes issued hereby, and such additional Notes are subject to withholding under FATCA, then withholding agents may treat all Notes, including the original Notes, as subject to withholding under FATCA. Non-U.S. governments have entered into agreements with the United States (and additional non-U.S. governments are expected to enter into such agreements) 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 generally will be no additional amounts payable to compensate for the withheld amount.

Certain United Kingdom tax considerations

The following applies only to persons who are the absolute beneficial owners of Notes and is a summary of the Issuer’s understanding of current law in the United Kingdom and published HM Revenue and Customs (HMRC) practice (which may not be binding on HMRC) relating only to the United Kingdom withholding tax treatment of payments of interest in respect of the Notes, both of which may be subject to change, possibly with retrospective effect. Some aspects do not apply to certain classes of person (such as dealers and persons connected with the Issuer) to whom special rules may apply. The United Kingdom tax treatment of prospective noteholders depends on their individual circumstances and may be subject to change in the future. This description does not purport to constitute legal or tax advice and any prospective noteholders who are in doubt as to their own tax position, or who may be subject to tax in a jurisdiction other than the United Kingdom, should consult their professional advisers.

Interest on the Notes

Payment of interest on the Notes

Payments of interest on the Notes may be made without withholding or deduction for or on account of United Kingdom income tax provided that the Notes continue to be listed on a “recognized stock exchange” within the meaning of section 1005 of the Income Tax Act 2007. The Irish Stock Exchange is a recognized stock exchange. The Notes will satisfy this requirement if they are officially listed in Ireland in accordance with provisions corresponding to those generally applicable in EEA states and are admitted to trading on the Global Exchange Market in accordance with the rules of the Irish Stock Exchange. Provided, therefore, that the Notes remain so listed, interest on the Notes will be payable without withholding or deduction for or on account of United Kingdom tax.

Interest on the Notes may also be paid without withholding or deduction for or on account of United Kingdom income tax where interest on the Notes is paid by a company and, at the time the payment is made, the Issuer reasonably believes (and any person by or through whom interest on the Notes is paid reasonably believes) that (a) the person beneficially entitled to the interest is a United Kingdom resident company or a non-United Kingdom resident company that carries on a trade in the United Kingdom through a permanent establishment and the payment is one that the non-United Kingdom resident company is required to bring into account when calculating its profits subject to United Kingdom corporation tax or (b) the person to whom the payment is made is one of the further classes of bodies or persons, and meets any relevant conditions, set forth in sections 935-937 of the Income Tax Act 2007, provided that HMRC has not given a direction (in circumstances where it has reasonable grounds to believe that it is likely that the above exemption is not available in respect of such payment of interest at the time the payment is made) that the interest should be paid under deduction of tax.

In other cases, an amount may generally be withheld from payments of interest on the Notes on account of United Kingdom income tax at the basic rate (currently 20%). However, where an applicable double taxation treaty provides for a lower rate of withholding tax (or for no tax to be withheld) in relation to a noteholder, HMRC can issue a direction to the Issuer to pay interest to the noteholder without deduction of tax (or for interest to be paid with tax deducted at the rate provided for in the relevant double taxation treaty).

Noteholders may wish to note that, in certain circumstances, HMRC has power to obtain information (including the name and address of the beneficial owner of the interest or the amount payable on the redemption of Notes, as applicable) from any person in the United Kingdom by or through whom interest is paid or credited or by or through whom amounts payable on the redemption of the Notes which constitute “deeply discounted securities” (as defined in Chapter 8 of Part 4 of the Income Tax (Trading and Other Income) Act 2005) are paid or credited, although HMRC published practice indicates that HMRC will not exercise the power referred to above to require this information in respect of such amounts payable on redemption of Notes where such amounts are paid on or before 5 April 2015. Information so obtained may, in certain circumstances, be exchanged by HMRC with the tax authorities of the jurisdiction in which the noteholder is resident for tax purposes.

Any premium payable on redemption may be treated as a payment of interest for United Kingdom tax purposes and may accordingly be subject to the withholding tax treatment described above.

Payments by a Guarantor

If a Guarantor makes any payments in respect of interest on the Notes (or other amounts due under the Notes other than the repayment of amounts subscribed for such Notes) such payments may be subject to United Kingdom withholding tax at the basic rate (currently 20%) subject to such relief as may be available under the provisions of any applicable double taxation treaty or any other exemption which may apply. It is not certain that such payments by the Guarantor will be eligible for all the exemptions described above.

Further United Kingdom tax issues

Interest on the Notes may constitute United Kingdom source income for United Kingdom tax purposes and may be subject to United Kingdom income tax or corporation tax by direct assessment even where paid without withholding or deduction. Accordingly, and subject to certain exceptions applying to various categories of investors (including, in particular, exceptions applying to persons not resident in the United Kingdom), investors may be subject to United Kingdom tax by direct assessment on such payments of interest even when paid without withholding.

The references to “interest” above are to “interest” as understood for the purposes of United Kingdom tax law. They do not take into account any different definition of “interest” that may prevail under any other tax law or that may apply under the terms and conditions of the Notes or any related document.

Stamp duty and stamp duty reserve tax

No United Kingdom stamp duty or stamp duty reserve tax should be payable on the issue or transfer of the Notes.

Certain European union tax considerations

Under EC Council Directive 2003/48/EC on the taxation of savings income (the “Directive”), the competent authority of a Member State is required to provide to the competent authority of another Member State details of payments of interest (or similar income) paid by a person within its jurisdiction to, or for the benefit of, an individual resident in that other Member State or to certain limited types of entities established in that other Member State. However, for a transitional period, Luxembourg and Austria are instead required (unless during that period they elect otherwise) to operate a withholding system in relation to such payments (the ending of such transitional period being dependent upon the conclusion of certain other agreements relating to information exchange with certain other countries). However, during that transitional period, withholding will not apply under the Directive to a payment if the beneficial owner of that payment authorizes exchange of information instead. In April 2013, the Luxembourg Government announced its intention to abolish the withholding system with effect from January 1, 2015, in favor of automatic information exchange under the Directive.

A number of non-EU countries and territories, including Switzerland, have adopted similar measures (a withholding system, in the case of Switzerland).

On March 24, 2014, the Council of the European Union adopted a Council Directive amending and broadening the scope of the requirements described above. In particular, the changes expand the range of payments covered by the Directive to include certain additional types of income and establish procedures to look through entities to prevent the circumvention of the Directive by the use of intermediaries. Member States are required to apply these new requirements from January 1, 2017.

Certain Nigeria tax considerations

The following applies only to persons who are the beneficial owners of Notes and is a summary of the Issuer’s understanding of current law and practice in Nigeria relating to certain aspects of Nigerian taxation. Nigerian tax treatment of prospective noteholders depends on their individual circumstances and may be subject to change in the future. Prospective noteholders who may be unsure as to their tax position should seek their own professional advice.

Interest on Notes

Payments by the Issuer

Any individual who is a resident of Nigeria, or any legal entity that is either incorporated in Nigeria, or has a permanent establishment in Nigeria, or otherwise has a taxable presence in Nigeria (together, “Nigerian Holders”) will be subject to taxation in Nigeria, and interest or coupon payments or other income from the Notes will be taxable as part of its general taxable income, except where such income is brought into Nigeria through government approved banking channels (i.e. commercial banks and other entities licensed to deal in foreign exchange).

Payments by a Guarantor

If a Guarantor incorporated in Nigeria makes any payments with respect to interest on the Notes, such payments may be subject to Nigerian withholding tax at 10% subject to such relief as may be available under the provisions of any applicable double taxation treaty or any other exemption which may apply. Currently, only dividends payable out of profits which have been subject to taxes paid on petroleum profits are exempt from withholding tax. It is not certain that all dividend payments by a Nigerian Guarantor will be eligible for all the exemptions described above.

Stamp duty

Under Nigerian law, a stamp duty is chargeable on a wide range of instruments, including a duty of between 0.375% to 1.5% of the amount secured for security documentation with respect to transactions relating to anything done or to be done in Nigeria. The relevant instruments are required to be stamped within 30 days of execution or, if executed outside Nigeria, within 30 days of receipt of the instrument in Nigeria. The obligation to stamp an instrument is statutorily imposed on an obligee, although, in practice, the burden for payment of the duty is usually transferred to the obligor. The Nigerian security documents pursuant to which

the collateral will be granted will be subject to such stamp duties and/or registration fees. In connection with the closing of the Notes, the Nigerian security documents will be stamped and registered for only a fraction of the amount of indebtedness purported to be secured thereby.

Capital gains tax

The Capital Gains Tax Act C1 LFN 2004 (as amended) (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 derived from Nigeria for the purposes of the CGT Act. With regards to an individual who is in Nigeria for some 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.

Although the Federal Government of Nigeria has approved a waiver of capital gains tax on gains accruing further to the sale of bonds issued by Nigerian companies, the necessary legislative and administrative processes have not been completed. It is not clear whether the exemption will apply to Notes issued by non-Nigerian corporate Issuers.

Certain Bermuda tax considerations

At the present time, there is no Bermuda income or profits tax, withholding tax, capital gains tax, capital transfer tax, estate duty or inheritance tax payable on any payments by Seven Energy Ltd. pursuant to its Guarantee of the Notes. Seven Energy Ltd. has obtained an assurance from the Minister of Finance of Bermuda under the Exempted Undertakings Tax Protection Act 1966 that, in the event that any legislation is enacted in Bermuda imposing any tax computed on profits or income, or computed on any capital asset, gain or appreciation or any tax in the nature of estate duty or inheritance tax, such tax shall not, until March 31, 2035, be applicable to Seven Energy Ltd. or to any of its operations or to its shares, debentures or other obligations except insofar as such tax applies to persons ordinarily resident in Bermuda or is payable by it in respect of real property owned or leased by it in Bermuda.

Certain British Virgin Islands tax considerations

At the date of this Offering Memorandum, holders of the Notes who are not resident in the British Virgin Islands are exempt from all provisions of the Income Tax Act of the British Virgin Islands, and are not subject to any income, withholding or capital gains taxes in the British Virgin Islands, with respect to interest, principal, dividends, rents, royalties, compensation and other amounts payable on the Notes, nor are they subject to any estate or inheritance taxes in the British Virgin Islands.

The remaining paragraphs on BVI tax considerations assume that neither the Issuer nor any of its affiliates (including the Guarantors) (a) holds or is otherwise interested in any land situated in the BVI; or (b) has any employees located in the BVI. The Company and its affiliates do not have any interest in land or any employees in the BVI, and it is not anticipated that this will change.

Each of the Issuer and any Guarantor incorporated in the British Virgin Islands is exempted from the payment of stamp duty on the issuance of the Notes. No stamp duty is payable on the transfer or redemption of the Notes. At the date of this Offering Memorandum, the Issuer is exempt from all provisions of the Income Tax Act of the British Virgin Islands, and is exempt from the payment of any taxes or duties on profits, income, capital gains, assets or appreciations and any such tax or duty or tax in the nature of estate duty or inheritance tax with respect to the Notes, dividends, interests, rents, royalties, compensation and other amounts payable by the Issuer to persons who are not persons resident in the British Virgin Islands.

Under British Virgin Islands law, neither the Issuer nor any Guarantor incorporated in the British Virgin Islands is required to withhold tax at source when paying interest, dividends or making other distributions.

Certain Jersey tax considerations

The Income Tax (Jersey) Law 1961 provides that the general basic rate of income tax on the profits of companies regarded as resident in Jersey or having a permanent establishment in Jersey, is zero percent (“zero tax rating”) and that only a limited number of financial services companies which are regulated by the Jersey

Financial Services Commission under the Financial Services (Jersey) Law 1998, are subject to income tax at a rate of 10 percent.

If Seven Energy (Jersey) is required to make a payment in respect of the Notes, there is no requirement for it to make any withholding or deduction for or on account of any Jersey taxation from any interest paid in relation to the Notes.

Certain Mauritius tax considerations

The following applies only to persons who are the beneficial owners of the Notes and is a summary of the Issuer's understanding of current law and practice in Mauritius relating to certain aspects of Mauritius taxation. This description does not purport to constitute legal or tax advice and any prospective noteholders who are in doubt as to their own tax position, or who may be subject to tax in a jurisdiction other than Mauritius, should consult their professional advisers.

Interest on Notes – Payments by a Guarantor

If a Guarantor incorporated in Mauritius makes any payments in respect of interest on the Notes, such payments may be subject to Mauritius withholding tax at 15% subject to such relief as may be available under the provisions of any applicable double taxation treaty or any other exemption which may apply. A Guarantor holding a Global Business License will be exempted from withholding tax on interest on the Notes. A Guarantor holding a category 2 Global Business License is not a resident for Mauritius tax purposes and is therefore not liable to tax in Mauritius. Therefore, the Parent Guarantor being a company holding a category 2 Global Business License will be exempt from tax in Mauritius.

General: Payments by a Guarantor

If a Guarantor makes any payments with respect to interest on the Notes (or other amounts due under the Notes) it is possible that such payments may be subject to withholding tax at applicable rates subject to such relief as may be available under the provisions of any applicable double taxation treaty or to any other exemption which may apply.

PLAN OF DISTRIBUTION

Subject to the terms and conditions set forth in the purchase agreement (the “Purchase Agreement”) entered into on or about the date of the Offering Memorandum, by and among the Issuer, the Guarantors and the Initial Purchasers, the Issuer has agreed to sell to the Initial Purchasers, and the Initial Purchasers have agreed, severally and not jointly, to purchase from the Issuer the entire principal amount of the Notes.

The Purchase Agreement provides for the obligations of the Initial Purchasers to pay for and accept delivery of the Notes. The Notes will initially be offered at the price indicated on the cover page of this Offering Memorandum.

We expect that delivery of the Notes will be made against payment on the Notes on or about the date specified on the cover of this Offering Memorandum, which will be six business days (as such term is used for purposes of Rule 15c6–1 of the Exchange Act) following the date of the Offering Memorandum (this settlement cycle is being referred to as “T+ 6”). Under Rule 15c6–1 of the Exchange Act, trades in the secondary market generally are required to settle in three business days unless the parties to any such trade expressly agree otherwise. Accordingly, purchasers who wish to trade the Notes on the date of this Offering Memorandum or the next two succeeding business days will be required to specify an alternative 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 advisors.

The Purchase Agreement also provides that the Issuer and the Guarantors will indemnify 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. The Issuer has 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 the Notes are issued, to not, without having received the prior written consent provided for in the Purchase Agreement, offer, sell, contract to sell or otherwise dispose of any securities issued or guaranteed by the Issuer that are substantially similar to the Notes and the Guarantees.

The Initial Purchasers are offering the Notes, subject to prior sale, when, as and if issued to and accepted by them, subject to approval of legal matters by their counsel, including the validity of the Notes, and other conditions contained in the Purchase Agreement, such as the receipt by the Initial Purchasers of officer’s certificates and legal opinions. The Initial Purchasers reserve the right to withdraw, cancel or modify offers to investors and to reject orders in whole or in part.

To the extent that Standard Bank Plc intends to effect any sales of the Notes in the United States, Standard Bank Plc will do so through Standard New York Securities, Inc., its selling agent, or one or more U.S. registered broker-dealers or as otherwise permitted by applicable U.S. law.

The Initial Purchasers propose to offer the Notes for resale in transactions not requiring registration under the U.S. Securities Act or applicable state securities laws, including sales pursuant to Rule 144A. The Initial Purchasers will not offer or sell the Notes except:

- to persons they reasonably believe to be “qualified institutional buyers”, as defined in Rule 144A under the U.S. Securities Act; or
- pursuant to offers and sales that occur in offshore transaction outside the United States within the meaning of Regulation S.

Each purchaser of the Notes will be deemed to have made acknowledgments, representations and agreements as described under “Notice to investors”.

Prior to the Offering, there has been no active market for the Notes. The Initial Purchasers are not obligated to make a market in the Notes.

Each Initial Purchaser has also represented and agreed that, (i) it has complied and will comply with all applicable provisions of the Financial Services and Markets Act 2000 (the “FSMA”) with respect to anything done by it in relation to the Notes in, from or otherwise involving the United Kingdom; and (ii) it 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 the Notes in circumstances in which section 21(1) of the FSMA does not apply to us.

In relation to each Member State of the EEA that has implemented the Prospectus Directive (each, a “Relevant Member State”), each Initial Purchaser has represented and agreed that with effect from and including the date on which the Prospectus Directive is implemented in that Relevant Member State, it has not made and will not make an offer to the public of any Notes which are the subject of the Offering contemplated by this Offering Memorandum in that Relevant Member State, other than:

- (a) to any legal entity which is a qualified investor as defined in the Prospectus Directive;
- (b) to fewer than 100 or, if the Relevant Member State has implemented the relevant provision of the 2010 PD Amending Directive, 150, natural or legal persons (other than qualified investors as defined in the Prospectus Directive), as permitted under the Prospectus Directive, subject to obtaining the prior consent of the relevant Dealer or Dealers nominated by the I for any such offer; or
- (c) in any other circumstances falling within Article 3(2) of the Prospectus Directive;

provided that no such offer of Notes shall require us or the Initial Purchasers to publish a prospectus pursuant to Article 3 of the Prospectus Directive.

For the purposes of this provision, the expression an “offer of Notes to the public” in relation to the Notes in any Relevant Member State means the communication in any form and by any means of sufficient information on the terms of the offer and the Notes to be offered so as to enable an investor to decide to purchase or subscribe for the Notes, as the same may be varied in that Relevant Member State by any measure implementing the Prospectus Directive in that Relevant Member State, and the expression “Prospectus Directive” means Directive 2003/71/EC (and amendments thereto, including the 2010 PD Amending Directive, to the extent implemented in the Relevant Member State), and includes any relevant implementing measure in the Relevant Member State and the expression 2010 PD Amending Directive means Directive 2010/73/EU.

Each Initial Purchaser has also represented and agreed that offers and sales of the Notes will not be made in Nigeria except in compliance with all applicable rules and regulations.

In connection with the Offering, the Stabilizing Manager (or persons acting on behalf of the Stabilizing Manager) may over-allot Notes or effect transactions with a view to supporting the market price of the Notes at a level higher than that which might otherwise prevail. However, there is no assurance that the Stabilizing Manager (or persons acting on behalf of a Stabilizing Manager) will undertake stabilization action. Any stabilization action may begin on or after the date on which adequate public disclosure of the final terms of the offer of the Notes is made and, if begun, may be ended at any time, but must end no later than the earlier of 30 calendar days after the issue date of the Notes and 60 calendar days after the date of the allotment of the Notes.

The Issuer will apply, through its listing agent, to have the Notes admitted to trading on the Global Exchange Market operated by the Irish Stock Exchange, and listed on the official list of the Irish Stock Exchange. The Issuer cannot assume that the Notes will be approved from admission to trading and listing, and will remain admitted to trading and listed on the Global Exchange Market and listed on the official list of the Irish Stock Exchange.

The Initial Purchasers or their respective affiliates, from time to time, have provided in the past, and may provide in the future, investment and corporate banking, commercial lending, consulting and financial advisory services to us and our affiliates in the ordinary course of business for which they have received and may continue to receive customary advisory and transaction fees, commissions and expense reimbursement. In particular, Standard Chartered Bank acts as a lender under our Reserve Based Lending Facility, which is being repaid using the proceeds of this Offering, and its affiliate holds approximately 9.9% of our equity interests on a fully diluted basis.

Separately, we entered into a commitment letter with the Emerging Africa Infrastructure Fund (“EAIF”) under which EAIF committed to purchase a portion of the Notes from the Initial Purchasers as part of the initial distribution of the Notes. In exchange for EAIF’s commitment, we agreed to allocate a minimum amount of \$15.0 million and a maximum amount of \$30.0 million of Notes to EAIF, with the final amount of

the allocation to be determined by us (in consultation with the Initial Purchasers). The commitment to allocate a minimum amount of the Notes to EAIF will be subject to EAIF demonstrating that, prior to the date of the purchase agreement with respect to the Notes, it has received all required corporate authorizations.

EAIF's obligation to purchase Notes pursuant the terms of this commitment letter will be conditioned on a minimum net yield threshold being agreed in the purchase agreement with respect to the Notes.

The commitment letter will not restrict the ability of EAIF to buy or sell Notes in the future (or to buy additional Notes as part of the initial distribution of the Notes by the Initial Purchasers) and, as a result, EAIF may buy or sell the Notes in open market transactions at any time following the consummation of the Offering. In consideration for EAIF's commitment, we agreed to provide a fee to EAIF, and make certain representations and covenants with respect to our compliance with the IFC Performance Standards and other international standards related to environmental, social, anti-money laundering, corruption and sanctionable practices that EAIF is bound by. Among other things, we have agreed to use the proceeds from those Notes purchased by EAIF solely for funding capital expenditures related to the construction of our gas pipelines and associated facilities.

EAIF is owned by the Private Infrastructure Development Group Trust, a platform developed by the Members of the Private Infrastructure Development Group ("PIDG") for mobilizing private sector investment in infrastructure in developing countries. The PIDG Members provide funding to the PIDG Trust for the support of PIDG activities in the form of grants and loans. PIDG Members currently include Germany, the Netherlands, Sweden, Switzerland, Australia, Ireland, the United Kingdom and the World Bank Group. Norway is expected to join by the end of 2014.

EAIF provides long-term US dollar or Euro-denominated senior debt or mezzanine finance on commercial terms to finance private infrastructure projects in 16 countries across Sub-Saharan Africa, including Nigeria. The stated objective of EAIF is to support projects that promote economic growth and reduce poverty, benefit broad-based population groups, and promote social, economic and cultural rights.

IFC, one of our existing equity investors, has committed pursuant to a commitment letter dated October 1, 2014 to purchase from the Initial Purchasers up to \$50 million in aggregate principal amount of the Notes subject to certain conditions being met. IFC has executed an appraisal letter on September 24, 2014 with regards to this investment under which IFC will be paid a fee, have its expenses reimbursed and be indemnified by us. The terms of IFC's investment will not restrict the ability of IFC to buy or sell Notes in the future (or to buy additional Notes as part of the initial distribution of the Notes by the Initial Purchasers) and, as a result, IFC may buy or sell the Notes in open market transactions at any time following the consummation of the Offering.

Certain of our principal equity holders or their affiliates may purchase Notes in the Offering at a purchase price per Note equal to the issue price set forth on the cover page of this Offering Memorandum. The Purchase Agreement between the Issuer, the Guarantors and the Initial Purchasers will not restrict the ability of our principal equity holders or their affiliates to buy or sell the Notes in the future, and as a result, such principal equity holders or their affiliates may buy or sell Notes in open market transactions at any time following the consummation of the Offering.

In the ordinary course of their business activities, the Initial Purchasers and their affiliates may make or hold a broad array of investments and actively trade debt and equity securities (or related derivative securities) and financial instruments (including bank loans) for their own account and for the accounts of their customers. Such investments and securities activities may involve securities and/or instruments of ours or our affiliates. Certain of the Initial Purchasers or their affiliates that have a lending relationship with us routinely hedge their credit exposure to us consistent with their customary risk management policies. Typically, such Initial Purchasers and their affiliates would hedge such exposure by entering into transactions which consist of either the purchase of credit default swaps or the creation of short positions in our securities, including potentially the Notes offered hereby. Any such short positions could adversely affect future trading prices of the Notes offered hereby. The Initial Purchasers and their affiliates may also make investment recommendations or publish or express independent research views in respect of such securities or financial instruments and may hold, or recommend to clients that they acquire, long or short positions in such securities and instruments.

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.

Neither the Notes nor the Guarantees have been registered under the U.S. Securities Act or any state securities laws and may not be offered, sold or otherwise transferred 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. Accordingly, we are offering and selling the Notes only:

- to U.S. investors that we reasonably believe to be “qualified institutional buyers”, commonly referred to as “QIBs”, (as defined in Rule 144A under the U.S. Securities Act) in compliance with Rule 144A; and
- in offshore transactions complying with Rule 903 or Rule 904 of Regulation S under the U.S. Securities Act.

We use the terms “offshore transaction” and “United States” with the meanings given to them in Regulation S.

If you purchase Notes in this Offering, you will be deemed to have represented and agreed as follows (terms used in this paragraph that are defined in Rule 144A or Regulation S under the U.S. Securities Act are used herein as defined therein):

- (1) You understand that the Notes are being offered in a transaction not involving any public offering in the United States within the meaning of the U.S. Securities Act, that the Notes have not been and will not be registered under the U.S. Securities Act and that (A) if in the future you decide to offer, resell, pledge or otherwise transfer any of the Notes, such Notes may be offered, resold, pledged or otherwise transferred only (i) in the United States to a person whom you reasonably believe is a qualified institutional buyer in a transaction meeting the requirements of Rule 144A; (ii) outside the United States in a transaction complying with the provisions of Rule 904 of Regulation S under the U.S. Securities Act; or (iii) pursuant to another exemption from, or in a transaction not subject to, the registration requirements of the U.S. Securities Act, in each case in accordance with any applicable securities laws, and that (B) you will, and each subsequent holder is required to, notify any subsequent purchaser of the Notes from it of the resale restrictions referred to in the legend below.
- (2) You are not acting on our behalf and you are either:
 - (a) a QIB and are aware that any sale of these Notes to you will be made in reliance on Rule 144A and such acquisition will be for your own account or for the account of another QIB; or
 - (b) you are purchasing Notes in an offshore transaction in accordance with Regulation S.
- (3) You acknowledge that none of the Issuer, the Guarantors, the Initial Purchasers or any person representing the Issuer, the Guarantors or the Initial Purchasers has made any representation to you with respect to the Issuer, the Guarantors or the offer or sale of any of the Notes, other than by the Issuer and the Guarantors with respect to 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 the Initial Purchasers make no representation or warranty as to the accuracy or completeness of this Offering Memorandum. You have had access to such financial and other information concerning the Issuer, the Guarantors, the Indenture, the Notes and the Guarantees as you have deemed necessary in connection with your decision to purchase Notes, including an opportunity to ask questions of and request information from the Issuer, the Guarantors and the Initial Purchasers.

Each purchaser acknowledges that each Note will contain a legend substantially in the following form:

THE NOTE HAS NOT BEEN REGISTERED UNDER THE U.S. SECURITIES ACT OF 1933, AS AMENDED (THE “U.S. SECURITIES ACT”), OR OTHER SECURITIES LAWS OF ANY STATE OR OTHER JURISDICTION. NEITHER THIS NOTE NOR ANY INTEREST OR PARTICIPATION HEREIN MAY BE OFFERED, SOLD, ASSIGNED, PLEDGED, ENCUMBERED OR OTHERWISE TRANSFERRED WITHIN THE UNITED STATES, EXCEPT TO (A) QUALIFIED INSTITUTIONAL BUYERS IN RELIANCE ON THE EXEMPTION FROM THE REGISTRATION REQUIREMENTS OF THE U.S. SECURITIES ACT PROVIDED BY RULE 144A OR (B) PERSONS IN OFFSHORE TRANSACTIONS IN RELIANCE ON REGULATION S. EACH PURCHASER OF THIS NOTE IS HEREBY NOTIFIED THAT THE SELLER OF THIS NOTE MAY BE RELYING ON THE EXEMPTION FROM THE PROVISIONS OF SECTION 5 OF THE U.S. SECURITIES ACT PROVIDED BY RULE 144A THEREUNDER.

THE HOLDER OF THIS SECURITY BY ITS ACCEPTANCE HEREOF AGREES TO OFFER, SELL OR OTHERWISE TRANSFER SUCH SECURITY, ONLY (A) TO THE ISSUER, THE GUARANTORS OR ANY SUBSIDIARY THEREOF, (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 UNDER THE U.S. SECURITIES ACT (“RULE 144A”), TO A PERSON IT REASONABLY BELIEVES IS A “QUALIFIED INSTITUTIONAL BUYER” AS DEFINED IN RULE 144A THAT PURCHASES FOR ITS OWN ACCOUNT OR FOR THE ACCOUNT OF A QUALIFIED INSTITUTIONAL BUYER 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, (II) IN EACH OF THE FOREGOING CASES, TO REQUIRE THAT A CERTIFICATE OF TRANSFER IN THE FORM APPEARING ON THE OTHER SIDE OF THIS SECURITY IS COMPLETED AND DELIVERED BY THE TRANSFEROR TO THE TRUSTEE AND (III) AGREES THAT IT WILL GIVE TO EACH PERSON TO WHOM THIS SECURITY IS TRANSFERRED A NOTICE SUBSTANTIALLY TO THE EFFECT OF THIS LEGEND.

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.

- (4) You acknowledge that the Registrar will not be required to accept for registration of transfer any Notes acquired by you, except upon presentation of evidence satisfactory to us and the Registrar that the restrictions set forth herein have been complied with.
- (5) You acknowledge that:
 - (a) the Issuer, the Guarantors, the Initial Purchasers and others will rely upon the truth and accuracy of your acknowledgements, representations and agreements set forth herein and you agree that, if any of your acknowledgements, representations or agreements herein cease to be accurate and complete, you will notify us and the Initial Purchasers promptly in writing; and
 - (b) if you are acquiring any Notes as fiduciary or agent for one or more investor accounts, you represent with respect to each such account that:
 - (i) you have sole investment discretion; and
 - (ii) you have full power to make the foregoing acknowledgements, representations and agreements.

- (6) You agree that you will give to each person to whom you transfer these Notes notice of any restrictions on the transfer of the Notes.
- (7) You acknowledge that until 40 days after the commencement of this Offering, any offer, sale or transfer of the Notes within the United States by a dealer (whether or not participating in this Offering) may violate the registration requirements of the U.S. Securities Act if such offer, sale or transfer is made otherwise than in accordance with Rule 144A under the U.S. Securities Act.
- (8) You understand that no action has been taken in any jurisdiction (including the United States) by the Issuer, the Company or the Initial Purchasers 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 the Issuer, the Company or the Notes in any jurisdiction where action for that purpose is required. Consequently, any transfer of the Notes will be subject to the selling restrictions set forth under "Plan of distribution".

LEGAL MATTERS

Certain legal matters in connection with the Offering are being passed upon for us by Latham & Watkins (London) LLP, with respect to matters of U.S. federal law, New York State law and English law, and by Banwo & Ighodalo, with respect to matters of Nigerian law. Certain legal matters will be passed upon for the Initial Purchasers by Kirkland & Ellis International LLP, with respect to matters of U.S. federal law, New York State law and English law, and by G. Elias & Co (Solicitors & Advocates), with respect to matters of Nigerian law.

INDEPENDENT AUDITORS

The non-statutory consolidated financial statements for Seven Energy International Limited as of and for the years ended December 31, 2011, 2012 and 2013 included in this Offering Memorandum have been audited by Deloitte LLP, independent auditors, as stated in their reports appearing herein (which reports express an unqualified opinion and includes an explanatory paragraph relating to going concern). Deloitte LLP are members of the Institute of Chartered Accountants of England and Wales.

Deloitte LLP's report in relation to the year ended December 31, 2013, in accordance with guidance issued by The Institute of Chartered Accountants in England and Wales, include the following limitations: "This report is made solely to the Directors of Seven Energy International Limited in accordance with our engagement letter dated 15 November 2013, for the purposes of showing the results of management's stewardship of the resources entrusted to it. Our audit work has been undertaken to that we might state to the Company's Directors those matters we are required to state to them in an independent auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company, for our audit work, for this report, or for the opinions we have formed". Equivalent wording was also included in Deloitte LLP's reports for the years ended December 31, 2011 and 2012.

EHGC's financial statements as of and for the years ended December 31, 2013 included in this Offering Memorandum have been audited by PricewaterhouseCoopers, independent auditors, as stated in their reports appearing herein. The financial statements for the six months ended June 30, 2013 and the three months ended March 31, 2014 are unaudited. PricewaterhouseCoopers are members of the Institute of Chartered Accountants of Nigeria.

INDEPENDENT PETROLEUM ENGINEERS

Estimates of our gas and oil reserves and resources related future net revenue and the present worth thereof as of December 31, 2013 and August 31, 2013 included in this Offering Memorandum were based in part upon a reserve and resource reports prepared by independent petroleum engineers, Senergy and Novas, respectively. We have included these estimates in reliance on the authority of such firms 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 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, during any period in which we are not subject to Section 13 or 15(d) under the Exchange Act, nor exempt from reporting thereunder pursuant to Rule 12g3-2(b), 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 Seven Energy International Limited, 4th floor, 6 Chesterfield Gardens, London, W1J 5BQ, United Kingdom; + 44 20 7518 3850.

We are not currently subject to the periodic reporting and other information requirements of the Exchange Act. However, pursuant to the Indenture that will govern the Notes, we will agree to furnish periodic information to the holders of the Notes. See “Description of Notes—Reports”.

So long as the Notes are admitted to trading on the Global Exchange Market and to listing on the Official List of the Irish 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 Paying Agent in Ireland.

SERVICE OF PROCESS AND ENFORCEMENT OF CIVIL LIABILITIES

We are a limited liability company incorporated under the laws of Mauritius, the Issuer is organized under the laws of the British Virgin Islands and the Guarantors are organized under the laws of Nigeria, Bermuda, the British Virgin Islands and Mauritius.

Many 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 or us or to enforce against them or us 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 England and Wales, Nigeria, Bermuda, the British Virgin Islands and Mauritius upon those persons or us or over our subsidiaries provided that the Hague Convention on the Service Abroad of Judicial and Extrajudicial Documents in Civil or Commercial Matters of November 15, 1965, rules of service of foreign process applicable in the courts of Nigeria and any other relevant applicable local rules are complied with.

England and Wales

There is no treaty providing for the reciprocal recognition and enforcement of court judgments in civil and commercial matters between the United States and the United Kingdom (although the United States and the United Kingdom are both parties to the 1958 New York Convention on the recognition and enforcement of foreign arbitral awards). As a result, any judgment rendered by any federal or state court in the United States based on civil liability, whether or not predicated solely upon U.S. federal securities law, would not be directly enforceable in England and Wales. In order to enforce any such judgment in England and Wales, proceedings must be initiated by way of civil law action on the judgment debt before a court of competent jurisdiction in England and Wales. In this type of action, an English court generally will not (subject to the matters identified below) re-try or re-examine the merits of the original matter decided by a U.S. court if:

- the relevant U.S. court had jurisdiction (under English rules of private international law) to give the judgment; and
- the judgment is final and conclusive on the merits and is for a definite 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 or otherwise based on a U.S. law that an English court considers to be a penal, revenue or other public law).

An English court may refuse to enforce such a judgment, however, if it is established that:

- the enforcement of such judgment would contravene public policy or statute in England and Wales;
- the enforcement of the judgment is prohibited by statute (including, without limitation, if the amount of the judgment has been arrived at by doubling, trebling or otherwise multiplying a sum assessed as compensation for the loss or damage sustained);
- the enforcement proceedings were not commenced within the relevant limitation period as set forth in section 24 of the Limitation Act 1980, as amended from time to time;
- before the date on which the U.S. court gave judgment, the issues in question had been the subject of a final judgment of an English court or of a court of another jurisdiction whose judgment is enforceable in England and which final judgment conflicts with the judgment of the U.S. court;
- the judgment has been obtained by fraud or in proceedings in which the principles of natural justice were breached;

- the bringing of proceedings in the relevant U.S. court was contrary to an agreement under which the dispute in question was to be settled otherwise than by proceedings in that court (to whose jurisdiction the judgment debtor did not submit);
- enforcement of the judgment is restricted by the provisions of the Protection of Trading Interests Act 1980; or
- an order has been made and remains effective under section 9 of the UK Foreign Judgments (Reciprocal Enforcement) Act 1933 applying that section to U.S. courts including the relevant U.S. court.

If an English court gives judgment for the sum payable under a U.S. judgment, the English judgment will be enforceable by methods generally available for this purpose. The English court generally has discretion to prescribe the manner of enforcement. In addition, it may not be possible to obtain an English judgment or to enforce that judgment if the judgment debtor is subject to any insolvency or similar proceedings, or if the judgment debtor has any set-off or counterclaim against the judgment creditor.

Subject to the foregoing, investors may be able to enforce in England and Wales judgments in civil and commercial matters obtained from U.S. federal or state courts in the manner described above using the methods available for enforcement of a judgment of an English court.

It is, however, uncertain whether an English court would impose liability on us or such persons in an action predicated upon the U.S. federal securities law brought in England and Wales.

Nigeria

In addition, the majority of the Guarantors which hold most of our assets are companies incorporated under the laws of Nigeria (the “Nigerian Guarantors”). Furthermore, a substantial share of our assets is located in Nigeria. As a result, it may not be possible for investors to effect service of process outside of Nigeria upon the Nigerian Guarantors, or to enforce against any of them judgments of U.S. courts or of jurisdictions other than Nigeria, including judgments predicated upon civil liabilities under the civil liability provision of the securities laws of the United States.

Arbitral awards delivered in other jurisdictions are recognized and enforced in Nigeria by virtue of the Arbitration and Conciliation Act, Cap A18, Laws of the Federation, 2004 (the “Arbitration Act”). The Arbitration Act provides that an arbitral award shall, irrespective of the country in which it is made, be recognized as binding, subject to compliance with the provisions of the Arbitration Act, and shall upon application in writing to the State or Federal High Court, be enforced by the Court. In addition, Nigeria, is a party to the Convention on the Recognition and Enforcement of Foreign Arbitral Awards (New York, June 10, 1958) (the “Convention”) and where the recognition and enforcement of an award delivered in a signatory state is sought, the Convention shall be applicable, provided that the signatory state in which the award was made, has reciprocal legislation recognizing the enforcement of arbitral awards made in Nigeria. Thus, any arbitral award delivered in the United States and in the United Kingdom would be recognized as binding and enforceable subject to the terms of the Arbitration Act.

There are two regimes for the enforcement of foreign judgments in Nigeria: the Reciprocal Enforcement of Judgment Ordinance Cap 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”). The Reciprocal Enforcement Ordinance applies to judgments obtained in 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. Subject to certain exceptions, judgments obtained in these jurisdictions are enforceable by registration under the Reciprocal Enforcement Ordinance and by virtue of section 10 (a) of the Reciprocal Enforcement Act. 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 the courts. 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; 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.

Accordingly, under the first regime, foreign judgments relating to the Notes are registrable and enforceable in Nigeria if such judgments are obtained in the (a) 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; or (b) the superior court of any other country with competent jurisdiction to hear the matter. However, such judgments obtained are not registrable or enforceable in Nigeria 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; or (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 or the Reciprocal Enforcement Act applies, such judgment will not be registrable or enforceable in Nigeria if the judgment falls within any of the exceptions enumerated in (i) to (vii) above.

Furthermore, in the event that in the future, the Attorney General of the Federation and Minister of Justice of Nigeria (the "Minister of Justice") changes the Reciprocal Enforcement Act (discussed below) to apply to judgments from the High Court in England or Ireland, or in the Court of Session in Scotland or to other parts of Her Majesty's control, or from the superior court of any foreign country, then enforcement of such judgments will need to be in accordance with part 1 of the Reciprocal Enforcement Act.

The second regime for the enforcement of foreign judgments in Nigeria, part 1 of the Reciprocal Enforcement Act, applies to judgments obtained in the superior courts of any country (other than Nigeria) and registered within 6 years after the date of the judgment without an extension of time by a court for such registration, subject to the satisfaction of the following two conditions: (i) Nigerian judgments must be accorded substantial reciprocity of treatment in courts of the relevant foreign jurisdiction, and (ii) the Minister of Justice must have made an order extending the applicability of part 1 of the Reciprocal Enforcement Act to judgments obtained in such foreign jurisdiction.

Where the above two conditions are satisfied in respect of any jurisdiction (whether or not covered by the Reciprocal Enforcement Ordinance), the Reciprocal Enforcement Act shall apply to the registration and enforcement in Nigeria of judgments of superior courts of those jurisdictions. To be enforceable, judgments from such jurisdictions must be registered within six years after the date of the judgment, or where the proceedings have been 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. Subject to the exceptions already discussed above, all judgments are now enforceable by registration in Nigeria by virtue of section 10(a) of the Reciprocal Enforcement Act provided that such judgments are registered within twelve (12) months after the date of the judgment or such longer periods as may be allowed by the courts.

There is no treaty between the United States and Nigeria providing for reciprocal enforcement of judgments and the Minister of Justice has not directed the application of the Reciprocal Enforcement Act to judgments derived from United States courts. Thus, as of the date hereof, judgments from courts in the United States can only be enforced in Nigeria 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.

Based on the provisions of the Reciprocal Enforcement Ordinance, 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 part 1 of the Reciprocal Enforcement Act applies may only be enforceable in Nigeria in the local currency. However, the relevant provision of the Reciprocal Enforcement Act will only become effective if the Minister of Justice declares that part 1 of 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, 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 challenge presented by this is that the judgment creditor may be faced with significant exchange rate losses given that the judgment sum will be converted into the local currency on the basis of the rate of exchange on the

date the judgment is sought to be enforced and is obtained. To date, the Minister of Justice has not issued any order extending the application of part 1 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 register and enforce foreign judgments which come under the purview of the Reciprocal Enforcement Ordinance and/or section 10(a) of the Reciprocal Enforcement Act in foreign currency.

Bermuda

Seven Energy Ltd. is a Bermuda exempted company. Many of its directors are not residents of the United States, and a substantial portion of its assets is located outside the United States. As a result, it may be difficult for investors to effect service of process on those persons in the United States or to enforce in the United States judgments obtained in U.S. courts against Seven Energy Ltd. or those persons based on the civil liability provisions of the U.S. securities laws.

As Seven Energy Ltd. is organized under the laws of Bermuda, it may not be possible to enforce court judgments obtained in the courts of other jurisdictions, including the United States, against Seven Energy Ltd. or its directors or officers (whether based on the civil liability provisions of the U.S. federal or state securities laws, New York law as the governing law of the Notes, Indenture and Guarantees or otherwise) in Bermuda or to entertain actions in Bermuda against Seven Energy Ltd. or its officers or directors under such civil liability provisions or securities laws. We have been advised by our legal advisors in Bermuda that the United States does not currently have a treaty with Bermuda providing for the reciprocal recognition and enforcement of judgments in civil and commercial matters. Therefore, a final judgment for the payment of money rendered by any federal or state court in the United States, whether based on U.S. federal or state securities laws or otherwise, would not automatically be enforceable (and may not be enforceable at all) in Bermuda.

A final and conclusive judgment of a competent foreign court against Seven Energy Ltd. based upon the Guarantee provided by it in respect of the Notes (other than a court of jurisdiction to which The Judgments (Reciprocal Enforcement) Act 1958 applies, and it does not apply to the courts of the United States) under which a sum of money is payable (not being a sum payable in respect of taxes or other charges of a like nature, in respect of a fine or other penalty, or in respect of multiple damages as defined in The Protection of Trading Interests Act 1981) may be the subject of enforcement proceedings in the Supreme Court of Bermuda under the common law doctrine of obligation by action on the debt evidenced by the judgment of such competent foreign court. A final opinion as to the availability of this remedy should be sought when the facts surrounding the foreign court's judgment are known, but, on general principles, it is expected such proceedings to be successful provided that:

- the court which gave the judgment was competent to hear the action in accordance with private international law principles as applied in Bermuda; and
- the judgment is not contrary to public policy in Bermuda, has not been obtained by fraud or in proceedings contrary to natural justice and is not based on an error in Bermuda law.

Enforcement of such a judgment against assets in Bermuda may involve the conversion of the judgment debt into Bermuda dollars, but the Bermuda Monetary Authority has indicated that its present policy is to give the consents necessary to enable recovery in the currency of the obligation.

The above will also apply to the enforcement of judgments obtained in most other foreign courts outside Bermuda, except for judgments obtained in the High Court of England and Wales and those certain other jurisdictions which enjoy the Bermuda statutory enforcement regime.

A final and conclusive judgment of a foreign court against Seven Energy Ltd., based upon the Guarantee provided by it in respect of the Notes under which a sum of money is payable (not being a sum of money payable in respect of taxes or other charges of a like nature, in respect of a fine or other penalty, or in respect of multiple damages as defined in The Protection of Trading Interests Act 1981) may be enforceable in Bermuda if the foreign court is situated in a country to which The Judgments (Reciprocal Enforcement) Act 1958 (1958 Act) applies. The procedure provided for in the 1958 Act must be followed if the 1958 Act applies. The 1958 Act applies to the United Kingdom (which does not include Jersey, Guernsey, the Isle of Man and principally means The High Court of England and The Court of Sessions in Scotland), Bahamas, Barbados, British Guiana, Gibraltar, Grenada, Leeward Islands, St. Vincent, Jamaica, Nigeria, Dominica, St. Lucia and Australia. Under the 1958 Act, a judgment obtained in the superior courts of a territory to which it applies

would be enforced by the Supreme Court of Bermuda without re-examination of the merits of the case provided that:

- the judgment is final and conclusive, notwithstanding that an appeal may be pending against it or it may still be subject to an appeal in such country;
- the judgment has not been given on appeal from a court which is not a superior court; and
- the judgment is duly registered in the Supreme Court of Bermuda in circumstances in which its registration is not liable thereafter to be set aside.

Under Section 3(4) of the 1958 Act, the registration of such a court's judgment in the Supreme Court of Bermuda involves the conversion of the judgment debt into Bermuda dollars as of the date of the foreign court's judgment, but the Bermuda Monetary Authority has indicated that its present policy is to give the consents necessary for any Bermuda dollar award made by the Supreme Court of Bermuda as aforesaid to be recovered in external currency.

British Virgin Islands

Enforcement of judgments of the United States federal and state courts

The courts of the British Virgin Islands will not necessarily enter judgments in original actions brought in courts predicated on U.S. federal or state securities laws. Additionally, there is no statutory enforcement in the British Virgin Islands of judgments obtained in the United States, however, the courts of the British Virgin Islands will in certain circumstances recognize such a foreign judgment and treat it as a cause of action in itself which may be sued upon as a debt at common law so that no retrial of the issues would be necessary provided that:

- the U.S. court issuing the judgment had jurisdiction in the matter and the company either submitted to such jurisdiction or was resident or carrying on business within such jurisdiction and was duly served with process;
- the judgment given by the U.S. court is final and for a liquidated sum;
- the judgment given by the U.S. court was not in respect of penalties, taxes, fines or similar fiscal or revenue obligations of the company;
- in obtaining judgment there was no fraud on the part of the person in whose favor judgment was given or on the part of the court;
- recognition or enforcement of the judgment in the BVI would not be contrary to public policy; and
- the proceedings pursuant to which judgment was obtained were not contrary to natural justice.

In appropriate circumstances, the British Virgin Islands Court may give effect in the British Virgin Islands to other kinds of final US judgments such as declaratory orders, orders for performance of contracts and injunctions.

The above will also apply to the enforcement of judgments obtained in most other foreign courts outside the British Virgin Islands, except for judgments obtained in the High Court of England and Wales and those certain other jurisdictions which enjoy the British Virgin Islands statutory enforcement regime as set forth below.

Enforcement of judgments of High Court of England and Wales and certain other jurisdictions

Any final and conclusive monetary judgment obtained against a person in the High Court of England and Wales or in the courts of Scotland, Barbados, Belize, Guyana, St Vincent, Jamaica, Nigeria, Northern Ireland, Bahamas, Bermuda, Trinidad & Tabago, St Lucia, Grenada and New South Wales (Australia) for a

definite sum may be registered and enforced as a judgment of the BVI court pursuant to the Reciprocal Enforcement of Judgments Act 1922, provided that (i) application is made for registration of the judgment within twelve months of its date or such longer period as the BVI court may allow, (ii) the person against whom judgment was obtained is not appealing or does not have the right or intention to appeal and (iii) the BVI court considers it just and convenient that the judgment be so enforced. If not registered, the judgment may be treated as a debt upon which the foreign judgment debtor may bring an action so that no retrial of the underlying issues giving rise to the original judgment would be necessary. It is necessary that the judgment (not being in respect of penalties, fines, taxes or similar fiscal or revenue obligations of the person in question) is final, for a liquidated sum, was not obtained in a fraudulent manner, is not of a kind the enforcement of which is contrary to the public policy in the BVI, is not contrary to the principles of natural justice and provided that the courts of England had jurisdiction in the matter and the person against whom it was obtained either submitted to such jurisdiction or was resident or carrying on business within such jurisdiction and was duly served with process. In appropriate circumstances, a BVI court may give effect in the BVI to other kinds of final foreign judgments, such as declaratory orders, orders for performance of contracts and injunctions.

Jersey

The United States and Jersey currently do not have a treaty providing for the reciprocal recognition and enforcement of judgments (as opposed to arbitration awards) in civil and commercial matters. Consequently, a final judgment for payment rendered by any federal or state court in the United States based on civil liability, whether or not predicated solely upon US federal securities laws, would not automatically be recognized or enforceable in Jersey. In order to enforce any such US judgment in Jersey, proceedings must first be initiated before a court of competent jurisdiction in Jersey. In such an action, a Jersey court would not generally reinvestigate the merits of the original matter decided by the US court (subject to what is said below) and it would usually be possible to obtain summary judgment on such a claim (assuming that there is no good defense to it).

Recognition and enforcement of a US judgment by a Jersey court in such an action is conditional upon (among other things) the following:

- the US court having had jurisdiction over the original proceedings according to Jersey conflicts of laws principles;
- the US judgment being final and conclusive on the merits in the sense of being final and unalterable in the court which pronounced it and being for a definite sum of money (although there are circumstances where non-money judgments can also be enforced);
- the US judgment not contravening Jersey public policy;
- the US judgment not being for a sum payable in respect of taxes, or other charges of a like nature, or in respect of a penalty or fine;
- the US judgment not having been arrived at by doubling, trebling or otherwise multiplying a sum assessed as compensation for the loss or damages sustained and not being otherwise in breach of Section 5 of the United Kingdom Protection of Trading Interests Act 1980 (as extended to Jersey by the Protection of Trading Interests Act 1980 (Jersey) Order 1983);
- the US judgment not having been obtained by fraud or in breach of Jersey principles of natural justice; and
- there not having been a prior inconsistent decision of a Jersey court in respect of the same matter.

Subject to the foregoing, investors may be able to enforce in Jersey judgments in civil and commercial matters that have been obtained from US federal or state courts. However, we cannot assure you that those judgments will be recognized or enforceable in Jersey. In addition, it is questionable whether a Jersey court would accept jurisdiction and impose civil liability if the original action was commenced in Jersey, instead of the United States, and predicated solely upon US federal securities laws.

Mauritius

There is no treaty providing for the reciprocal recognition and enforcement of court judgments in civil and commercial matters between the United States and Mauritius (although the United States and Mauritius are both parties to the 1958 New York Convention on the recognition and enforcement of foreign arbitral awards). As a result, any judgment rendered by any federal or state court in the United States based on civil liability, whether or not predicated solely upon U.S. federal securities law, would not be directly enforceable in Mauritius. In order to enforce any such judgment in Mauritius, proceedings must be initiated by way of Exequatur in accordance with article 546 of the Code de procédure civile. In this type of action, the Supreme Court of Mauritius will register and enforce the original judgment without reconsideration of the merits, if:

- the judgment remains valid and capable of execution in the United States;
- the Company has been regularly summoned to the proceedings leading to the judgment; and
- the court of United States had jurisdiction over the Company and the matter submitted to it. The Mauritius Supreme Court will not recognize and enforce a foreign judgment if:
- the judgment is contrary to any principle affecting public order, as such term is interpreted under Mauritian law;
- the judgment was obtained by fraud or in a manner contrary to the principles of natural justice, including in respect of procedure; or
- the judgment is for a claim that under Mauritian law would be characterized as based on a tax, expropriatory, penal or other public law.

The Supreme Court has discretion to stay or decline to hear an action on the United States judgment if the United States judgment is under appeal or there is another subsisting judgment in any jurisdiction relating to the same cause of action as the United States judgment.

In addition, a second mechanism for the enforcement of foreign judgments in Mauritius, the Reciprocal Enforcement Act which applies only to judgments rendered by superior courts in the United Kingdom. An *in personam* judgment of a superior court in the United Kingdom (UK Court) with respect to a claim (UK Judgment) may be registered and enforced, under the Reciprocal Enforcement Act, without reconsideration of the merits, if:

- the UK Court had jurisdiction;
- the UK Judgment is for a determinate sum;
- the action to register and enforce the UK Judgment is commenced within 12 months of the date of the UK Judgment (or such longer period as the Supreme Court may allow); and
- in all the circumstances of the case the Supreme Court considers it just and convenient that the UK Judgment be enforced in Mauritius.

The Mauritius Supreme Court will not recognize or enforce a UK Judgment if:

- the Company did not voluntarily appear or otherwise submit or agree to submit to the jurisdiction of the UK Court;
- the Company, being the defendant in the proceedings resulting in the UK Judgment, was not duly served with the process of the UK Court and did not appear, notwithstanding that it may have agreed to submit to the jurisdiction of that court;
- the UK Judgment was obtained by fraud;

- the Company has satisfied the Supreme Court either that an appeal is pending, or that it is entitled, and intends to appeal, against the UK Judgment; or
- the UK Judgment was in respect of a cause of action which for reasons of public policy or for some other similar reason could not have been entertained by the Supreme Court.

Arbitral awards delivered in United States or any other jurisdictions are recognized and enforced in Mauritius by way of exequatur under article 1028-3 of the Code de procédure civile, if:

- the arbitration clause is valid under the laws of the United States or the other jurisdictions;
- the award was delivered by an arbitral tribunal contemplated and formed in accordance with the arbitration clause; the award is final in the state where it was delivered;
- the subject-matter of the dispute is capable of settlement by arbitration under the law of Mauritius; and
- the award complies with the mandatory provisions of Mauritian law. The Supreme Court will not recognize and enforce a foreign award if:
 - the award has been the subject of a jurisdictional quashing in the state where it has been delivered;
 - the adversarial principle has not been respected during the course of the arbitration proceeding, notably if the party against whom the award is invoked did not have sufficient knowledge of the case to defend it;
 - the arbitrator has ruled upon the matter contrary to the assignment given to him;
 - the State Law Office of Mauritius is of the opinion that the state where the award has been delivered does not offer reciprocal conditions for the recognition and enforcement of Mauritian arbitral awards; or
 - the award is contrary to the public policy of Mauritius.

In addition, Mauritius has ratified and implemented the Convention on the Recognition and Enforcement of Foreign Arbitral Awards (United Nations, Treaty Series, Vol. 330, No 4739). Accordingly an award made in a signatory state may be recognized and enforced by the Supreme Court. Therefore, an arbitral award delivered in the United States would be recognized and enforced by the Mauritius Supreme Court. Recognition and enforcement of an arbitral award may be refused by the Supreme Court only:

- at the request of the party against whom it is invoked, if that party furnishes to the Supreme Court proof that:
 - a party to the arbitration clause was under some incapacity; or the arbitration clause is not valid under the foreign law or, failing any indication thereon, under the law of the country where the award was made;
 - the party against whom the award is invoked was not given proper notice of the appointment of an arbitrator or of the arbitral proceedings or was otherwise unable to present its case;
 - the award deals with a dispute not contemplated by or not falling within the terms of the submission to arbitration, or it contains decisions on matters beyond the scope of the submission to arbitration, provided that, if the decisions on matters submitted to arbitration can be separated from those not so submitted, that part of the award that contains decisions on matters submitted to arbitration may be recognized and enforced;

- the composition of the arbitral tribunal or the arbitral procedure was not in accordance with the agreement of the parties or, failing such agreement, was not in accordance with the law of the country where the arbitration took place; or
- the award has not yet become binding on the parties or has been set aside or suspended by a court of the country in which, or under the law of which, that award was made; or
- if the Supreme Court finds that:
 - the subject-matter of the dispute is not capable of settlement by arbitration under the law of Mauritius; or
 - the recognition or enforcement of the award would be contrary to the public policy of Mauritius.

The Mauritius Supreme Court will only render judgment for a sum of money in Mauritian currency. If a foreign judgment is in a foreign currency, the Supreme Court will give a judgment in the Mauritian currency equivalent of such foreign currency. The conversion will be calculated on the date which the Mauritius Supreme Court considers the most appropriate to fully compensate the judgment creditor.

CERTAIN INSOLVENCY LAW CONSIDERATIONS

The following is a brief description of certain insolvency law considerations in the jurisdictions in which 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 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 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 our structure and the Notes—Enforcement of the Guarantees across multiple jurisdictions may be difficult".

Nigeria

The Nigerian Guarantors, as companies incorporated under the laws of Nigeria, are subject to Nigerian insolvency law in the event of their insolvency. Companies' insolvency in Nigeria is primarily governed by CAMA and in small part by the Bankruptcy Act, Cap 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 if the members so resolve, 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 \$12), after three weeks of demand by a creditor; or (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.

Winding Up

Where the winding up is a creditors' winding up, a liquidator is appointed by the creditors and members of the company. Where a liquidator is appointed for the company, 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 Corporate Affairs Commission ("CAC"). A liquidator has power to (i) pay creditors of the company, (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 employees and on behalf of employees have priority and rank equally above other debt obligations of the company. These debts must be paid even if the company's 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 registration of their security interests at the CAC.

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 any or all of the Nigerian Guarantors in the event that they default on the guarantees. As secured creditors with fixed charges, however, they will rank ahead of lower ranking secured creditors or unsecured creditors of the company in the event that the company is wound up.

Receivership

A creditor may seek to enforce his security by appointing a receiver. 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 fulfil 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 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 is expected to act in a faithful, diligent and skillful manner in order to preserve the company's assets. The holders of the Notes may, in a bid to enforce the guarantees provided by the Nigerian Guarantors appoint a receiver over their 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. For example, any transfers or conveyances made by the Nigerian Guarantors within a "twilight period" (i.e. three months prior to commencement of winding up) shall be taken to be a fraudulent preference of one creditor over another and are void and unenforceable under Nigerian law. Any fraudulent preference shall render the fraudulently preferred creditor personally liable for the debt over which the security has been taken. Further, in the event of winding up of a company, any floating charge on the assets of the company created within the "twilight period" shall be void and invalid unless it can be proved that the company was solvent at the time of creating the charge. Thus any security interest created by any of the Nigerian Guarantors 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.

Bermuda

As a company incorporated under the laws of Bermuda, Seven Energy Ltd. may be subject to Bermuda corporate and insolvency laws under which secured creditors could be paid in priority to the claims of holders of the Notes under its Guarantee and the security given in connection with such Guarantee and there can be no assurance that the Security Agent will be able to effectively enforce its rights in any bankruptcy, insolvency or similar proceedings under Bermuda law.

The Guarantee of the Notes by Seven Energy Ltd. and the security given in connection with such Guarantee may be subject to review under Bermuda law if:

- a liquidator, on behalf of Seven Energy Ltd., were to apply to Bermuda courts to void the guarantee or the granting of security on the grounds that the issuance of the guarantee or granting of the security constituted a fraudulent preference;
- at the time of, or immediately after, the issuance of the guarantee or granting of the security, Seven Energy Ltd. was insolvent; and
- Seven Energy Ltd. entered into a formal insolvency proceedings within six months of the issuance of the guarantee or granting of the security.

In addition, under Bermuda law, a transaction, which could include the issuance of a guarantee or granting of security, at less than fair value and made with the dominant intention of putting property beyond reach of creditors is voidable after an action is successfully brought by an eligible creditor within a period of six years from the date of the transaction. A transaction, which could include the issuance of a guarantee or granting of security, might be challenged if it involved a gift by the company or if a company received consideration of significantly less than the benefit given by such company.

In addition, the bankruptcy, insolvency, administrative and other laws of Bermuda may be materially different from, or in conflict with, each other, including in the areas of rights of creditors, priority of government entities and other third-party and related-party creditors, ability to obtain post-bankruptcy filing loans or to pay interest and the duration of proceedings. The laws of Bermuda may not be as favorable to your interests as the laws of jurisdictions with which you are familiar. The application of these laws, or any conflict among them, could call into question what and how Bermuda's laws should apply. Such issues may adversely affect the Security Agent's ability to enforce in Bermuda the Guarantee of the Notes by Seven Energy Ltd. and the security given in connection therewith or may limit any amounts that the Security Agent may receive.

British Virgin Islands

The Issuer and Seven Energy (BVI) are companies incorporated under the laws of the British Virgin Islands (the “BVI Obligors”). Therefore, any insolvency proceedings by or against the BVI Obligors would likely be based on the insolvency laws of the British Virgin Islands, including the Insolvency Act 2003 (the “BVI Insolvency Act”) and the Insolvency Rules 2005 (the “BVI Insolvency Rules”). In this regard although Part XVIII of the BVI Insolvency Act contains provisions based on the UNCITRAL Model Law on Cross-Border Insolvency in relation to the jurisdiction of foreign courts in relation to the insolvency of companies incorporated in the British Virgin Islands, this Part is not in force. However, Part XIX of the BVI Insolvency Act does enable orders to be made in the British Virgin Islands in aid of foreign insolvency proceedings in certain designated countries.

As noted above, corporate insolvency in the BVI is governed by the BVI Insolvency Act and the BVI Insolvency Rules. These laws are closely based on the previous Insolvency Act 1986 of the UK as originally enacted. There are a number of insolvency regimes available. However the provisions for administration in the BVI Insolvency Act, which are similar to the provisions of the Insolvency Act 1986 of the UK prior to its amendment and replacement by the Enterprise Act 2002 and subsequent legislation, and which promote the rescue of companies in financial difficulty assisted by a statutory moratorium, are not yet in force.

The key current insolvency procedures in the British Virgin Islands are therefore liquidation, creditor arrangements, receivership and administrative receivership.

Liquidation

The purpose of a liquidation is to realize the company’s assets and distribute the proceeds of realization to creditors. On appointment, the liquidator takes custody and control of the company’s assets and the directors’ powers effectively cease. Unless the BVI court otherwise orders, there is a stay against creditor action, proceedings may not be commenced by or against the company and shares in the company may not be transferred. Secured creditors remain able to enforce their security rights. No amendments can be made to the memorandum and articles of association of the company.

A liquidator may be appointed by the court in the British Virgin Islands or by the shareholders of the company. In the case of the former, proceedings are brought in the Commercial Court of the British Virgin Islands. An application for liquidation may be made by a creditor, the company, its directors, its shareholders, the Attorney General or the British Virgin Islands Financial Services Commission. The grounds for appointment are that the company is insolvent, it is just and equitable that the company be wound up or it is in the public interest to wind it up. Only the Attorney General or the Financial Services Commission may apply in the public interest. The most common ground for the court process is insolvency. Insolvency for these purposes may be established by showing any of the following: a failure to comply within 21 days with a statutory demand for an undisputed debt exceeding \$2,000; execution issued on a judgment being returned unsatisfied; balance sheet insolvency; or an inability to pay debts as they fall due. The court may, on application, appoint a provisional liquidator to protect assets pending the making of the winding-up order. The provisional liquidator has powers to the extent necessary to maintain the value of the assets of the company or to carry out the functions for which he was appointed.

As an alternative to the court appointment of a liquidator, the members of an insolvent company may, by a majority of at least 75%, pass a resolution appointing an eligible insolvency practitioner as liquidator of the company.

Subject to the provisions of the memorandum and articles of association of the company, the voluntary liquidation of a solvent company may be commenced by the appointment of the liquidator by either a resolution of members or a resolution of directors.

The proceeds of realization of assets in the liquidation of a British Virgin Islands company are paid in the following order of priority:

- (a) the proceeds of sale of charged assets are paid to secured creditors;
- (b) unsecured assets are applied in payment of:

- (i) the costs of the liquidation and liquidator's remuneration;
- (ii) preferential creditors; and
- (iii) unsecured creditors.

The categories of preferential creditors are as follows:

- (a) the British Virgin Islands government for taxes and other sums due to it up to a maximum of \$50,000;
- (b) the British Virgin Islands Financial Services Commission for any unpaid fees or penalties up to a maximum of \$20,000;
- (c) employees claims for wages for the six months prior to the winding-up (capped at \$10,000); and
- (d) employees' entitlements to social security contributions for six months and pensions contributions for twelve months (capped at \$5,000 per employee).

Registered charge holders will rank according to the registration of their security interest at the Registry of Corporate Affairs. Other creditors within each category rank *pari passu*.

Creditors with retention of title and other proprietary claims remain entitled to their assets. There is a statutory set-off applying to mutual credits and debits and other mutual dealings between the company and its creditors.

Receivership

Receivership in the British Virgin Islands is not a collective insolvency procedure as its primary aim is the satisfaction of debts owed to the secured creditor.

A receiver may be appointed out of court by the holder of a security interest under the powers to do so granted by the relevant charge document, or he may be appointed by an order of the BVI court. The appointment of a receiver out of court is governed by strict notice provisions set forth the BVI Insolvency Act. The powers of a receiver are to be found in the charge document and/or the Court order appointing him. Subject to those sources, a receiver is empowered by the BVI Insolvency Act and other applicable law to demand and recover income of the assets over which he was appointed, to manage, maintain and repair those assets, and to exercise a right to inspect books and documents relating to those assets, which are in the possession or control of a person other than the company.

The receiver's primary duty is to exercise his powers in good faith and for a proper purpose, and in the best interests of his appointer. Subject to that primary duty, he shall have reasonable regard to, amongst others, the interests of the creditors. He also owes a duty to manage the charged property with due diligence. If he exercises a power of sale, he owes a duty to, amongst others, the creditors, to obtain the best price reasonably obtainable at the time of sale.

Administrative receivership

An administrative receiver is a receiver appointed by the holder of a debenture or other instrument of the company secured by a floating charge, over the whole or substantially the whole of the business, undertaking and assets of a company. An administrative receiver has, in addition to the powers of an ordinary receiver, the power to execute documents on behalf of the company and to use the company seal, and the powers set forth in Schedule 1 of the BVI Insolvency Act. These include the power to carry on the company's business, to sell its assets, and to commence legal proceedings on its behalf. An administrative receiver may also apply to court for authority to sell assets subject to prior ranking security provided that the secured creditor is paid out of the net proceeds. A person dealing with an administrative receiver in good faith and for value is not concerned whether the administrative receiver is acting within its powers.

Creditors arrangements

A creditors' arrangement ("CA") is a procedure which enables a company to compromise liabilities with creditors. It is similar to a company voluntary arrangement under the English Insolvency Act 1986 as originally enacted. A CA is flexible and can vary or cancel debts. A CA cannot affect the rights of secured or preferential creditors without their written consent.

A proposal for a CA may be made by the directors or, if the company, is in liquidation by the liquidator (an administrator may also propose a CA, but the administration provisions of the BVI Insolvency Act are not yet in force). The company must be insolvent or likely to become insolvent. There is no moratorium on creditor rights and no court involvement.

If the creditors approve the arrangement by 75% in value of those present at the meeting, the arrangement takes effect. If approved, the arrangement binds all creditors of the company (including dissenting creditors) and creditors who were not present at the meeting or who did not have notice of it. There are safeguards for creditors who are unfairly prejudiced to apply to the court for relief.

Administration (not currently in force)

The provisions of the Insolvency Act 2003 relating to administration are not in force. There does not appear to be any current political intention to bring them into force.

Voidable transactions

Where a company goes into liquidation, certain transactions may be liable to be set aside.

Transactions at an undervalue

A transaction is at an undervalue if the company made a gift or the value of the consideration received, in money or monies worth, was significantly less than the value, in money or monies worth, than the consideration provided by the company. Such a transaction can be set aside by a liquidator if it was entered into within 'the vulnerability period'. The vulnerability period is six months prior to the onset of insolvency, or, if the transaction was with a connected person, two years prior to the onset of insolvency. For present purposes, onset of insolvency may be taken as the date of appointment of liquidators. The company must have been insolvent at the time of the transaction or become insolvent as a result of it. If the transaction was made with a connected person, there is a rebuttable presumption of insolvency. There is a defense if the transaction was entered into in good faith and for the purposes of the company's business and at the time there were reasonable grounds to believe that the transaction would benefit the company. Upon proof of a transaction caught by these provisions, the court may make such order as it considers fit to restore the position, for example by ordering the return of property or proceeds of its sale to the company.

Therefore a British Virgin Islands liquidator of any Guarantor incorporated in the British Virgin Islands (a "BVI Guarantor") could seek to unwind the issue of its Guarantee if such liquidator believed that the issue of such Guarantee constituted a transaction at an undervalue. However, we believe that no such Guarantee will constitute a transaction at an undervalue and that each Guarantee will be provided in good faith for the purposes of carrying on the business of the relevant BVI Guarantor and that there are reasonable grounds for believing that the transactions will benefit each such Guarantor. However, there can be no assurance that the provision of a Guarantee by a British Virgin Islands company will not be challenged by a liquidator or that a court would support our analysis.

Unfair Preference

A liquidator may apply to court to set aside a preference that has the effect of placing a creditor in a better position than it would have been in the event of a liquidation. The preference must have occurred within the vulnerability period (see above) and the company must have been insolvent at the time or become so as a result of the preference. There is an exception for transactions in the ordinary course of business. The test is the effect of the transaction and not a desire to prefer. If the person is connected with the company, there is a rebuttable presumption that the company was insolvent at the time or became so as a result of the preference, and that it did not take place in the ordinary course of business. The court may make such order as it considers fit to restore the position to what it would have been had the preference not occurred.

Therefore if a liquidator of the Issuer or a BVI Guarantor can show that the Issuer or that Guarantor has given “preference” to any person within six months of the onset of liquidation or administration (or two years if the preference is in respect of a “connected person”) and, at the time of the preference, the Company or that Guarantor was unable to pay its debts at the time of, or as a result of, the preferential transaction, a court has the power, among other things, to void the preferential transaction.

Avoidance of Floating Charges

Any floating charge created over the company’s property is vulnerable if made within the vulnerability period (see above) and at the time it was created, the company was insolvent or became so as a result. Such a floating charge will however be valid to the extent of any new money or other consideration provided.

Jersey

In Jersey, a guarantee may be set aside or held not to be enforceable on a number of grounds, including grounds that relate to corporate benefit, fraudulent conveyance or transfer, voidable preference or similar laws and regulations or defenses affecting the rights of creditors generally.

Under Jersey law, if a liquidator were to be appointed to Seven Energy (Jersey) or Seven Energy (Jersey) was declared to be “en désastre”, the liquidator or the Jersey Viscount (as defined below), as the case may be, has the power to investigate past transactions entered into by that entity and may seek various court orders, including orders to void certain transactions entered into prior to the désastre or winding-up of such company and for the repayment of money. These transactions are generally known as “voidable transactions” or “vulnerable transactions” and the main ones are generally described below together with a summary of the principal insolvency regimes in Jersey and certain other relevant matters.

Insolvency

There are two principal regimes for corporate insolvency in Jersey: désastre and winding-up.

The principal type of insolvency procedure available to creditors under Jersey law is an application for an Act of the Royal Court of Jersey under the Bankruptcy (Désastre) (Jersey) Law 1990, as amended (the “Jersey Bankruptcy Law”) declaring the property of a debtor to be “en désastre” (a “declaration”). On a declaration of désastre, title and possession of the property of the debtor vest automatically in the Viscount, an official of the Royal Court (the “Jersey Viscount”). With effect from the date of declaration, an unsecured creditor has no remedy against the property or person of the debtor, and may not commence or continue any legal proceedings to recover the debt, but may prove in the désastre.

Additionally, the shareholders of a company (but not its creditors) can instigate a winding-up of an insolvent company which is known as a “creditors’ winding up” pursuant Chapter 4 of Part 21 of the Companies (Jersey) Law 1991, as amended (the “Jersey Companies Law”) (a “creditors’ winding up”). On a creditors’ winding up, a liquidator is appointed, and the creditors may determine who should be appointed. The liquidator will stand in the shoes of the directors and administer the winding up, gather in assets, settle claims and distribute assets as appropriate. After the commencement of the winding up, no action can be taken or continued against the company except with the leave of court. The corporate state and capacity of the company continues until the end of the winding up procedure, when the company is dissolved. The Jersey Companies Law requires a creditor of a company (subject to appeal) to be bound by an arrangement entered into by the company and its creditors immediately before or in the course of its winding up if (inter alia) three quarters in number and value of the creditors acceded to the arrangement.

Floating charges

Under the laws of Jersey, a person incorporated, resident or domiciled in Jersey is deemed to have capacity to grant security governed by foreign law over property situated outside the Island of Jersey, but to the extent that any floating charge is expressed to apply to any asset, property and undertaking of a person incorporated, resident or domiciled in Jersey such floating charge is not likely to be held valid and enforceable by the Courts of Jersey in respect of Jersey situs assets. With the commencement of the Security Interests (Jersey) Law 2012 on 2 January 2014 it is now possible for a Jersey law security interest to be created which is similar to but not the same as a floating charge. Please see further below at “Description of Notes—Security”.

Administrators, receivers and statutory and non-statutory requests for assistance

The Insolvency Act 1986 (either as originally enacted or as amended, including by the provisions of the Enterprise Act 2002) does not apply in Jersey and receivers, administrative receivers and administrators are not part of the laws of Jersey. Accordingly, the Courts of Jersey may not recognize the powers of an administrator, administrative receiver or other receiver appointed in respect of Jersey situs assets.

However, under Article 49(1) of the Jersey Bankruptcy Law, the Jersey court may assist the courts of prescribed countries and territories in all matters relating to the insolvency of any person to the extent that the Jersey court thinks fit. These prescribed jurisdictions include the United Kingdom. Further, in doing so, the Royal Court may have regard to the UNCITRAL model law, even though the model law has not been (and is unlikely to be) implemented as a separate law in Jersey.

If (i) a request comes from a prescribed country but not by a court of such country or (ii) from a non-prescribed country, then the application will be considered by the Royal Court by virtue of its inherent jurisdiction having regard to principles of comity. If insolvency proceedings are afoot in another jurisdiction in relation to the company, the nature and extent of the cooperation from Jersey is likely to depend on the nature of the requesting country's insolvency regime. If the requesting country adheres to principals of territoriality, as opposed to universality, and, for instance, ring-fences assets for local creditors, full cooperation is highly unlikely. If, however, the jurisdiction applies similar fundamental principles as Jersey the Royal Court's approach is more likely to be similar to the position where prescribed countries are involved.

In the case of both statutory and non-statutory requests for assistance, it should not be assumed that the UNCITRAL provisions will automatically be followed. That is a matter for the discretion of the Royal Court. It would also be wrong to assume for European countries that the position will be in accordance with EU Council Regulation 1346/2000. Jersey does not form part of the European Community for the purposes of implementation of its directions. Accordingly, the EU Council Regulation 1346/2000 does not apply as a matter of Jersey domestic law and the automatic test of Centre of Main Interests ("COMI") does not apply as a result.

Transactions at an undervalue

Under Article 17 of the Jersey Bankruptcy Law and Article 176 of the Jersey Companies Law the court may, on the application of the Jersey Viscount (in the case of a company whose property has been declared "en désastre") or liquidator (in the case of a creditors' winding up), set aside a transaction (including any guarantee or security interest) entered into by a company with any person (the "other party") at an undervalue. There is a five-year look-back period from the date of commencement of the winding up or declaration of "désastre" during which transactions are susceptible to examination pursuant to this rule (the "relevant time"). The Jersey Bankruptcy Law and Jersey Companies Law contain detailed provisions, including (without limitation) those that define what constitutes a transaction at an undervalue, the determination of the relevant time and the effect of entering into such a transaction with a person connected with the company or with an associate of the company. If the court determines that the transaction was a transaction at an undervalue, the court can make such order as it thinks fit to restore the position to what it would have been in if the transaction had not been entered into. In any proceedings, it is for the Jersey Viscount or liquidator to demonstrate that the Jersey company was insolvent unless a beneficiary of the transaction was a connected person or associate of the Company, in which case there is a presumption of insolvency and the connected person must demonstrate the Jersey company was not insolvent when it entered the transaction in such proceedings.

Preference

Under Article 17A of the Jersey Bankruptcy Law and Article 176A of the Jersey Companies Law, the court may, on the application of the Jersey Viscount (in the case of a company whose property has been declared "en désastre") or liquidator (in the case of a creditors' winding up), set aside a preference (including any guarantee or security interest) given by the company to any person (the "other party"). There is a 12-month look-back period from the date of commencement of the winding up or declaration of "désastre" during which transactions are susceptible to examination pursuant to this rule (the "relevant time"). The Jersey Bankruptcy Law and Jersey Companies Law contain detailed provisions, including (without limitation) those that define what constitutes a preference, the determination of the relevant time and the effect of entering into a preference with a person connected with the company or with an associate of the company. A transaction will constitute a preference if it has the effect of putting a creditor of the Jersey company (or a surety or guarantor for any of the company's debts or liabilities) in a better position (in the event of the company going into an insolvent winding

up) than such creditor, guarantor or surety would otherwise have been in had that transaction not been entered into. If the court determines that the transaction constituted such a preference, the court has very wide powers for restoring the position to what it would have been if that preference had not been given (although there is protection for a third party who enters into one of the transactions in good faith and without notice). However, for the court to do so, it must be shown that in deciding to give the preference the Jersey company was influenced by a desire to produce the preferential effect. In any proceedings, it is for the Jersey Viscount or liquidator to demonstrate that the Jersey company was insolvent at the relevant time and that the company was influenced by a desire to produce the preferential effect, unless the beneficiary of the transaction was a connected person, in which case there is a presumption of insolvency and that the company was influenced by a desire to produce the preferential effect and the connected person must demonstrate in such proceedings that the company was not insolvent or influenced by such a desire when it entered the transaction.

Extortionate credit transactions

Under Article 17C of the Jersey Bankruptcy Law and Article 179 of the Jersey Companies Law, the court may, on the application of the Jersey Viscount (in the case of a company whose property has been declared “en désastre”) or liquidator (in the case of a creditors’ winding up), set aside a transaction providing credit to the debtor company which is or was extortionate. There is a three-year look-back period from the date of commencement of the winding up or declaration of “désastre” during which transactions are susceptible to examination pursuant to this rule (the “relevant time”). The Jersey Bankruptcy Law and Jersey Companies Law contain detailed provisions, including (without limitation) those that define what constitutes a transaction which is extortionate.

Disclaimer of onerous property

Under Article 15 of the Jersey Bankruptcy Law, the Jersey Viscount may within six months following the date of the declaration of désastre and under Article 171 of the Jersey Companies Law, a liquidator may within six months following the commencement of a creditors’ winding up, disclaim any onerous property of the company. “Onerous property” is defined to include any moveable property, a contract lease or other immovable property if it is situated outside of Jersey that is unsaleable or not readily saleable or is such that it might give rise to a liability to pay money or perform any other onerous act, and includes an unprofitable contract.

A disclaimer operates to determine, as of the date it is made, the “rights, interests and liabilities of the company in or in respect of the property disclaimed” but “shall not, except so far as is necessary for the purpose of releasing the company from liability, affect the rights or liabilities of any other person”. A person sustaining loss or damage in consequence of a disclaimer is deemed to be a creditor of the company to the extent of the loss or damage and may prove for the same in the désastre or creditors’ winding up. The Jersey Bankruptcy Law and Jersey Companies Law contain detailed provisions, including (without limitation) in relation to the powers of the court in respect of disclaimed property.

Overview of creation and enforceability of security interests in Jersey

The following is a summary of certain aspects of Jersey law related to the creation and enforcement of security governed by Jersey law.

This is not a complete summary of currently applicable Jersey law and prospective holders of the Notes should consult their own professional advisers.

Creation of security interests

Under Jersey law, security over Jersey situs assets needs to be created in accordance with the provisions of Jersey statute. Security over intangible moveable property may only be created, (perfected and enforced) pursuant to the Security Interests (Jersey) Law 2012 (the “2012 Law”) which came into full force and effect on 2 January 2014. The shares of Seven Energy (Jersey) will be secured pursuant to a Jersey law governed security interest agreement prepared in accordance with the 2012 Law and Seven Energy (Jersey) will enter into a general security interest agreement prepared in accordance with the 2012 Law creating security over all of its present and future intangible movable property.

Priority and subordination

General rules on priority

- A perfected security interest has priority over an unperfected security interest in the same collateral.
- Priority among perfected security interests in the same collateral is determined by the order in which they were perfected, whether by registration, possession or control or otherwise under the 2012 Law.
- Priority among unperfected security interests in the same collateral is determined by the order in which they attached.
- When a security interest is transferred, it maintains the same priority that it had immediately before the transfer.
- A security agreement may provide that the secured obligations include further advances, so that the priority of the original security is maintained for such further advances.
- Priority for security interests created by way of the secured party taking control of collateral

There are certain exceptions to the general rules on priority. In particular, special rules apply in respect of deposit accounts at an account bank, securities or custody accounts at an intermediary (such as a custodian) and certificated investment securities, where security can attach and be perfected by control.

Enforceability of security interests

The 2012 Law provides that a secured party may enforce security over intangible movable assets by way of sale or appropriation of the collateral or proceeds. In addition a secured party may take certain ancillary actions including any bespoke enforcement powers included in a security agreement. More than one enforcement option can be taken, and taking one or more of the enforcement options specified above does not preclude the exercise of other rights of a secured party.

The power of enforcement is exercisable once an event of default has occurred and written notice specifying the event of default has been served on the grantor by the secured party. If enforcement is by way of sale or appropriation, the secured party must give the grantor 14 days prior written notice (unless the right to notice is waived by the grantor). The grantor has agreed in writing in the security agreement to waive its right to notice of appropriation or sale. The secured party is obliged on sale or appropriation, to give at least 14 days prior written notice to (i) any person who 21 days before the sale or appropriation has a registered security interest in the collateral, or (ii) any person other than the grantor who has an interest in the collateral. There are specific carve-outs from the obligation to give notice of sale.

Effect of grantor's bankruptcy

The 2012 Law provides that the grantor becoming bankrupt (as defined in Article 8 of the Interpretation (Jersey) Law 1954), or the grantor or its property becoming subject, whether in Jersey or elsewhere, to any other insolvency proceedings, will not affect the power of a secured party to appropriate or sell, or otherwise act in relation to, collateral under the 2012 Law.

However, the 2012 Law provides that, in the case of the bankruptcy of the grantor of a security interest, the security interest is void as against the Viscount or liquidator (as applicable) and the grantor's creditors unless the security interest is perfected before the grantor becomes bankrupt. A perfected security interest could still potentially be challenged by the Viscount or a liquidator (as applicable) as a transaction at an undervalue or preference under insolvency legislation.

Mauritius

Under Mauritius insolvency laws, the following types of proceedings may be commenced against a Guarantor incorporated under the laws of Mauritius:

Voluntary administration

A voluntary administration is a mechanism with the aim to rescue a company or its business. If it is not possible to save the company or its business, the aim is to administer the business, property and affairs of the company in a way that results in a better return for the company's creditors and shareholders than would result from the immediate winding up of the company.

Administration begins when an administrator is appointed. An administrator may be appointed by the company, the company's liquidator (if it is in liquidation), a provisional liquidator, a secured creditor holding a charge over the whole or substantially the whole of the company's property, or the Court. Where a company is already in administration, an administrator may be appointed only by the Court, the creditors (as a replacement for an administrator that the creditors have removed) or the appointer of the first administrator (if that administrator has died, resigned or been disqualified).

The appointment of an administrator vests control of the company's business, affairs and property in the administrator. The administrator must investigate the company's affairs and consider ways of salvaging the business in the interests of creditors, employees and shareholders. He may carry on the business and manage the company's property with that objective. The administrator may terminate or dispose of all or part of the company's business and may dispose of any of its property, and may perform any function and exercise any power that the company or any of its officers could perform/exercise if the company were not in administration.

The directors remain in office but cannot act as officers of the company without the prior written approval of the administrator. Except for payments out of the company's account made in good faith in the ordinary course of banking business and at a time before a bank is notified of the appointment of an administrator, transactions or dealings by the company in administration are void unless they are entered into by the administrator on behalf of the company, with his written consent or under a Court order.

A key effect of administration is the operation of a moratorium. Unless the administrator consents in writing or the Court gives permission:

- no person can enforce a charge over the property of the company;
- an owner or lessor cannot take possession of or otherwise recover property that was used or occupied by, or is in the possession of, the company; and
- proceedings in a court shall not be commenced or continued against the company.

Also, during the administration of a company, an enforcement process (i.e. an execution against property of the company or any other enforcement process involving a Court or usher) in relation to the company's proceeds of the sale of the company's property under an execution process; property shall not be commenced or continued except with the permission of the Court and on terms that the Court thinks appropriate. Where a Court Officer (including an usher or registrar of the Court) receives written notice that a company is in administration, the Court officer shall not:

- take action to sell property of the company under an execution process;
- proceeds of the sale of the company's property under an execution process;
 - pay to a person other than the administrator;
 - money of the company seized under an execution process; or
 - money paid to avoid seizure or sale of property of the company under an execution process;

- take action in relation to the attachment of a debt due to the company; or
- pay to any person other than the administrator money received because of the attachment of a debt due to the company.

The moratorium therefore prevents vital assets from being stripped away from the company during the administration by means of individual enforcement by creditors. For secured creditors, the result is that they cannot enforce and realize their security. There is scope however for a secured creditor to apply to Court for leave to enforce its security; the Court may make an order granting such leave where it is satisfied that serious prejudice will be caused to the secured creditor if the application is not granted which outweighs the prejudice caused to other creditors if it is granted. A secured creditor who is granted leave shall from time to time at intervals not exceeding 3 months report to the administrator on the enforcement of his security and the proceeds thereby recovered by the secured creditor. In the case of perishable property, the Court may make an order granting leave to a secured creditor to forthwith enforce his security over such property and to hold the proceeds that are recovered by the secured creditor on trust for the administrator pending the conduct of a hearing about whether the secured creditor should be allowed to enforce his security.

The administrator must call at least the following meetings within set time frame:

- the first creditors' meeting for the appointment, if any, of a committee of creditors; and
- a watershed meeting.

In the ordinary course, the administration will end where one of the following occurs:

- a deed of company arrangement is executed by the company and the administrator (unless the creditors appoint someone else);
- the company's creditors resolve that the administration should end; or
- the company's creditors appoint a liquidator by resolution passed at a watershed meeting.

Liquidation/winding up

The liquidation or winding up of a company may be effected by:

- a shareholders' voluntary winding where the company is solvent and the liquidator is appointed at a shareholders' meeting.
- a creditors' voluntary winding up where the company is insolvent and the liquidator is appointed by a resolution of creditors.
- a winding up order made by the Court.
- a resolution of creditors passed at a watershed meeting of creditors in a voluntary administration (see above).

In the case of a shareholders' voluntary winding up, a majority of the directors of the company must make a declaration of solvency to the effect that they have made an inquiry into the affairs of the company and at a resolution of directors, they have formed the opinion that the company will be able to pay its debts in full within a period not exceeding 12 months after the commencement of the winding up. The Declaration of Solvency must be accompanied by a statement of the affairs of the company showing (i) the assets of the company and the total amount expected to be realized from those assets, (ii) the company's liabilities and (iii) the estimated expenses of the winding up, made up to the latest practicable date before making the Declaration of Solvency. In addition, the liquidation must be approved by resolution of at least 75% of the shareholders at a general meeting of the company.

In a creditors voluntary winding up, the directors must (i) cause a resolution of the creditors of the company to be summoned, (ii) cause a full statement of the company's affairs showing the method and manner

in which the valuation of the assets was arrived at, together with a list of the creditors and the estimated amount of their claims to be laid before the meeting of creditors; and (iii) appoint one of their number to attend the meeting to disclose to the meeting the company's affairs and the circumstances leading up to the proposed winding up.

A liquidator in a voluntary winding up has broad powers, including to:

- commence, continue, discontinue and defend legal proceedings on behalf of the company;
- carry on the business of the company to the extent necessary for the liquidation; with the leave of the Court or the creditors' committee of inspection (if there is one in the liquidation, failing which the role of the committee is exercised by the Official Receiver, another public official given certain powers by the Insolvency Act 2009 in insolvency proceedings) pay any class of creditors in full;
- make a compromise or an arrangement with creditors or persons claiming to be creditors or who have or allege the existence of a claim against the company, whether present or future, actual or contingent, or ascertained or not;
- sell or otherwise dispose of the property of the company with the approval of the committee of inspection (or Official Receiver if there is none);
- act in the name and on behalf of the company and enter into deeds, contracts and arrangements in the name and on behalf of the company, and
- borrow money whether with or without providing security over the company's assets.

A winding up by the Court commences when the winding up order by the Bankruptcy Court is made. The winding up order is made on the presentation of a winding up petition to the Court by an applicant (who is among certain persons listed in the Insolvency Act 2009 and which include a creditor, the company itself or a shareholder). Once a winding up order is made, no action or proceedings shall be proceeded with or commenced against the company except by leave of the Court and on such terms as the Court thinks appropriate. Also, a disposition of any property of a company and a transfer of shares or alteration in the status of a shareholder made after the commencement of the winding up by the Court shall, unless the Court otherwise directs, be void.

The principal duty of a liquidator appointed under a winding up order is to act in a reasonable and efficient manner so as to (a) take possession of, protect, realize, and distribute the assets, or the proceeds of the realization of the assets, of the company to its creditors and (b) where there are surplus assets remaining, distribute them, or the proceeds of the realization of the surplus assets in accordance with the provisions of the Insolvency Act 2009.

A liquidator in a winding up by the Court has similar powers as in a voluntary winding up. When the liquidator has (i) realized all the property of the company or so much as can in his opinion be realized without needlessly protracting the liquidation, (ii) distributed a final dividend, if any, to the creditors, (iii) adjusted the rights of the contributories among themselves, and (iv) made a final return, if any, to the contributories, he may apply to the Court for an order that he be released or for an order that he be released and that the company be dissolved.

LISTING AND GENERAL INFORMATION

Application has been made for the Notes to be listed on the Official List of the Irish Stock Exchange and to be traded on the Irish Stock Exchange's Global Exchange Market.

So long as any of the Notes are listed on the Official List of the Irish Stock Exchange and are traded on the Global Exchange Market and the rules and regulations of such exchange shall so require, copies of our Articles of Association and those of the Guarantors and the Indenture and the security documents and copies of all of our consolidated annual financial statements and those for all subsequent fiscal years will be available free of charge during normal business hours on any weekday at the offices of such Paying Agent in Ireland referred to in paragraph 5 below.

We accept responsibility for the information contained in this Offering Memorandum. To the best of our knowledge, except as otherwise noted, the information contained in this Offering Memorandum is in accordance with the facts and does not omit anything likely to affect the import of this Offering Memorandum. There has not been any significant change in our financial or trading position of the group since the date of the last interim financial statements on June 30, 2014 other than as described herein. There has not been any no material adverse change in the prospects of the Issuer, us or the Guarantors since the date of its last published audited financial statements on December 31, 2013. The consolidated financial statements include both Guarantor and non-guarantor companies and include the EBIDTA and net assets figures and the percentage of EBITDA and net assets made up by the Guarantors and non-guarantors.

Except as disclosed herein, we have not, during the previous 12 months been involved in any governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which we are aware), which have had in the recent past, or may have, a significant effect on our financial position and profitability. See e.g., "Risk factors—Risk factors relating to our business—Our operations are subject to the risk of litigation"—and "Our business—Litigation".

We have appointed Arthur Cox Listing Services Limited as our Listing Agent in Ireland. We reserve the right to vary such appointment and shall publish notice of such change of appointment in a newspaper having general circulation or the Irish Stock Exchange's website, www.ise.ie. The Paying Agent in Ireland will act as intermediary between the holders of the Notes and us and so long as the Notes are listed on the Official List of the Irish Stock Exchange and are traded on the Global Exchange Market and the rules of such exchange shall so require, we will maintain paying and transfer agents in Ireland. Arthur Cox Listing Services Limited is acting solely in its capacity as listing agent for the Issuer in relation to the Notes and is not itself seeking admission of the Notes to the Official List of the Irish Stock Exchange or to trading on the Global Exchange Market of the Irish Stock Exchange. Total expenses related to the admission of the notes to trading, be provided in the prospectus. In this case, the expenses will be €5,041.20 (if Issuer is not VAT registered) or €4,940 (if Issuer is VAT registered).

The Notes have been, or will be, accepted for clearance through the facilities of Euroclear and Clearstream. The Regulation S Global Notes and Rule 144A Global Notes will have the following numbers:

	<u>Notes</u>
Reg. S SIN	XS1093755192
Reg. S common code	109375519
144A ISIN	XS1093754387
144A common code	109375438

The Issuer

The Issuer is a company, incorporated in the British Virgin Islands with company number 1811786. Its registered office is at 9 Columbus Centre, Pelican Drive, PO Box 805, VG 1110. Its principal business address is 4th floor, 6 Chesterfield Gardens, London W1J 5BQ and the phone number is + 44 20 7518 3850. The creation and issuance of the Notes were authorized by a resolution of the directors of the Issuer on September 19, 2014. The Issuer is wholly owned by Seven Energy International Limited (the "Company"), the parent of

the Group. The Company produces audited consolidated financial statements in respect of Seven Energy International Limited and each of its subsidiaries (the “Group”).

Board of directors of the Issuer

The board of directors are Phillip Ihenacho and Bruce Burrows, and they are the only directors of the board of the Issuer. The directors may be contacted at their business address: 4th floor, 6 Chesterfield Gardens, London W1J 5BQ and the phone number is + 44 20 7518 3850. The directors of the Issuer do not have any conflicts of interest between any duties to the Issuer and their private interests and/or other duties.

The Guarantors

The Guarantors are wholly-owned subsidiaries of the Group. There are no material contracts relating to the Guarantees aside from the Indenture. The Guarantees are full and unconditional and joint and several.

Seven Energy International Limited was incorporated in the Republic of Mauritius on September 12, 2006 with registered number 65304, and holds a Category 2 Global Business Licence dated September 9, 2008 issued by the Financial Services Commission. Its registered office is CIM Corporate Services Ltd, Les Cascades Building, Edith Cavell Street, Port Louis, Mauritius. The Company has a share capital at par value \$0.01 per share. Its principal business address is 4th floor, 6 Chesterfield Gardens, London, W1J 5BQ and the phone number is + 44 20 7518 3850. Seven Energy International Limited has obtained all necessary consents, approvals and authorizations in the jurisdiction of its incorporation in connection with the issuance and performance of the relevant Guarantee. The creation and issuance of such Guarantee of the Notes was authorized by a resolution of our directors on September 22, 2014.

Seven Exploration was incorporated in the Federal Republic of Nigeria on November 28, 2006. Its registered office is 7 Anifowoshe Street, off Adeola Odeku, Victoria Island Lagos, Nigeria with registration number 674420. The Company has an authorized share capital of 10 million ordinary shares at Naira 1.00 per share. Seven Exploration has, or will have as of the Issue Date, obtained all necessary consents, approvals and authorizations in the jurisdiction of its incorporation in connection with the issuance and performance of the relevant Guarantee. The creation and issuance of such Guarantee of the Notes was authorized by a resolution of the board of directors of Seven Exploration on September 17, 2014.

SUGL was incorporated in the Federal Republic of Nigeria on 10 July 2006. Its registered office is 7 Anifowoshe Street, off Adeola Odeku, Victoria Island Lagos, Nigeria with registration number 659675. The Company has an authorized share capital of 10 million ordinary shares at Naira 1.00 per share. SUGL has, or will have as of the Issue Date, obtained all necessary consents, approvals and authorizations in the jurisdiction of its incorporation in connection with the issuance and performance of the relevant Guarantee. The creation and issuance of such Guarantee of the Notes was authorized by a resolution of the board of directors of SUGL on September 17, 2014.

Seven Energy Ltd. was incorporated in Bermuda on December 22, 2005. Its registered office is Clarendon House, 2 Church Street, Hamilton HM11, Bermuda with the registered number EC37778. The Company has an authorized capital of \$12,015 divided into 1,200,000 common shares of \$0.01 par value each and 1,500 Exchangeable Series A Redeemable Preference Shares of \$0.01 par value each. Seven Energy Ltd. has, or will have as of the Issue Date, obtained any necessary consents, approvals and authorizations in the jurisdiction of its incorporation in connection with the issuance and performance of the relevant Guarantee. The creation and issuance of such Guarantee of the Notes was authorized by a resolution of the directors of Seven Energy Ltd. on September 17, 2014.

Seven Energy (BVI) incorporated in the British Virgin Islands on June 13, 2006. Its registered office is Midocean Chambers, Road Town, Tortola, British Virgin Islands with the registered number 1032686. The Company is authorized to issue an unlimited number of shares consisting of an unlimited number of ordinary shares at no par value and an unlimited number of A ordinary shares at no par value. Seven Energy (BVI) has, or will have as of the Issue Date, obtained all necessary consents, approvals and authorizations in the jurisdiction of its incorporation in connection with the issuance and performance of the relevant Guarantee. The creation and issuance of such Guarantee of the Notes was authorized by a resolution of the directors of Seven Energy (BVI) on September 17, 2014.

Seven Energy (Jersey) was incorporated in Jersey on March 16, 2012. Its registered office is c/o Ogier Corporate Services (Jersey) Limited, Ogier House, The Esplanade, St Helier, Jersey JE4 9WG with the registered number 110299. It has an unlimited authorized share capital of 100,000,000 Class A & B shares of \$1.00 per share. Seven Energy (Jersey) has, or will have as of the Issue Date, obtained any necessary consents, approvals and authorizations in the jurisdiction of its incorporation in connection with the issuance and performance of the relevant Guarantee. The creation and issuance of such Guarantee of the Notes was authorized by a resolution of the directors of Seven Energy (Jersey) on September 17, 2014.

Net assets and EBITDAX breakdown of the Guarantor and Non-Guarantors groups as a percent of the Group

Net assets breakdown

As of the financial year ended December 31, 2013, the Guarantor group represented \$859.6 million of net assets or 217% of the Group's net assets. As of the financial year ended December 31, 2013, the Non-Guarantor group represented \$-463.8 million of net assets or -117% of the Group's net assets. As of the financial year ended December 31, 2013, the Issuer represented \$0.0 of net assets and 0% of the Group's net assets.

EBITDA breakdown

In the financial year ended December 31, 2013, the Guarantor group represented \$219.5 million of EBITDA or 112% of the Group's EBITDA. In the financial year ended December 31, 2013, the Non-Guarantor group represented \$-22.7 million of EBITDA or -12% of the Group's EBITDA. In the financial year ended December 31, 2013, the Issuer represented \$0.0 of the EBITDA and 0% of the Group's EBITDA.

The Guarantor group's contribution to both net assets and EBITDA is greater than 100% due to the fact that the Non-Guarantor group has net liabilities (contributing negative 117%) and negative EBITDA (contributing negative 12%), see table below:

Year ended 2013	Net assets (\$)	Net assets %	EBITDA (\$)	EBITDA %
Guarantors	\$ 859,575,537	217%	\$ 219,473,341	112%
Non-Guarantors	\$ -463,795,820	-117%	\$ -22,680,842	-12%

Definitions

Net assets – not adjusted for intercompany positions; any consolidating entries are allocated to the Guarantor group to align to European IFRS, otherwise applied to the Non-Guarantor group.

EBITDA – based on a European IFRS measure, with adjustments applied to individual companies where European IFRS differs from local accounting treatment.

Subsidiary Guarantors, which account for over 20% of either EBITDAX or Net assets

Seven Energy International Limited (“SEIL” or the “Company”)

As of December 31, 2013, the value and percentage of the Group's consolidated net assets that SEIL, the parent company, represents is \$637.7 million and 161%, respectively. For the year ended December 31, 2013, the value and percentage of the Group's EBITDA that SEIL represents is \$-14.2 million and -7%, respectively. The address of its registered office is 4th Floor, Les Cascades Building Edith Cavell Street, Port Louis, Republic of Mauritius. The registration number is 65304. The date of incorporation was September 12, 2006. The Company is a holding company and is the parent company with no business activities. There are no specific risks regarding this entity other than as described in the risk factors within the offering memorandum associated with this transactions (“Risk Factors”). There are certain encumbrances related to the Reserve Based Lending Facility (“RBL”) and Working Capital Facility (“WCF”), however, these facilities will be repaid and cancelled with the proceeds of the Notes. There is an encumbrance related to the convertible bonds issued by Seven Energy Ltd. (the “Convertible Bonds”), but this encumbrance will also be immaterial as the Convertible Bonds will be redeemed with proceeds of the Notes. Therefore, the encumbrances related to the RBL, WCF and Convertible Bonds will not materially affect SEIL's ability to meet its obligations under the Guarantee.

Seven Energy (BVI)

As of December 31, 2013, the value and percentage of the Group's consolidated net assets that Seven Energy BVI represents is \$265.5 million and 67%, respectively. For the year ended December 31, 2013, the value and percentage of the Group's EBITDA that Seven Energy (BVI) represents is \$-8,823 and 0%, respectively. The address of its registered office is 9 Midocean Chambers, Road Town, Tortola, British Virgin Islands. The registration number is 1032686. The date of incorporation was June 13, 2006. Seven Energy (BVI) is a holding company with no business activities. There are no specific risks regarding this entity other than as described in the Risk Factors. There is an encumbrance related to the Convertible Bonds, but this encumbrance will have an immaterial affect on Seven Energy (BVI)'s ability to meet its obligations under the Guarantee, as the Convertible Bonds will be redeemed with proceeds of the Notes.

Seven Exploration

For the year ended December 31, 2013, the monetary value and percentage of the Group's consolidated EBITDA that Seven Exploration represents is \$240.3 million and 122%, respectively. For the year ended December 31, 2013, the value and percentage of the Group's consolidated net assets that Seven Exploration represents is \$63.6 million and 16%, respectively. The address of its registered office is Anifowoshe street, off Adeola Odeku Street, Victoria Island, Lagos, Nigeria. The registration number is 6174420. Seven Exploration is engaged in oil and gas exploration, development and production, and provides finance and technical services to upstream companies. There are certain risks regarding the entity as it operates in the oil and gas industry and it owns the assets which are the primary credit risk of the Notes, such risks are described in the Risk Factors. There are certain encumbrances related to the RBL and WCF, however, those facilities will be repaid and cancelled with the proceeds of the Notes. Therefore, the encumbrances related to the RBL and WCF will not materially affect Seven Exploration's ability to meet its obligations under the Guarantee. There is an encumbrance related to the Accugas II Facility, a project finance facility, but this encumbrance will not have a material effect on Seven Exploration's ability to meets its obligations under the Guarantee.

Documents available for inspection

The following documents will be available in electronic form for inspection at the Issuer's principal place of business: the memorandum and articles of association of the Issuer; Seven Energy's historical financial information for each of the two financial years preceding the publication of the listing particulars; and the Indenture. All of these documents, including the Issuer's articles of association, will be available at the Issuer's principal place of business: is 4th floor, 6 Chesterfield Gardens, London, W1J 5BQ, United Kingdom.

Engineering reports of Senergy and Novas

Unless otherwise indicated, the oil and gas reserves and resources data presented in this Offering Memorandum are produced and audited at our request by Senergy (GB) Limited ("Senergy"), in relation to certain of our oil and gas assets, and by Novas Consulting Limited ("Novas"), in relation to oil prospecting lease 905 ("OPL 905"). Information in this Offering Memorandum that is derived or reproduced from the Senergy Report (as defined herein) and the Novas Report (as defined herein) is qualified in its entirety by reference to the reports produced by Senergy and Novas on certain of our reserves and resources. The Senergy Report is dated January 17, 2014 with an effective date of December 31, 2013. The Novas Report is dated August 31, 2013 with an effective date of August 31, 2013. These reports are not included in the Offering Memorandum, but the information from the Senergy Report and Novas Report have been included with Senergy and Novas' respective consents. Senergy and Novas have no material interests in the Issuer.

Senergy's addresses: 6th Floor Brettenham House, Lancaster Place, London, WC2E 7EN, United Kingdom. Novas' address is Regal Court, 42-44 High Street, Slough, Berks SL1 1EL, United Kingdom.

For further details regarding Senergy and Novas, including their qualifications, see "Presentation of financial information and other data—Certain reserves and production information" and "Independent Petroleum Engineers".

GLOSSARY OF OIL & GAS INDUSTRY TERMS

“1C”	low estimate scenario of contingent resources
“2C”	best estimate scenario of contingent resources
“3C”	high estimate scenario of contingent resources
“1P”	Proved reserves
“2P”	proved plus probable reserves
“2D seismic”	geophysical data that depicts the subsurface strata in two dimensions
“3D seismic”	geophysical data that depicts the subsurface strata in three dimensions. 3D seismic typically provides a more detailed and accurate interpretation of the subsurface strata than 2D seismic
“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
“API gravity”	a system of classifying oil based on its specific gravity, whereby the greater the gravity, the lighter the oil
“appraisal”	refers to the phase of oil and gas operations that immediately follows successful exploratory drilling; during appraisal, delineation wells might be drilled to determine the size of the oil or gas field and how to develop it most efficiently
“appraisal well”	well drilled in order to assess characteristics (such as flow rate, volume) of a proven hydrocarbon accumulation
“barrel” or “b” or “bbl”	a stock tank barrel, a standard measure of volume for oil, condensate and gas liquids, which equals 42 U.S. gallons
“basement high”	a ridge like structure in older rock commonly supporting the formation of structural traps in the overlying reservoir layers
“Bcf”	billions of cubic feet
“bcpd”	barrels of condensate per day
“best estimate” or “2C”	the probability that the quantities of contingent resources actually recovered will equal or exceed the estimated amounts is at least 50%
“Block”	an area of licensed territory comprising one or more licenses
“boe”	barrels of oil equivalent; a measure of the total hydrocarbon production, converting gas volumes to an oil equivalent based on an approximation of the nominal heating content or calorific value of the fuel; common conversion factors range between 5,600 to 6,000 scf to 1 boe; we use 6,000 scf to 1 boe
“boepd”	barrels of oil equivalent per day
“bopd”	barrels of oil per day
“Bnbbl”	billions of barrels

“Brent”	a particular type of oil that is a light, sweet oil produced in the North Sea with most of it being refined in North west Europe. Brent is a benchmark oil
“Bscf”	billions of standard cubic feet
“carry”	a contractual arrangement in which one partner assumes all or part of the cost of another partner through the completion of a specified work program
“clastic”	a sedimentary rock formed from mechanically transported mineral particles
“contingent resources”	those quantities of petroleum estimated, as of 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
“CPR”	Competent Person’s Report
“oil”	unrefined oil
“deltaic”	related to, or like a river delta and often shaped like the Greek letter ‘Δ’. A delta is a deposit formed where a river flows into an ocean, sea, desert, lake or estuary. Deltaic sediments have high potential as hydrocarbon reservoirs
“development”	refers to the phase of oil and gas operations that occurs after exploration has proven successful, and before full-scale production; the newly discovered oil or gas field is assessed during an appraisal phase, a plan to fully and efficiently exploit it is created, and additional wells are usually drilled
“DPR”	Nigerian Department of Petroleum Resources
“DST”	drillstem test
“effective working interest”	the working interest that gives the owner the right to explore, drill, produce and conduct operating activities on the property and to receive a share of production, subject to all royalties and other burdens, and to all costs of exploration, development and operations, and all risks in connection therewith; the effective working interest owners typically bear such costs on either a cash, penalty (i.e., deducted from production revenue) or carried basis (i.e., funded by a partner)
“exploration”	refers to the initial phase in oil and gas operations that includes generation of a prospect or play or both, and drilling of an exploration well; appraisal, development and production phases follow successful exploration
“exploration well”	a well drilled to find hydrocarbons in an unproved area or to extend significantly a known oil or gas reservoir
“farm-in”	to acquire an interest in a license from the license holder; an arrangement whereby one exploration and production company “buys in” or acquires an interest in a license or concession owned by another operator on which oil or gas has been discovered or is being produced
“farm-out”	to assign or transfer an interest in a license to another party; an arrangement whereby the owner of a licenses agrees to assign the license or a portion of it to another exploration and production

	company
“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”	floating production, storage and offloading
“FSO”	floating storage and offloading
“GOR”	gas to oil ratio
“gross unrisks best estimate”	the best estimate of the total field resources without taking into account any associated risk to that resource being present
“GW”	gigawatt
“high estimate” or “3C”	the probability that the quantities of contingent resources actually recovered will equal or exceed the estimated amounts is at least 10%
“hydrocarbons”	compounds formed primarily from the elements hydrogen and carbon and existing in solid, liquid or gaseous forms
“infill”	the area between wells that is often drilled to better exploit a reservoir
“IOC”	International oil company
“km”	kilometer
“km ² ”	square kilometer
“legal interest”	a proprietary interest in or registered title to a given concession
“low estimate” or “1C”	the probability that the quantities of contingent resources actually recovered will equal or exceed the estimated amounts is at least 90%
“LPG”	liquefied petroleum gas
“m”	meters
“mD”	measured depth
“MMbbl”	million barrels of oil
“MMboe”	million barrels of oil equivalent
“MMbopd”	million barrels of oil per day
“Mbopd”	thousands barrels of oil per day
“MMscfpd”	million standard cubic feet per day
“MMcfd”	millions of cubic feet of gas per day
“MMstb”	millions of stock tank barrels of oil
“MOPU”	mobile offshore production unit
“MW”	megawatt

“NPV”	net present value
“net reserves”	the share of a field’s reserves on a net entitlement basis
“net working interest production” ..	the share of a field’s production on a working interest basis
“net working interest reserves”	the share of a field’s reserves on a working interest basis
“NGL”	gas liquids
“OGIP”	original gas in place
“OML”	oil mining lease
“OOIP”	original oil in place
“OPL”	oil prospecting license
“pay”	a reservoir or portion of a reservoir that contains economically producible hydrocarbons
“play”	a project associated with a prospective trend of potential prospects, but which requires more data, acquisition and/or evaluation in order to define specific leads or prospects
“porosity”	the proportion of fluid filled space found within the rock reservoir
“possible reserves”	those additional reserves which analysis of geoscience and engineering data indicate are less likely to be recoverable than probable reserves
“post-cost recovery”	the period following which a participant has recovered the development costs and any uplift related to the development of a particular asset; production sharing agreements frequently allocate production revenue to participants at different rates prior to and following cost recovery
“pre-cost recovery”	the period prior to which a participant has recovered the development costs and any uplift related to the development of a particular asset; production sharing agreements frequently allocate production revenue to participants at different rates prior to and following cost recovery
“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 petroleum that has been recovered at a given date; also refers to the phase that occurs after successful exploration and development and during which hydrocarbons are drained from an oil or gas field
“production sharing (contract)	contract by which production of a field is shared between the host (agreement)” or “PSC” government and the oil company operating the field
“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 in order to improve production
“profit gas”	the balance of available commercial gas after deduction of royalty gas, tax gas and cost gas

“profit oil”	the balance of available oil after the deduction of royalty oil, tax oil and cost oil
“prospect”	a project associated with a potential accumulation that is sufficiently well defined to represent a viable drilling target
“prospective resources”	those quantities of petroleum which are estimated, as of a given date, to be potentially recoverable from undiscovered accumulations
“proved reserves”	are 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
“PSC”	production sharing contract
“reserves”	those quantities of petroleum anticipated to be commercially recoverable by application of development projects to known accumulations from a given date forward under defined conditions
“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 petroleum system
“RFT”	repeat formation tester
“SCM”	standard cubic meter
“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 petroleum 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
“SPE”	reserves definitions consistent with those approved in March 1997 by the Society of Petroleum Engineers and the World Petroleum Council
“spud”	to start the well drilling process by removing rock and sediment with the drill bit
“STOIIP”	stock tank oil initially in place
“take-or-pay”	to a contractual provision in certain utility contracts, whereby a party is obligated to purchase a specified amount of another party’s product or to pay the equivalent cost regardless of whether the product is consumed or utilized
“Tcf”	trillion cubic feet
“TEA”	technical evaluation agreement
“tie-back”	method of connecting new discoveries to existing production facilities
“tonne”	A unit of measurement equal to 1,000 kilograms
“TRIR”	a recognized industry metric used to calculate the rate of recordable workplace injuries

“upstream”	activities related to the exploration, appraisal, development and extraction of oil, condensate and gas
“wellhead”	all connections, valves, nozzles, pressure gauges, thermometers, installed at the exit from a production well

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INDEX TO FINANCIAL STATEMENTS

	Page
Seven Energy International Limited Unaudited Interim Financial Statements as of and for the six months ended June 30, 2014	F-2
Condensed consolidated statement of comprehensive income	F-3
Condensed consolidated balance sheet.	F-4
Condensed consolidated statement of changes in equity.	F-5
Condensed consolidated cash flow statement	F-6
Notes to the Interim Report.	F-7
Seven Energy International Limited Audited Financial Statements as of and for the year ended December 31, 2013	F-20
Independent auditor's report to the Directors of Seven Energy International Limited	F-22
Consolidated statement of comprehensive income	F-24
Consolidated balance sheet	F-25
Consolidated cash flow statement.	F-26
Consolidated statement of changes in equity	F-27
Notes to the consolidated financial statements	F-28
Seven Energy International Limited Audited Financial Statements as of and for the year ended December 31, 2012	F-66
Independent auditor's report to the Directors of Seven Energy International Limited	F-68
Consolidated statement of comprehensive income	F-70
Consolidated balance sheet	F-71
Consolidated cash flow statement.	F-72
Consolidated statement of changes in equity	F-73
Notes to the consolidated financial statements	F-74
Glossary of terms	F-110
Seven Energy International Limited Audited Financial Statements as of and for the year ended December 31, 2011	F-111
Independent auditor's report to the Directors of Seven Energy International Limited	F-113
Consolidated statement of comprehensive income	F-115
Consolidated balance sheet	F-116
Consolidated cash flow statement	F-117
Consolidated statement of changes in equity	F-118
Notes to the consolidated financial statements	F-119
Glossary of terms	F-153
EHGC Unaudited Interim Condensed Financial Statements as of and for the three months ended March 31, 2014	F-154
Statement of profit or loss and other comprehensive income	F-156
Statement of financial position	F-157
Statement of cash flow.	F-158
Statement of changes in equity	F-159
Notes to the financial statements	F-160
EHGC Audited Financial Statements as of and for the year ended December 31, 2013 ...	F-170
Report of independent auditors.	F-172
Statement of comprehensive income	F-174
Statement of financial position	F-175
Statement of cash flow.	F-176
Statements of changes in equity	F-177
Notes to the financial statements	F-178
EHGC Unaudited Interim Condensed Financial Statements as of and for the six months ended June 30, 2013	F-211
Statement of profit or loss and other comprehensive income	F-214
Statement of financial position	F-215
Statement of changes in equity	F-216
Statement of cash flow.	F-217
Notes to the financial statements	F-218

SEVEN ENERGY INTERNATIONAL LIMITED
INTERIM FINANCIAL REPORT
FOR THE SIX MONTHS ENDED 30 JUNE 2014

Condensed consolidated statement of comprehensive income

Six months ended 30 June 2014 and 30 June 2013

	<i>Notes</i>	Six months ended 30 June 2014 \$'000	Six months ended 30 June 2013 \$'000
Revenue	3	165,364	127,839
Cost of sales	4		
– Production expenses		(89,937)	(49,906)
– Increase/(decrease) in underlift		51,517	(4,513)
Depletion	9	(40,707)	(19,162)
Gross profit		86,237	54,258
Depreciation and amortisation expenses	9	(1,385)	(953)
Other operating expenses		(1,749)	(863)
Administrative expenses		(28,933)	(18,969)
Operating profit		54,170	33,473
Investment revenue		38	90
Finance costs		(24,103)	(20,931)
Foreign exchange gains/(losses)		(770)	606
Profit before tax		29,335	13,238
Tax expense	6	(2,709)	(11,223)
Profit for the period		26,626	2,015
Attributable to:			
Owners of the company		27,397	2,470
Non-controlling interests		(771)	(455)
Other comprehensive income for the period			
Profit for the period		26,626	2,015
Total other comprehensive income for the period		–	–
Total comprehensive income for the period		26,626	2,015
Attributable to:			
Owners of the company		27,397	2,470
Non-controlling interests		(771)	(455)
Profit per share (\$ per share)			
Basic	7	8.83	0.91
Diluted	7	8.02	0.91

All operations relate to continuing operations in 2014 and 2013.

Consolidated balance sheet

At 30 June 2014

	<i>Notes</i>	30 June 2014 \$'000	31 December 2013 \$'000
Non-current assets			
Intangible assets	8	64,131	–
Property, plant and equipment	9	1,615,164	1,150,621
Other receivables		8,492	7,494
Deferred tax assets	6	24,434	4,150
		1,712,221	1,162,265
Current assets			
Inventories	4	151,591	97,928
Trade and other receivables	13	186,202	58,235
Asset held for sale		7,250	7,250
Cash and cash equivalents		37,660	50,383
		382,703	213,796
Total assets		2,094,924	1,376,061
Current liabilities			
Trade and other payables		(384,236)	(282,973)
Borrowings	10	(458,416)	(359,282)
Deferred revenue		(15,688)	(31,755)
Current tax liabilities		(1,213)	(1,057)
		(859,553)	(675,067)
Non-current liabilities			
Borrowings	10	(278,298)	(170,777)
Deferred tax liabilities		(137,194)	(76,636)
Long-term decommissioning provisions		(41,503)	(26,045)
Deferred revenue		(43,418)	(31,755)
		(500,413)	(305,213)
Total liabilities		(1,359,966)	(980,280)
Net assets		734,958	395,781
Equity			
Share capital		5	5
Share premium account		95,710	95,310
Irredeemable convertible loan notes	13	895,470	612,583
Retained deficit		(346,210)	(373,607)
Equity reserves		68,648	39,384
Equity attributable to owners of the Company		713,623	373,675
Non-controlling interests		21,335	22,106
Total equity		734,958	395,781

The condensed financial statements were approved by the Board of Directors and authorised for issue on 11 September 2014. They were signed on its behalf by:



Phillip Ihenacho
Director

Condensed consolidated statement of changes in equity

Six months ended 30 June 2014 and 30 June 2013

	Share capital \$'000	Share premium \$'000	Irredeemable convertible loan notes ("ICLNs") \$'000	Retained deficit \$'000	Equity reserves \$'000	Total \$'000	Non- controlling interest \$'000	Total Equity \$'000
1 January 2013	5	94,910	612,686	(414,419)	33,335	326,517	23,565	350,082
Credit to equity for equity-settled share based payments	–	–	–	–	3,940	3,940	–	3,940
Issuance of shares	–	400	–	–	(400)	–	–	–
Settlement of ICLNs	–	–	(91)	–	–	(91)	–	(91)
Expenses on issuance of prior year ICLNs	–	–	(12)	–	–	(12)	–	(12)
Total comprehensive income/(loss) for the period	–	–	–	2,470	–	2,470	(455)	2,015
30 June 2013	5	95,310	612,583	(411,949)	36,875	332,824	23,110	355,934
Credit to equity for equity-settled share based payments	–	–	–	–	2,509	2,509	–	2,509
Total comprehensive income/(loss) for the period	–	–	–	38,342	–	38,342	(1,004)	37,338
31 December 2013	5	95,310	612,583	(373,607)	39,384	373,675	22,106	395,781
Credit to equity for equity-settled share based payments	–	–	–	–	881	881	–	881
Issuance of shares	–	400	–	–	(400)	–	–	–
Issuance of ICLNs (note 13)	–	–	288,000	–	–	288,000	–	288,000
Expenses on issuance of ICLNs	–	–	(5,113)	–	–	(5,113)	–	(5,113)
Contingent deferred consideration (note 14)	–	–	–	–	28,783	28,783	–	28,783
Total comprehensive income/(loss) for the period	–	–	–	27,397	–	27,397	(771)	26,626
30 June 2014	5	95,710	895,470	(346,210)	68,648	713,623	21,335	734,958

Condensed consolidated cash flow statement
Six months ended 30 June 2014 and 30 June 2013

	Six months ended 30 June 2014 \$'000	Six months ended 30 June 2013 \$'000
Profit for the period	26,626	2,015
Adjustments for:		
Investment revenues	(38)	(90)
Financing costs	24,103	20,931
Depreciation and amortisation	1,385	953
Depletion	40,707	19,162
Loss on disposal of property, plant and equipment	54	222
Income tax charge	2,709	11,223
Deferred revenue released	(4,404)	–
Share-based payment expense	881	3,940
Foreign exchange loss/(gain)	770	(606)
Operating cash flows before movements in working capital	92,793	57,750
(Increase)/decrease in inventories	(51,693)	15,896
Decrease in receivables	9,498	2,692
Increase/(decrease) in payables	13,753	(32,129)
Net cash provided by operating activities	64,351	44,209
Investing activities		
Interest received	11	–
Purchases of property, plant and equipment and intangible assets	(182,473)	(136,553)
Proceeds on disposal of property, plant and equipment	88	140
Acquisition of subsidiaries, net of cash acquired (note 14)	(114,697)	–
Net cash used in investing activities	(297,071)	(136,413)
Financing activities		
Interest and financing fees paid	(52,918)	(26,162)
Financing deposits paid	(23,569)	(3,837)
Repayments of bank borrowings	(64,702)	(34,500)
Proceeds from bank borrowings	216,000	128,828
Proceeds from issue of ICLNs	146,000	–
Proceeds from issue of convertible bonds	–	28,800
Net cash from financing activities	220,811	93,129
Net (decrease)/increase in cash and cash equivalents	(11,909)	925
Cash and cash equivalents at beginning of the period	50,383	32,190
Effect of foreign exchange rate changes	(814)	137
Cash and cash equivalents at end of the period	37,660	33,251

Notes to the Interim Financial Report

1. GENERAL INFORMATION

Seven Energy International Limited (“the Company”) is incorporated in Mauritius under the Companies Act, 2001 (Act No. 15 of 2001). The address of the registered office is Cim Global Management, Les Cascades, Edith Cavell Street, Port Louis, Republic of Mauritius. The Company is the parent company of a group of companies (“the Group”) whose principal activities are the exploration, development, production and distribution of oil and gas in Nigeria.

2. SIGNIFICANT ACCOUNTING POLICIES

Basis of accounting

The annual financial statements of Seven Energy International Limited are prepared in accordance with International Financial Reporting Standards (‘IFRSs’) as adopted by the European Union. The condensed set of financial statements included in this interim report has been prepared in accordance with International Accounting Standard 34 ‘Interim Financial Reporting’, as adopted by the European Union.

Going concern

The Group closely monitors and manages its liquidity risk. The Group maintains adequate liquid reserves, by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities. Cash forecasts are regularly produced and sensitivities run for different scenarios including, but not limited to, changes in commodity prices, different production rates from the Group’s portfolio of producing fields and delays in development projects. In addition, the Group regularly monitors its utilised and unutilised amounts of borrowings in place.

The Group is funded by a combination of operating cash flows, debt facilities (see note 10) and equity. In April 2014, the Group has completed Investment Agreements with three equity investors for a combined investment of \$255.0 million. To date, \$146.0 million has been received with the remaining funds payable by 1 December 2014.

In the absence of a qualifying IPO or company sale, or an agreed refinancing of the Convertible Bond, the outstanding balance under the Reserve Based Secured Facility will be payable on 30 December 2014 and the Convertible Bond principal and redemption premium will be due for payment on 31 December 2014. As a result, at the balance sheet date, these amounts outstanding are shown within Current Liabilities – Borrowings.

In order to meet these financial obligations, the Group is currently pursuing several funding options including the refinancing of the Convertible Bond with an alternative instrument or the potential issuance of secured bonds, the proceeds of which would be mainly used to repay the Reserve Based Secured Facility and the Convertible Bond.

As a result of these requirements in the next 12 months, the Directors acknowledge that a material uncertainty exists which may cast significant doubt on the Company and the Group’s ability to continue as a going concern. Nevertheless after making enquiries, the directors are satisfied that the Group has sufficient resources to continue in operation for the foreseeable future, a period of not less than 12 months from the date of this report. Accordingly, they continue to adopt the going concern basis in preparing the condensed financial statements

Changes in accounting policies

In the current financial period, the Group has adopted the new/revised standards below. Adoption has had no impact on these condensed consolidated financial statements.

<i>IAS 36 (amended): recoverable amount disclosures for non-financial assets</i>	Amends IAS 36 Impairment of Assets to reduce the circumstances in which the recoverable amount of assets or cash-generating units is required to be disclosed, clarify the disclosures required, and to introduce a requirement to disclose the discount rate used in determining impairment (or reversals) where recoverable amount is determined using a present value technique.
<i>IFRS 12: Disclosure of interests in other entities</i>	Requires the disclosure of information that enables users to evaluate the nature of, and risks associated with, interests in other entities and the effects of those interests on its financial position, financial performance and cash flows.
<i>IAS 27: Separate Financial Statements (2011)</i>	Amended version of IAS 27 which now only deals with the requirements for separate financial statements, which have been carried over largely unchanged from IAS 27 Consolidated and Separate Financial Statements.
<i>IAS 28: Investments in Associates and Joint Ventures (2011)</i>	This Standard supersedes IAS 28 Investments in Associates and prescribes the accounting for investments in associates and sets out the requirements for the application of the equity method when accounting for investments in associates and joint ventures.
<i>IAS 39 (amended): Financial Instruments: Recognition & Measurement</i>	Amends IAS 39 Financial Instruments: Recognition and Measurement to make it clear that there is no need to discontinue hedge accounting if a hedging derivative is novated, provided certain criteria are met.
<i>IFRS 10: Consolidated Financial Statements</i>	Requires a parent to present consolidated financial statements as those of a single economic entity, replacing the requirements previously contained in IAS 27 Consolidated and Separate Financial Statements and SIC-12 Consolidation – Special Purpose Entities.
<i>IFRS 11: Joint Arrangements</i>	Replaces IAS 31 Interests in Joint Ventures. Requires a party to a joint arrangement to determine the type of joint arrangement in which it is involved by assessing its rights and obligations and then account for those rights and obligations in accordance with that type of joint arrangement.

Otherwise, the same accounting policies, presentation and methods of computation are followed in the condensed set of financial statements as applied in the Group's latest annual audited financial statements.

3. REVENUE

	Six months ended 30 June 2014	Six months ended 30 June 2013
	\$'000	\$'000
Oil sales	149,261	127,839
Gas sales	16,103	–
Revenue	165,364	127,839

Revenue from oil sales for both periods relates to the Group's sale of oil lifted from the Strategic Alliance Agreement with Nigerian Petroleum Development Company Limited ('NPDC') (the 'Strategic Alliance Agreement'). Revenue from gas sales in 2014 primarily relates to volumes delivered to the Ibom Power plant and Unicem cement factory.

4. COST OF SALES

	Six months ended 30 June 2014	Six months ended 30 June 2013
	\$'000	\$'000
Production expenses		
Production costs	(88,274)	(44,419)
Hedging costs	(1,663)	(5,487)
	(89,937)	(49,906)
Increase/(decrease) in underlift	51,517	(4,513)
Cost of sales	(38,420)	(54,419)

Production expenses in both periods primarily related to the Group's share of production costs associated with the Strategic Alliance Agreement. Production expenses increased in 2014 as a result of commencement of gas deliveries to Ibom Power, along with gas deliveries to Unicem following the Group's acquisition of East Horizon Gas Company Limited ("EHGC") on 31 March 2014.

The cumulative underlift balance at 30 June 2014, included within inventories, was \$146.0 million (31 December 2013: \$94.4 million).

5. BUSINESS AND GEOGRAPHICAL SEGMENTS

In the opinion of the Directors, the operations of the Group in 2014 comprise one reportable segment in Nigeria involved in the exploration, development, production and distribution of oil and gas, supported by corporate and administrative activities in the UK.

Segment result represents the profit or loss incurred by each segment without allocation of the share of central administration costs, investment revenue, finance costs, and income tax expense. This reflects the information provided to the Board for the purpose of resource allocation and assessment of segment performance. There has been no change in the basis of segmentation or in the basis of measurement of segment profit or loss in the period.

Segment revenues and results

The following is an analysis of the Group's revenue and results by reportable segment for the six month period ended 30 June 2014:

	Six months ended 30 June 2014		
	Nigeria \$'000	Corporate \$'000	Total \$'000
Revenue	165,364	–	165,364
Cost of sales	(38,420)	–	(38,420)
Depletion	(40,707)	–	(40,707)
Depreciation and amortisation expenses	(1,071)	(314)	(1,385)
Operating costs	(1,749)	–	(1,749)
Administrative expenses	(16,459)	(12,474)	(28,933)
Segment operating result	66,958	(12,788)	54,170
Investment revenues			38
Finance costs			(24,103)
Foreign exchange			(770)
Profit before tax			29,335
Tax			(2,709)
Profit for the period			26,626

The following is an analysis of the Group's revenue and results by reportable segment for the 6 month period ended 30 June 2013:

	Six months ended 30 June 2013		
	Nigeria \$'000	Corporate \$'000	Total \$'000
Revenue	127,839	–	127,839
Cost of sales	(54,419)	–	(54,419)
Depletion	(19,162)	–	(19,162)
Depreciation and amortisation expenses	(820)	(133)	(953)
Operating costs	(846)	(17)	(863)
Administrative expenses	(12,809)	(6,160)	(18,969)
Segment operating result	39,783	(6,310)	33,473
Investment revenues			90
Finance costs			(20,931)
Foreign exchange			606
Profit before tax			13,238
Tax			(11,223)
Profit for the period			2,015

Revenue and cost of sales in both periods principally relates to the Group's share of production entitlement from the Strategic Alliance Agreement. In addition, during 2014, revenue and cost of sales include commencement of gas deliveries from the Uquo field to the Ibom Power plant, and deliveries by EHG to Unicem following the acquisition on 31 March 2014. All revenue and cost of sales arise in Nigeria. Substantially all of the tax arising in each period shown relates to Nigeria.

Segment assets

	30 June 2014 \$'000	31 December 2013 \$'000
Nigeria	1,973,232	1,346,209
Unallocated corporate assets	121,692	29,852
Consolidated total assets	2,094,924	1,376,061

The Board monitors resources allocated to each of the reportable segments through review of segment assets to include tangible, intangible and financial assets attributable to each segment. With the exception of certain financial assets and tax assets, all assets are allocated to reportable segments.

Other segment information

	Additions to non-current assets	
	Six months ended 30 June 2014 \$'000	Year ended 31 December 2013 \$'000
Nigeria	571,623	507,594
Corporate	140	1,141
Total consolidated	571,763	508,735

6. TAX

The expense for the period is as follows:

	Six months ended 30 June 2014 \$'000	Six months ended 30 June 2013 \$'000
Current tax	(156)	(264)
Deferred tax	(2,553)	(10,959)
Total tax expense	(2,709)	(11,223)

The expense for the period can be reconciled to the result per the statement of comprehensive income as follows:

	Six months ended 30 June 2014	Six months ended 30 June 2013
	\$'000	\$'000
Profit before tax:	29,335	13,238
Tax at the UK corporation tax rate	(6,307)	(3,078)
Tax effects of:		
– Income not taxable for tax purposes	714	451
– Rate changes during the period	(1,668)	(226)
– Movement on deferred tax balances not recognised	(4,837)	(4,241)
– Recognition of previously unrecognised deferred tax balances	17,714	–
– Effect of tax rates in overseas territories	(8,493)	(4,044)
– Re-measurement of deferred tax – change in tax rate	51	(78)
Adjustments in respect of prior periods	117	(7)
Tax expense for the period	(2,709)	(11,223)

Included in the tax charge for the six months ended 30 June 2014 is a deferred tax credit of \$17.7 million (2013: nil) arising due to the recognition of a deferred tax asset in respect of Accugas Limited. The Group has assessed the recoverability of certain previously unrecognised deferred tax timing differences relating to fixed assets and has now recognised the portion of the deferred tax asset which the Group now considers to be recoverable against future taxable profits of Accugas Limited.

7. EARNINGS PER SHARE

The calculation of the basic and diluted earnings per share is based on the following data:

	Six months ended 30 June 2014	Six months ended 30 June 2013
	\$'000	\$'000
Profit for the purposes of basic earnings per share (\$'000)	27,397	2,470
Profit effect of dilutive potential ordinary shares (\$'000)	2,190	–
Profit for the purposes of diluted earnings per share (\$'000)	29,587	2,470
Weighted average number of ordinary shares for the purposes of basic earnings per share ⁽ⁱ⁾	3,103,295	2,708,118
Weighted average number of ordinary shares for the purposes of diluted earnings per share ⁽ⁱⁱ⁾	3,689,294	2,711,618
Basic earnings per ordinary share (\$)	8.83	0.91
Diluted earnings per ordinary share (\$)	8.02	0.91

(i) The calculation of weighted average number of ordinary shares includes the weighted average number of shares convertible during 2014 and 2013 from the issuance of the ICLNs, as the ICLNs are believed to represent equity instruments of the Company.

(ii) Potentially dilutive ordinary shares (which include outstanding warrants, employee share options and convertible bond options) at 30 June 2014 were 585,999 (30 June 2013: 3,500).

In 2014 and 2013, there were additional potentially dilutive instruments (being warrants) that were not included in the calculation of diluted earnings per share because they were anti-dilutive.

8. INTANGIBLE ASSETS

	\$'000
At 1 January 2013	12,257
Additions	545
Impairment	(5,802)
Transfer to assets held for sale	(7,000)
At 31 December 2013	–
Acquisition (note 14)	64,131
At 30 June 2014	64,131

During 2013, the decision was taken to seek to dispose of the interest in the Matsogo field. The carrying value was written down to fair value less costs of sale, resulting in an impairment of \$5.8 million. The residual asset of \$7.0 million was transferred to current assets held for sale with sale expected to occur during 2014.

On 31 January 2014, the Company acquired a 40% interest in Oil Prospecting Licence 905 via its acquisition of the entire share capital of SRL 905 Holdings Limited. The fair value of the exploration and appraisal asset acquired was \$64.1 million. Refer to Note 14 for additional information regarding the acquisition of SRL 905 Holdings Limited.

9. PROPERTY, PLANT AND EQUIPMENT

	Upstream assets \$'000	Infrastructure assets \$'000	Other PP&E \$'000	Total \$'000
Cost				
At 1 January 2013	532,583	460,816	12,916	1,006,315
Additions	406,359	99,604	1,843	507,806
Reclassifications	495	(822)	327	–
Transfer to assets held for sale	–	(250)	–	(250)
Disposal	–	–	(1,681)	(1,681)
At 31 December 2013	939,437	559,348	13,405	1,512,190
Additions	173,387	67,403	1,760	242,550
Acquisitions (note 14)	–	264,146	81	264,227
Disposal	–	–	(505)	(505)
At 30 June 2014	1,112,824	890,897	14,741	2,018,462
Accumulated depreciation, depletion and impairment				
At 1 January 2013	(180,763)	(105,100)	(7,105)	(292,968)
Charge for the period	(54,044)	(13,612)	(2,123)	(69,779)
Disposal	–	–	1,178	1,178
At 31 December 2013	(234,807)	(118,712)	(8,050)	(361,569)
Charge for the period	(28,815)	(11,892)	(1,385)	(42,092)
Disposal	–	–	363	363
At 30 June 2014	(263,622)	(130,604)	(9,072)	(403,298)
Carrying amount				
At 31 December 2013	704,630	440,636	5,355	1,150,621
At 30 June 2014	849,202	760,293	5,669	1,615,164

In 2014, \$62.5 million (31 December 2013: \$73.2 million) of additions to upstream and infrastructure assets related to assets in the course of construction on the Uquo field, including the construction of the Uquo to Oron pipeline and related facilities at the Uquo field. \$4.2 million of additions to upstream assets related to assets in the course of construction on the Stubb Creek field (31 December 2013: \$10.7 million). The net book value of assets in the course of construction (being those related to the Uquo to Oron pipeline and Stubb Creek field)

was \$278.3 million (31 December 2013: \$213.0 million). During 2013, \$459.3 million of assets were transferred from assets in the course of construction being the Uquo to Ikot-Abasi pipeline, Uquo Gas Processing Facility and Ibom Gas Receiving Facility.

Infrastructure asset acquisitions include \$264.1 million associated with the acquisition of East Horizon Gas Company Limited on 31 March 2014. See note 14 for further details.

\$161.4 million was incurred for the Group's share of ongoing capital expenditures under the Strategic Alliance Agreement (31 December 2013: \$338.0 million). Additions during 2013 include \$70.0 million consideration relating to the Group's acquisition of its funding partner's 30% interest in the Strategic Alliance Agreement.

Additions described above included capitalised interest of \$20.6 million (31 December 2013: \$23.2 million) from directly attributable borrowings raised by the Group for the construction of the infrastructure assets along with other general borrowings used to fund qualifying additions using the Group's capitalisation rate of 18.2% (31 December 2013: 17.5%).

The Group has granted fixed charges over \$760.3 million of its oil and gas assets to secure borrowings (31 December 2013: \$440.6 million).

10. BORROWINGS

	30 June 2014 \$'000	31 December 2013 \$'000
Secured borrowing at amortised cost		
Bank loans ⁽ⁱ⁾		
Loans from non-related parties	538,740	340,383
Loans from related parties	45,540	38,276
Other loans ⁽ⁱⁱ⁾		
Loans from non-related parties	171,707	164,189
Secured borrowing at fair value through profit or loss		
Loans from non-related parties – conversion option ⁽ⁱⁱ⁾	182	182
Unsecured borrowing at amortised cost		
Loans from related parties	9,946	9,945
Total gross borrowings	766,115	552,975
Unamortised finance costs incurred on raising debt	(29,401)	(22,916)
Total net borrowings	736,714	530,059
Analysed as:		
Short-term borrowings	458,416	359,282
Long-term borrowings	278,298	170,777
	736,714	530,059

(i) Bank loans

Project finance facility

The Group has a Project Finance Facility (to finance the Uquo gas development of a gas transportation pipeline, processing facilities, related infrastructure and including the Calabar infrastructure development). The \$225.0 million facility has a seven year term, bears interest of US LIBOR plus 10.0% per annum and is repayable in quarterly instalments from December 2014. As at 30 June 2014, the outstanding loan principal was \$225.0 million (31 December 2013: \$175.0 million).

Reserve based secured facility

The Group has a \$350.0 million Reserve Based Secured Facility with three banks (one of which is Standard Chartered Bank, a related party of the Group). The current borrowing base is \$200.3 million. The borrowing base is calculated by reference to the net present value of the cashflows from the Strategic Alliance Agreement, which is regularly reviewed by the lenders. The facility comprises two tranches and is repayable at the earlier of one day before the maturity of the Convertible Bonds (due on 31 December 2014) or in six monthly instalments to December 2017 (Tranche 1) and December 2018 (Tranche 2), with an interest rate of US LIBOR plus 8.75% (subject to a minimum coupon of 9.0% per annum. The total principal outstanding at 30 June 2014 was \$200.3 million (31 December 2013: \$148.6 million). Given the Convertible Bond's current maturity date of 31 December 2014, the full carrying amount of the Reserve Based Secured Facility is included within short-term borrowings.

Working capital facility

The Group has a \$40.0 million Working Capital Facility for general funding requirements. It has a 12 month term and is renewable annually in March, with an interest rate of 9.6% plus US LIBOR per annum. During the period, Management renewed the facility for a further 12 months, to 31 March 2015. At 30 June 2014, \$10.0 million was the principal amount drawn under the facility (31 December 2013: \$40.0 million).

Acquisition finance facility

On 31 March 2014, the Group obtained control of Eastern Horizon Gas Company Limited by acquiring 100% of its issued share capital. To finance this acquisition the Group entered into an Acquisition Finance loan facility of up to \$170.0 million. The facility has a five year term, bears interest of 9.15% and is repayable in quarterly instalments from March 2015. As at 30 June 2014, the outstanding loan principal was \$100.0 million.

EHGC facilities

As part of the acquisition of Eastern Horizon Gas Company Limited, the consideration included novation of the subsidiary's two existing loan facilities. The Bank of Industry Loan Facility is held with the Bank of Industry, bears interest of 7.0% per annum and is repayable in quarterly instalments until June 2017. As at 30 June 2014, the outstanding loan principal was \$44.6 million. The Discount House Loan Facility is held with a syndicate of Nigerian banks, bears interest of NIBOR plus 3.5% per annum and is repayable in quarterly instalments until November 2014. As at 30 June 2014, the outstanding loan principal was \$4.3 million.

At the time of acquisition and EHGC's integration into the Group EHGC was not in compliance with certain financial covenants under the provisions of its loan facilities. At 30 June 2014 a further (but informal) waiver of these non-compliant covenants was communicated by the lenders. As a consequence, these loans have all been disclosed within Current borrowings. EHGC is working with the lenders to rectify the position and continues to meet its on-going debt service obligations.

(ii) Other loans

Convertible bond

The Group has \$150.0 million of Convertible Bonds in issue at 30 June 2014 (31 December 2013: \$150.0 million). The convertible bonds have a maturity date of 31 December 2014, bear interest at 10.0% and have a 19.0% redemption premium on maturity. They also contain a conversion option to equity upon a qualifying Initial Public Offering ("IPO") or company sale event. The conversion option, which is based on the fair value of the shares at the conversion date, is carried at fair value through profit or loss, with a fair value at 30 June 2014 of \$0.2 million (31 December 2013: \$0.2 million).

11. FINANCIAL INSTRUMENTS' FAIR VALUE DISCLOSURES

The Group held a single class of financial instrument at fair value at 30 June 2014, being the equity conversion option within the Convertible Bonds. The recurring fair value measurement has been determined by reference to observable data in quoted markets at the balance sheet date. The fair value measurements have been valued using a market valuation approach, incorporating inputs, including peer group share price volatility, along with other instrument-specific assumptions.

The derivative is carried at fair value through profit or loss with a fair value at 30 June 2014 of \$0.2 million (31 December 2013: \$0.2 million).

The fair value of the Universal loan at current market rates at 30 June 2014 is \$27.8 million (31 December 2013: \$32.5 million).

12. RELATED PARTY TRANSACTIONS

The Group has a number of related party arrangements, of which the most significant relate to loans from related parties as set out in note 10. Full details of these related party arrangements are set out in the financial statements for the year ended 31 December 2013. There were no new material related party arrangements entered into during the period ended 30 June 2014.

13. IRREDEEMABLE CONVERTIBLE LOAN NOTES (ICLNs)

The ICLNs are non-interest-bearing and are not repayable. They are convertible by the holder into ordinary shares of the Company at any time between the date of issue of the notes and certain mandatory conversion trigger events (including an IPO) as per the irredeemable convertible loan note agreements. The proceeds received, net of transaction costs, from the issue of these convertible loan notes have accordingly been included as a component of equity representing the fair value of the option to convert into ordinary shares of the Group. None of the ICLNs issued to date have been converted to ordinary shares.

On 31 January 2014, as part of the consideration to acquire the entire issued share capital of SRL 905 Holdings Limited (now renamed Seven Energy (Jersey) Limited), the Company issued \$33.0 million of ICLNs to Suntera Management Limited. The ICLNs are convertible into 132,000 shares at a conversion price of \$250.00 per share (see note 14).

In April 2014, the Company signed Investment Agreements with three equity investors for a combined investment of \$255.0 million. Each investment was in the form of a single ordinary share and the remainder in ICLNs at a conversion price of \$250.00 per share. A total of three ordinary shares and 1,019,997 ICLNs have been issued. \$146.0 million of the proceeds (presented net of transaction costs of \$5.1 million) have been received to date with the remaining \$109.0 million to be received by 1 December 2014 and is disclosed within Trade and other receivables.

Within the Investment Agreements referred to above there are two price adjustment provisions as described below:

- (i) within 15 months following the issue of ICLNs, if the Company issues any new securities (except in a qualifying IPO) at a price (or with a conversion price) of less than \$250.00 per security, the conversion price shall be deemed to be adjusted to such a lower price and further securities will be issued as a result; and
- (ii) if the refinancing of the Company's Convertible bond (described at Note 10 (ii)) is less than two-thirds of the principal amount (of \$150.00 million) and does not occur by 1 December 2014, then the conversion price reduces from \$250.00 per share to \$200.00 per share. In such an event an additional 255,000 of ICLNs will be issued.

These price adjustment provisions represent an embedded debt arrangement within a host equity contract and accordingly the proceeds received should be split between equity and a derivative liability, with movements in the value of the latter recorded through the income statement until the relevant re-pricing provisions expire. At the inception of the Investment Agreements and the reporting date no liability has been recognised as it was considered to be immaterial.

14. BUSINESS COMBINATIONS

14.1 Suntera

On 31 January 2014, the Company acquired from Suntera Management Limited the entire issued share capital of SRL 905 Holdings Limited, a Jersey incorporated company (now renamed Seven Energy (Jersey) Limited), and its wholly owned Nigerian subsidiary Energy 905 Suntera Limited (“E905S”) (now renamed Seven 905 Nigeria Limited), an oil and gas exploration and production company. E905S has a 40% licence interest in Oil Prospecting Licence 905 (“OPL 905”) which is located in the Anambra Basin. OPL 905 is subject to a Production Sharing Contract between the Nigerian National Petroleum Corporation, Gas Transmission and Power Limited, Ideal Oil and Gas Limited and E905S. OPL 905 has a significant identified gas resource base with additional potential upside in the under-explored Anambra Basin.

The acquired business contributed nil revenues and nil net loss to the Group for the period from acquisition to 30 June 2014. If the acquisition had occurred on 1 January 2014, consolidated revenue and consolidated loss for the six months ended 30 June 2014 would have remained largely unchanged. Total acquisition related costs (included in administrative expenses in the consolidated statement of comprehensive income) for the six month period ended 30 June 2014 and year ended 31 December 2013 amounted to \$0.6 million.

	At 31 January 2014
	\$'000
Recognised amounts of identifiable assets acquired and liabilities assumed	
Intangible assets	64,131
Property, plant and equipment	81
Cash & cash equivalents	13
Trade & other receivables	206
Trade & other payables	(3,510)
Deferred tax liabilities	(12,921)
Total fair value of identifiable net assets	48,000
Total fair value of consideration	48,000
Consideration satisfied by:	
Cash	15,000
ICLNs	33,000
Buy-back put options	–
Total consideration transferred	48,000
Net cash outflow arising on acquisition	
Cash consideration	15,000
Less: cash and cash equivalents acquired	(13)
	14,987

As part of the acquisition, the purchase agreement included two buy-back options issued to Suntera Management Limited which enables them to re-purchase a proportional interest in OPL 905. Their exercise is contingent upon achievement of certain future operational milestones. At the current time, the options are considered to have negligible value given the uncertainties of the existing seismic data and prospective resources.

On 31 January 2014, the Company signed a conditional share purchase agreement to acquire the entire issued share capital of Gas Transmission and Power Limited (“GTPL”), a Nigerian oil and gas exploration and

production company with a 50% licence interest in, and operatorship of, OPL 905. Consideration is up to \$27.0 million, comprising \$1.4 million of cash with the remainder being ICLNs. As a number of conditions are yet to be satisfied, completion has not yet taken place, and as such, the acquisition has not been accounted for at 30 June 2014.

14.2 EHGC

On 31 March 2014 the Company obtained control of East Horizon Gas Company Limited (“EHGC”) by acquiring 100% of its issued share capital. EHGC operates the 128km East Horizon gas pipeline through Akwa Ibom and Cross Rivers States in south east Nigeria. EHGC also has a gas sales agreement with an industrial off-taker to supply up to 25 MMcfpd, increasing to 50 MMcfpd in 2016, under a 20-year gas sales agreement, expiring in 2032.

The acquisition is expected to further enhance Seven Energy’s gas marketing and distribution position in the south east Niger Delta region, expanding the reach of its pipeline network, diversifying its customer base and increasing long-term contracted gas sales volumes.

In the three months since acquisition, EHGC has contributed \$10.7 million and \$1.3 million to the Group’s revenue and profit respectively. If the acquisition had occurred on 1 January 2014, the Group’s revenue would have further increased by \$4.2 million and profit would have decreased by \$0.5 million. Given the short space of time since acquisition, the fair values outlined below are considered provisional pending the finalisation of the acquisition date balance sheet.

Total acquisition related costs (included in administrative expenses in the consolidated statement of comprehensive income) for the six months ended 30 June 2014 was \$1.1 million and for the year ended 31 December 2013 was \$0.9 million.

	At 31 March 2014
	\$’000
Recognised amounts of identifiable assets acquired and liabilities assumed	
Property, plant and equipment	264,146
Cash and cash equivalents	290
Trade and other receivables	3,640
Inventory	1,970
Trade and other payables	(24,128)
Borrowings	(54,310)
Provisions	(9,242)
Deferred tax liabilities	(24,800)
Total fair value of identifiable net assets	157,566
Total fair value of consideration	157,566
Consideration satisfied by:	
Cash paid	100,000
Contingent deferred cash	28,783
Contingent deferred ICLNs	28,783
Total consideration transferred	157,566
Net cash outflow arising on acquisition	
Cash consideration	100,000
Less: cash and cash equivalents acquired	(290)
	99,710

The fair value of the pipeline asset has been calculated on a discounted cash flow basis, using estimated market prices for gas sales and purchases and also on estimated future pipeline capacity utilisation.

A provision for contingent liabilities amounting to \$2.4 million has been recognised in respect of certain legal claims against the company. These are based on the claimed amount and on the percentage likelihood that these claims will be successful. The provision is included within Trade and other payables as at 30 June 2014.

The fair value of the consideration is based on gross consideration of \$250.0 million less adjusted estimated net liabilities. The gross consideration includes amounts that are contingent upon the seller satisfying a number of post-acquisition operational conditions for the future benefit of EHGC's operations. As such the consideration has been adjusted to reflect the expected probability that these operational conditions will be satisfied.

The amount payable is made up of an initial cash payment of \$100.0 million, contingent deferred cash of \$28.8 million and contingent deferred ICLNs of \$28.8 million. The deferred cash is recorded within Trade and other payables and the deferred ICLNs are recorded within Equity reserves.

15. SUBSEQUENT EVENTS

Since the period end the Group has drawn down a further combined \$45.0 million under the Working Capital and Acquisition Finance facilities. \$30.0 million of this has been paid to Oando Plc as part of the contingent deferred consideration for the EHGC acquisition.

SEVEN ENERGY INTERNATIONAL LIMITED
AUDITED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2013

Registered in the Republic of Mauritius
Registered number: 65304

Contents

	PAGE
Independent auditor's report to the Directors of Seven Energy International Limited	F-22
Consolidated statement of comprehensive income.....	F-24
Consolidated balance sheet.....	F-25
Consolidated cash flow statement	F-26
Consolidated statement of changes in equity	F-27
Notes to the consolidated financial statements.....	F-28

Independent auditor's report to the Directors of Seven Energy International Limited

We have audited the non-statutory consolidated financial statements (the "financial statements") of Seven Energy International Limited and its subsidiaries (the "Group") for the year ended 31 December 2013 which comprise the consolidated statement of comprehensive income, the consolidated balance sheet, the consolidated statement of changes in equity, the consolidated cash flow statement and the related notes 1 to 36. The financial reporting framework that has been applied in their preparation is International Financial Reporting Standards ("IFRSs") as adopted by the European Union.

This report is made solely to the Directors of Seven Energy International Limited (the "Company") in accordance with our engagement letter dated 15 November 2013 for the purposes of showing the results of management's stewardship of the resources entrusted to it. Our audit work has been undertaken so that we might state to the Company's Directors those matters we are required to state to them in an independent auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of Directors and auditor

As explained more fully in the statement of Directors' responsibilities, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Group's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect, based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion:

- the financial statements give a true and fair view of the Group's affairs as at 31 December 2013 and of its profit for the year then ended;
- the financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union.

Emphasis of matter – going concern

In forming our opinion on the financial statements, which is not modified, we have considered the adequacy of the disclosures made in the going concern section of note 3 to the financial statements concerning the Company's and the Group's ability to continue as a going concern. During the next 12 months, in order to be able to meet its financial commitments as they fall due, the Group needs to either raise additional funding or, in the event there is no qualifying IPO before the end of 2014, refinance its convertible bonds. This condition, along with other matters explained in the going concern section of note 3 to the financial statements, indicate the existence of a material uncertainty which may cast significant doubt about the Company's and the Group's ability to continue as a going concern. The financial statements do not include the adjustments that would result if the Company and Group were unable to continue as a going concern.

Handwritten signature of Deloitte LLP in blue ink.

Chartered Accountants

Deloitte LLP

London
United Kingdom
17 April 2014

Consolidated statement of comprehensive income
For the year ended 31 December 2013

	<i>Notes</i>	2013 \$'000	2012 \$'000
Revenue	5	344,961	102,439
Cost of sales			
- Production expenses	6	(171,412)	(64,506)
- Increase in underlift	6	70,851	23,588
Depletion	16	(67,656)	(17,501)
Gross profit		176,744	44,020
Depreciation and amortisation expenses	16	(2,123)	(2,749)
Impairment charge	15	(5,802)	-
Other operating expenses	8	(478)	(1,727)
Administrative expenses	9	(42,621)	(25,940)
Operating profit		125,720	13,604
Investment revenue	5	1,541	1,422
Finance costs	12	(38,100)	(18,683)
Foreign exchange losses		(985)	(1,133)
Profit/(loss) before tax		88,176	(4,790)
Tax expense	13	(48,823)	(1,832)
Profit/(loss) for the year		39,353	(6,622)
Attributable to:			
Owners of the Company		40,812	(6,429)
Non-controlling interests	33	(1,459)	(193)
Other comprehensive income/(expense) for the year			
Profit/(loss) for the year		39,353	(6,622)
Total other comprehensive income/(expense) for the year		-	-
Total comprehensive income/(expense) for the year		39,353	(6,622)
Attributable to:			
Owners of the Company		40,812	(6,429)
Non-controlling interests		(1,459)	(193)
Profit/(loss) per share (\$ per share)			
Basic from continuing operations	14	15.1	(2.8)
Diluted from continuing operations	14	15.1	(2.8)

All operations relate to continuing operations in 2012 and 2013.

Consolidated balance sheet**At 31 December 2013**

	<i>Notes</i>	2013 \$'000	2012 \$'000
Non-current assets			
Intangible assets	<i>15</i>	-	12,257
Property, plant and equipment	<i>16</i>	1,150,621	713,347
Other receivables	<i>17</i>	7,494	7,441
Deferred tax assets	<i>22</i>	4,150	8,512
		1,162,265	741,557
Current assets			
Inventories	<i>18</i>	97,928	37,892
Trade and other receivables	<i>17</i>	58,235	56,590
Assets held for sale	<i>19</i>	7,250	4,300
Cash and cash equivalents	<i>20</i>	50,383	32,190
		213,796	130,972
Total assets		1,376,061	872,529
Current liabilities			
Trade and other payables	<i>21</i>	(282,973)	(108,558)
Borrowings	<i>23</i>	(359,282)	(117,614)
Deferred revenue	<i>28</i>	(31,755)	(13,232)
Provisions	<i>25</i>	-	(20,000)
Current tax liabilities	<i>13</i>	(1,057)	(41)
		(675,067)	(259,445)
Non-current liabilities			
Borrowings	<i>23</i>	(170,777)	(155,758)
Deferred tax liabilities	<i>22</i>	(76,636)	(33,191)
Long-term provisions	<i>25</i>	(26,045)	(23,774)
Deferred revenue	<i>28</i>	(31,755)	(50,279)
		(305,213)	(263,002)
Total liabilities		(980,280)	(522,447)
Net assets		395,781	350,082
Equity			
Share capital	<i>29</i>	5	5
Share premium		95,310	94,910
Irredeemable convertible loan notes ("ICLN")	<i>30</i>	612,583	612,686
Retained deficit		(373,607)	(414,419)
Equity reserves	<i>31</i>	39,384	33,335
Equity attributable to owners of the Company		373,675	326,517
Non-controlling interests	<i>33</i>	22,106	23,565
Total equity		395,781	350,082

The financial statements were approved by the Board of Directors and authorised for issue on 17 April 2014.
They were signed on its behalf by:



Phillip Ihenacho
Director

Consolidated cash flow statement
For the year ended 31 December 2013

	2013	2012
	\$'000	\$'000
Profit/(loss) for the year	39,353	(6,622)
Adjustments for:		
Investment revenue	(1,541)	(1,422)
Financing costs	38,100	18,683
Depreciation and amortisation	2,123	2,749
Depletion	67,656	17,501
Loss on disposal of property, plant and equipment	323	33
Income tax expense	48,823	1,832
Share-based payment expense	6,449	2,843
Foreign exchange loss	985	1,133
Increase in provisions for bad debts and obsolescence	-	2,703
Impairment charge	5,802	-
Operating cash flows before movements in working capital	208,073	39,433
Increase in inventories	(60,036)	(33,191)
Decrease in trade and other receivables	5,909	14,692
Increase in trade and other payables	17,948	56,892
Net cash provided by operating activities	171,894	77,826
Investing activities		
Interest received	169	109
Proceeds from disposal of property, plant and equipment	180	6
Proceeds from disposal of oil and gas asset	4,300	-
Purchases of property, plant and equipment and intangible assets	(328,769)	(186,335)
Net cash used in investing activities	(324,120)	(186,220)
Financing activities		
Interest and financing fees paid	(56,317)	(33,974)
Net financing deposits paid	(209)	(7,638)
Repayments of borrowings	(101,840)	(68,350)
Proceeds from borrowings	301,050	40,000
Proceeds from issue of convertible bonds	28,800	121,200
Proceeds from issue of ICLNs	-	77,373
Net cash from financing activities	171,484	128,611
Net increase in cash and cash equivalents	19,258	20,217
Cash and cash equivalents at beginning of year	32,190	12,717
Effect of foreign exchange rate changes	(1,065)	(744)
Cash and cash equivalents at end of year	50,383	32,190

Consolidated statement of changes in equity
For the year ended 31 December 2013

	Share capital	Share premium	Irredeemable convertible loan notes	Retained deficit	Equity reserves (note 31)	Total	Non- controlling interests	Total equity
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
At 1 January 2012	5	95,273	535,295	(407,990)	30,492	253,075	23,758	276,833
Equity-settled share based payments (note 32)	-	-	-	-	2,843	2,843	-	2,843
Reclassification	-	(363)	363	-	-	-	-	-
Issuance of ICLNs (note 30)	-	-	77,373	-	-	77,373	-	77,373
Expenses on issuance of ICLNs	-	-	(345)	-	-	(345)	-	(345)
Loss for the year and total comprehensive expense	-	-	-	(6,429)	-	(6,429)	(193)	(6,622)
At 31 December 2012	5	94,910	612,686	(414,419)	33,335	326,517	23,565	350,082
Equity-settled share-based payments (note 32)	-	-	-	-	6,449	6,449	-	6,449
Issuance of shares (note 31)	-	400	-	-	(400)	-	-	-
Settlement of ICLNs (note 30)	-	-	(91)	-	-	(91)	-	(91)
Expenses on issuance of prior year ICLNs	-	-	(12)	-	-	(12)	-	(12)
Profit for the year and total comprehensive income	-	-	-	40,812	-	40,812	(1,459)	39,353
At 31 December 2013	5	95,310	612,583	(373,607)	39,384	373,675	22,106	395,781

Notes to the consolidated financial statements

1. GENERAL INFORMATION

Seven Energy International Limited (the “Company”) is incorporated in Mauritius under the Companies Act, 2001 (Act No. 15 of 2001). The address of the registered office is Cim Global Management, Les Cascades, Edith Cavell Street, Port Louis, Republic of Mauritius. The Company is registered with Companies House as an overseas company in the UK. The Company is the parent company of a group of companies (the “Group”) whose principal activities are oil and gas exploration, development, production and distribution in Nigeria.

These financial statements are presented in US dollars, which is the currency of the primary economic environment in which the Group operates. Foreign operations are included in accordance with the policies set out in note 3.

2. ADOPTION OF NEW AND REVISED STANDARDS

New standards and interpretations adopted with effect on the financial statements

The Group has adopted the following standards which have only had a disclosure impact (see note 24) and not affected the financial position or performance of the Group:

IFRS 13: Fair value measurement

New standards and interpretations adopted with no significant effect on the financial statements

The following new standards and amendments resulting from improvements to IFRS standards and interpretations are effective and have been adopted, but are not considered to have had any impact on the financial position or performance of the Group:

IAS 19 (amended): Employee Benefits (2011)

IAS 32 (amended): Financial Instruments: Presentation

IFRS 1 (amended): First-time Adoption of International Financial Reporting Standards

IFRS 7: Financial Instruments: Disclosures

IFRIC 20: Stripping Costs in the Production Phase of a Surface Mine

IFRIC 21: Levies

Annual improvements: 2009-2011 cycle

New standards and interpretations in issue but not yet effective

The following new standards and amendments resulting from improvements to IFRS standards and interpretations are in issue but not yet effective. They are applicable to the Group from 1 January 2014 and beyond. The following are only expected to have a disclosure impact only:

IAS 36 (amended): recoverable amount disclosures for non-financial assets

IFRS 12: Disclosure of interests in other entities

The following are not expected to have any impact on the financial position or performance of the Group:

IAS 19 (amended): Employee Benefits

IAS 27: Separate Financial Statements (2011)

IAS 28: Investments in Associates and Joint Ventures (2011)

IAS 39 (amended): Financial Instruments: Recognition & Measurement

IFRS 9: Financial Instruments; Classification and Measurement (2009, 2010, superseded 2013)

IFRS 10: Consolidated Financial Statements

IFRS 11: Joint Arrangements

IFRS 14: Regulatory Deferral Accounts

Annual improvements: 2010-2012 cycle

3. SIGNIFICANT ACCOUNTING POLICIES

Basis of accounting

The financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) adopted by the European Union and therefore the Group financial statements comply with Article 4 of the EU IAS Regulation.

The financial statements have been prepared on the historical cost basis, except for the revaluation of certain financial instruments and share-based payments. Historical cost is generally based on the fair value of the consideration given in exchange for the assets at the time of initial recognition. The principal accounting policies adopted are set out below.

Going concern

Note 24 to the financial statements includes the Group’s objectives, policies and processes for managing its capital, its financial risk management objectives, details of its financial instruments and its exposures to credit risk and liquidity risk.

The Group intends to fund its current and future development projects and operations using a combination of operating cash flows, debt facilities and, from time to time, new equity issues. The Group has in place the Reserve Based Secured Facility, the Project Finance Facility and the Working Capital Facility, all of which are available to fund the Group’s operations, but require the Group to comply with various ongoing financial and non-financial covenants typical to facilities of this nature. Further details of all these facilities are set out in note 23.

The Group’s ongoing funding requirements continue to be sensitive to changes in the timing of cash calls from joint venture partners, the frequency of its liftings from oil and gas sales, and the level of funding available under any of its undrawn facilities as described above.

Since the year end, the Group has drawn down a further \$106.0 million under the Reserve Based Secured and Project Finance facilities, successfully renewed its \$40.0 million Working Capital Facility for a further twelve months until March 2015, and completed the Acquisition Finance Facility of up to \$170.0 million, of which \$100.0 million has been drawn to fund the initial cash consideration payable for the acquisition of East Horizon Gas Company Limited (see note 36). In addition, on 11 April 2014, Group signed Investment Agreements with three equity investors for a combined investment of up to \$255.0 million. Completion is expected shortly following the satisfaction of several conditions precedent.

The Group issued \$150.0 million of Convertible Bonds during 2012 and 2013. The bonds have a conversion option to convert into equity of the Company upon a qualifying Initial Public Offering (“IPO”) or a company sale, or in their absence, a 19.0% redemption premium payable on the final maturity date of 31 December 2014. The Reserve Based Secured Facility is due on the earlier of 31 December 2018 and the date falling one business day before the date of the final maturity of the Convertible Bond or a similar replacement instrument. In the absence of a qualifying IPO or company sale, or an agreed refinancing of the Convertible Bond, the outstanding balance under the Reserve Based Secured Facility will be payable on 30 December 2014 and the Convertible Bond principal and redemption premium will be due for payment on 31 December 2014. As a result, at the balance sheet date, these amounts outstanding are shown within Current Liabilities – Borrowings.

In order to meet these financial obligations, the Group is currently pursuing additional funding options including the refinancing of the Convertible Bond with an alternative instrument, possibly a secured bond (the proceeds of which would be used to repay the Reserve Based Secured Facility and the Convertible Bond).

As a result of these requirements in the next 12 months, the Directors acknowledge that material uncertainties exist which may cast significant doubt on the Company and the Group’s ability to continue as a going concern and, therefore, that the Company and the Group may be unable to realize their assets and discharge their

liabilities in the normal course of business. Nevertheless after making enquiries, and considering both the uncertainties described above and the status of discussions with relevant lending and investment banks and existing or potential security holders, the Directors have a reasonable expectation that the Group and the Company have adequate resources to continue in operational existence for the foreseeable future. For these reasons, they continue to adopt the going concern basis in preparing the financial statements.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (“its subsidiaries”), made up to 31 December each year. Control is achieved where the Company has the power to govern the financial and operating policies of an investee entity so as to obtain benefits from its activities.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated statement of comprehensive income from the date of obtaining control or up to the effective date of disposal, as appropriate. Where necessary, adjustments are made to the financial statements of subsidiaries to bring the accounting policies used in line with those used by the Group. All intra-group transactions, balances, income and expenses are eliminated on consolidation.

Non-controlling interests in the net assets of consolidated subsidiaries are identified separately from the Group’s equity therein. Non-controlling interests consist of the amount of those interests at the date of the original business combination (see below) and the non-controlling interest’s share of changes in equity since the date of the combination.

Changes in the Group’s interests in subsidiaries that do not result in a loss of control are accounted for as equity transactions. The carrying amount of the Group’s interest and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to the owners of the Company.

Joint ventures

The Group is engaged in oil and gas exploration, development and production through unincorporated joint ventures. The Group accounts for its share of assets, liabilities, revenues and expenses of these ventures as joint operations.

Business combinations

Acquisitions of subsidiaries and businesses are accounted for using the acquisition method. The consideration for each acquisition is measured at the aggregate of the fair values (at the date of exchange) of assets acquired, liabilities incurred or assumed, and equity instruments issued by the Group in exchange for control of the acquiree. Acquisition-related costs are recognised in the statement of comprehensive income as incurred.

Where applicable, the consideration for the acquisition includes any asset or liability resulting from a contingent consideration arrangement, measured at its acquisition-date fair value. Subsequent changes in such fair values are adjusted against the cost of acquisition where they qualify as measurement period adjustments. All other subsequent changes in the fair value of contingent consideration classified as an asset or liability are accounted for in accordance with relevant IFRSs.

Where a business combination is achieved in stages, the Group’s previously held interests in the acquired entity are re-measured to fair value at the acquisition date (i.e. the date the Group obtains control) and the resulting gain or loss, if any, is recognised in the consolidated statement of comprehensive income. Amounts arising from interests in the acquiree prior to the acquisition date that have previously been recognised in other comprehensive income are reclassified to consolidated statement of comprehensive income, where such treatment would be appropriate if that interest were disposed of.

The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under IFRS 3 (2008) are recognised at their fair value at the acquisition date, except that:

- deferred tax assets or liabilities and liabilities or assets related to employee benefit arrangements are recognised and measured in accordance with *IAS 12 Income Taxes* and *IAS 19 Employee Benefits* respectively;
- liabilities or equity instruments related to the replacement by the Group of an acquiree's share-based payment awards are measured in accordance with *IFRS 2 Share-Based Payment*; and
- assets (or disposal groups) that are classified as held for sale in accordance with *IFRS 5 Non-current Assets Held for Sale and Discontinued Operations* are measured in accordance with that Standard.

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Group reports provisional amounts for the items for which the accounting is incomplete. Those provisional amounts are adjusted during the measurement period, or additional assets or liabilities are recognised, to reflect new information obtained about facts and circumstances that existed as of the acquisition date that, if known, would have affected the amounts recognised as of that date.

The measurement period is the period from the date of acquisition to the date the Group obtains complete information about facts and circumstances that existed as of the acquisition date, and is subject to a maximum of one year.

Commercial reserves

The Group defines commercial reserves as proven and probable oil and gas reserves, which are defined as the estimated quantities of crude oil, natural gas and natural gas liquids that geological, geophysical and engineering data demonstrate with a specified degree of certainty to be recoverable in future years from known reservoirs and that are considered commercially producible. This is equivalent to the 2P classification established by the Society of Petroleum Engineers where there is a 50% statistical probability that the actual quantity of recoverable reserves will be more than the amount estimated as proven and probable reserves and a 50% statistical probability that it will be less.

Intangible assets – oil and gas exploration and appraisal assets

The Group adopts the “successful efforts” method of accounting for exploration and evaluation costs under *IFRS 6, Exploration for and Evaluation of Mineral Resources*. All licence acquisition, exploration and evaluation costs are capitalised within intangible exploration and appraisal assets in cost centres by well, field or exploration area, as appropriate. Pre-licence expenditures on oil and gas assets are recognised as an expense within the consolidated statement of comprehensive income when incurred.

If commercial reserves are established then the relevant cost is transferred (following an impairment review as described below) from intangible exploration and appraisal assets to upstream assets within property, plant and equipment. Expenditure incurred after the commerciality of the field has been established are capitalised within upstream assets. If prospects are deemed to be impaired (unsuccessful) on completion of an evaluation, the associated capitalised costs are charged to the consolidated statement of comprehensive income.

Property, plant and equipment

Property, plant and equipment is stated at cost, less accumulated depreciation, depletion 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, if any, 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.

With the exception of upstream oil and gas assets, depreciation is charged to the consolidated statement of comprehensive income on a straight-line basis:

	Annual rate
Furniture, fixtures and equipment	20%
Vehicles	20%
Computer hardware and software	33%
Leasehold improvements	10%

The Group's infrastructure assets (pipelines, processing facility and gas receiving facility) are depreciated on a straight line basis over the useful economic lives of the material component assets being principally between 15-25 years. Depreciation is shown within depletion in the consolidated statement of comprehensive income.

Assets in the course of construction are not depreciated. Depreciation commences on assets in the course of construction when the assets are ready for their intended use.

The gain or loss arising on the disposal or retirement of an asset is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in administrative expenses.

Depletion – upstream oil and gas assets

Oil and gas properties are depleted using a unit-of-production method, which is the ratio of oil and gas production in the period to the estimated quantities of commercial reserves at the end of the period plus production in the period, generally on a field-by-field basis. Costs used in the unit-of-production calculation takes into account expenditures incurred to date, together with the future capital expenditure expected to be incurred to access the commercial reserves. Changes in the estimates of commercial reserves or future field development costs are accounted for prospectively.

Assets held for sale

Assets or a disposal group classified as held for sale are measured at the lower of carrying value and fair value less costs to sell. Assets are classified as held for sale if their carrying amount will be recovered through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset is available for immediate sale in its present condition. Management must be committed to the sale which should expect to be completed within one year from the date of classification.

Impairment

The Group assesses assets or groups of assets for impairment whenever events or changes in circumstances indicate that the carrying value of an asset may not be recoverable, for example, low prices or margins for an extended period or, for oil and gas assets, significant downward revisions of estimated commercial reserves or increases in estimated future development expenditure. If any such indication of impairment exists, the Group makes an estimate of the asset's recoverable amount. Where it is not possible to estimate an asset's recoverable amount, the Group estimates the recoverable amount and assesses impairment of the cash generating unit ("CGU") to which the asset belongs. A CGU is the lowest level of a group of individual assets are grouped for impairment assessment purposes at the lowest level at which there are identifiable cash inflows that are largely independent of the cash inflows of other groups of assets. An asset or CGU's recoverable amount is the higher of its fair value less costs to sell and its value in use. Where the carrying amount of an asset or CGU exceeds its recoverable amount, the asset group is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are adjusted for the risks specific to the asset group and are discounted to their present value using an appropriate discount rate that reflects current market assessments of the time value of money.

An assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount

is estimated. 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 its 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 consolidated statement of comprehensive income. After such a reversal, 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.

Decommissioning provision

Provision for decommissioning is recognised when the Group has a legal or constructive obligation to dismantle and remove a facility or an item of plant and to restore the site on which it is located, and where a reliable estimate can be made. A corresponding adjustment to property, plant and equipment of an amount equivalent to the provision is also recognised. This is subsequently depreciated as part of the asset and included in depletion expense in the statement of comprehensive income. Changes in the estimated timing of decommissioning or decommissioning cost estimates are accounted for prospectively by recording an adjustment to the provision, and a corresponding adjustment to property, plant and equipment. The unwinding of the discount on the decommissioning provision is classified in the consolidated statement of comprehensive income as finance costs.

Inventories

Inventories of oil and gas assets are stated at their net realisable values and changes in net realisable values are recognised in the income statement.

Other inventories are stated at the lower of cost and net realisable value. Cost is determined by the first-in first-out method and comprises direct materials and, where applicable, direct labour, overheads and other charges incurred in bringing the inventories to their present location and condition. Net realisable value represents the estimated selling price less all estimated costs to be incurred in marketing, selling and distribution.

Revenue recognition

Revenue arising from the sale of oil and gas products is recognised when the significant risks and rewards of ownership have passed to the buyer and it can be reliably measured. Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for oil and gas products provided in the normal course of business, net of discounts, customs duties and sales taxes.

Liftings or offtake agreements associated with the sale of oil, natural gas, natural gas liquids, liquefied natural gas, petroleum and petrochemicals products in which the Group has an interest in jointly owned or controlled operations are such that each participant may not receive and sell its precise share of the overall production in each period. The resulting imbalance between cumulative entitlement and cumulative production (less inventory) attributable to each participant at a reporting date represents 'overlift' or 'underlift'. Overlift and underlift are valued at market value and recorded as current liabilities or current assets respectively. Movements during an accounting period are adjusted through cost of sales such that gross profit is recognised on an entitlements basis. Revenue is recognised on an actual invoiced basis for the value of the liftings made in the period.

Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.

Foreign currencies

The individual financial statements of each Group company are presented in the currency of the primary economic environment in which it operates (its functional currency). The functional currency of the Group's

subsidiaries is the US dollar, which is also the Company's functional currency and presentation currency for the consolidated financial statements.

In preparing the financial statements of the individual companies, transactions in currencies other than the entity's functional currency (foreign currencies) are recorded at the rates of exchange prevailing on the dates of the transactions. At each balance sheet date, monetary assets and liabilities that are denominated in foreign currencies are retranslated at the rates prevailing on the balance sheet date. Non-monetary items carried at fair value that are denominated in foreign currencies are translated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated. Exchange differences upon re-measurement are recognised in the statement of comprehensive income in the period in which they arise.

For the purpose of presenting consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated at exchange rates prevailing on the balance sheet date. Income and expense items are translated at the exchange rates at the date of transactions. Exchange differences arising, if any, are recognised in the Other comprehensive income and in the Group's equity reserves. Upon disposal of an operation, the amounts accumulated in the foreign currency translation reserve are recognised as income or expense in the period in which the operation is disposed of.

Borrowing costs

Finance costs of debt are allocated to periods over the term of the related debt at a constant rate on the carrying amount. Arrangement fees and issue costs are deducted from the debt proceeds on initial recognition of the liability and are amortised and charged to finance costs over the expected life of the debt.

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.

All other borrowing costs are recognised in the consolidated statement of comprehensive income in the period in which they are incurred.

Financial instruments

Financial assets and financial liabilities are recognised on the Group's balance sheet when the Group becomes party to the contractual provision of the instrument.

Effective interest method

The effective interest method is a method of calculating the amortised cost of an interest bearing financial asset and liability and for allocating interest income or expense over the relevant period. The effective interest rate is the rate that discounts estimated future cash receipts or payments to present value (including all fees on points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset or liability, or, where appropriate, a shorter period.

Financial assets

All financial assets are initially measured at fair value. Financial assets are classified into the following specified categories: financial assets 'at fair value through profit or loss' ("FVTPL"), 'held-to-maturity' investments, 'available-for-sale' financial assets and 'loans and receivables'. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition. All of the Group's financial assets are currently classified as 'loans and receivables'.

Loans and receivables

Trade receivables, loans, and other receivables that have fixed or determinable payments that are not quoted in an active market are classified as loans and receivables. Loans and receivables are measured at amortised cost using the effective interest method, less any impairment. Interest income is recognised by applying the effective interest rate, except for short-term receivables when the recognition of interest would be immaterial.

Impairment of financial assets

Financial assets are assessed for indicators of impairment at each balance sheet date. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the financial asset have been impacted. For financial assets measured at amortised cost, if there is objective evidence of impairment, the impairment is measured as the difference between the present value of estimated future cash flows discounted at the instrument's original effective interest rate less the carrying value of the financial asset.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognised in the consolidated statement of comprehensive income.

Trade receivables

Trade receivables are measured at their fair value upon initial recognition. Appropriate allowances for estimated irrecoverable amounts are recognised in the consolidated statement of comprehensive income when there is objective evidence that the asset is impaired.

Cash and cash equivalents

Cash and cash equivalents consist of cash at bank or in hand and short-term deposits with an original maturity of three months or less. In addition, the Group holds a number of restricted cash balances relating to deposits and cash balances associated with the Group's borrowing facilities. These amounts are shown within the Group's receivable balances.

Derecognition of financial assets

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire; or it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity.

Financial liabilities and equity

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and equity instrument.

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. Equity instruments issued by the Group are recorded at the proceeds received, net of direct issue costs.

Compound instruments

The component parts of compound instruments issued by the Group are classified separately as financial liabilities and equity in accordance with the substance of the contractual arrangement. At the date of issue, in the case of a bond denominated in the functional currency of the issuer that may be converted into a fixed number of equity shares, the fair value of the liability component is estimated using the prevailing market interest rate for a similar non-convertible instrument. This amount is recorded as a liability on an amortised cost basis using the effective interest method until extinguished upon conversion or at the instrument's maturity date. The equity component is determined by deducting the amount of the liability component from the fair value of the compound instrument as a whole at initial recognition. This is recognised and included in equity, net of income tax effects, and is not subsequently re-measured.

Issue costs are apportioned between the liability and equity components of the convertible loan notes based on their relative carrying amounts at the date of issue. The portion relating to the equity component is charged directly against equity.

Financial liabilities

Financial liabilities are classified as either financial liabilities at FVTPL or held at amortised cost.

Financial liabilities at FVTPL

Financial liabilities are classified as at FVTPL when the financial liability is either held for trading or it is designated as at FVTPL.

A financial liability is classified as held for trading if:

- it has been incurred principally for the purpose of repurchasing it in the near term; or
- on initial recognition it is part of a portfolio of identified financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated or effective as a hedging instrument.

A financial liability other than a financial liability held for trading may be designated as at FVTPL upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- the financial liability forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- it forms part of a contract containing one or more embedded derivatives, and *IAS 39 Financial Instruments: Recognition and Measurement* ("IAS 39") permits the entire combined contract (asset or liability) to be designated as at FVTPL.

Financial liabilities at FVTPL are stated at fair value, with any gain or losses arising on re-measurement recognised in the consolidated statement of comprehensive income. The net gain or loss recognised in the consolidated statement of comprehensive income incorporates any interest paid on the financial liability and is included in the finance costs line item in the consolidated statement of comprehensive income.

Other financial liabilities

Other financial liabilities, including borrowings and trade and other payables, are initially measured at fair value, net of transaction costs. Other financial liabilities are subsequently measured at amortised cost using the effective interest method, with interest expense recognised on an effective yield basis, except for short-term trade payables when the recognition of interest would be immaterial.

Derecognition of financial liabilities

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or they expire.

Embedded derivatives

Derivatives embedded in other financial instruments or other host contracts are treated as separate derivatives when their risks and characteristics are not closely related to those of the host contracts and the host contracts are not measured at FVTPL.

An embedded derivative is presented as a non-current asset or non-current liability if the remaining maturity of the hybrid instrument to which the embedded derivative relates is more than 12 months ahead and is not expected to be realised or settled within 12 months. Other derivatives are presented as current assets or current liabilities.

Contracts to buy and sell non-financial items

The Group enters into forward contracts to fix the price of oil and gas contracts for use in the Group's business. Such contracts fall outside the scope of IAS 39 provided they were entered into and continue to be held for the purpose of receipt or delivery in accordance with the Group's purchase, sale or usage requirements. Where these conditions are not met, the contracts are accounted for as derivative instruments. The Group has chosen not to apply hedge accounting to these instruments. Hedging premiums and any gains on exercise are presented within cost of sales.

Share-based payments

The Group makes equity-settled share-based payments to certain employees. Equity-settled share-based schemes are measured at fair value (excluding the effect of non-market-based vesting conditions) at the date of grant, measured by use of an option valuation model. The expected lives of the options used in the model are adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions and behavioural considerations.

The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the Group's estimate of shares that will eventually vest.

At each balance sheet date, the Group revises its estimate of the number of equity instruments expected to vest as a result of the effect of non-market-based vesting conditions. The impact of the revision of the original estimates, if any, is recognised in the consolidated statement of comprehensive income such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to the equity reserve.

Retirement benefit costs

Payments to defined contribution retirement benefit schemes are charged as an expense as they fall due. Payments made to state-managed retirement benefit schemes are dealt with as payments to defined contribution schemes where the Group's obligations under the schemes are equivalent to those arising in a defined contribution retirement benefit scheme.

The Group had no defined benefit schemes in place during the years presented.

Taxation

Tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit/loss as reported in the consolidated statement of comprehensive income because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted at the balance sheet date.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from the initial recognition of goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and associates, and interests in joint ventures, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised. Deferred tax is charged or credited in the statement of comprehensive income, except when it relates to items charged or credited directly to other comprehensive income or equity, in which case the deferred tax is also recognised in other comprehensive income or equity.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

Provisions

Provisions are recognised when the Group has a present obligation as a result of a past event, and it is probable that the Group will be required to settle that obligation. Provisions are measured at the Group's best estimate of the expenditure required to settle the obligation at the balance sheet date, taking into account the risks and uncertainties of the obligation, and are discounted to present value where the effect is material.

Operating leases

Rentals payable under operating leases are charged to income on a straight line basis over the term of the relevant lease.

4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, which are described in note 3, the Directors are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

Key sources of estimation uncertainty

The following are the critical judgements, key assumptions and other key sources of estimation uncertainty at the balance sheet date that may have a significant effect on the amounts recognised in the financial statements.

Upstream and infrastructure oil and gas assets

Management is required to assess the Group's intangible assets and the upstream and infrastructure oil and gas assets for indicators of impairment. Notes 15 and 16 disclose the carrying values of such assets together with details of impairment charges arising. Management take into account the Group's latest development plans and business strategies and apply judgement in determining the appropriate cash generating units for the purpose of applying the annual impairment assessment. Management compares the carrying value of these assets to the estimated net present value of the underlying oil and gas reserves and related future cash flows that could be generated from these reserves based upon estimates of future revenues, development costs and operating costs and applying a suitable pre-tax (real) discount rate, which in the current year has been considered to be 16%. The reserve estimates are management's best estimates, taking into consideration independent evaluations of the proved and probable reserves attributable to the Group's economic interests using industry standard definitions and measurement techniques.

Decommissioning

The Group has decommissioning obligations in respect of certain of its oil and gas field interests and related processing and transportation infrastructure in Nigeria. The extent to which a provision is recognised requires management to make judgements on the legal and constructive obligations at the date of decommissioning, estimates of the restoration costs, timing of work, long-term inflation and discount rates to be applied. Details of the provision are set out at note 25.

Share-based payments

Management is required to make assumptions in respect of the inputs used to calculate the fair values of share-based payment arrangements. Details of these can be found in note 32.

Production entitlement

The Group's Strategic Alliance Agreement with Nigerian Petroleum Development Company Limited ("NPDC"), (together the "Strategic Alliance Agreement") relies on an agreed financial model to determine the Group's production entitlement from this agreement. Within this model, operating and capital expenditure costs are initially estimated from monthly cash calls and then actualised once cost returns are agreed by the operator, resulting in either an over or under-funded position. Daily field production rates are adjusted to reflect expected terminal through-put rates based on past experience and then trued up for actual throughput by the terminal operator. The Group's share of production is determined at different percentage rates based both on baseline and incremental production volumes which change over the course of the contract.

During the year, NPDC reached a final determination with the operator in relation to past costs incurred in the year ended 31 December 2012, which were initially unapproved by NPDC. This resulted in additional operating and capital expenditure being attributed to the Group. Cost returns in respect of expenditure for the year ended 31 December 2013 have not yet been agreed but management has taken into consideration the basis of the prior year cost determination in assessing their best estimate of the related expenditure for the year ended 31 December 2013. The basis of recognising these expenditures includes monthly costs that NPDC initially do not approve with the operator but which are expected to be approved on subsequent review, which will occur during

2014. As a result, the recognition of these expenditures has resulted in additional production entitlement, and therefore underlift for the Group under the terms of the financial model referred to above.

The current year results include net credits within cost of sales of \$8.5 million in relation to the settlement of prior year unapproved costs and a net credit of \$31.0 million for the best estimate of the current year unapproved costs.

Going concern

Management are required to make estimates and judgements in respect of the quantum and timing of forecast cashflows used to confirm the application of the going concern principle. Further details are provided in note 3: Significant accounting policies - “Going concern” section.

5. REVENUE

	2013 \$'000	2012 \$'000
Oil sales	343,847	102,439
Gas sales	1,114	-
Revenue	344,961	102,439
Investment revenue	1,541	1,422
Total	346,502	103,861

Revenue from oil and gas sales relates to the Group’s sale of oil and gas lifted during the year from the Strategic Alliance Agreement. The increase in revenue from oil and gas sales is driven by an increase in field production along with the purchase of the 30% interest in the Strategic Alliance Agreement from the Group’s funding partner.

In the year ended 31 December 2013, \$1.3 million of investment revenue relates to the revaluation of the Convertible Bond conversion option (see note 23). During 2012, \$1.2 million of investment revenue relates to the refinancing of loan notes with the issuance of Convertible Bonds. The remaining investment revenue in both years relates to bank interest received on cash balances.

6. COST OF SALES

	2013 \$'000	2012 \$'000
Production expenses		
Production costs	159,880	59,696
Hedging costs	11,532	4,810
	171,412	64,506
Less: increase in underlift (note 18)	(70,851)	(23,588)
Cost of sales	100,561	40,918

Costs of sales relates principally to the Group’s share of production costs associated with the Strategic Alliance Agreement.

7. BUSINESS AND GEOGRAPHICAL SEGMENTS

In the opinion of the Directors, the operations of the Group comprise one reportable segment in Nigeria involved in oil and gas exploration, development, production and distribution, supported by corporate and administrative activities in the UK.

The accounting policies of the reportable segments are the same as the Group’s accounting policies described in note 3. Segment operating result represents the profit/(loss) incurred by each segment without allocation of the

share of central administration costs, investment revenue, finance costs, and income tax expense. Segment operating result is provided to the Board for the purpose of resource allocation and assessment of segment performance.

Segment revenues and results

The following is an analysis of the Group's revenue and results by reportable segment in 2013:

	Nigeria 2013 \$'000	Corporate 2013 \$'000	Total 2013 \$'000
Revenue	344,961	-	344,961
Cost of sales	(100,561)	-	(100,561)
Depletion	(67,656)	-	(67,656)
Depreciation and amortisation expenses	(1,692)	(431)	(2,123)
Administrative expenses	(29,428)	(13,193)	(42,621)
Impairment charge	(5,802)	-	(5,802)
Other operating expenses	(453)	(25)	(478)
Segment operating result	139,369	(13,649)	125,720
Investment revenue			1,541
Finance costs			(38,100)
Foreign exchange losses			(985)
Profit before tax			88,176
Tax expense			(48,823)
Profit for the year			39,353

The following is an analysis of the Group's revenue and results by reportable segment in 2012:

	Nigeria 2012 \$'000	Corporate 2012 \$'000	Total 2012 \$'000
Revenue	102,439	-	102,439
Cost of sales	(40,918)	-	(40,918)
Depletion	(17,501)	-	(17,501)
Depreciation and amortisation expenses	(2,529)	(220)	(2,749)
Other operating expenses	(1,710)	(17)	(1,727)
Administrative expenses	(13,727)	(12,213)	(25,940)
Segment operating result	26,054	(12,450)	13,604
Investment revenue			1,422
Finance costs			(18,683)
Foreign exchange gains			(1,133)
Loss before tax			(4,790)
Tax expense			(1,832)
Loss for the year			(6,622)

Revenue and cost of sales in both years relate principally to the Group's share of production entitlement from the Strategic Alliance Agreement, all of which arise in Nigeria. Lifting quantities, allocated to the Group, are notified by NPDC periodically, with cash received from Shell Western Supply & Trading Ltd ("Shell") from subsequent sale via Shell's Forcados Export Terminal.

Segment assets

	2013	2012
	\$'000	\$'000
Nigeria	1,346,209	868,274
Corporate assets	29,852	4,255
Total assets	1,376,061	872,529

The Board monitors resources allocated to each of the reportable segments through review of segment assets to include property, plant and equipment, intangible assets and financial assets attributable to each segment. With the exception of certain financial assets and tax assets, all assets are allocated to reportable segments. Liabilities are monitored at a group level and not allocated to reportable segments.

Other segment information

	Additions to non-current assets	
	2013	2012
	\$'000	\$'000
Nigeria	507,594	231,177
Corporate	1,141	858
Total additions	508,735	232,035

8. OTHER OPERATING EXPENSES

	2013	2012
	\$'000	\$'000
Operating costs		
Gross staff costs (note 11)	13,658	11,618
Inventory provision (note 18)	-	253
Other operating costs	478	2,807
Timewriting recharges to capital projects or production expenses	(13,658)	(12,951)
Total other operating expenses	478	1,727

9. ADMINISTRATIVE EXPENSES

	2013	2012
	\$'000	\$'000
Gross staff costs (note 11)	20,271	12,539
Other administrative expenses	23,343	18,358
Timewriting recharges to capital projects or production expenses	(993)	(4,957)
Total administrative expenses	42,621	25,940

10. AUDITOR'S REMUNERATION

The analysis of auditor's remuneration is as follows:

	2013 \$'000	2012 \$'000
Fees payable to the Company's auditors for the audit of the Group's annual accounts	165	191 ⁽ⁱ⁾
Fees payable to the Company's auditor and their associates for other services to the Group:		
- Audit of the Company's subsidiaries pursuant to legislation	356	254
Total audit fees	521	445
- Audit related assurance services	132	63
- Tax services	5	5
- Corporate finance services	963	44
- Other services	65	65
Total non-audit fees	1,165	177

- (i) Restated to include additional charges of \$47,000 relating to the finalisation of the 2012 audit which were expensed during 2013, and excludes \$109,500 relating to 2011, expensed in 2012.

Corporate finance services includes fees incurred as part of the Group's equity and debt raising preparations along with acquisition due diligence.

11. STAFF COSTS

The average monthly number of employees was:

	2013 Number	2012 Number
Management	4	3
Operations and support staff	107	132
Administration	57	37
	168	172

During 2013, the Group's operations and support staff decreased mainly as a result of a number of direct employees in Nigeria becoming agency staff, offset with the recruitment of several senior operational positions in Nigeria. Administration positions recruited included IT, legal and finance staff to support the expanding Nigerian operations.

Their aggregate remuneration comprised:

	2013 \$'000	2012 \$'000
Wages and salaries	23,782	18,260
Social security costs	2,419	2,065
Defined contribution pension costs (note 27)	1,279	989
Expense of share-based payments (note 32)	6,449	2,843
	33,929	24,157
As analysed within:		
Other operating expenditures (note 8)	13,658	11,618
Administrative expenses (note 9)	20,271	12,539
	33,929	24,157

Some of the Group's gross staff costs above were subsequently recharged to the Group's joint venture partners or capitalised through timewriting into the cost of fixed assets under the Group's policy for Property, plant and equipment.

12. FINANCE COSTS

	2013 \$'000	2012 \$'000
Bank and other finance fees	8,608	6,442
Interest on bank overdrafts and loans	25,150	14,082
Interest and other financial costs on convertible bonds	26,074	11,062
Total interest expense	59,832	31,586
Unwinding of discount on decommissioning provision (note 25)	1,467	1,184
Fair value charge on convertible bond conversion option ⁽ⁱⁱ⁾	-	25
	61,299	32,795
Less: amounts included in the cost of qualifying assets ⁽ⁱ⁾ (note 16)	(23,199)	(14,112)
Total finance costs	38,100	18,683

- (i) Interest capitalised relates to directly attributable borrowings raised by the Group's subsidiary, Accugas, for the construction of the infrastructure and Uquo to Oron pipeline and other Group borrowings applied to qualifying additions using the Group's capitalisation rate of 17.5% (2012: 15.0%).
- (ii) The \$1.3 million revaluation gain recorded in 2013 on the Convertible Bond conversion option has been presented in Investment revenue (note 5).

13. TAX

The tax expense for the year is as follows:

	2013 \$'000	2012 \$'000
Current tax		
- Adjustment in respect of prior years	(7)	142
- Current year	(1,008)	20
Deferred tax (note 22)		
- Adjustment in respect of prior years	1,221	2,497
- Current year	(49,029)	(4,491)
Total tax expense	(48,823)	(1,832)

Corporation tax is calculated at the applicable tax rate for each jurisdiction based on the estimated assessable profit for the year. The Group's outstanding current tax liabilities of \$1.1 million (2012: \$41,000) relate to corporation tax liabilities in Nigeria.

The charge for the year can be reconciled to the result per the consolidated statement of comprehensive income as follows:

	2013 \$'000	2012 \$'000
Profit/(loss) before tax:	88,176	(4,790)
Tax (charge)/credit at the UK corporation tax rate:	(20,501)	1,171
Tax effects of:		
- Income not taxable/(expenses not deductible) for tax purposes	1,762	560
- Rate changes during the year	(823)	(1,130)
- Deferred tax assets not recognised	(18,781)	(3,194)
- Effect of tax rates in overseas territories	(12,440)	(1,558)
Adjustments in respect of prior years	1,214	2,639
Re-measurement of deferred tax – change in tax rate	746	(320)
Tax expense for the year	(48,823)	(1,832)

The expected applicable tax rate was the UK corporation tax rate of 23.25% (2012: 24.5%). Reductions to the UK corporation tax rate have been announced. The changes, included in the Finance Act 2012, which received

Royal Assent on 17 July 2012, reduced the main rate of corporation tax from 24% to 23% from 1 April 2013. The Finance Act 2013, which received Royal Assent on 17 July 2013, also reduced the corporation tax rate further to 21% from 1 April 2014.

The 2013 Finance Act also announced that the corporation tax rate would be further reduced from 21% to 20% from 1 April 2015. However, due to no deferred tax being recognised in the UK entities, these effects would not have any impact on the financial statements.

14. EARNINGS/(LOSS) PER SHARE

From continuing operations

The calculation of the basic and diluted earnings/(loss) per share is based on the following data:

	2013	2012
Profit/(loss) for the purposes of basic & diluted earnings/(loss) per share (\$'000)	40,812	(6,429)
Weighted average number of ordinary shares for the purposes of basic earnings/(loss) per share ⁽ⁱ⁾	2,708,067	2,275,343
Weighted average number of ordinary shares for the purposes of diluted earnings/(loss) per share ⁽ⁱ⁾	2,711,559	2,275,343
Basic earnings/(loss) per ordinary share (\$)	15.1	(2.8)
Diluted earnings/(loss) per ordinary share (\$) ⁽ⁱⁱ⁾	15.1	(2.8)

- (i) The calculation of weighted average number of ordinary shares includes the weighted average number of shares that would be issued on conversion of the ICLNs as, for the reasons outlined in note 30, the ICLNs are believed to represent equity instruments of the Company.
- (ii) As there is a loss for the year ended 31 December 2012, there is no difference between basic and diluted earnings per share.

In 2013, there were additional potentially dilutive instruments (being share options, warrants and convertible bond conversion options) that were not included in the calculation of diluted earnings per share because they were anti-dilutive.

Subsequent to the year end, as described in note 36, the Group signed Investment Agreements for equity investments of up to \$255.0 million. Each investment was in the form of a single share and the remainder in ICLNs. These would have reduced the basic and diluted earnings per share had they occurred before the year end.

15. INTANGIBLE ASSETS

	Total \$'000
Oil and gas exploration and appraisal assets	
At 1 January 2012	11,292
Additions	965
At 31 December 2012	12,257
Additions	545
Impairment	(5,802)
Transfer to assets held for sale (note 19)	(7,000)
At 31 December 2013	-

Additions to oil and gas exploration and appraisal assets all relates to the Group's interest in the Matsogo field. Following a review of the Group's asset portfolio during the year, the decision was taken to seek to dispose of this asset and the Group has consequently accepted an offer of \$7.0 million for this asset. Consequently, the asset was written down to fair value less costs of sale, which resulted in a \$5.8 million impairment. The residual asset of \$7.0 million has been transferred to current assets held for sale with sale expected to occur in the first half of 2014 (note 19).

16. PROPERTY, PLANT AND EQUIPMENT

	Upstream assets \$'000	Infrastructure assets \$'000	Other PP&E ⁽ⁱ⁾ \$'000	Total \$'000
Cost				
At 1 January 2012	419,186	349,109	11,347	779,642
Additions	113,397	116,007	1,666	231,070
Transfer to assets held for sale (note 19)	-	(4,300)	-	(4,300)
Disposal	-	-	(97)	(97)
At 31 December 2012	532,583	460,816	12,916	1,006,315
Additions	406,359	99,604	1,843	507,806
Reclassifications	495	(822)	327	-
Transfer to assets held for sale (note 19)	-	(250)	-	(250)
Disposal	-	-	(1,681)	(1,681)
At 31 December 2013	939,437	559,348	13,405	1,512,190
Accumulated depreciation, depletion and impairment				
At 1 January 2012	(163,262)	(105,100)	(4,415)	(272,777)
Charge for the year	(17,501)	-	(2,749)	(20,250)
Disposal	-	-	59	59
At 31 December 2012	(180,763)	(105,100)	(7,105)	(292,968)
Charge for the year	(54,044)	(13,612)	(2,123)	(69,779)
Disposal	-	-	1,178	1,178
At 31 December 2013	(234,807)	(118,712)	(8,050)	(361,569)
Carrying amount				
At 31 December 2012	351,820	355,716	5,811	713,347
At 31 December 2013	704,630	440,636	5,355	1,150,621

(i) Other PP&E consists of vehicles, leasehold improvements and furniture, fixtures and equipment.

During the year, \$73.2 million (2012: \$131.3 million) of additions to upstream and infrastructure assets related to assets in the course of construction on the Uquo field, including the construction of the Uquo to Oron pipeline and related facilities at the Uquo field. \$10.7 million of additions to upstream assets related to assets in the course of construction on the Stubb Creek field (2012: \$11.0 million). At 31 December 2013, the overall net book value of assets in the course of construction (being those related to the Uquo and Stubb Creek fields) was \$213.0 million (2012: \$596.5 million). During the year, \$459.3 million of assets were transferred from assets in the course of construction comprising the Uquo to Ikot-Abasi pipeline, Uquo Gas Processing Facility and Ibom Gas Receiving Facility, as they were considered substantially available for use from 1 March 2013.

\$338.0 million was incurred for the Group's share of ongoing capital expenditures under the Strategic Alliance Agreement (2012: \$85.2 million). This figure includes \$70.0 million consideration relating to the Group's acquisition in March 2013 of its funding partner's 30% interest in the Strategic Alliance Agreement. The consideration comprised \$36.0 million of cash (\$15.0 million of which was deferred until 31 March 2014) and \$34.0 million novation of the funding partner's Secured Borrowing Facility (described in note 23).

Additions included capitalised interest of \$23.2 million (2012: \$14.1 million) from directly attributable borrowings raised by the Group's subsidiary, Accugas, for the construction of the infrastructure assets along with other general borrowings used to fund qualifying additions using the Group's capitalisation rate of 17.5% (2012: 15.0%).

The Group has granted fixed charges over \$440.6 million of its oil and gas assets to secure borrowings (2012: \$355.7 million).

17. TRADE AND OTHER RECEIVABLES

	2013 \$'000	2012 \$'000
Trade receivables		
Receivables from sales	13,513	-
Amounts receivable from joint venture partners	-	5,378
Total trade receivables	13,513	5,378
Other receivables		
Advances for future sales (note 28)	20,254	31,755
Deposits ⁽ⁱ⁾	5,505	7,466
VAT receivables	624	601
Other receivables ⁽ⁱⁱⁱ⁾	6,255	4,287
Rental prepayments	3,093	2,008
Prepaid drilling costs	1,699	1,715
Other prepayments	7,292	3,380
	58,235	56,590

(i) Included in Deposits are restricted cash balances of \$5.0 million (2012: \$6.9 million) associated with the Group's borrowing facilities.

(ii) Included within other receivables are amounts owed from related parties of \$2.2 million (2012: \$2.2 million) (see note 34).

The average credit period given on joint interest billings and oil and gas sales is 60 days. The Group does not currently charge interest on past due receivables although in the event receivables become past due the Group can do so at rates specified in the various agreements. The Group periodically reviews all receivables outstanding to assess their recoverability.

Provisions have been made within other receivables for past withholding taxes refundable from Nigerian vendors and historic payroll taxes. No other trade and other receivable balances were either past due or impaired.

	2013 \$'000	2012 \$'000
Provisions against receivables		
Opening balance	(3,856)	(1,501)
Provided during the year	-	(2,355)
Utilisation of provision	1,961	-
Closing balance	(1,895)	(3,856)

Non-current other receivables

	2013 \$'000	2012 \$'000
Rental prepayments in Nigeria	-	2,076
Stamp duty escrow reserve for Group borrowings	2,765	2,336
Debt service reserve account for Group borrowings	4,729	3,029
	7,494	7,441

The Directors consider that the carrying amount of trade and other receivables is approximately equal to their fair value.

18. INVENTORIES

	2013	2012
	\$'000	\$'000
Underlift	94,439	33,697
Spare parts	3,489	4,195
Total inventories	97,928	37,892

The underlift includes the Group's share of unsold production entitlement under the Strategic Alliance Agreement. The movement of \$60.7 million in the year represents the \$70.9 million increase in underlift offset by a decrease of \$10.2 million for the prior year underlift transferred to Property, plant and equipment as part of the acquisition of the Group's funding partner's 30% interest in the Strategic Alliance Agreement.

The reduction in the balance of spare parts during the year amounted to \$0.7 million (2012: \$1.5 million) and principally relates to inventory used in the construction of the Group's oil and gas assets. In 2013, no provision was made for obsolete and unusable inventory (2012: \$0.3 million) (note 8).

19. ASSETS HELD FOR SALE

	Total
	\$'000
Balance at 1 January 2012	-
Transfers to assets held for sale	4,300
At 31 December 2012	4,300
Disposals	(4,300)
Transfer to assets held for sale	7,250
At 31 December 2013	7,250

During the year ended 31 December 2012, the Group agreed the sale of its Early Production Facility at the Stubb Creek oil field to the Stubb Creek field joint operation for \$4.3 million. The Group retained an interest in the asset through its subsidiary Universal Energy's interest in the joint operation. The carrying value of the asset was transferred from plant, property and equipment to assets held for sale. No impairment charge arose as a result of this agreement. The sale completed during 2013.

During the year ended 31 December 2013, the Group provisionally agreed the sale of its 49% licence interest in the Matsogo field for \$7.0 million. The carrying value of the asset has been transferred from Intangible assets to Assets held for sale. As set-out in note 15, a \$5.8 million impairment charge arose as a result. The sale is expected to complete during the first half of 2014. In addition, at 31 December 2013, the Group was in discussions to sell a surplus generator from the Uquo Gas Processing Facility for \$250,000. The carrying value was transferred from Property, plant and equipment to Assets held for sale. No impairment charge arose as a result. The sale is expected to complete during the first half of 2014.

20. CASH AND CASH EQUIVALENTS

	2013 \$'000	2012 \$'000
Interest bearing		
Held in Nigerian banks	8,341	24,266
Held in banks outside Nigeria	19,901	2,528
Non-interest bearing		
Held in Nigerian banks	22,122	5,393
Held in banks outside Nigeria	19	3
Cash and cash equivalents	50,383	32,190
Restricted cash balances	12,492	12,284
	62,875	44,474
Presented as:		
Restricted cash: in non-current other receivables (note 17)	7,494	5,365
Restricted cash: in trade and other receivables (note 17)	4,998	6,919
Cash and cash equivalents	50,383	32,190
	62,875	44,474

Cash and cash equivalents comprise cash and short-term bank deposits with an original maturity of three months or less. Restricted cash balances include deposits, stamp duty and debt service reserve amounts required to be held relating to the Group's borrowings. The carrying amount of these assets is approximately equal to their fair value.

21. TRADE AND OTHER PAYABLES

	2013 \$'000	2012 \$'000
Trade payables	144,948	69,719
Accruals	64,055	16,160
Other payables	60,650	8,087
PAYE and social security	243	536
WHT and VAT payable	11,154	13,602
Interest payable	1,923	454
	282,973	108,558

Trade payables and accruals principally comprise amounts outstanding to the Group's joint venture partners, for capital expenditures associated with the Group's capital projects, ongoing operational and corporate costs and amounts cash called under the Strategic Alliance Agreement. The average credit period taken for trade purchases is 59 days (2012: 49 days). For most suppliers no interest is charged on the trade payables for the first 30 days from the date of the invoice.

Other payables primarily contain additional accrued payables in relation to the Strategic Alliance Agreement and remaining contract settlement amounts (see note 25).

The Group has working capital risk management policies in place to ensure that all payables are paid within the agreed credit terms where possible. The Directors consider that the carrying amount of trade and other payables approximates to their fair value.

22. DEFERRED TAX

The following are the major deferred tax assets and liabilities recognised by the Group and movements thereon during the current and prior year.

	Fixed assets \$'000	Unrealised FX gain/ (loss) \$'000	Share- based payments \$'000	Tax losses \$'000	Strategic alliance agreement \$'000	Other provisions \$'000	Capitalised interest \$'000	Total \$'000
At 1 January 2012	(40,361)	-	686	18,269	(1,389)	110	-	(22,685)
Credit/(expense) to income	805	(508)	409	9,525	(14,535)	458	(645)	(4,491)
Adjustments in respect of prior years	(917)	576	-	3,196	(358)	-	-	2,497
At 31 December 2012	(40,473)	68	1,095	30,990	(16,282)	568	(645)	(24,679)
Adjustments in respect of prior years	8,702	-	-	(2,080)	(5,528)	-	127	1,221
Credit/(expense) to income	15,307	639	1,115	(9,602)	(56,089)	-	(399)	(49,029)
At 31 December 2013	(16,463)	707	2,210	19,308	(77,899)	568	(917)	(72,486)

Certain deferred tax assets and liabilities have been offset. The following is the analysis of the deferred tax balances (after offset) for financial reporting purposes:

	2013 \$'000	2012 \$'000
Deferred tax liabilities	(76,636)	(33,191)
Deferred tax assets	4,150	8,512
	(72,486)	(24,679)

At the balance sheet date, the Group has unused tax losses of \$150.6 million (2012: \$138.1 million) available for offset against future profits. A deferred tax asset has only been recognised where future utilisation of such losses is considered probable. A deferred tax asset has been recognised on gross losses of \$49.7 million (2012: \$95.3 million) on the basis of the Group's forecasted results for each entity. No deferred tax asset has been recognised in respect of the remaining \$101.0 million (2012: \$42.8 million) of losses.

The recognised and unrecognised gross tax losses and other temporary differences of the Group are summarised below by jurisdiction:

	Recognised tax losses & other temporary differences		Unrecognised tax losses & other temporary differences		Total tax losses & other temporary differences	
	2013	2012	2013	2012	2013	2012
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
UK losses ⁽ⁱ⁾	-	-	51,844	18,322	51,844	18,322
Nigerian non E&P losses ⁽ⁱⁱ⁾	49,676	95,306	34,469	9,800	84,145	105,106
Nigerian E&P losses ⁽ⁱⁱⁱ⁾	-	-	14,430	14,430	14,430	14,430
Losses in other jurisdictions ^(iv)	-	-	228	225	228	225
Total tax losses	49,676	95,306	100,971	42,777	150,647	138,083
Other temporary differences ^(v)	76,946	26,600*	133,824	115,715*	210,770	142,315
Total tax losses	126,622	121,906	234,795	158,492	361,417	280,398

* amounts restated to present other temporary differences prior to offset of deferred tax liabilities for reporting purposes, along with additional unrecognised capital allowances.

- (i) UK losses are available to carry forward indefinitely for offset against future taxable profits.
- (ii) Nigerian non E&P losses are available to carry forward indefinitely for offset against future taxable non E&P profits.
- (iii) Nigerian E&P losses are available to carry forward indefinitely for offset against future taxable E&P profits.
- (iv) Losses in other jurisdictions comprise losses from the Netherlands, that expire nine years from the year incurred, and losses arising from Bermuda which are not carried forward as profits in Bermuda are subject to a 0% corporate tax rate.
- (v) Other temporary differences relate to fixed assets, provisions for future expenditure and share based remuneration of employees.

23. BORROWINGS

	2013 \$'000	2012 \$'000
Secured borrowing at amortised cost		
Bank loans ⁽ⁱ⁾		
Loans from non-related parties	340,383	127,500
Loans from related parties	38,276	18,750
Other loans ⁽ⁱⁱ⁾		
Loans from non-related parties	164,189	124,111
Secured borrowing at fair value through profit or loss		
Loans from non-related parties – conversion option ⁽ⁱⁱ⁾	182	1,145
Unsecured borrowing at amortised cost		
Loans from related parties ⁽ⁱⁱⁱ⁾	9,945	9,943
Total gross borrowings	552,975	281,449
Unamortised finance costs incurred on raising debt	(22,916)	(8,077)
Total net borrowings	530,059	273,372
Analysed as:		
Short-term borrowings	359,282	117,614
Long-term borrowings	170,777	155,758
	530,059	273,372

The maturity profile of the Group's gross borrowings including future interest expense on an undiscounted basis is shown in the table below. This differs from both the carrying value and fair value due to the effect of discounting, future interest costs and unamortised finance fees. Interest expense on floating rate debt is based on the relevant US LIBOR forward rates.

	2013 \$'000	2012 \$'000
Current		
Amount due within one year	398,403	143,254
Non-current		
Amount due after one year but within two years	103,160	178,586
Amount due after two years but within five years	126,175	20,494
Amount due after five years	48,175	-
	675,913	342,334

(i) Bank loans

Project finance facility

In July 2010, Accugas Limited (a wholly-owned subsidiary of the Company) entered into a loan facility of \$60.0 million to finance the Uquo development of a gas transportation pipeline, processing facilities and related infrastructure. During 2013, the Group completed the refinancing of the facility with a syndicate of Nigerian banks to include the further infrastructure development. The revised \$225.0 million facility has a 7-year term, bears interest of US LIBOR plus 10.0% per annum and is repayable in quarterly instalments from December 2014. As at 31 December 2013, the outstanding loan principal was \$190.0 million (31 December 2012: \$55.0 million).

Reserve based secured facility

The Group has a Reserve Based Secured Facility with three banks (one of which is Standard Chartered Bank, a related party of the Group). During 2013, the Group completed re-determinations of the borrowing base and an expansion of the facility, increasing the facility amount from \$150.0 million to \$350.0 million, with the

borrowing base increasing from \$75.0 million to \$208.0 million. The revised facility comprises two tranches and is repayable at the earlier of one day before the maturity of the Convertible Bond (due on 31 December 2014) or in six-monthly instalments up to December 2017 (Tranche 1) and December 2018 (Tranche 2), with an interest rate of US LIBOR plus 8.75% (subject to a minimum coupon of 9.0% per annum). Following the re-determinations and expansion, an additional net \$58.6 million has been drawn down taking the total principal outstanding at 31 December 2013 to \$148.6 million (2012: \$56.2 million). The amount available under this facility is subject to a borrowing base calculated by reference to the net present value of the project cashflows, which is regularly reviewed by the lenders. Given the Convertible Bond's current maturity date of 31 December 2013, the full carrying amount of the Reserve Based Secured Facility is included within short-term borrowings.

Secured borrowing facility

In March 2013, the Group acquired its funding partner's 30% share of the rights and obligations associated with the Strategic Alliance Agreement. The consideration included novation of the funding partner's \$40.0 million Secured Borrowing Facility. During the year, the facility was subsequently refinanced into the expanded Reserve Based Secured Facility.

Working capital facility

The Group has a \$40.0 million Working Capital Facility with First City Monument Bank plc for general funding requirements. It has a 12 month term and is renewable annually in March, with an interest rate of 9.6% plus US LIBOR per annum. Subsequent to year end, Management renewed the facility for a further 12 months, to March 2015. At 31 December 2013, \$40.0 million remained outstanding under the facility (2012: \$35.0 million).

(ii) Other loans

Convertible bond

During 2013, the Group issued a further \$28.8 million of Convertible Bonds, taking the total amount in issue at 31 December 2013 to \$150.0 million (2012: \$121.2 million). The Convertible Bonds have a maturity date of 31 December 2014, bear interest at 10.0% and have a 19.0% redemption premium on maturity. They also contain a conversion option to equity upon a qualifying IPO or company sale event. The conversion option, which is based on the fair value of the shares at the conversion date, is carried at fair value through profit or loss, with a fair value at 31 December 2013 of \$0.2 million (2012: \$1.1 million). At the year end, a \$1.3 million revaluation gain arose and is presented in Investment revenue (2012: charge to Finance costs of \$25,120).

(iii) Loans from related parties

The Group, through its subsidiary Universal Energy, holds a Naira denominated loan due to Akwa Ibom Investment and Industrial Promotion Council (a minority shareholder in Universal Energy) for \$9.9 million (2012: \$9.9 million). The loan is expected to be repaid out of the production revenues generated by the Stubb Creek field, with repayments expected to commence in 2014. The loan is currently interest free and is recorded at amortised cost. The fair value based on current market rates at 31 December 2013 is \$32.5 million (2012: \$28.2 million).

Weighted average interest rate

The weighted average effective interest rates charged on borrowings during the years were as follows:

	Year ended 31 December 2013 %	Year ended 31 December 2012 %
Group borrowings	10.64	11.19

24. FINANCIAL INSTRUMENTS

Categories of financial instruments

	2013	2012
	\$'000	\$'000
Financial assets		
Cash and cash equivalents	50,383	32,190
Loans and receivables	39,507	54,896
	89,890	87,086
Financial liabilities		
<i>Held at amortised cost</i>		
Trade and other payables	151,091	86,500
Borrowings (note 23)	529,877	272,227
<i>Held at fair value through profit or loss</i>		
Borrowings – conversion option (note 23)	182	1,145
	681,150	359,872

The Directors consider that with the exception of the \$9.9 million loan held by Universal Energy (as described in note 23), the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the financial statements approximate to their fair values.

During 2013, the Group issued a further \$28.8 million of Convertible Bonds which contain a conversion option to equity upon a qualifying IPO or company sale event. The derivative is carried at fair value through profit or loss. The fair value at 31 December 2013 was \$0.2 million (2012: \$1.1 million) and following the issue of more convertible bonds and year end revaluation a net gain of \$1.3 million (2012: Finance cost, \$25,120) was recorded within Investment revenue. The fair value measurements have been determined by reference to observable data in quoted markets at the balance sheet date and categorised as level 2 in accordance with IFRS 7.

Significant accounting policies

Details of the significant accounting policies and methods adopted, including the criteria for recognition, the basis of measurement and the basis on which income and expenses are recognised, in respect of each class of financial asset, financial liability and equity instrument are disclosed in note 3 to the financial statements.

Capital risk management

The Group manages its capital, including ongoing monitoring and adherence to covenants and indebtedness obligations of its borrowings to ensure that entities in the Group will be able to continue as going concerns while maximising the returns to stakeholders. The capital structure of the Group currently consists of net debt, which includes the borrowings and cash and cash equivalents, and equity which consists of irredeemable convertible loan notes and ordinary share capital. The irredeemable convertible loan notes are categorised as equity due to the terms of these instruments.

Financial risk management objectives

The Group's Finance function co-ordinates access to international financial markets and monitors and manages the financial risks relating to the operations of the Group. These risks include commodity price risk, currency risk, credit risk, interest rate risk and liquidity risk.

Commodity price risk

The Group's activities expose it primarily to the financial risks of changes in oil and gas commodity prices. The Group monitors and manages this risk where considered appropriate through long-term sales contracts and forward contracts to economically hedge this commodity price risk.

In order to increase the availability under the Reserve Based Secured Facility, certain oil price hedging contracts were entered into with the syndicate banks to enable the Group to secure a minimum \$100.00 per barrel oil price for varying quantities (ranging from 9,000 to 67,500 barrels per month) of oil sales between 1 August 2011 and 1 December 2014. All of these contracts had settled prior to each of the year ends.

The Group currently has low exposure to changes in the oil price as, under the terms of the Strategic Alliance Agreement, the Group recovers its cost oil in absolute US dollar terms. Changes in the oil price only affects the number of barrels lifted, timing of cost recovery and the value of any residual profit oil.

In 2009, the Group entered into a 10-year gas sales agreement to supply 43.5 MMcfpd to the 190 MW Ibom Power station. In 2011, the Group entered into a 20-year gas sales agreement to supply 131 MMcfpd to the 560 MW Calabar NIPP power station, due to be ready for commissioning in 2014. As a result, changes in the market gas price over the duration of each agreement would have no impact on Group loss and equity in the current or future periods.

Foreign currency risk management and sensitivity analysis

The Group operates internationally and has exposure to currency risk on purchases, sales, cash and cash equivalents that are denominated in currencies other than US dollars. The currencies giving rise to this are principally the British Pound Sterling and Nigerian Naira. The Group's exposure to foreign exchange fluctuations is reduced by maintaining cash balances primarily in US dollars reflecting the currency of the majority of the Group's transactions.

The carrying amounts of the Group's foreign currency denominated monetary assets and monetary liabilities at the reporting date are as follows:

	Liabilities		Assets		Net Liabilities	
	2013 \$'000	2012 \$'000	2013 \$'000	2012 \$'000	2013 \$'000	2012 \$'000
British Pound Sterling	(5,631)	(5,082)	4,844	2,271	(787)	(2,811)
Nigerian Naira	(24,586)	(26,605)	5,009	8,028	(19,577)	(18,577)

For 2013, a 20% increase and decrease in the US dollar against the Sterling currency for 2013 would have resulted in an increase in profit and equity of \$0.2 million and a decrease of \$0.1 million, respectively. For 2012, a 20% increase and decrease in the US dollar against the Sterling currency would have resulted in an increase in profit and equity of \$0.5 million and a decrease of \$0.7 million, respectively.

For 2013, a 20% increase and decrease in the US dollar against the Naira currency for 2013 would have resulted in an increase in profit and equity of \$1.6 million and a decrease of \$2.4 million, respectively. For 2012, a 20% increase and decrease in the US dollar against the Naira currency would have resulted in an increase in profit and equity of \$1.4 million and a decrease of \$2.2 million, respectively.

Credit risk management

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Group. The Group has a policy of only dealing with creditworthy counterparties and obtaining sufficient collateral or advance payment where appropriate, as a means of mitigating the risk of financial loss from defaults.

Exposure to credit risk in the periods shown is considered to be relatively minor because, although sales are currently to a single counterparty, the cash inflows from sales are from an international super-major (associated with the Strategic Alliance Agreement with a Nigerian national oil company subsidiary). Other funding sources are reputable and international banking institutions and security holders. Advance payment has also been received for the first year of gas sales to Ibom Power.

Dilution of credit risk is expected to occur in the future in relation to the sale of oil and gas in Nigeria as the Group's gas operations come onstream and the customer base expands. The Group will look to further mitigate this risk by obtaining letters of credit or bank guarantees where appropriate to support payment where possible.

The carrying amount of financial assets recorded in the financial statements, which is net of impairment losses, represents the Group's maximum exposure to credit risk as no collateral or other credit enhancements are held.

Interest rate risk management and sensitivity analysis

The Group is exposed to interest rate risk because entities in the Group borrow funds at both fixed and floating interest rates. The risk is managed by the Group maintaining an appropriate mix between fixed and floating borrowings.

The sensitivity analyses below have been determined for floating rate liabilities based on the exposure to interest rates at the balance sheet date. For floating rate liabilities, the analysis is prepared based on the average liability outstanding during the year.

If interest rates had been 0.5% higher or lower, and all other variables were held constant, the Group's gross interest costs (before any interest capitalisation adjustment) for the year ended 31 December 2013 would have increased or decreased respectively by \$1.4 million (2012: \$0.8 million). This is attributable to the Group's exposure to interest rates on its variable rate borrowings.

The Group had cash and cash equivalents on hand on which it earned investment income. A 0.5% increase or decrease in the interest rate would have resulted in an increase or decrease in investment income by \$0.2 million (2012: \$0.1 million).

Liquidity risk management

Ultimate responsibility for liquidity risk management rests with the Board of Directors, which has built an appropriate liquidity risk management framework for the management of the Group's short, medium and long-term funding and liquidity management requirements. The Group maintains adequate liquid reserves, by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities.

The Group closely monitors and manages its liquidity risk. Cash forecasts are regularly produced and sensitivities run for different scenarios including, but not limited to, changes in commodity prices, different production rates from the Group's portfolio of producing fields and delays in development projects. In addition, the Group regularly monitors its utilised and unutilised amounts of its borrowings in place (further details of which are provided in note 23). Subject to the requirements outlined in the "Going concern" section of the note 3 – Significant accounting policies, the Group's forecasts show that the Group will be able to operate within its current debt facilities and has sufficient financial headroom for the next 12 months.

Refer to note 20 (Cash and cash equivalents) for the respective locations of the Group's cash reserves. All of the Group's cash and cash equivalents are currently held within reputable and well known commercial institutions.

The following table details the Group's remaining contractual maturity for its non-derivative financial liabilities (excluding borrowings, the repayment terms of which are provided in note 23). The amounts are based on undiscounted cash flows and on the earliest date on which the Group can be required to pay.

	2013 \$'000	2012 \$'000
Less than 30 days	125,269	86,101
31 – 60 days	-	399
61 – 90 days	25,822	-
91+ days	-	-
	151,091	86,500

25. PROVISIONS

	Decommissioning provision \$'000	Contract provision \$'000	Total \$'000
Balance at 1 January 2012	12,756	20,000	32,756
Provided during the year	9,834	-	9,834
Unwinding of the discount (note 12)	1,184	-	1,184
Balance at 31 December 2012	23,774	20,000	43,774
Provided during the year	804	-	804
Unwinding of the discount (note 12)	1,467	-	1,467
Utilisation of provision	-	(20,000)	(20,000)
Balance at 31 December 2013	26,045	-	26,045
Presented as:			
Current balance at 31 December 2012	-	20,000	20,000
Non-current balance at 31 December 2012	23,774	-	23,774
	23,774	20,000	43,774
Current balance at 31 December 2013	-	-	-
Non-current balance at 31 December 2013	26,045	-	26,045
	26,045	-	26,045

The Group provides for the present value of estimated future decommissioning costs for certain of its oil and gas properties in Nigeria. The amounts shown are expected to be settled between 2027 and 2037.

The Group had a provision of \$20.0 million for costs of terminating several contracts relating to project management and gas marketing services. Of the \$20.0 million, \$10.0 million is included within Trade and other payables – Other payables (note 21) and was paid in April 2014.

26. CAPITAL COMMITMENTS AND OTHER CONTINGENCIES

Operating lease commitments – Group as lessee

	2013 \$'000	2012 \$'000
Minimum lease payments under operating leases recognised as an expense in the year	2,840	3,255

At the balance sheet date, the Group had outstanding commitments for future minimum lease payments under non-cancellable operating leases, which fall due as follows:

	2013 \$'000	2012 \$'000
Within one year	437	625
In the second to fifth years inclusive	-	618
	437	1,243

Operating lease payments represent rentals payable by the Group for certain of its office and staff housing properties. Leases are typically negotiated for terms of one to five years and rentals fixed for an average of two years with an option to extend at the then prevailing market rate for varying terms.

Capital commitments

	2013	2012
	\$'000	\$'000
Oil and gas assets – development	1,670	5,489
Oil and gas assets – exploration and evaluation	4,715	4,715
	6,385	10,204

The commitments for development of oil and gas assets relate primarily to the contractually committed amounts for the construction of the Uquo to Oron pipeline. The commitments for exploration and evaluation of oil and gas assets relate to the Group's contracted agreement for the use of a drilling rig in Nigeria. The Group has assigned the use of this rig to a third party and as such, has assigned all of its rights and obligations in respect of the rig until such time as the third party has finished its drilling programmes (expected to be the first quarter of 2014). The contract expires in May 2014.

27. RETIREMENT BENEFIT SCHEMES

Defined contribution schemes

The Group operates defined contribution retirement benefit schemes for all qualifying employees. The assets of the schemes are held separately from those of the Group in funds under the control of trustees.

The employees of the Group's subsidiaries in Nigeria are members of a state-managed retirement benefit scheme operated by the Government of Nigeria. The subsidiaries are required to contribute a specified percentage of payroll costs to the retirement benefit scheme to fund the benefits. The only obligation of the Group with respect to the retirement benefit scheme is to make the specified contributions.

The total cost charged to income of \$1.3 million (2012: \$1.0 million) represents contributions payable to these schemes by the Group at rates specified in the rules of the plans. As at 31 December 2013, contributions of \$0.1 million (2012: \$0.1 million) due in respect of the current reporting period had not been paid over to the schemes and are recorded within Trade and other payables.

28. DEFERRED REVENUE

The Group has a gas sales agreement with Ibom Power Company Limited to supply gas for a 10-year period to its power station located in the Akwa Ibom State in south east Niger Delta. The agreement included a condition that Ibom Power Company Limited would make an advance payment of \$63.5 million, which represents two years of gas deliveries. \$31.8 million (50% of the advanced payment) was paid on the signing of the contract. The second advanced payment of \$31.8 million was invoiced during 2012 with \$11.5m received to date. The total amount shown as deferred revenue has been split into a current and non-current liability, based on the future expected gas delivery profile.

	31 December	31 December
	2013	2012
	\$'000	\$'000
Current liability	31,755	13,232
Non-current liability	31,755	50,279
Total	63,510	63,511

29. SHARE CAPITAL

	31 December 2013 \$'000	31 December 2012 \$'000
Issued and fully paid:		
508,906 ordinary shares of \$0.01 each		
(2012: 506,240 ordinary shares of \$0.01 each)	5	5

During the year, 2,666 new ordinary shares were issued to a member of the Group's Executive Committee as part of his employment arrangements.

The Company does not have a specified number of shares authorised for issue. The Company has one class of ordinary shares which carries no right to fixed income.

30. IRREDEEMABLE CONVERTIBLE LOAN NOTES

The Company has ICLNs in issue. The following ICLNs were issued during 2012 and 2013 and were still outstanding at the year-end:

	ICLN value \$'000	Effective conversion price per share \$	Number of ordinary shares if converted
At 1 January 2012	535,295	n/a	1,682,003
Reclassification from share premium	363	320.86	1,130
ICLNs issued	77,373	150.00	515,822
Issuance costs	(345)	n/a	-
At 31 December 2012	612,686	n/a	2,198,955
ICLNs re-purchased	(91)	320.86	(285)
Prior year issuance costs	(12)	n/a	-
At 31 December 2013	612,583	n/a	2,198,670

None of the ICLNs issued to date have been converted to ordinary shares. The ICLNs are non-interest-bearing and are not repayable. They are convertible by the holder into ordinary shares of the Company at any time between the date of issue of the notes and certain mandatory conversion trigger events (including an IPO) as per the irredeemable convertible loan note agreements. The proceeds received, net of transaction costs, from the issue of these convertible loan notes have accordingly been included as a component of equity representing the fair value of the option to convert into ordinary shares of the Group.

31. EQUITY RESERVES

	Other equity reserve \$'000	Share- based payments reserve \$'000	Foreign currency translation reserve \$'000	Total \$'000
At 1 January 2012	16,176	15,048	(732)	30,492
Share-based payments	-	2,843	-	2,843
At 31 December 2012	16,176	17,891	(732)	33,335
Share-based payments	-	6,449	-	6,449
Issuance of shares	-	(400)	-	(400)
At 31 December 2013	16,176	23,940	(732)	39,384

Other equity reserve: The other equity reserve is in respect of the warrants issued by the Company.

Share-based payments reserve: The reserve represents cumulative amounts charged to the statement of comprehensive income in respect of employee share-based payment plans where the scheme has not yet been settled by means of an award of shares to an individual.

Foreign currency translation reserve: The foreign currency translation reserve is used to record exchange differences arising from the translation of the financial statements of foreign operations. The reserve was frozen from 1 January 2012 as the functional currency of the associated subsidiary (Seven Energy (UK) Limited) was changed from sterling to US dollars on the basis that the US dollar is now more representative of the subsidiary's expanded group-wide support activities.

32. SHARE-BASED PAYMENTS

The Group has in place a share-based payment arrangement for its employees, has previously issued warrants to a contractor and has also issued share options in connection with the purchase of the Gulf of Guinea Energy Limited group of companies in 2009. In addition, in 2013, the Company awarded fully paid up shares to a member of the Group's Executive Committee as part of his employment arrangements.

Details of the total share-based payment charge are as follows:

	Year ended 31 December 2013 \$'000	Year ended 31 December 2012 \$'000
Discretionary share option plan	5,449	2,843
Other share based payments	1,000	-
Total share-based payment charge	6,449	2,843

Discretionary Share Option Plan

The Group operates a share option scheme for employees. The Group's policy is to award options to eligible employees at the sole discretion of the HR & Remuneration Committee of the Board. Options are issued at market price on the grant date and typically have a three-year vesting period. In addition, some options have performance related vesting conditions which require that the Company share price reaches \$700.00 per share before they are able to be exercised by the employee. The options expire up to seven years from the date of grant if they remain unexercised and are forfeited if the employee leaves the Group before the options vest except at the discretion of the Board.

Following the Company's issue of ICLNs in October 2012, during 2013, the Board approved an amendment to the Discretionary Share Option Plan such that, for some options with performance conditions, the exercise price for options previously issued at \$350.00 per share were reduced to \$311.87 per share; (2012: for options without performance conditions, the exercise price for options previously issued at \$320.86/share and \$350.00/share were reduced to \$285.91 per share and \$311.87 per share respectively). The Board also granted a further 875 (2012: 7,658) options as a result of this issue of ICLNs. Valuation details for these grant of options is set out in the following tables.

In addition to the above modifications, the Group granted a further 60,707 (2012: nil) share options to employees under the Discretionary Share Option Plan. Of these options, a total of 31,157 will vest in three equal annual tranches from 1 January 2013. The balance of 29,550 options will vest in three equal annual tranches from 1 January 2014.

In the year ended 31 December 2013, the charge included \$0.3 million (2012: \$0.7 million) relating to the modification of previously issued share options as described above which represents the increase in the fair value of the options at the 12 March 2013 modification date (2012: 29 November 2012). No further charge relating to these modified options will be expensed during 2014 (2012: \$0.1 million expensed in 2013).

Details of the share options outstanding during the year are as follows:

	2013 Number of share options	2013 Weighted average exercise price \$	2012 Number of share options	2012 Weighted average exercise price \$
Outstanding at beginning of year	130,554	318.54	125,088	343.33
Granted during the year	61,582	311.87	7,658	302.37
Forfeited during the year	(1,754)	311.87	(2,192)	350.00
Expired	(34,323)	340.00	-	n/a
Outstanding at the end of year	156,059	309.18	130,554	318.14
Exercisable at the end of year	98,766	307.45	103,300	318.54

The weighted average remaining contractual life of the options outstanding at 31 December 2013 was 3.71 years (2012: 3.03 years). The range of exercise prices of options outstanding at the year-end were \$285.91 to \$350.00 (2012: \$285.91 to \$350.00).

The options granted during the year without performance conditions have been valued by reference to the Black-Scholes option valuation model. The options grants with a performance condition, which require that the share price reaches \$700.00 before vesting, have been valued using a modified binomial model. The inputs into the Black-Scholes and binomial model were as follows:

	2013	2012
Weighted average share price ⁽ⁱ⁾	\$315.00	\$315.00
Weighted average exercise price	\$311.87	\$302.37
Expected volatility	74.5% - 111.0%	106.3% - 111.0%
Expected life (years)	0.81	0.67
Risk-free rate	0.31% - 0.6%	0.31% - 0.33%
Expected dividends	nil	nil
Weighted average fair value per option granted	\$112.22	\$114.18

(i) The share price inputs to the share-based payments valuation has been determined on a basis consistent with the issue and valuation of equity linked instruments issued by Seven Energy at a similar time.

The Company's shares are not listed on an open market; therefore, to determine the expected volatility of the Company shares, the Company used a peer group's stock prices for three years prior to the option grant date.

Other share based payments

In 2013, the Company awarded options over 8,000 shares (2012: nil), without any performance conditions, to a member of the Group's Executive Committee. These options vest equally in three tranches annually from 7 January 2013, with a third vesting immediately a third vesting over 12 months and a third vesting over 24 months. The fair value of the shares issued was considered to be \$150.00 per share. The charge for the year was \$1.0 million (2012: nil).

33. NON-CONTROLLING INTERESTS

	\$'000
At 1 January 2012	23,758
Share of loss for the year	(193)
At 31 December 2012	23,565
Share of loss for the year	(1,459)
At 31 December 2013	22,106

The non-controlling interest relates to the remaining 37.5% shareholding in the Group's subsidiary, Universal Energy.

34. RELATED PARTY TRANSACTIONS

The Group, through its subsidiary Universal Energy, holds a Naira denominated loan due to Akwa Ibom Investment and Industrial Promotion Council (a minority shareholder of Universal Energy) for \$9.9 million (2012: \$9.9 million). The loan is expected to be repaid out of the production revenues generated by the Stubb Creek field, with repayments expected to commence in 2014. The loan is currently interest free.

Petrofac Limited (“Petrofac”) the international oil and gas facilities, engineering and project management services provider holds an equity interest in the Company. During the year, the Group received project management, engineering and procurement services totalling \$2.6 million (2012: \$4.8 million) of which \$1.9 million remained payable at 31 December 2013 (2012: \$6.0 million). The services were associated with the ongoing development of the Uquo and Stubb Creek fields.

The Group has a Reserve Based Secured Facility with three banks, one of which is Standard Chartered Bank, a security holder in the Company via its subsidiary Standard Chartered Private Equity (Mauritius) III Ltd. During 2013, the Group completed redeterminations of the borrowing base and an expansion of the facility. The facility has been increased to \$350.0 million, with the borrowing base increased to \$208.0 million. \$148.6 million was outstanding at 31 December 2013 (2012: \$56.2 million) with \$38.3 million being a related party balance with Standard Chartered Bank. Further details of the facility are provided in note 23.

During 2012, a related party transaction took place between the Group and Amaya Capital Partners, a company in which Phillip Ihenacho, a Director and CEO of the Company, has an interest in. Amaya Capital Partners was paid consultancy fees of \$0.1 million in connection with capital-raising, identifying acquisition opportunities and sales contract discussions. The consultancy agreement was not renewed beyond December 2012 and no fees were paid during 2013.

During 2012, a related party transaction took place between the Group and Tracon Investments Limited, a company in which Kola Aluko, a former Director of the Company, and current shareholder, has an interest. Tracon Investments Limited was paid consultancy fees during 2012 of \$1.1 million in connection with business development and acquisition opportunities. The consultancy agreement was not renewed beyond November 2012 and no fees were paid during 2013.

During 2012 and 2013, the Company had outstanding share purchase loans with a former Director and former employees of the Company, who remain current security holders. The loans accrued interest during the periods of US LIBOR plus 2%. The amounts outstanding at 31 December 2013 were \$2.2 million (2012: \$2.2 million) and are included within Trade and other receivables – Other receivables (note 17).

Other transactions with key management during the year were as follows:

	Year ended 31 December 2013 \$'000	Year ended 31 December 2012 \$'000
Transactions with key management personnel during the year		
Amounts incurred on behalf of key management ⁽ⁱ⁾	(38)	63
Amounts owed by key management personnel at year end		
Amounts incurred on behalf of key management	25	63

(i) Net amount represents amounts incurred offset against amounts settled by year end.

Remuneration of key management personnel

The Directors and members of the Group's Executive Committee are considered to be the key management personnel of the Group. The remuneration of the key management personnel of the Group is set out below in aggregate:

	Year ended 31 December 2013 \$'000	Year ended 31 December 2012 \$'000
Short-term employee benefits	3,936	1,829
Other long-term benefits	275	183
Share based payments	1,474	506
Termination benefits	248	-
	5,933	2,518

35. INTERESTS IN SUBSIDIARIES AND JOINT OPERATIONS

Details of the principal subsidiaries during the years ended 31 December 2013 and 2012 and the percentage of share capital owned by the Company are set out below. All of these subsidiaries are included in the consolidated Group statements:

Name	Place of incorporation (or registration) and operation	Activity	Proportion of ownership interest %	Proportion of voting power held %
Seven Energy (UK) Limited	Scotland	Service company	100	100
Septa Upstream Uquo Limited (formerly Gulf of Guinea Energy (Nigeria) Limited)	Nigeria	Oil and gas exploration and development	100	100
Septa Energy Nigeria Limited	Nigeria	Oil and gas exploration and development and related activities	100	100
Universal Energy Resources Limited	Nigeria	Oil and gas exploration and development	62.5	62.5
Accugas Limited	Nigeria	Gas marketing and distribution	100	100

Details of the Group's interests in joint operations during the years ended 31 December 2013 and 2012 are set out below. The Group's share of assets, liabilities, revenues and expenses are included in the Group's consolidated financial statements:

Name	Joint interest partner	Place of registration and operation	Activity	Proportion of participating interest %
Uquo field joint operation	Frontier Oil Limited	Nigeria	Oil and gas exploration and development	40
Stubb Creek field joint operation	SINOPEC International Petroleum Exploration and Production Company Nigeria Limited ("Sinopec")	Nigeria	Oil and gas exploration and development	51
Matsogo field joint operation	Chorus Energy Limited ("Chorus Energy")	Nigeria	Oil and gas exploration and development	49
Strategic Alliance Agreement	Nigerian Petroleum Development Company Limited ("NPDC")	Nigeria	Oil and gas exploration and development	55

Uquo field joint operation

The Group acquired its 40% licence interest in the Uquo field in 2009 through its acquisition of Gulf of Guinea Energy Limited. The remaining 60% is held by Frontier Oil Limited, the operator under the licence. The Group pays 100% of capital and operating costs for joint operations until the Group's net revenue from oil operations or gas operations exceed capital and operating costs plus 15% per annum on any unrecovered balance for the oil project and gas project respectively ("Payout"). The Group is liable for 48% of capital costs thereafter for the oil or gas project. With respect to oil operations, the Group is entitled to 85% of revenues until Payout reducing to 48% after Payout of the oil project. With respect to gas operations, the Group is entitled to 90% of revenues until Payout reducing to 48% after Payout of the gas project.

Stubb Creek field joint operation

The Group obtained its interests in the Stubb Creek field through its acquisition of a 62.5% controlling interest in Universal Energy. Universal Energy holds a 51% licence interest in the Stubb Creek field with the remaining 49% held by Sinopec. With respect to oil operations, Universal Energy has a 20% paying interest and a 35% profit sharing interest and, with respect to gas operations, Universal Energy has a 50% paying interest and a 60% profit sharing interest.

Matsogo field joint operation

The Group holds its interest in the Matsogo field through a farm-in arrangement with Chorus Energy. The Group owns a 49% licence interest in this field and Chorus Energy owns the remaining 51%. Under the terms of the farm-in agreement, Chorus Energy has an option to increase its stake in this field to 55% which may be exercised at Chorus Energy's discretion. Pursuant to the terms of the farm-in agreement, the Group is required to fund 100% of the capital expenditures required to develop the first six wells in the field and shall recover such costs through an economic interest in 75% of the net revenues from the field until such time as the Group recovers 150% of such costs, after which the Group's economic interest in net revenues from the field shall reduce to 49%.

At 31 December 2013, the carrying value of the Group's interest in the Matsogo field is presented within Assets held for sale as the Group has agreed the sale of its interest (note 19).

Strategic alliance agreement

The Group has a participating interest in OML's 4, 38 and 41 through a Strategic Alliance Agreement with NPDC. OML's 4, 38 and 41 are operated by Seplat Petroleum Development Company Limited (45% equity owner) in joint venture with NPDC (55% equity owner). The Group has an economic interest in the assets via the Strategic Alliance Agreement, whereby the Group provides funding for the NPDC share of joint venture operating costs and capital expenditures as well as technical expertise. The Group is entitled to cost recovery and a share of profit oil determined at different percentage rates based both on baseline and incremental production volumes which change over the course of the agreement.

36. SUBSEQUENT EVENTS

In January 2014 the Uquo field achieved commercial delivery of gas to the 190 MW Ibom Power station. Initial deliveries were at an average rate of 16 MMcfpd and expected to reach contracted volumes of 43.5 MMcfpd following completion of planned maintenance to the power station's other 2 turbines.

On 31 January 2014, the Company acquired from Suntera Management Limited the entire issued share capital of SRL 905 Holdings Limited, a Jersey incorporated company, and its wholly owned Nigerian subsidiary Energy 905 Suntera Limited ("E905S"), an oil and gas exploration and production company. The total consideration of \$48.0 million was satisfied by a cash payment of \$15.0 million and the issue of ICLNs amounting to \$33.0 million at an initial conversion price of \$350.00 per share (which is subject to modification upon subsequent dilutive offerings occurring before 30 April 2015). E905S has a 40% licence interest in Oil Prospecting Licence 905 ("OPL 905") which is located in the Anambra Basin. Over the next two years, the Group aims to undertake seismic studies and drill a number of appraisal wells. OPL 905 is subject to a Production Sharing Contract between the Nigerian National Petroleum Corporation, Gas Transmission and Power Limited, Ideal Oil and Gas Limited and E905S. At the current time, the Group is in the process of preparing the initial accounting entries for the business combination, including assessing the fair value of the acquired assets and liabilities of the two acquired entities.

On 31 March 2014, the Company acquired from Oando Plc the entire issued share capital of East Horizon Gas Company Limited ("EHGC"), a Nigerian gas distribution and marketing company, for total consideration of up to \$250.0 million. EHGC operates the 128 km East Horizon gas pipeline through Akwa Ibom and Cross Rivers States in south east Nigeria. EHGC also has a gas sales agreement with an industrial off taker to supply up to 25 MMcfpd, increasing to 50 MMcfpd in 2016, under a 20-year gas sales agreement, expiring in 2032. The acquisition is expected to further enhance Seven Energy's gas marketing and distribution position in the south east Niger Delta region, expanding the reach of its pipeline network, diversifying its customer base and increasing long-term contracted gas sales volumes.

The aggregate consideration of up to \$250.0 million will be payable by way of: (i) an initial payment of \$100.0 million in cash; (ii) the assumption of existing liabilities of EHGC, including approximately \$62.0 million of bank indebtedness; and (iii) deferred payments due on achievement of certain operational and contractual conditions that are expected to enhance the long term profitability of EHGC. It is expected that these operational and contractual conditions will be satisfied during the first half of 2014. The cash component of the consideration is being funded using a new Acquisition Finance loan facility of up to \$170.0 million and from the Group's internal cashflows. At the current time, the Group is in the process of preparing the initial accounting entries for the business combination, including assessing the fair value of the acquired assets and liabilities.

On 25 March 2014, the Group secured a new Acquisition Finance loan facility of up to \$170.0 million with a syndicate of Nigerian banks. The facility has a 5 year term and bears interest at 9.15% plus US LIBOR. The loan is repayable in quarterly instalments from March 2015. To date, \$100.0 million has been drawn down to fund the cash component of the consideration for the acquisition of EHGC as set out above.

Since the year end the Group has drawn down a further combined \$106.0 million under the Reserve Based Secured and Project Finance facilities and secured the renewal of the Working Capital Facility for a further twelve months to 31 March 2015.

On 11 April 2014, Group signed Investment Agreements with three equity investors for a combined investment of up to \$255.0 million. Each investment was in the form of a single share and the remainder in ICLNs. Completion is expected shortly following the satisfaction of several conditions precedent.

SEVEN ENERGY INTERNATIONAL LIMITED
AUDITED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2012

Registered in the Republic of Mauritius
Registered number: 65304

Contents

	PAGE
Independent auditor's report to the Directors of Seven Energy International Limited	F-68
Consolidated statement of comprehensive income.....	F-70
Consolidated balance sheet.....	F-71
Consolidated cash flow statement	F-72
Consolidated statement of changes in equity	F-73
Notes to the consolidated financial statements.....	F-74
Glossary of terms	F-110

Independent auditor's report to the Directors of Seven Energy International Limited

We have audited the non-statutory consolidated financial statements (the "financial statements") of Seven Energy International Limited and its subsidiaries ("the Group") for the year ended 31 December 2012 which comprise the consolidated statement of comprehensive income, the consolidated balance sheet, the consolidated statement of changes in equity, the consolidated cash flow statement and the related notes 1 to 36. The financial reporting framework that has been applied in their preparation is International Financial Reporting Standards (IFRSs) as adopted by the European Union.

This report is made solely to the Seven Energy International Limited's ("the Company") Directors in accordance with our engagement letter dated 15 October 2012 for the purposes of showing the results of management's stewardship of the resources entrusted to it. Our audit work has been undertaken so that we might state to the Company's Directors those matters we are required to state to them in an independent auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of Directors and auditor

As explained more fully in the statement of Directors' responsibilities, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Group's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion:

- the financial statements give a true and fair view of the Group's affairs as at 31 December 2012 and of its loss for the year then ended;
- the financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union.

Emphasis of matter – going concern

In forming our opinion on the financial statements, which is not modified, we have considered the adequacy of the disclosures made in the going concern section of note 3 to the financial statements concerning the Company's and the Group's ability to continue as a going concern. During the next 12 months, in order to be able to meet its financial commitments as they fall due, the Group needs to complete the conditions precedent associated with the increase in availability under the \$225.0 million Project Finance facility. This condition, along with other matters explained in the going concern section of note 3 to the financial statements, indicate the existence of a material uncertainty which may cast significant doubt about the Company's and the Group's ability to continue as a going concern. The financial statements do not include the adjustments that would result if the Company and Group were unable to continue as a going concern.

A handwritten signature in black ink that reads "Deloitte LLP". The signature is written in a cursive, slightly slanted style.

Chartered Accountants

Deloitte LLP

London
United Kingdom
24 May 2013

Consolidated statement of comprehensive income
For the year ended 31 December 2012

	<i>Notes</i>	2012 \$'000	2011 \$'000
Revenue	5	102,439	86,819
Cost of sales	6		
- Production expenses		(64,506)	(46,263)
- Underlift		23,588	-
Depletion	16	(17,501)	(11,986)
Gross profit		44,020	28,570
Depreciation and amortisation expenses	16	(2,749)	(2,064)
Other operating expenses	8	(1,727)	(4,776)
Administrative expenses	9	(25,940)	(28,057)
Operating profit/(loss)		13,604	(6,327)
Investment revenue	5	1,422	182
Finance costs	12	(18,683)	(6,763)
Foreign exchange (losses)/gains		(1,133)	647
Loss before tax		(4,790)	(12,261)
Tax expense	13	(1,832)	(14,650)
Loss for the year		(6,622)	(26,911)
Attributable to:			
Owners of the company		(6,429)	(26,577)
Non-controlling interests	33	(193)	(334)
Other comprehensive income for the year			
Loss for the year		(6,622)	(26,911)
Exchange differences on translation of foreign operations	31	-	234
Total other comprehensive income/(expense) for the year		-	234
Total comprehensive expense for the year		(6,622)	(26,677)
Attributable to:			
Owners of the company		(6,429)	(26,343)
Non-controlling interests		(193)	(334)
Loss per share (\$ per share)			
Basic and diluted from continuing operations	14	(2.8)	(12.3)

All operations relate to continuing operations in 2011 and 2012.

Consolidated balance sheet**At 31 December 2012**

	<i>Notes</i>	2012 \$'000	2011 \$'000
Non-current assets			
Intangible assets	15	12,257	11,292
Property, plant and equipment	16	713,347	506,865
Other receivables	17	7,441	6,592
Deferred tax assets	22	8,512	14,093
		741,557	538,842
Current assets			
Inventories	18	37,892	5,699
Trade and other receivables	17	56,590	68,139
Asset held for sale	19	4,300	-
Cash and cash equivalents	20	32,190	12,717
		130,972	86,555
Total assets		872,529	625,397
Current liabilities			
Trade and other payables	21	(108,558)	(72,520)
Borrowings	23	(117,614)	(69,075)
Deferred revenue	28	(13,232)	(13,231)
Provisions	25	(20,000)	(20,000)
Current tax liabilities	13	(41)	(291)
		(259,445)	(175,117)
Non-current liabilities			
Borrowings	23	(155,758)	(105,389)
Deferred tax liabilities	22	(33,191)	(36,778)
Long-term provisions	25	(23,774)	(12,756)
Deferred revenue	28	(50,279)	(18,524)
		(263,002)	(173,447)
Total liabilities		(522,447)	(348,564)
Net assets		350,082	276,833
Equity			
Share capital	29	5	5
Share premium		94,910	95,273
Irredeemable convertible loan notes	30	612,686	535,295
Retained deficit		(414,419)	(407,990)
Equity reserves	31	33,335	30,492
Equity attributable to owners of the Company		326,517	253,075
Non-controlling interests	33	23,565	23,758
Total equity		350,082	276,833

The financial statements were approved by the Board of Directors and authorised for issue on 24 May 2013.
They were signed on its behalf by:



Phillip Ihenacho

Director

Consolidated cash flow statement
For the year ended 31 December 2012

	2012	2011
	\$'000	\$'000
Loss for the year	(6,622)	(26,911)
Adjustments for:		
Investment revenues	(1,422)	(182)
Financing costs	18,683	6,763
Depreciation and amortisation	2,749	2,064
Depletion	17,501	11,986
Loss on disposal of property, plant and equipment	33	38
Income tax expense	1,832	14,650
Share-based payment expense	2,843	5,681
Foreign exchange loss/(gain)	1,133	(647)
Increase in provisions for bad debts and obsolescence	2,703	1,501
Operating cash flows before movements in working capital	39,433	14,943
(Increase)/decrease in inventories	(33,191)	3,962
(Increase)/decrease in trade and other receivables	14,692	(67,143)
Increase in trade and other payables	56,892	13,630
Net cash provided by/(used in) operating activities	77,826	(34,608)
Investing activities		
Interest received	109	132
Proceeds from disposal of property, plant and equipment	6	-
Purchases of property, plant and equipment and intangible assets	(186,335)	(171,332)
Net cash used in investing activities	(186,220)	(171,200)
Financing activities		
Interest and financing fees paid	(33,974)	(18,474)
Financing deposits paid	(7,638)	(4,513)
Repayments of borrowings	(68,350)	(5,000)
Proceeds from borrowings	40,000	78,142
Proceeds from issue of convertible bonds	121,200	-
Proceeds from issue of convertible loan notes	77,373	100,680
Net cash from financing activities	128,611	150,835
Net increase/(decrease) in cash and cash equivalents	20,217	(54,973)
Cash and cash equivalents at beginning of year	12,717	67,536
Effect of foreign exchange rate changes	(744)	154
Cash and cash equivalents at end of year	32,190	12,717

Consolidated statement of changes in equity
For the year ended 31 December 2012

	Share capital \$'000	Share premium \$'000	Irredeemable convertible loan notes \$'000	Retained deficit \$'000	Equity reserves \$'000	Total \$'000	Non- controlling interests \$'000	Total equity \$'000
At 1 January 2011	5	95,192	436,174	(381,413)	24,577	174,535	24,092	198,627
Equity-settled share based payments (note 32)	-	-	-	-	5,681	5,681	-	5,681
Issuance of equity	-	81	-	-	-	81	-	81
Issuance of convertible loan notes (note 30)	-	-	99,680	-	-	99,680	-	99,680
Expenses on issuance of equity	-	-	(559)	-	-	(559)	-	(559)
Loss for the year	-	-	-	(26,577)	-	(26,577)	(334)	(26,911)
Other comprehensive income	-	-	-	-	234	234	-	234
At 31 December 2011	5	95,273	535,295	(407,990)	30,492	253,075	23,758	276,833
Equity-settled share- based payments (note 32)	-	-	-	-	2,843	2,843	-	2,843
Reclassification	-	(363)	363	-	-	-	-	-
Issuance of convertible loan notes (note 30)	-	-	77,373	-	-	77,373	-	77,373
Expenses on issuance of equity	-	-	(345)	-	-	(345)	-	(345)
Loss for the year and total comprehensive expense	-	-	-	(6,429)	-	(6,429)	(193)	(6,622)
At 31 December 2012	5	94,910	612,686	(414,419)	33,335	326,517	23,565	350,082

Notes to the consolidated financial statements

1. GENERAL INFORMATION

Seven Energy International Limited (“the Company”) is incorporated in Mauritius under the Companies Act, 2001 (Act No. 15 of 2001). The address of the registered office is Cim Global Management, Les Cascades, Edith Cavell Street, Port Louis, Republic of Mauritius. The Company is the parent company of a group of companies (“the Group”) whose principal activities are the exploration, development and production of oil and gas in Nigeria.

These financial statements are presented in US dollars, which is the currency of the primary economic environment in which the Group operates. Foreign operations are included in accordance with the policies set out in note 3.

2. ADOPTION OF NEW AND REVISED STANDARDS

New standards and interpretations adopted with no significant effect on financial statements

The following new standards and amendments resulting from improvements to IFRS standards and interpretations are effective and have been adopted but are not considered to have any impact on the accounting policies, financial position or performance of the Group:

IFRS 1 (amended): First-time Adoption of International Financial Reporting Standards

IFRS 7: Financial Instruments: Disclosures

IFRS 13: Fair Value Measurement

IAS 1 (amended): Presentation of Financial Statements

IAS 12 (amended): Income Taxes – deferred tax recovery

IAS 19 (amended): Employee Benefits (2011)

IAS 27: Separate Financial Statements (2011)

IAS 28: Investments in Associates and Joint Ventures (2011)

IFRIC 20: Stripping Costs in the Production Phase of a Surface Mine

New standards and interpretations in issue but not yet effective

The following new standards are in issue but not yet effective. They are applicable to the Group from 1 January 2014. The impact on the Group’s operating results and financial position will be assessed on adoption:

IFRS 10: Consolidated Financial Statements

The standard uses control as the single basis for consolidation. It replaces those parts of IAS 27 that address when and how an investor should prepare consolidated financial statements.

IFRS 11: Joint Arrangements

The standard replaces *IAS 31 Interest in Joint Ventures* and provides a new definition specified accounting for what constitutes a joint operation and a joint venture.

IFRS 12: Disclosure of interests in other entities

This standard requires the disclosure of information that enables users of financial statements to evaluate the nature of, and risks associated with, interests in other entities, and in particular interests in joint arrangements.

Other new standards are in issue, but not yet effective, and are not considered to have any impact on the accounting policies, financial position or performance of the Group:

IFRS 9: Financial Instruments; Classification and Measurement (2009, superseded 2010)

IAS 32 (amended): Financial Instruments: Presentation

3. SIGNIFICANT ACCOUNTING POLICIES

Basis of accounting

The financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) adopted by the European Union and therefore the Group financial statements comply with Article 4 of the EU IAS Regulation.

The financial statements have been prepared on the historical cost basis, except for the revaluation of certain financial instruments and share-based payments. Historical cost is generally based on the fair value of the consideration given in exchange for the assets at the time of initial recognition. The principal accounting policies adopted are set out below.

Going concern

The Directors have, at the time of approving the financial statements, a reasonable expectation that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future although it is acknowledged that there are a number of material uncertainties in relation to this matter. Therefore, they continue to adopt the going concern basis of accounting in preparing the financial statements. Further detail is contained in the “going concern basis” section of the Financial Review.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (“its subsidiaries”), made up to 31 December each year. Control is achieved where the Company has the power to govern the financial and operating policies of an investee entity so as to obtain benefits from its activities.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated statement of comprehensive income from the date of obtaining control or up to the effective date of disposal, as appropriate. Where necessary, adjustments are made to the financial statements of subsidiaries to bring the accounting policies used in line with those used by the Group. All intra-group transactions, balances, income and expenses are eliminated on consolidation.

Non-controlling interests in the net assets of consolidated subsidiaries are identified separately from the Group’s equity therein. Non-controlling interests consist of the amount of those interests at the date of the original business combination (see below) and the non-controlling interest’s share of changes in equity since the date of the combination.

Changes in the Group’s interests in subsidiaries that do not result in a loss of control are accounted for as equity transactions. The carrying amount of the Group’s interest and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to the owners of the Company.

Joint ventures

The Group is engaged in oil and gas exploration, development and production through unincorporated joint ventures. The Group accounts for its share of the results and net assets of these joint ventures as jointly controlled assets.

Business combinations

Acquisitions of subsidiaries and businesses are accounted for using the acquisition method. The consideration for each acquisition is measured at the aggregate of the fair values (at the date of exchange) of assets given,

liabilities incurred or assumed, and equity instruments issued by the Group in exchange for control of the acquiree. Acquisition-related costs are recognised in the statement of comprehensive income as incurred.

Where applicable, the consideration for the acquisition includes any asset or liability resulting from a contingent consideration arrangement, measured at its acquisition-date fair value. Subsequent changes in such fair values are adjusted against the cost of acquisition where they qualify as measurement period adjustments. All other subsequent changes in the fair value of contingent consideration classified as an asset or liability are accounted for in accordance with relevant IFRSs.

Where a business combination is achieved in stages, the Group's previously held interests in the acquired entity are remeasured to fair value at the acquisition date (i.e. the date the Group obtains control) and the resulting gain or loss, if any, is recognised in the consolidated statement of comprehensive income. Amounts arising from interests in the acquiree prior to the acquisition date that have previously been recognised in other comprehensive income are reclassified to consolidated statement of comprehensive income, where such treatment would be appropriate if that interest were disposed of.

The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under IFRS 3 (2008) are recognised at their fair value at the acquisition date, except that:

- deferred tax assets or liabilities and liabilities or assets related to employee benefit arrangements are recognised and measured in accordance with *IAS 12 Income Taxes* and *IAS 19 Employee Benefits* respectively;
- liabilities or equity instruments related to the replacement by the Group of an acquiree's share-based payment awards are measured in accordance with *IFRS 2 Share-Based Payment*; and
- assets (or disposal groups) that are classified as held for sale in accordance with *IFRS 5 Non-current Assets Held for Sale and Discontinued Operations* are measured in accordance with that Standard.

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Group reports provisional amounts for the items for which the accounting is incomplete. Those provisional amounts are adjusted during the measurement period, or additional assets or liabilities are recognised, to reflect new information obtained about facts and circumstances that existed as of the acquisition date that, if known, would have affected the amounts recognised as of that date.

The measurement period is the period from the date of acquisition to the date the Group obtains complete information about facts and circumstances that existed as of the acquisition date, and is subject to a maximum of one year.

Commercial reserves

The Group defines commercial reserves as proven and probable oil and gas reserves, which are defined as the estimated quantities of crude oil, natural gas and natural gas liquids that geological, geophysical and engineering data demonstrate with a specified degree of certainty to be recoverable in future years from known reservoirs and that are considered commercially producible. This is equivalent to the 2P classification established by the Society of Petroleum Engineers ("SPE"). There should be a 50% statistical probability that the actual quantity of recoverable reserves will be more than the amount estimated as proven and probable reserves and a 50% statistical probability that it will be less.

Intangible assets – oil and gas exploration and appraisal assets

The Group adopts the "successful efforts" method of accounting for exploration and evaluation costs under *IFRS 6, Exploration for and Evaluation of Mineral Resources*. All licence acquisition, exploration and evaluation costs are capitalised within intangible fixed assets in cost centres by well, field or exploration area, as appropriate. Pre-licence expenditures on oil and gas assets are recognised as an expense within the consolidated statement of comprehensive income when incurred.

If commercial reserves are established then the relevant cost is transferred (following an impairment review as described below) from intangible exploration and appraisal assets to upstream assets within property, plant and equipment. Expenditure incurred after the commerciality of the field has been established are capitalised within upstream assets. If prospects are deemed to be impaired (unsuccessful) on completion of an evaluation, the associated capitalised costs are charged to the consolidated statement of comprehensive income.

Property, plant and equipment

Property, plant and equipment is stated at cost, less accumulated depreciation, depletion 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, if any, 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.

With the exception of upstream oil and gas assets, depreciation is charged to the consolidated statement of comprehensive income on a straight-line basis:

	Annual rate
Furniture, fixtures and equipment	20%
Vehicles	20%
Computer hardware and software	33%
Leasehold improvements	10%

The Group's infrastructure assets (pipelines, processing facility and gas receiving facility) are depreciated on a straight line basis over the useful economic lives of the material component assets being between 15-25 years. Depreciation is shown within depletion in the consolidated statement of comprehensive income.

Assets in the course of construction are not depreciated. Depreciation commences on assets in the course of construction when the assets are ready for their intended use.

The gain or loss arising on the disposal or retirement of an asset is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in administrative expenses.

Depletion and amortisation – upstream oil and gas assets

Oil and gas properties are depleted using a unit-of-production method, which is the ratio of oil and gas production in the period to the estimated quantities of commercial reserves at the end of the period plus production in the period, generally on a field-by-field basis. Costs used in the unit-of-production calculation takes into account expenditures incurred to date, together with the future capital expenditure expected to be incurred to access the commercial reserves. Changes in the estimates of commercial reserves or future field development costs are accounted for prospectively.

Assets held for sale

Assets or a disposal group classified as held for sale are measured at the lower of carrying value and fair value less costs to sell. Assets are classified as held for sale if their carrying amount will be recovered through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset is available for immediate sale in its present condition. Management must be committed to the sale which should expect to be completed within one year from the date of classification.

Impairment

The Group assesses assets or groups of assets for impairment whenever events or changes in circumstances indicate that the carrying value of an asset may not be recoverable, for example, low prices or margins for an extended period or, for oil and gas assets, significant downward revisions of estimated commercial reserves or

increases in estimated future development expenditure. If any such indication of impairment exists, the Group makes an estimate of the asset's recoverable amount. Individual assets are grouped for impairment assessment purposes at the lowest level at which there are identifiable cash inflows that are largely independent of the cash inflows of other groups of assets. An asset group's recoverable amount is the higher of its fair value less costs to sell and its value in use. 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 assessing value in use, the estimated future cash flows are adjusted for the risks specific to the asset group and are discounted to their present value using an appropriate discount rate that reflects current market assessments of the time value of money.

An assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. 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 its 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 consolidated statement of comprehensive income. After such a reversal, 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.

Decommissioning provision

Provision for decommissioning is recognised when the Group has a legal or constructive obligation to dismantle and remove a facility or an item of plant and to restore the site on which it is located, and where a reliable estimate can be made. A corresponding adjustment to property, plant and equipment of an amount equivalent to the provision is also recognised. This is subsequently depreciated as part of the asset and included in depletion expense in the statement of comprehensive income. Changes in the estimated timing of decommissioning or decommissioning cost estimates are accounted for prospectively by recording an adjustment to the provision, and a corresponding adjustment to property, plant and equipment. The unwinding of the discount on the decommissioning provision is classified in the consolidated statement of comprehensive income as finance costs.

Inventories

Inventories of oil and gas assets are stated at their net realisable values and changes in net realisable values are recognised in the income statement.

Other inventories are stated at the lower of cost and net realisable value. Cost is determined by the first-in first-out method and comprises direct materials and, where applicable, direct labour, overheads and other charges incurred in bringing the inventories to their present location and condition. Net realisable value represents the estimated selling price less all estimated costs to be incurred in marketing, selling and distribution.

Revenue recognition

Revenue arising from the sale of oil and gas products is recognised when the significant risks and rewards of ownership have passed to the buyer and it can be reliably measured. Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for oil and gas products provided in the normal course of business, net of discounts, customs duties and sales taxes.

Liftings or offtake agreements associated with the sale of oil, natural gas, natural gas liquids, liquefied natural gas, petroleum and petrochemicals products in which the Group has an interest in jointly owned or controlled operations are such that each participant may not receive and sell its precise share of the overall production in each period. The resulting imbalance between cumulative entitlement and cumulative production (less inventory) attributable to each participant at a reporting date represents 'overlift' or 'underlift'. Overlift and underlift are valued at market value and recorded as current liabilities or current assets respectively. Movements

during an accounting period are adjusted through cost of sales such that gross profit is recognised on an entitlements basis. Revenue is recognised on an actual invoiced basis for the value of the liftings made in the year.

Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.

Foreign currencies

The individual financial statements of each Group company are presented in the currency of the primary economic environment in which it operates (its functional currency). The functional currency of the Group's subsidiaries is the US dollar, which is also the Company's functional currency and presentation currency for the consolidated financial statements. Refer to note 31 for information regarding a change in functional currency for one of the subsidiaries.

In preparing the financial statements of the individual companies, transactions in currencies other than the entity's functional currency (foreign currencies) are recorded at the rates of exchange prevailing on the dates of the transactions. At each balance sheet date, monetary assets and liabilities that are denominated in foreign currencies are retranslated at the rates prevailing on the balance sheet date. Non-monetary items carried at fair value that are denominated in foreign currencies are translated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences upon remeasurement are recognised in the statement of comprehensive income in the period in which they arise.

For the purpose of presenting consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated at exchange rates prevailing on the balance sheet date. Income and expense items are translated at the exchange rates at the date of transactions. Exchange differences arising, if any, are recognised in the Group's equity reserves. Upon disposal of an operation, the amounts accumulated in the foreign currency translation reserve are recognised as income or expense in the period in which the operation is disposed of.

Borrowing costs

Finance costs of debt are allocated to periods over the term of the related debt at a constant rate on the carrying amount. Arrangement fees and issue costs are deducted from the debt proceeds on initial recognition of the liability and are amortised and charged to finance costs over the term of the debt.

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.

All other borrowing costs are recognised in the consolidated statement of comprehensive income in the period in which they are incurred.

Financial instruments

Financial assets and financial liabilities are recognised on the Group's balance sheet when the Group becomes party to the contractual provision of the instrument.

Effective interest method

The effective interest method is a method of calculating the amortised cost of an interest bearing financial asset and liability and for allocating interest income or expense over the relevant period. The effective interest rate is

the rate that discounts estimated future cash receipts or payments to present value (including all fees on points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset or liability, or, where appropriate, a shorter period.

Financial assets

All financial assets are initially measured at fair value. Financial assets are classified into the following specified categories: financial assets 'at fair value through profit or loss' ("FVTPL"), 'held-to-maturity' investments, 'available-for-sale' ("AFS") financial assets and 'loans and receivables'. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition. All of the Group's financial assets are currently classified as 'loans and receivables'.

Loans and receivables

Trade receivables, loans, and other receivables that have fixed or determinable payments that are not quoted in an active market are classified as loans and receivables. Loans and receivables are measured at amortised cost using the effective interest method, less any impairment. Interest income is recognised by applying the effective interest rate, except for short-term receivables when the recognition of interest would be immaterial.

Impairment of financial assets

Financial assets are assessed for indicators of impairment at each balance sheet date. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been impacted. For financial assets measured at amortised cost, if there is objective evidence of impairment, the impairment is measured as the difference between the present value of estimated future cash flows discounted at the instrument's original effective interest rate less the carrying value of the financial asset.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognised in the consolidated statement of comprehensive income.

Trade receivables

Trade receivables are measured at their fair value upon initial recognition. Appropriate allowances for estimated irrecoverable amounts are recognised in the consolidated statement of comprehensive income when there is objective evidence that the asset is impaired.

Cash and cash equivalents

Cash and cash equivalents consist of cash at bank and in hand and short-term deposits with an original maturity of three months or less.

Derecognition of financial assets

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire; or it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity.

Financial liabilities and equity

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into.

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. Equity instruments issued by the Group are recorded at the proceeds received, net of direct issue costs.

Compound instruments

The component parts of compound instruments issued by the Group are classified separately as financial liabilities and equity in accordance with the substance of the contractual arrangement. At the date of issue, in the case of a bond denominated in the functional currency of the issuer that may be converted into a fixed number of equity shares, the fair value of the liability component is estimated using the prevailing market interest rate for a similar non-convertible instrument. This amount is recorded as a liability on an amortised cost basis using the effective interest method until extinguished upon conversion or at the instrument's maturity date. The equity component is determined by deducting the amount of the liability component from the fair value of the compound instrument as a whole at initial recognition. This is recognised and included in equity, net of income tax effects, and is not subsequently remeasured.

Issue costs are apportioned between the liability and equity components of the convertible loan notes based on their relative carrying amounts at the date of issue. The portion relating to the equity component is charged directly against equity.

Financial liabilities

Financial liabilities are classified as either financial liabilities FVTPL or 'other financial liabilities'.

Financial liabilities at FVTPL

Financial liabilities are classified as at FVTPL when the financial liability is either held for trading or it is designated as at FVTPL.

A financial liability is classified as held for trading if:

- it has been incurred principally for the purpose of repurchasing it in the near term; or
- on initial recognition it is part of a portfolio of identified financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated or effective as a hedging instrument.

A financial liability other than a financial liability held for trading may be designated as at FVTPL upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- the financial liability forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or

- it forms part of a contract containing one or more embedded derivatives, and *IAS 39 Financial Instruments: Recognition and Measurement* (“IAS 39”) permits the entire combined contract (asset or liability) to be designated as at FVTPL.

Financial liabilities at FVTPL are stated at fair value, with any gain or losses arising on re-measurement recognised in the consolidated statement of comprehensive income. The net gain or loss recognised in the consolidated statement of comprehensive income incorporates any interest paid on the financial liability and is included in the finance costs line item in the consolidated statement of comprehensive income.

Other financial liabilities

Other financial liabilities, including borrowings and trade and other payables, are initially measured at fair value, net of transaction costs. Other financial liabilities are subsequently measured at amortised cost using the effective interest method, with interest expense recognised on an effective yield basis, except for short-term trade payables when the recognition of interest would be immaterial.

Derecognition of financial liabilities

The Group derecognises financial liabilities when, and only when, the Group’s obligations are discharged, cancelled or they expire.

Embedded derivatives

Derivatives embedded in other financial instruments or other host contracts are treated as separate derivatives when their risks and characteristics are not closely related to those of the host contracts and the host contracts are not measured at FVTPL.

An embedded derivative is presented as a non-current asset or non-current liability if the remaining maturity of the hybrid instrument to which the embedded derivative relates is more than 12 months ahead and is not expected to be realised or settled within 12 months. Other derivatives are presented as current assets or current liabilities.

Contracts to buy and sell non-financial items

The Group enters into forward contracts to fix the price of oil and gas contracts for use in the Group’s business, Such contracts fall outside the scope of IAS 39 provided they were entered into and continue to be held for the purpose of receipt or delivery in accordance with the Group’s purchase, sale or usage requirements. Where these conditions are not met, the contracts are accounted for as derivative instruments. The Group has chosen not to apply hedge accounting to these instruments. Hedging premiums and any gains on exercise are presented within cost of sales.

Share-based payments

The Group makes equity-settled share-based payments to certain employees. Equity-settled share-based schemes are measured at fair value (excluding the effect of non-market-based vesting conditions) at the date of grant, measured by use of an option valuation model. The expected lives of the options used in the model are adjusted, based on management’s best estimate, for the effects of non-transferability, exercise restrictions and behavioural considerations.

The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the Group’s estimate of shares that will eventually vest.

At each balance sheet date, the Group revises its estimate of the number of equity instruments expected to vest as a result of the effect of non-market-based vesting conditions. The impact of the revision of the original estimates, if any, is recognised in the consolidated statement of comprehensive income such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to the equity reserve.

Retirement benefit costs

Payments to defined contribution retirement benefit schemes are charged as an expense as they fall due. Payments made to state-managed retirement benefit schemes are dealt with as payments to defined contribution schemes where the Group's obligations under the schemes are equivalent to those arising in a defined contribution retirement benefit scheme.

The Group had no defined benefit schemes in place during the years presented.

Taxation

Tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit/loss as reported in the consolidated statement of comprehensive income because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted at the balance sheet date.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from the initial recognition of goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and associates, and interests in joint ventures, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised. Deferred tax is charged or credited in the statement of comprehensive income, except when it relates to items charged or credited directly to other comprehensive income or equity, in which case the deferred tax is also recognised in other comprehensive income or equity.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

Provisions

Provisions are recognised when the Group has a present obligation as a result of a past event, and it is probable that the Group will be required to settle that obligation. Provisions are measured at the Group's best estimate of the expenditure required to settle the obligation at the balance sheet date, taking into account the risks and uncertainties of the obligation, and are discounted to present value where the effect is material.

Operating leases

Rentals payable under operating leases are charged to income on a straight line basis over the term of the relevant lease.

4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, which are described in note 3, the Directors are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an on-going basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

Key sources of estimation uncertainty

The following are the critical judgements, key assumptions and other key sources of estimation uncertainty at the balance sheet date that may have a significant effect on the amounts recognised in the financial statements.

Upstream and infrastructure oil and gas assets

Management is required to assess the Group's intangible assets and the upstream and infrastructure oil and gas assets for indicators of impairment. Notes 15 and 16 disclose the carrying values of such assets together with details of impairment charges arising. Management take into account the Group's latest development plans and business strategies and apply judgement in determining the appropriate cash generating units for the purpose of applying the annual impairment assessment. Management compares the carrying value of these assets to the estimated net present value of the underlying oil and gas reserves and related future cash flows that could be generated from these reserves based upon estimates of future revenues, development costs and operating costs and applying a suitable discount rate. The reserve estimates are management's best estimates, taking into consideration independent evaluations of the proved and probable reserves attributable to the Group's economic interests using industry standard definitions and measurement techniques.

Decommissioning

The Group has decommissioning obligations in respect of certain of its oil and gas field interests and related processing and transportation infrastructure in Nigeria. The extent to which a provision is recognised requires management to make judgements on the legal and constructive obligations at the date of decommissioning, estimates of the restoration costs, timing of work, long term inflation and discount rates to be applied.

Share-based payments

Management is required to make assumptions in respect of the inputs used to calculate the fair values of share-based payment arrangements. Details of these can be found in note 32.

Deferred tax assets

The Group recognises deferred tax assets on all applicable temporary differences where it is probable that future taxable profits will be available for utilisation. This requires management to make judgements and assumptions regarding the amount of deferred tax that can be recognised based on the magnitude and likelihood of future taxable profits.

Production entitlement

The Group's strategic alliance agreement with NPDC relies on an agreed financial model to determine the Group's production entitlement from this contract. Within this model, production and capital expenditure costs are initially estimated from monthly cash calls and then actualised once cost returns are agreed by the operator, resulting in either an over or under-funded position. Daily field production rates are adjusted to reflect expected

terminal through-put rates based on past experience. The Group's share of production is determined at different percentage rates based both on baseline and incremental production volumes which change over the course of the contract.

Going concern

Management are required to make estimates and judgements in respect to the quantum and timing of forecast cashflows used to confirm the application of the going concern principle. Further details are provided in note 3 and the "going concern basis" section of the Financial Review.

5. REVENUE

	2012 \$'000	2011 \$'000
Oil sales	102,439	86,819
Investment revenue	1,422	182
Total	103,861	87,001

Revenue from oil sales relates to the Group's sale of crude oil lifted during the year from its strategic alliance with NPDC.

Investment revenue in both years relates to bank interest received on cash balances. In addition, in the year ended 31 December 2012, \$1.2 million investment revenue was earned upon refinancing of the Actis loan note, held by Goldman Sachs, with the issuance of convertible bonds (note 23).

6. COST OF SALES

	2012 \$'000	2011 \$'000
Production expenses		
Production costs	(59,696)	(46,137)
Hedging costs	(4,810)	(126)
	(64,506)	(46,263)
Underlift recognised (note 18)	23,588	-
Cost of sales	(40,918)	(46,263)

Costs of sales related principally to the Group's share of production costs associated with the NPDC strategic alliance agreement.

7. BUSINESS AND GEOGRAPHICAL SEGMENTS

In the opinion of the Directors, the operations of the Group comprise one reportable segment in Nigeria involved in the exploration, development and production of oil and gas, supported by corporate and administrative activities in the UK.

The accounting policies of the reportable segments are the same as the Group's accounting policies described in note 3. Segment operating result represents the loss incurred by each segment without allocation of the share of central administration costs, investment revenue and finance costs, and income tax expense. Segment operating result is provided to the Board for the purpose of resource allocation and assessment of segment performance.

Segment revenues and results

The following is an analysis of the Group's revenue and results by reportable segment in 2012:

	Nigeria 2012 \$'000	Corporate 2012 \$'000	Total 2012 \$'000
Revenue	102,439	-	102,439
Cost of sales	(40,918)	-	(40,918)
Depletion	(17,501)	-	(17,501)
Depreciation and amortisation expenses	(2,529)	(220)	(2,749)
Other operating expenses	(1,710)	(17)	(1,727)
Administrative expenses	(13,727)	(12,213)	(25,940)
Segment operating result	26,054	(12,450)	13,604
Investment revenue			1,422
Finance costs			(18,683)
Foreign exchange losses			(1,133)
Loss before tax			(4,790)
Tax expense			(1,832)
Loss for the year			(6,622)

The following is an analysis of the Group's revenue and results by reportable segment in 2011:

	Nigeria 2011 \$'000	Corporate 2011 \$'000	Total 2011 \$'000
Revenue	86,819	-	86,819
Cost of sales	(46,263)	-	(46,263)
Depletion	(11,986)	-	(11,986)
Depreciation and amortisation expenses	(1,811)	(253)	(2,064)
Other operating expenses	(4,123)	(653)	(4,776)
Administrative expenses	(13,590)	(14,467)	(28,057)
Segment operating result	9,046	(15,373)	(6,327)
Investment revenue			182
Finance costs			(6,763)
Foreign exchange gains			647
Loss before tax			(12,261)
Tax expense			(14,650)
Loss for the year			(26,911)

Revenue and cost of sales in both years relate entirely to the Group's share of production entitlement from the NPDC strategic alliance agreement, all of which arise in Nigeria. Lifting quantities are notified by NPDC periodically, with cash received from Shell Western Supply & Trading Ltd from subsequent sale by the Group via Shell's Forcados Export Terminal.

Segment assets

	2012 \$'000	2011 \$'000
Nigeria	868,274	611,163
Corporate assets	4,255	14,234
Total assets	872,529	625,397

The Board monitors resources allocated to each of the reportable segments through review of segment assets to include property, plant and equipment, intangible assets and financial assets attributable to each segment. With the exception of certain financial assets and tax assets, all assets are allocated to reportable segments. Liabilities are monitored at a group level and not allocated to reportable segments.

Other segment information

	Additions to non-current assets	
	2012	2011
	\$'000	\$'000
Nigeria	231,177	220,328
Corporate	858	66
Total additions	232,035	220,394

8. OTHER OPERATING EXPENSES

	2012	2011
	\$'000	\$'000
Operating costs		
Gross staff costs (note 11)	11,618	11,027
Inventory provision (note 18)	253	-
Other operating costs	2,807	4,152
Timewriting recharges to capital projects or production expenses	(12,951)	(10,403)
Total other operating expenses	1,727	4,776

9. ADMINISTRATIVE EXPENSES

	2012	2011
	\$'000	\$'000
Gross staff costs (note 11)	12,539	11,664
Other administrative expenses	18,358	18,940
Timewriting recharges to capital projects or production expenses	(4,957)	(2,547)
Total administrative expenses	25,940	28,057

10. AUDITOR'S REMUNERATION

The analysis of auditor's remuneration is as follows:

	2012	2011
	\$'000	\$'000
Fees payable to the Company's auditors for the audit of the Group's annual accounts	144	239 ⁽ⁱ⁾
Fees payable to the Company's auditor and their associates for other services to the Group:		
- Audit of the Company's subsidiaries pursuant to legislation	254	209
Total audit fees	398	448
- Audit related assurance services	63	-
- Tax services	5	11
- Corporate finance services	44	-
- Other services	65	49
Total non-audit fees	177	60

(i) Includes additional charges of \$109,000 relating to the finalisation of the 2011 audit which were expensed during 2012, and excludes \$149,000 relating to 2010, expensed in 2011.

11. STAFF COSTS

The average monthly number of employees (including executive Directors) was:

	2012 Number	2011 Number
Management	7	3
Operations and support staff	128	125
Administration	37	30
	172	158

Their aggregate remuneration comprised:

	2012 \$'000	2011 \$'000
Wages and salaries	18,260	15,538
Social security costs	2,065	984
Defined contribution pension costs (note 27)	989	488
Expense of share-based payments (note 32)	2,843	5,681
	24,157	22,691
As analysed within:		
Other operating expenditures (note 8)	11,618	11,027
Administrative expenses (note 9)	12,539	11,664
	24,157	22,691

Some of the Group's staff costs shown above are subsequently recharged to the Group's joint venture partners or capitalised through timewriting into the cost of fixed assets under the Group's accounting policy for exploration, evaluation and production assets.

12. FINANCE COSTS

	2012 \$'000	2011 \$'000
Bank and other finance fees	6,442	3,310
Interest on bank overdrafts and loans	14,082	9,104
Interest and other financial costs on convertible bonds	11,062	-
Total interest expense	31,586	12,414
Unwinding of decommissioning provision (note 25)	1,184	-
Fair value movement on convertible bond conversion option	25	-
	32,795	12,414
Less: amounts included in the cost of qualifying assets ⁽ⁱ⁾ (note 16)	(14,112)	(5,651)
Total finance costs	18,683	6,763

(i) Interest capitalised relates to directly attributable borrowings raised by the Group's subsidiary Accugas for the construction of the Uquo-Ikot Abasi pipeline and gas processing facilities and other Group borrowings applied to qualifying additions using the Group's capitalisation rate of 15%.

13. TAX

The tax expense for the year is as follows:

	2012 \$'000	2011 \$'000
Current tax		
- Adjustment in respect of prior years	142	-
- Current year	20	(198)
Deferred tax (note 22)		
- Adjustment in respect of prior years	2,497	-
- Current year	(4,491)	(14,452)
Total tax expense	(1,832)	(14,650)

Corporation tax is calculated at the applicable tax rate for each jurisdiction based on the estimated assessable profit for the year. The Group's outstanding current tax liabilities of \$41,000 (2011: \$291,000) mostly relate to corporation tax liabilities in Nigeria and the US.

The charge for the year can be reconciled to the result per the consolidated statement of comprehensive income as follows:

	2012 \$'000	2011 \$'000
Loss before tax on continuing operations:	(4,790)	(12,261)
Tax credit at the UK corporation tax rate:	1,171	3,249
Tax effects of:		
- Income not taxable/(expenses not deductible) for tax purposes	560	(2,306)
- Rate changes during the year	(1,130)	342
- Deferred tax assets not recognised	(3,194)	(3,605)
- Foreign tax	-	(158)
- Recognition of deferred tax assets of prior years	-	387
- Effect of tax rates in overseas territories	(1,558)	453
Adjustments in respect of prior years	2,639	-
Re-measurement of deferred tax – change in tax rate ⁽ⁱ⁾	(320)	(13,012)
Tax expense for the year	(1,832)	(14,650)

- (i) The tax rate applied in 2011, in determining a deferred tax liability recognised on the acquisition of Universal Energy has been re-measured. The deferred tax recognised is currently expected to reverse against oil profits only in the near term, and has therefore been re-measured using a blended Petroleum Profits Tax Act (oil) rate of 77.14%, reflecting the reduced rate in the first five years of production of 65.75% and the 85% rate thereafter. Corresponding adjustments were also made in 2012 based on the latest production profile for the Uquo and Stubb Creek fields.

The expected applicable tax rate was the UK corporation tax rate of 24.5% (2011: 26.5%). Reductions to the UK corporation tax rate have been announced. The changes, which were substantively enacted on 26 March 2012, reduced the rate from 26% to 24% from 1 April 2012. The 2012 Finance Act also reduced the main rate of corporation tax from 24% to 23% from 1 April 2013 and also proposed to reduce the main rate to 22% from 1 April 2014. The 2012 Pre-Budget Report outlining the key legislation proposed to be included in the 2013 Finance Bill announced that the corporation tax rate would be further reduced to 21% from 1 April 2014, instead of 22% as per the 2012 Finance Act.

The decrease from 23% to 21% is not expected to be substantively enacted until just before the 2013 Finance Bill is ready to receive Royal Assent. The 2013 Budget announced that the corporation tax rate would be further reduced from 21% to 20% from 1 April 2015. However, due to no deferred tax being recognised in the UK entities, these effects would not have any impact on the financial statements.

14. LOSS PER SHARE

From continuing operations

The calculation of the basic and diluted loss per share is based on the following data:

	2012	2011
Loss for the purposes of basic loss per share (\$000)	(6,429)	(26,577)
Weighted average number of ordinary shares for the purposes of basic loss per share ⁽ⁱ⁾	2,275,343	2,156,725
Basic & diluted loss per ordinary share (\$) ⁽ⁱⁱ⁾	(2.8)	(12.3)

- (i) The calculation of weighted average number of ordinary shares includes the weighted average number of shares convertible for 2011 and 2012 from the issuance of Irredeemable Convertible Loan Notes ("ICLN's") as, for the reasons outlined in note 30, the ICLNs are believed to represent equity instruments of the Company.
- (ii) As there is a loss for the years ended 31 December 2012 and 2011, there is no difference between basic and diluted earnings per share as the potentially dilutive instruments (being share options, warrants and convertible bond options) were anti-dilutive for both years. The number of outstanding share options, warrants and convertible bond options at 31 December 2012 was 794,825 (2011: 355,297).

The denominators used are the same as those detailed above for both basic and diluted loss per share from continuing operations.

15. INTANGIBLE ASSETS

	Total \$'000
Oil and gas exploration and appraisal assets	
At 1 January 2011	10,755
Additions	537
At 31 December 2011	11,292
Additions	965
At 31 December 2012	12,257

Additions to oil and gas exploration and appraisal intangible assets during the periods all related to the Group's interest in the Matsogo field.

16. PROPERTY, PLANT AND EQUIPMENT

	Upstream assets \$'000	Infrastructure assets \$'000	Other PP&E ⁽ⁱ⁾ \$'000	Total \$'000
Cost				
At 1 January 2011	374,013	182,948	8,256	565,217
Additions	45,306	166,873	2,355	214,534
Reclassifications	(133)	(712)	845	-
Disposal	-	-	(109)	(109)
At 31 December 2011	419,186	349,109	11,347	779,642
Additions	113,397	116,007	1,666	231,070
Transfer to current assets held for sale ⁽ⁱⁱ⁾	-	(4,300)	-	(4,300)
Disposal	-	-	(97)	(97)
At 31 December 2012	532,583	460,816	12,916	1,006,315
Accumulated depreciation, depletion and impairment				
At 1 January 2011	(151,276)	(105,100)	(2,425)	(258,801)
Charge for the year	(11,986)	-	(2,064)	(14,050)
Disposal	-	-	71	71
Exchange differences	-	-	3	3
At 31 December 2011	(163,262)	(105,100)	(4,415)	(272,777)
Charge for the year	(17,501)	-	(2,749)	(20,250)
Disposal	-	-	59	59
At 31 December 2012	(180,763)	(105,100)	(7,105)	(292,968)
Carrying amount				
At 31 December 2011	255,924	244,009	6,932	506,865
At 31 December 2012	351,820	355,716	5,811	713,347

(i) Other PP&E consists of vehicles, leasehold improvements and furniture, fixtures and equipment.

(ii) Costs associated with the Early Production Facility ("EPF") at the Stubb Creek oil field have been transferred to current assets held for sale (see note 19) following agreement with the Stubb Creek joint operation to purchase the EPF from the Group's subsidiary, Universal Energy. The sale is expected to complete during 2013.

During the year, \$131.3 million (2011: \$188.8 million) of additions to upstream and infrastructure assets related to assets in the course of construction, including the drilling of wells and the construction of the Uquo to Ikot Abasi pipeline and gas processing facilities. \$85.2 million was incurred for the Group's share of on-going capital expenditures under its strategic alliance agreement with NPDC (2011: \$14.4 million). Additions included capitalised interest of \$14.1 million (2011: \$5.7 million) from directly attributable borrowings raised by the Group's subsidiary Accugas for the construction of the infrastructure assets along with other borrowings used to fund qualifying additions using the Group's capitalisation rate of 15%.

The Stubb Creek oil and gas field joint operation incurred \$11.0 million (2011: \$8.9 million) of capital expenditure through the Group's subsidiary Universal Energy.

At 31 December 2012, the overall net book value of assets in the course of construction (being those related to Uquo and Stubb Creek) was \$596.5 million (2011: \$458.5 million).

The Group has granted fixed charges over \$355.7 million of its oil and gas assets to secure borrowings (2011: \$244.0 million).

17. TRADE AND OTHER RECEIVABLES

	2012 \$'000	2011 \$'000
Trade receivables		
Receivables from sales	-	48,563
Amounts receivable from joint venture partners	5,378	8,071
Total trade receivables	5,378	56,634
Other receivables		
Advances for future sales (note 28)	31,755	-
Deposits	7,466	480
VAT receivables	601	614
Other receivables ⁽ⁱ⁾	4,287	4,967
Rental prepayments	2,008	1,159
Prepaid drilling costs	1,715	2,063
Other prepayments	3,380	2,222
	56,590	68,139

- (i) Included within other receivables are amounts owed from former related parties of \$2.2 million (2011: \$2.1 million). The remainder of other receivables principally relates to amounts owed by the Group's funding partner on the strategic alliance contract with NPDC.

The average credit period given on joint interest billings and oil and gas sales is 60 days. The Group does not currently charge interest on past due receivables although in the event receivables become past due the Group can do so at rates specified in the various agreements. The Group periodically reviews all receivables outstanding to assess their recoverability.

Provisions have been made within other receivables for past withholding taxes refundable from Nigerian vendors and historic payroll taxes. No other trade and other receivable balances were either past due or impaired.

	2012 \$'000	2011 \$'000
Provisions against receivables		
Opening balance	(1,501)	-
Provided during the year	(2,355)	(1,501)
Closing balance	(3,856)	(1,501)

Non-current other receivables

	2012 \$'000	2011 \$'000
Rental prepayments in Nigeria	2,076	2,124
Stamp duty escrow reserve for Group borrowings	2,336	2,603
Debt service reserve account for Group borrowings	3,029	1,864
	7,441	6,592

The Directors consider that the carrying amount of trade and other receivables is approximately equal to their fair value.

18. INVENTORIES

	2012	2011
	\$'000	\$'000
Underlift	33,697	-
Spare parts	4,195	5,699
Total inventories	37,892	5,699

The underlift includes the Group's share of unsold production entitlement under the strategic alliance agreement with NPDC.

The reduction in the balance of spare parts during the year amounted to \$1.5 million (2011: \$0.2 million) and principally relates to inventory used in the construction of the Group's oil and gas assets. Included within the movement, in 2012, a provision of \$0.3 million was made for obsolete and unusable inventory and recognised as an expense in the year (2011: nil) (note 8).

19. ASSET HELD FOR SALE

Prior to the year ended 31 December 2012, the Group agreed the sale of its EPF at the Stubb Creek oil field to the Stubb Creek field joint operation for US\$4.3 million. The Group retains an interest in the asset through its subsidiary Universal Energy's interest in the joint operation. The carrying value of the asset has been transferred from plant, property and equipment to assets held for sale. No impairment charge arose as a result of this agreement. The sale is expected to complete during 2013.

20. CASH AND CASH EQUIVALENTS

	2012	2011
	\$'000	\$'000
Interest bearing		
Held in Nigerian banks	24,266	87
Held in banks outside Nigeria	2,528	1,843
Non-interest bearing		
Held in Nigerian banks	5,393	10,173
Held in banks outside Nigeria	3	614
Total cash at bank and in hand	32,190	12,717
Restricted cash balances	12,284	4,467
	44,474	17,184
Presented as:		
Restricted cash included in non-current other receivables	5,365	4,467
Restricted cash included in trade and other receivables	6,919	-
Cash at bank and in hand	32,190	12,717
Total cash and cash equivalents	44,474	17,184

Cash and cash equivalents comprise cash and short-term bank deposits with an original maturity of 3 months or less. Restricted cash balances include deposits, stamp duty and debt service reserve amounts required to be held relating to the Group's borrowings. The carrying amount of these assets is approximately equal to their fair value.

21. TRADE AND OTHER PAYABLES

	2012 \$'000	2011 \$'000
Trade payables	69,719	30,492
Other payables	8,087	7,014
Accruals	16,160	16,700
PAYE and social security	536	383
WHT and VAT payable	13,602	13,353
Interest payable	454	4,578
	108,558	72,520

Trade payables and accruals principally comprise amounts outstanding to the Group's joint venture partners, for trade purchases (including capital expenditures) and on-going costs. The average credit period taken for trade purchases is 49 days (2011: 44 days). For most suppliers no interest is charged on the trade payables for the first 30 days from the date of the invoice. The Group has working capital risk management policies in place to ensure that all payables are paid within the agreed credit terms where possible. Other payables balance primarily contains additional payables in relation to the Group's strategic alliance agreement with NPDC. The Directors consider that the carrying amount of trade payables approximates to their fair value.

22. DEFERRED TAX

The following are the major deferred tax liabilities and assets recognised by the Group and movements thereon during the current and prior year.

	Fixed Assets \$'000	Unrealised FX Gain/ (Loss) \$'000	Share- Based Payments \$'000	Tax Losses \$'000	Risk Service Contract \$'000	Other Provisions \$'000	Capitalised Interest \$'000	Total \$'000
At 1 January 2011	(28,074)	219	250	19,372	-	-	-	(8,233)
Credit/(expense) to income	726	(219)	436	(1,103)	(1,389)	110	-	(1,439)
Re-measurement of fair value uplift	(13,013)	-	-	-	-	-	-	(13,013)
At 31 December 2011	(40,361)	-	686	18,269	(1,389)	110	-	(22,685)
Adjustments in respect of prior years	(917)	576	-	3,196	(358)	-	-	2,497
Credit/(expense) to income	805	(508)	409	9,525	(14,535)	458	(645)	(4,491)
At 31 December 2012	(40,473)	68	1,095	30,990	(16,282)	568	(645)	(24,679)

Certain deferred tax assets and liabilities have been offset. The following is the analysis of the deferred tax balances (after offset) for financial reporting purposes:

	2012 \$'000	2011 \$'000
Deferred tax liabilities	(33,191)	(36,778)
Deferred tax assets	8,512	14,093
	(24,679)	(22,685)

At the balance sheet date, the Group has unused tax losses of \$138.1 million (2011: \$126.5 million) available for offset against future profits. A deferred tax asset has only been recognised where future utilisation of such losses is considered probable. A deferred tax asset has been recognised on gross losses of \$95.3 million (2011: \$57.3 million) on the basis of the Group's forecasted results for each entity. No deferred tax asset has been recognised in respect of the remaining \$42.8 million (2011: \$69.2 million) of losses.

The recognised and unrecognised tax losses and other temporary differences of the Group are summarised below by jurisdiction:

	Recognised tax losses & other temporary differences		Unrecognised tax losses & other temporary differences		Total tax losses & other temporary differences	
	2012	2011	2012	2011	2012	2011
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
UK losses ⁽ⁱ⁾	-	-	(18,322)	(42,683)	(18,322)	(42,683)
Nigerian non E&P losses ⁽ⁱⁱ⁾	(95,306)	(57,290)	(9,800)	(11,624)	(105,106)	(68,914)
Nigerian E&P losses ⁽ⁱⁱⁱ⁾	-	-	(14,430)	(14,430)	(14,430)	(14,430)
Losses in other jurisdictions ^(iv)	-	-	(225)	(469)	(225)	(469)
Total tax losses	(95,306)	(57,290)	(42,777)	(69,206)	(138,083)	(126,496)
Other temporary differences ^(v)	(9,325)	(6,517)	(10,714)	(8,763)	(20,039)	(15,280)
Total tax losses	(104,631)	(63,807)	(53,491)	(77,969)	(158,122)	(141,776)

- (i) UK losses are available to carry forward indefinitely for offset against future taxable profits. As a result of a change of ownership for tax purposes, UK losses brought forward of \$38.2 million were forfeited and no longer available to be carried forward to offset against future taxable profits.
- (ii) Nigerian non E&P losses are available to carry forward indefinitely for offset against future taxable non E&P profits.
- (iii) Nigerian E&P losses are available to carry forward indefinitely for offset against future taxable E&P profits.
- (iv) Losses in other jurisdictions comprise losses from the Netherlands, that expire nine years from the year incurred, and losses arising from Bermuda which are not carried forward as profits in Bermuda are subject to a 0% corporate tax rate.
- (v) Other temporary differences relate to fixed assets, provisions for future expenditure and share based remuneration of employees.

23. BORROWINGS

	2012	2011
	\$'000	\$'000
Secured borrowing at amortised cost		
Bank loans ⁽ⁱ⁾		
Loans from non-related parties	127,500	105,000
Loans from related parties	18,750	25,000
Other loans ⁽ⁱⁱ⁾		
Loans from non-related parties	124,111	-
Loans from related parties	-	41,566
Secured borrowing at fair value through profit or loss		
Loans from non-related parties – conversion option ⁽ⁱⁱ⁾	1,145	-
Unsecured borrowing at amortised cost		
Loans from related parties ⁽ⁱⁱⁱ⁾	9,943	9,751
Total gross borrowings	281,449	181,317
Unamortised finance costs incurred on raising debt	(8,077)	(6,853)
Total net borrowings	273,372	174,464
Analysed as:		
Short-term borrowings	117,614	69,075
Long-term borrowings	155,758	105,389
	273,372	174,464

The maturity profile of the Group's gross borrowings including interest expense on an undiscounted basis is shown in the table below. This differs from both the carrying value and fair value due to the effect of discounting. Interest expense on floating rate debt is based on the relevant US Dollar LIBOR forward rates.

	2012 \$'000	2011 \$'000
Current		
Amount due within one year	143,254	84,100
Non-current		
Amount due after one year but within two years	178,586	59,540
Amount due after two years but within 5 years	20,494	66,140
	342,334	209,780

(i) Bank loans

Project finance facility

In July 2010, Accugas Limited (a wholly owned subsidiary of the Company) entered into a loan facility of \$60.0 million to finance the Uquo development of a gas transportation pipeline, processing facilities and related infrastructure. As at 31 December 2012, \$55.0 million had been drawn under this facility (2011: \$55.0 million).

The loan, which is secured by a charge over the pipeline and processing facilities that are being constructed, has an 8 year term and bears interest at the rate of 3 month US LIBOR plus 8.0% per annum, reducing to 7.0% per annum 12 months after completion of the development.

Due to the delays experienced in commencing gas production, no operational cash flows were generated during 2012 or 2011 which resulted in certain facility covenants at the year ends not being met. As a consequence the \$55.0 million that has been drawn down under this facility has been shown within current liabilities at 31 December 2012 and 2011. On 27 March 2013, subject to the completion of several conditions precedent, the Group completed the refinancing and expansion of the facility with a syndicate of Nigerian banks to include the Calabar infrastructure development. The revised \$225.0 million debt facility has a 7 year term and bears interest at the rate of 3 month US LIBOR plus 10.0% per annum. The loan is repayable in quarterly instalments from December 2014. No additional amounts had been drawn down from this enlarged facility at 24 May 2013. Upon completion, the covenant breaches will have been remedied.

Reserve based secured facility

In April 2011, the Group entered into a Reserve Based Secured facility agreement with three banks (one of which is Standard Chartered Bank, a related party of the Group) for \$150.0 million with an initial borrowing base of \$75.0 million. The debt facilities mature in December 2015 and bear interest of 7.5% plus 3 month US LIBOR per annum for interest periods commencing before 31 December 2013 and 9.0% plus 3 month US LIBOR per annum for interest periods commencing on or after 31 December 2013. The total principal outstanding at 31 December 2012 was \$56.2 million (2011: \$75.0 million) with interest payable of \$nil (2011: \$0.4 million). At 31 December 2012, \$18.8 million is included within short term borrowings (2011: \$15.9 million).

On 25 February 2013 the Group completed the refinancing of the facility. The refinancing increased the borrowing base from \$75.0 million (\$56.2 million of which was outstanding at 31 December 2012) to \$92.5 million. The revised facility is repayable at six monthly intervals until 31 December 2017, with a coupon interest rate of 7.5% plus 3 month US LIBOR per annum for interest periods commencing before 31 December 2014, and 9.0% plus 3 month US LIBOR per annum for interest periods commencing on or after 31 December 2014. Following the refinancing, an additional \$36.3 million was drawn down, taking the total principal outstanding at 24 May 2013 to \$92.5 million.

The amount available under this facility is subject to a borrowing base calculated by reference to the net present value of the fields concerned, which is regularly reviewed by the lenders.

Working capital facility

In March 2012, the Group secured a \$40.0 million working capital facility with First City Monument Bank plc for general funding requirements. Its initial term is for twelve months and is renewable annually thereafter and has an interest rate of 9.6% plus LIBOR per annum. At 31 December 2012, \$35.0 million was drawn down under the facility (2011: nil). During the period to 24 May 2013, an additional \$5.0 million was drawn down and the term renewed for a further 12 months to March 2014.

(ii) Other loans

Convertible bond

During 2012, Seven Energy Bermuda Limited, a wholly owned subsidiary of the Group, issued \$121.2 million of convertible bonds. The convertible bonds have a maturity date of 31 December 2014, bear interest at 10.0%, with a 19.0% redemption premium on maturity. They also contain a conversion option to equity upon a qualifying Initial Public Offering (“IPO”) or company sale event. The conversion option, which is based on the fair value of the shares at the conversion date, is carried at fair value through profit or loss, with a fair value at 31 December 2012 of \$1.1 million (2011: nil) and a resulting charge within finance costs of \$25,120 (2011: nil).

During the period to 24 May 2013, a further \$28.8 million of convertible bonds were issued to new investors under the same terms as described above.

Loan note

In May 2009 and in relation to the Group’s acquisition of the Gulf of Guinea Energy (“GoGE”) companies, the Group became party to an interest bearing loan note with Actis GOG (Mauritius) Limited (“Actis”), a shareholder in Seven Energy International Limited. This loan accrued interest at a rate of 10.2% per annum. In September 2011, Actis sold the loan note to a third party. The terms and conditions of the original loan remained unaffected.

On 14 February 2012, the loan principal and outstanding accrued interest was repaid through the issuing of \$44.6 million of convertible bonds as described above. At 31 December 2012, the loan balance including accrued interest outstanding was \$nil (2011: \$45.3 million).

(iii) Loans from related parties

The Group, through its subsidiary Universal Energy, holds a Naira denominated loan due to Akwa Ibom Investment and Industrial Promotion Council (a minority shareholder in Universal Energy) for \$9.9 million (2011: \$9.8 million). The loan is expected to be repaid out of the production revenues generated by the Stubb Creek field, with repayments expected to commence in 2013. The loan is currently interest free. The loan is accounted for at amortised cost. The fair value based on current market rates at 31 December 2012 is \$28.2 million (2011: \$24.5 million).

Weighted average interest rate

The weighted average effective interest rates charged on borrowings during the years were as follows:

	Year ended 31 December 2012 %	Year ended 31 December 2011 %
Group borrowings	11.19	8.12

24. FINANCIAL INSTRUMENTS

Categories of financial instruments

	2012 \$'000	2011 \$'000 (restated)
Financial assets		
Cash and cash equivalents	32,190	12,717
Loans and receivables	54,896	66,185
	87,086	78,902
Financial liabilities		
<i>Held at amortised cost</i>		
Trade and other payables	86,500	42,039
Borrowings (note 23)	272,227	174,464
<i>Held at fair value through profit or loss</i>		
Borrowings – conversion option (note 23)	1,145	-
	359,872	216,503

The Directors consider that with the exception of the \$9.9 million loan held by Universal Energy (as described in note 23), the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the financial statements approximate to their fair values.

During 2012, the Group issued Convertible Bonds which contain a conversion option to equity. The derivative is carried at fair value through profit or loss, with a fair value at 31 December 2012 of \$1.1 million (2011: nil) and a resulting charge within finance costs of \$25,120 (2011: nil). The fair value measurements have been determined by reference to observable data in quoted markets at the balance sheet date and categorised as level 2 in accordance with IFRS 7.

Significant accounting policies

Details of the significant accounting policies and methods adopted, including the criteria for recognition, the basis of measurement and the basis on which income and expenses are recognised, in respect of each class of financial asset, financial liability and equity instrument are disclosed in note 3 to the financial statements.

Capital risk management

The Group manages its capital, including on-going monitoring and adherence to covenants and indebtedness obligations of its borrowings to ensure that entities in the Group will be able to continue as going concerns while maximising the returns to stakeholders. The capital structure of the Group currently consists of debt, which includes the borrowings, cash and cash equivalents, irredeemable convertible loan notes and ordinary share capital. The irredeemable convertible loan notes are categorised as equity due to the terms of these instruments.

Financial risk management objectives

The Group's Finance function co-ordinates access to international financial markets and monitors and manages the financial risks relating to the operations of the Group. These risks include commodity price risk, currency risk, credit risk, interest rate risk and liquidity risk.

Commodity price risk

The Group's activities expose it primarily to the financial risks of changes in oil and gas commodity prices. The Group monitors and manages this risk where considered appropriate through long term fixed price sales contracts and forward contracts to economically hedge this commodity price risk. During 2011 and 2012, in order to increase availability under the \$150 million Reserve Based Secured facility, certain oil price hedging

contracts were entered into with the syndicate banks to enable the Group to secure a minimum \$100 per barrel oil price for varying quantities (ranging from 9,000 to 67,500 bbls per month) of oil sales over the next four years. All of these contracts had settled prior to each of the year ends.

In 2009, the Group entered into a 10 year fixed price gas sales contract to supply 43.5 MMcfpd to the 190MW Ibom Power plant. In 2011, the Group entered into a 20 year fixed price gas sales agreement to supply 131 MMcfpd to the 560 MW Calabar power plant that is due to be ready for commissioning in 2014. As a result, changes in the market gas price over the contract period would have no impact on Group loss and equity in the current or future periods.

Foreign currency risk management and sensitivity analysis

The Group operates internationally and has exposure to currency risk on purchases, sales, cash and cash equivalents that are denominated in currencies other than US dollars. The currencies giving rise to this are principally the British Pound Sterling and Nigerian Naira. The Group's exposure to foreign exchange fluctuations is reduced by maintaining cash balances primarily in US dollars reflecting the currency of the majority of the Group's transactions.

The carrying amounts of the Group's foreign currency denominated monetary assets and monetary liabilities at the reporting date are as follows:

	Liabilities		Assets		Net Liabilities	
	2012 \$'000	2011 \$'000	2012 \$'000	2011 \$'000	2012 \$'000	2011 \$'000
British Pound Sterling	(5,082)	(3,923)	2,271	1,605	(2,811)	(2,318)
Nigerian Naira	(16,662)	(20,023)	8,028	4,311	(8,634)	(15,712)

For 2012, a 20% increase and decrease in the US dollar against the Sterling currency for 2012 would have resulted in an increase in profit and equity of \$0.5 million and a decrease of \$0.7 million, respectively. For 2011, a 20% increase and decrease in the US dollar against the Sterling currency would have resulted in an increase in profit and equity of \$0.4 million and a decrease of \$0.6 million, respectively.

For 2012, a 20% increase and decrease in the US dollar against the Naira currency for 2012 would have resulted in an increase in profit and equity of \$1.4 million and a decrease of \$2.2 million, respectively. For 2011, a 20% increase and decrease in the US dollar against the Naira currency would have resulted in an increase in profit and equity of \$2.6 million and a decrease of \$3.9 million, respectively.

Credit risk management

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Group. The Group has a policy of only dealing with creditworthy counterparties and obtaining sufficient collateral or advance payment where appropriate, as a means of mitigating the risk of financial loss from defaults.

Exposure to credit risk in the periods shown is considered to be relatively minor as cash inflows from sales are currently all from an international super-major (associated with the strategic alliance contract with a Nigerian national oil company subsidiary) and other funding sources are reputable and international banking institutions and shareholders. Advance payment has also been received for the first year of gas sales to Ibom Power, with deliveries expected to commence in 2013.

A concentration of credit risk is expected to arise in the future in relation to the sale of oil and gas in Nigeria. The Group will seek to mitigate this risk by obtaining letters of credit or bank guarantees where appropriate to support payment where possible.

The carrying amount of financial assets recorded in the financial statements, which is net of impairment losses, represents the Group's maximum exposure to credit risk as no collateral or other credit enhancements are held.

Interest rate risk management and sensitivity analysis

The Group is exposed to interest rate risk because entities in the Group borrow funds at both fixed and floating interest rates. The risk is managed by the Group maintaining an appropriate mix between fixed and floating borrowings.

The sensitivity analyses below have been determined for fixed rate liabilities based on the exposure to interest rates at the balance sheet date. For floating rate liabilities, the analysis is prepared based on the average amount liability outstanding during the year.

If interest rates had been 0.5% higher or lower, and all other variables were held constant, the Group's loss for the year ended 31 December 2012 would have increased or decreased respectively by \$0.8 million (2011: \$0.7 million). This is attributable to the Group's exposure to interest rates on its variable rate borrowings.

The Group had cash and cash equivalents on hand on which it earned investment income. A 0.5% increase or decrease in the interest rate would have resulted in an increase or decrease in investment income by \$0.1 million (2011: \$0.2 million).

Warrants

In 2010, the Company issued warrants attached to the issue of \$41.8 million of Convertible Loan Notes ("CLNs") and to the issue of ICLNs to Petrofac Limited in November 2010. In total, 268,071 warrants were issued at an exercise price of \$350.00. These warrants were recorded at fair value within the equity reserve, and valued using a binominal option valuation method. The total credit to the equity reserve for 2010 was \$16.2 million.

Liquidity risk management

Ultimate responsibility for liquidity risk management rests with the Board of Directors, which has built an appropriate liquidity risk management framework for the management of the Group's short, medium and long-term funding and liquidity management requirements. The Group maintains adequate liquid reserves, by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities.

The Group closely monitors and manages its liquidity risk. Cash forecasts are regularly produced and sensitivities run for different scenarios including, but not limited to, changes in commodity prices, different production rates from the Group's portfolio of producing fields and delays in development projects. In addition, the Group regularly monitors its utilised and unutilised amounts of its borrowings in place (further details of which are provided in note 23). Subject to the requirements outlined in the "going concern" section of the Financial Review, the Group's forecasts show that the Group will be able to operate within its current debt facilities and has sufficient financial headroom from 24 May 2013.

Refer to note 20 (Cash and cash equivalents) for the respective locations of the Group's cash reserves. All of the Group's cash and cash equivalents are currently held within reputable and well known commercial institutions.

The following table details the Group's remaining contractual maturity for its non-derivative financial liabilities (excluding borrowings, the repayment terms of which are provided in note 23). The amounts are based on undiscounted cash flows and on the earliest date on which the Group can be required to pay.

	2012	2011
	\$'000	\$'000
Less than 30 days	86,101	37,461
31 – 60 days	399	728
61 – 90 days	-	-
91 + days	-	3,850
	86,500	42,039

25. PROVISIONS

	Decommissioning provision \$'000	Contract provision \$'000	Total \$'000
Balance at 1 January 2011	2,046	20,000	22,046
Provided during the year	10,710	-	10,710
Balance at 31 December 2011	12,756	20,000	32,756
Provided during the year	9,834	-	9,834
Unwinding of the discount (note 12)	1,184	-	1,184
Balance at 31 December 2012	23,774	20,000	43,774
Presented as:			
Current balance at 31 December 2011	-	20,000	20,000
Non-current balance at 31 December 2011	12,756	-	12,756
	12,756	20,000	32,756
Current balance at 31 December 2012	-	20,000	20,000
Non-current balance at 31 December 2012	23,774	-	23,774
	23,774	20,000	43,774

The Group provides for the present value of estimated future decommissioning costs for certain of its oil and gas properties in Nigeria. The amounts shown are expected to be settled between 2027 and 2037.

In 2010, a provision of \$20.0 million was recognised for costs of terminating several contracts subsequent to the year end relating to project management and gas marketing services. Discussions remain on-going in respect of the termination of these contracts, but it is anticipated this will be settled in 2013.

26. CAPITAL COMMITMENTS AND OTHER CONTINGENCIES

Operating lease commitments – Group as lessee

	2012 \$'000	2011 \$'000
Minimum lease payments under operating leases recognised as an expense in the year	3,255	3,867

At the balance sheet date, the Group had outstanding commitments for future minimum lease payments under non-cancellable operating leases, which fall due as follows:

	2012 \$'000	2011 \$'000
Within one year	625	1,494
In the second to fifth years inclusive	618	1,189
	1,243	2,683

Operating lease payments represent rentals payable by the Group for certain of its office and staff housing properties. Leases are negotiated for terms of 1 to 5 years and rentals are fixed for an average of 3 years with an option to extend at the then prevailing market rate for varying terms.

Capital commitments

	2012 \$'000	2011 \$'000
Oil and gas assets – development	5,489	4,381
Oil and gas assets – exploration and evaluation	4,715	25,263
	10,204	29,644

The commitments for exploration and evaluation of oil and gas assets relate to the Group's two year contracted agreement for the use of a drilling rig in Nigeria. During 2011 and 2012, the Group has assigned the use of this rig to third parties and as such, has assigned all of its rights and obligations in respect of the rig until such as time as the third party has finished its drilling programs (expected to be in 2013). The contract expires in May 2013 but contains a one year extension option which is in the process of being exercised.

27. RETIREMENT BENEFIT SCHEMES

Defined contribution schemes

The Group operates defined contribution retirement benefit schemes for all qualifying employees. The assets of the schemes are held separately from those of the Group in funds under the control of trustees.

The employees of the Group's subsidiaries in Nigeria are members of a state-managed retirement benefit scheme operated by the government of Nigeria. The subsidiaries are required to contribute a specified percentage of payroll costs to the retirement benefit scheme to fund the benefits. The only obligation of the Group with respect to the retirement benefit scheme is to make the specified contributions.

The total cost charged to income of \$1.0 million (2011: \$0.5 million) represents contributions payable to these schemes by the Group at rates specified in the rules of the plans. As at 31 December 2012 contributions of \$0.1 million (2011: \$0.1 million) due in respect of the current reporting period had not been paid over to the schemes and are recorded within trade and other payables.

28. DEFERRED REVENUE

In May 2009, a Group company signed a Gas Purchase and Sale Agreement ("GSA") with Ibom Power Company Limited to supply gas for a 10 year period to its gas plant located in the Akwa Ibom state in South Eastern Nigeria. The agreement included a condition that Ibom Power Company Limited would make an advance payment of \$63.5 million, which represents two years of delivery of gas. \$31.8 million (50% of the advanced payment) was paid on the signing of the contract in 2009. The second advanced payment of \$31.7 million was invoiced during 2012 and is expected to be received upon delivery of first gas to the Ibom Power Company Limited. The total amount shown as deferred revenue has been split into a current and non-current liability, based on the future expected gas delivery profile.

	31 December 2012 \$'000	31 December 2011 \$'000
Current liability	13,232	13,231
Non-current liability	50,279	18,524
Total	63,511	31,755

29. SHARE CAPITAL

	31 December 2012 \$'000	31 December 2011 \$'000
Issued and fully paid:		
506,240 ordinary shares of \$0.01 each (2011: 506,240 ordinary shares of \$0.01 each)	5	5

The Company does not have a specified number of shares authorised for issue. The Company has one class of ordinary shares which carries no right to fixed income.

30. IRREDEEMABLE CONVERTIBLE LOAN NOTES

Between 2009 and 2012, the Company issued irredeemable convertible loan notes (ICLNs). The following ICLNs were issued during 2011 and 2012 and were still outstanding at the year end:

	ICLN value \$'000	Effective conversion price per share \$	Number of ordinary shares if converted
At 1 January 2011	436,174	n/a	1,397,481
ICLNs issued	99,680	350.00	284,522
Issuance costs	(559)	n/a	-
At 31 December 2011	535,295	n/a	1,682,003
Reclassification from share premium	363	320.86	1,130
ICLNs issued	77,373	150.00	515,822
Issuance costs	(345)	n/a	-
At 31 December 2012	612,686	n/a	2,198,955

None of the ICLNs issued to date have been converted to ordinary shares. The ICLNs are non-interest-bearing and are not repayable. They are convertible by the holder into ordinary shares of the Company at any time between the date of issue of the notes and certain mandatory conversion trigger events (including an IPO) as per the irredeemable convertible loan note agreements. The proceeds received, net of transaction costs, from the issue of these convertible loan notes have accordingly been included as a component of equity representing the fair value of the option to convert into ordinary shares of the Group.

31. EQUITY RESERVES

	Other equity reserve \$'000	Share-based payments reserve \$'000	Foreign currency translation reserve \$'000	Total \$'000
At 1 January 2011	16,176	9,367	(966)	24,577
Currency translation adjustment	-	-	234	234
Share-based payments	-	5,681	-	5,681
At 31 December 2011	16,176	15,048	(732)	30,492
Share-based payments	-	2,843	-	2,843
At 31 December 2012	16,176	17,891	(732)	33,335

Other equity reserve: The other equity reserve is in respect of the warrants issued by the Company.

Share-based payments reserve: The reserve represents cumulative amounts charged to the statement of comprehensive income in respect of employee share-based payment plans where the scheme has not yet been settled by means of an award of shares to an individual.

Foreign currency translation reserve: The foreign currency translation reserve is used to record exchange differences arising from the translation of the financial statements of foreign operations. The reserve was frozen from 1 January 2012 as the functional currency of the associated subsidiary (Seven Energy (UK) Limited) was changed from sterling to US dollars on the basis that the US dollar is now more representative of the subsidiary's expanded group-wide support activities.

32. SHARE-BASED PAYMENTS

The Group has in place a share-based payment arrangement for its employees, has issued warrants to a contractor and has also issued share options in connection with the purchase of the GoGE Group of companies.

Discretionary Share Option Plan

The Group operates a share option scheme for employees. The Group's policy is to award options to eligible employees at the sole discretion of the HR & Remuneration Committee of the Board of Directors. Options are issued at market price on the grant date and have a 3 year vesting period or have performance related vesting conditions which require that the share price reaches \$700.00 before vesting to the employee. The options expire after 7 years from the date of grant if they remain unexercised and are forfeited if the employee leaves the Group before the options vest except at the discretion of the Board.

Following the Company's issue of ICLNs in October 2012, the Board approved an amendment to the Discretionary Share Option Plan such that, for options without performance conditions, the exercise price for options previously issued at \$320.86/share and \$350.00/share were reduced to \$285.91/share and \$311.87/share respectively. The Board also granted a further 7,658 options as a result of this issue of ICLNs. Valuation details for these grant of options is set out in the following tables.

Details of the charge for the year are as follows:

	Year ended 31 December 2012 \$'000	Year ended 31 December 2011 \$'000
Charge for the year	2,843	5,681

In the year ended 31 December 2012 the charge included \$0.7 million relating to the modification of the exercise prices as described above which represents the increase in the fair value of the options at the modification date 29 November 2012. A further \$0.1 million relating to these modified options will be expensed during 2013.

Details of the share options outstanding during the year are as follows:

	2012 Number of share options	2012 Weighted average exercise price \$	2011 Number of share options	2011 Weighted average exercise price \$
Outstanding at beginning of year	125,088	343.33	105,035	335.92
Granted during the year	7,658	302.37	45,814	350.00
Forfeited during the year	(2,192)	350.00	(25,761)	342.20
Outstanding at the end of year	130,554	318.14	125,088	343.33
Exercisable at the end of year	103,300	318.54	66,194	334.29

The weighted average remaining contractual life of the options outstanding at 31 December 2012 was 8.03 years (2011: 8.40 years). The range of exercise prices of options outstanding at the year end were \$285.91, \$311.87, \$320.86 and \$350.00.

The options granted during the year without performance conditions have been valued by reference to the Black-Scholes option valuation model. The options grants with a performance condition, which require that the share price reaches \$700.00 before vesting have been valued using a modified binomial model. The inputs into the Black-Scholes and binomial model were as follows:

	2012	2011
Weighted average share price ⁽ⁱ⁾	\$315.00	\$350.00
Weighted average exercise price	\$302.37	\$350.00
Weighted average target price before eligibility to exercise (only applicable for options with performance condition)	n/a	\$700.00
Expected volatility	106.30% - 111.00%	61.00% - 77.00%
Expected life (years)	0.67	2.5
Risk-free rate	0.31-0.33%	0.52-0.82%
Expected dividends	nil	nil

(i) The share price inputs to the share-based payments valuation has been determined on a basis consistent with the issue and valuation of equity linked instruments issued by Seven Energy at a similar time.

The Company's shares are not listed on an open market, therefore, to determine the expected volatility of the Company shares, the Company used a peer Group's stock prices for three years prior to the option grant date.

33. NON-CONTROLLING INTERESTS

	\$'000
At 1 January 2011	24,092
Share of loss for the year	(334)
At 31 December 2011	23,758
Share of loss for the year	(193)
At 31 December 2012	23,565

The non-controlling interest relates to the remaining 37.5% shareholding in the Group's subsidiary Universal Energy Resources Limited.

34. RELATED PARTY TRANSACTIONS

The Group, through its subsidiary Universal Energy, holds a Naira denominated loan, dating back to 2005, due to Akwa Ibom Investment and Industrial Promotion Council (a minority shareholder of Universal Energy) for \$9.9 million (2011: \$9.8 million). The loan is expected to be repaid out of the production revenues generated by the Stubb Creek field, with repayments expected to commence in 2013. The loan is currently interest free.

In May 2009 the Group became party to an interest bearing loan note with Actis GOGÉ (Mauritius) Limited ("Acts"), a securityholder in Seven Energy International Limited. At 31 December 2012, the loan balance including accrued interest outstanding was nil (2011: \$45.3 million). In September 2011, Actis sold the loan note to a non-related party of the Group. Further details are provided in note 23.

In November 2010, Petrofac Limited ("Petrofac") the international oil and gas facilities, engineering and project management services provider acquired an equity interest in the Company. In addition, the Group entered into a strategic alliance with Petrofac for the provision of engineering and capital project management services. During the year the Group received project management, engineering and procurement services totalling \$4.8 million (2011: \$12.4 million) of which \$6.0 million remained payable at 31 December 2012 (2011: \$4.6 million). The services were associated with the on-going development of the Uquo and Stubb Creek fields.

In December 2010, the Company entered into a consultancy agreement with Strand Oil & Gas Limited, a company in which Atul Gupta, a Director of the Company, has an interest in, for the provision of corporate governance and advisory services. During 2011, fees of \$50,000 were paid to Strand Oil & Gas Limited for such services. No fees were paid during 2012.

In April 2011, the Group entered into a reserve based secured facility agreement with three banks (one of which being Standard Chartered Bank, a shareholder in the Company via its subsidiary Standard Chartered Private Equity (Mauritius) III Ltd) for \$150.0 million with an initial borrowing base of \$75.0 million, \$25.0 million of which being provided by Standard Chartered. On 25 February 2013 the Group completed the refinancing of the facility, with one third still being provided by Standard Chartered Bank. The refinancing increased the borrowing base from \$75.0 million (\$56.2 million of which was outstanding at 31 December 2012) to \$92.5 million, one third of which being related party balances with Standard Chartered Bank. Further details are provided in note 23.

In May 2011, the Group received a short term working capital facility from JPP Ocean (Singapore) Pte. Ltd, a shareholder in the Company, for US\$5.0 million. The facility was fully repaid in July 2011 along with \$253,000 of accrued interest and fees.

During 2011 and 2012, a related party transaction took place between the Group and Amaya Capital Partners, a company in which Phillip Ihenacho, a Director of the Company, has an interest in. Amaya Capital Partners was paid consultancy fees during the year of \$129,000 (2011: \$128,000) in connection with capital-raising, identifying acquisition opportunities, and sales contract discussions.

Between December 2011 and November 2012, a related party transaction took place between the Group and Tracon Investments Limited, a company in which Kola Aluko, a former Director of the Company, and current shareholder, has an interest. Tracon Investments Limited was paid consultancy fees during the year of \$1,070,000 (2011: US\$97,000) in connection with business development and acquisition opportunities. The consultancy agreement was not renewed beyond November 2012.

Other transactions with key management during the year were as follows:

	Year ended 31 December 2012 \$'000	Year ended 31 December 2011 \$'000
Transactions with key management personnel during the year		
Amounts incurred on behalf of key management ⁽ⁱ⁾	63	(73)
Amounts owed by key management personnel at year end		
Amounts incurred on behalf of key management	63	-
	63	-

(i) Net amount represents amounts incurred offset against amounts settled by year end.

Remuneration of key management personnel

The Directors, Chief Executive Officer and Chief Financial Officer are considered to be the key management personnel of the Group. The remuneration of the key management personnel of the Group is set out below in aggregate:

	Year ended 31 December 2012 \$'000	Year ended 31 December 2011 \$'000
Short-term employee benefits	1,829	1,861
Other long-term benefits	183	90
Share based payments	506	4,415
Termination benefits	-	776
	2,518	7,142

35. INTERESTS IN SUBSIDIARIES AND JOINT OPERATIONS

Details of the principal subsidiaries during the years ended 31 December 2012 and 2011 and the percentage of share capital owned by the Company are set out below. All of these subsidiaries are included in the consolidated Group statements:

Name	Place of incorporation (or registration) and operation	Activity	Proportion of ownership interest %	Proportion of voting power held %
Seven Energy (UK) Limited	Scotland	Service company	100	100
GOGI (Nig) Limited	Nigeria	Oil and gas exploration and development	100	100
Septa Energy Nigeria Limited	Nigeria	Oil and gas exploration and development and related activities	100	100
Universal Energy Resources Limited	Nigeria	Oil and gas exploration and development	62.5	62.5
Accugas Limited	Nigeria	Gas marketing and distribution	100	100

Details of the Group's interests in joint operations during the years ended 31 December 2012 and 2011 are set out below. The Group's share of assets, liabilities, revenues and expenses are included in the Group's consolidated financial statements:

Name	Joint interest partner	Place of registration and operation	Activity	Proportion of participating interest %
Uquo field joint operation	Frontier Oil Limited	Nigeria	Oil and gas exploration and development	40
Stubb Creek field joint operation	SINOPEC International Petroleum Exploration and Production Company Nigeria Limited ("Sinopec")	Nigeria	Oil and gas exploration and development	51
Matsogo field joint operation	Chorus Energy Limited ("Chorus")	Nigeria	Oil and gas exploration and development	49
Strategic alliance agreement	Nigerian Petroleum Development Company Limited ("NPDC")	Nigeria	Oil and gas exploration and development	55

Uquo field joint operation

The Group acquired its 40% interest in the Uquo field in 2009 through its acquisition of GOGI (Nigeria) Limited. The remaining 60% is held by Frontier Oil Limited, the operator under the licence. Seven Energy will pay 100% of capital and operating costs for joint operations provided that when Seven Energy's net revenue from oil operations or gas operations exceed capital and operating costs plus 15% per annum on any unrecovered balance for the oil project and gas project respectively ("Payout"), Seven Energy will be liable for 48% of capital costs thereafter for the oil or gas project. With respect to oil operations, Seven Energy shall be entitled to 85% of revenues until Payout reducing to 48% after Payout of the oil project. With respect to gas operations, Seven Energy shall be entitled to 90% of revenues until Payout reducing to 48% after Payout of the gas project.

Stubb Creek field joint operation

Seven Energy obtained its interests in the Stubb Creek field through its acquisition of a 62.5% controlling interest in Universal Energy. Universal Energy holds a 51% participating interest in the Stubb Creek field with the remaining 49% held by Sinopec. With respect to oil operations, Universal Energy has a 20% paying interest and a 35% profit sharing interest and, with respect to gas operations, Universal Energy has a 50% paying interest and a 60% profit sharing interest.

Matsogo field joint operation

Seven Energy holds its interest in the Matsogo field through a farm-in arrangement with Chorus Energy. The Group owns a 49% participating interest in this field and Chorus owns the remaining 51%. Under the terms of the farm-in agreement, Chorus has an option to increase its stake in this field to 55% which may be exercised at Chorus's discretion. Pursuant to the terms of the farm-in agreement, the Group is required to fund 100% of the capital expenditures required to develop the first 6 wells in the field and shall recover such costs through an economic interest in 75% of the net revenues from the field until such time as the Group recovers 150% of such costs, after which the Group's economic interest in net revenues from the field shall reduce to 49%.

Strategic alliance agreement

The Group has a participating interest in OML's 4, 38 and 41 through an alliance agreement with NPDC. The three OML's are operated by Seplat Petroleum Development Company Limited (45% equity owner) in joint venture with NPDC (55% equity owner). The Group has an economic interest in the assets via the alliance agreement, whereby the Group provides funding for the NPDC share of joint venture operating costs and capital expenditures as well as technical expertise. The Group is entitled to cost recovery and a share of profit oil determined at different percentage rates based both on baseline and incremental production volumes which change over the course of the contract.

36. SUBSEQUENT EVENTS

During the period to 24 May 2013, the Group issued a further \$28.8 million of convertible bonds to new and existing investors under the same existing terms as described in note 23.

As set out in note 23, on 25 February 2013 the Group completed the refinancing of the Reserve Based Secured facility. The refinancing increased the borrowing base from \$75.0 million (\$56.2 million of which was outstanding at 31 December 2012) to \$92.5 million. Following the refinancing, an additional \$36.3 million was drawn down, taking the total principal outstanding at 24 May 2013 to \$92.5 million. Discussions to expand further the amounts available for draw down are at an advanced stage, as described further in the going concern section of the Financial Review.

During the period to 24 May 2013, the Group drew down an additional \$5.0 million on the Working Capital facility as well as securing the renewal of the facility for a further 12 months to 31 March 2014. As at 24 May 2013, a total of \$40.0 million has been drawn down.

As set out in note 23, on 27 March 2013, subject to the completion of several conditions precedent, the Group completed the expansion of the Project Finance facility with a syndicate of Nigerian banks to include the Calabar infrastructure development. The revised \$225.0 million debt facility has a 7 year term and bears interest at the rate of 3 month US LIBOR plus 10.0% per annum. The loan is repayable in quarterly instalments from December 2014. No additional amounts had been drawn down from this enlarged facility at 24 May 2013.

On 13 March 2013, the Group acquired its funding partner's 30% share of the rights and obligations associated with the strategic alliance agreement with NPDC. The consideration for the purchase consisted of \$35.0 million cash (payable in several instalments over the coming year), novation of \$33.5 million drawn down under the funding partner's \$40.0 million secured borrowing facility and elimination of the net working capital position between the Group and the funding partner at the termination date. As at 24 May 2013, the Group had

completed the facility novation and paid \$21.0 million of the cash consideration, with a further \$14.0 million remaining. The borrowing facility is repayable in six quarterly instalments from June 2013. It incurs interest at US LIBOR plus 9.0%, with a minimum of 9.5% per annum. It is the Group's intention that this loan will be refinanced within the Group's existing Reserve Based Secured facility.

Glossary of terms

“bcf”	Billion cubic feet of gas
“bbl”	Barrels of oil, condensate or natural gas liquids
“bopd”	Barrels of oil per day
“Company”	Seven Energy International Limited, a company incorporated in Mauritius
“IFRS”	International Financial Reporting Standards
“the Group/Seven Energy”	Seven Energy International Limited and its subsidiaries
“ICLNs”	Irredeemable convertible loan notes
“IPO”	Initial Public Offering
“LIBOR”	London Interbank Offered Rate
“MMboe”	Million barrels of equivalent
“MMcfpd”	Million cubic feet of gas per day
“Naira” or “NGN”	The currency of Nigeria
“Nigerian E&P losses”	Refers to corporation tax losses arising from exploration and production activities in Nigeria
“NPDC”	Nigerian Petroleum Development Company, a subsidiary of NNPC
“OML”	Oil mining licence
“Proved and probable (2P)”	Those unproved reserves which analysis of geological and engineering data suggests are more likely than not to be recoverable. In this context, when probabilistic methods are used, there should be at least a 50% probability that the quantities actually recovered will equal or exceed the sum of estimated Proved plus Probable reserves
“SPE”	Society of Petroleum Engineers
“SAA”	Strategic Alliance Agreement
“\$”	The currency of the USA, i.e. US dollars
“Underlift/overlift”	The difference between the production entitlement and amounts lifted. Where amounts lifted are less than production entitlement, underlift (asset) is recorded. Where liftings exceed entitlement, overlift (liability) is recorded.
“Universal Energy”	Universal Energy Resources Limited

SEVEN ENERGY INTERNATIONAL LIMITED
AUDITED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2011

Registered in the Republic of Mauritius
Registered number: 65304

Contents

	PAGE
Independent auditor's report to the Directors of Seven Energy International Limited	F-113
Consolidated statement of comprehensive income.....	F-115
Consolidated balance sheet.....	F-116
Consolidated cash flow statement	F-117
Consolidated statement of changes in equity	F-118
Notes to the consolidated financial statements.....	F-119
Glossary of terms	F-153

Independent auditors' report to the Directors of Seven Energy International Limited

We have audited the non-statutory consolidated financial statements (the "financial statements") of Seven Energy International Limited ("the Group") for the year ended 31 December 2011 which comprise the consolidated statement of comprehensive income, the consolidated balance sheet, the consolidated statement of changes in equity, the consolidated cash flow statement and the related notes 1 to 36. The financial reporting framework that has been applied in their preparation is International Financial Reporting Standards (IFRSs) as adopted by the European Union.

This report is made solely to the Company's directors in accordance with our engagement letter dated 9 March 2012 for the purposes of showing the results of management's stewardship of the resources entrusted to it. Our audit work has been undertaken so that we might state to the company's directors those matters we are required to state to them in an independent auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditor

As explained more fully in the Statement of Directors' Responsibilities, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Group's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

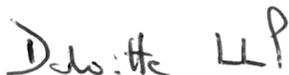
Opinion on financial statements

In our opinion:

- the financial statements give a true and fair view of the Group's affairs as at 31 December 2011 and of its loss for the year then ended;
- the financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union.

Emphasis of Matter – going concern

In forming our opinion on the financial statements, which is not modified, we have considered the adequacy of the disclosures made in the going concern section of note 4 to the financial statements concerning the Company's and the Group's ability to continue as a going concern. During the next 12 months, in order to be able to meet its financial commitments as they fall due, the Group needs to raise approximately \$130.0 million of additional funding and extend a \$40.0 million working capital facility when it expires in March 2013. These conditions, along with other matters explained in the going concern section of note 4 to the financial statements, indicate the existence of a material uncertainty which may cast doubt about the Company's and the Group's ability to continue as a going concern. The financial statements do not include the adjustments that would result if the Company and Group were unable to continue as a going concern.

A handwritten signature in black ink that reads "Deloitte LLP". The signature is written in a cursive, slightly slanted style.

Chartered Accountants

Deloitte LLP

London
United Kingdom
10 August 2012

Consolidated statement of comprehensive income
For the year ended 31 December 2011

	<i>Notes</i>	2011 \$'000	2010 ⁽ⁱ⁾ \$'000
Revenue	6	86,819	-
Cost of sales	7	(46,263)	973
Depletion	17	(11,986)	(924)
Gross profit		28,570	49
Depreciation and amortisation expenses	17	(2,064)	(1,369)
Other operating expenditures			
- Operating costs	9	(4,776)	(13,132)
- Impairment charge	17	-	(255,452)
- Other costs	9	-	(29,850)
Administrative expenses	10	(28,057)	(21,881)
Operating loss		(6,327)	(321,635)
Investment revenue		182	70
Finance costs	13	(6,763)	(20,947)
Foreign exchange gains		647	918
Loss before tax		(12,261)	(341,594)
Tax (expense)/credit	14	(14,650)	96,276
Loss for the year		(26,911)	(245,318)
Attributable to:			
Owners of the company		(26,577)	(244,505)
Non-controlling interests	33	(334)	(813)
Other comprehensive income for the year			
Loss for the year		(26,911)	(245,318)
Exchange differences on translation of foreign operations	31	234	(126)
Total other comprehensive income/(expense) for the year		234	(126)
Total comprehensive expense for the year		(26,677)	(245,444)
Attributable to:			
Owners of the company		(26,343)	(244,631)
Non-controlling interests		(334)	(813)
Loss per share (\$ per share)			
Basic and diluted from continuing operations	15	(12.3)	(188.3)

All operations relate to continuing operations in 2010 and 2011.

- (i) The Group has chosen to re-present the 2010 analysis of Other operating costs and Administrative expenses to reflect a consistent basis as presented in 2011. Further details are included in note 3.

Consolidated balance sheet

As at 31 December 2011

	<i>Notes</i>	2011 \$'000	2010 \$'000
Non-current assets			
Intangible assets	16	11,292	10,755
Property, plant and equipment	17	506,865	306,416
Other receivables	18	6,592	3,846
Deferred tax assets	22	14,093	15,181
		538,842	336,198
Current assets			
Inventories	19	5,699	9,854
Trade and other receivables	18	68,139	14,933
Cash and cash equivalents	20	12,717	67,536
		86,555	92,323
Total assets		625,397	428,521
Current liabilities			
Trade and other payables	21	(72,520)	(51,770)
Borrowings	23	(69,075)	(24,447)
Deferred revenue	28	(13,231)	-
Provisions	25	(20,000)	-
Current tax liabilities	14	(291)	(93)
		(175,117)	(76,310)
Non-current liabilities			
Borrowings	23	(105,389)	(76,369)
Deferred tax liabilities	22	(36,778)	(23,414)
Long-term provisions	25	(12,756)	(22,046)
Deferred revenue	28	(18,524)	(31,755)
		(173,447)	(153,584)
Total liabilities		(348,564)	(229,894)
Net assets		276,833	198,627
Equity			
Share capital	29	5	5
Share premium account		95,273	95,192
Irredeemable convertible loan notes	30	535,295	436,174
Retained deficit		(407,990)	(381,413)
Equity reserve	31	30,492	24,577
Equity attributable to owners of the Company		253,075	174,535
Non-controlling interests	33	23,758	24,092
Total equity		276,833	198,627

The financial statements were approved by the Board of directors and authorised for issue on 10 August 2012.

They were signed on its behalf by:



Phillip Ihenacho

Director

Consolidated cash flow statement
For the year ended 31 December 2011

	<i>Note</i>	2011	2010
		\$'000	\$'000
Loss for the year		(26,911)	(245,318)
Adjustments for:			
Investment revenues		(182)	(70)
Financing costs	<i>13</i>	6,763	20,947
Depreciation and amortisation	<i>17</i>	2,064	2,293
Depletion	<i>17</i>	11,986	-
Impairment loss on property, plant and equipment	<i>17</i>	-	255,452
Loss/(Gain) on disposal of property, plant and equipment		38	(16)
Income tax charge/(credit)	<i>14</i>	14,650	(96,276)
Share-based payment expense	<i>32</i>	5,681	4,263
Foreign exchange gain		(647)	(918)
Increase in contract provisions	<i>25</i>	-	20,000
Inventory provision	<i>19</i>	-	1,001
Provision for doubtful debts	<i>18</i>	1,501	-
Operating cash flows before movements in working capital		14,943	(38,642)
Decrease/(increase) in inventories		3,962	(3,962)
(Increase) Decrease/in receivables		(67,143)	4,953
Increase in payables		13,630	5,647
Net cash used in operating activities		(34,608)	(32,004)
Investing activities			
Interest received		132	70
Proceeds from disposal of property, plant and equipment		-	27
Purchases of property, plant and equipment and intangible assets		(171,332)	(194,524)
Net cash used in investing activities		(171,200)	(194,427)
Financing activities			
Interest and financing fees paid		(18,474)	(10,284)
Financing deposits paid		(4,513)	-
Repayments of borrowings		(5,000)	(14,984)
Proceeds from borrowings		78,142	68,500
Proceeds from issue of convertible loan notes		100,680	234,450
Proceeds from issue of ordinary shares		-	735
Acquisition of subsidiary		-	(24,000)
Net cash from financing activities		150,835	254,417
Net (decrease)/increase in cash and cash equivalents		(54,973)	27,986
Cash and cash equivalents at beginning of year		67,536	39,161
Effect of foreign exchange rate changes		154	389
Cash and cash equivalents at end of year		12,717	67,536

Consolidated statement of changes in equity
For the year ended 31 December 2011

	Share capital \$'000	Share premium \$'000	Irredeemable convertible loan notes \$'000	Retained deficit \$'000	Equity reserve \$'000	Total \$'000	Non- controlling interest \$'000	Total Equity \$'000
Balance at 1 January 2010	5	89,935	214,373	(120,903)	26,324	209,734	43,024	252,758
Issuance of equity shares	-	5,359	-	-	(4,262)	1,097	-	1,097
Credit to equity for equity-settled share based payments (note 32)	-	-	-	-	4,263	4,263	-	4,263
Warrants issued	-	-	-	-	16,176	16,176	-	16,176
Transactions involving non-controlling interest (note 33)	-	-	-	(16,005)	-	(16,005)	(18,119)	(34,124)
Issuance of convertible loan notes (note 30)	-	-	229,019	-	(17,798)	211,221	-	211,221
Expenses on issuance of equity	-	(102)	(7,218)	-	-	(7,320)	-	(7,320)
Total comprehensive expense for the year	-	-	-	(244,505)	(126)	(244,631)	(813)	(245,444)
Balance at 31 December 2010	5	95,192	436,174	(381,413)	24,577	174,535	24,092	198,627
Credit to equity for equity-settled share based payments (note 32)	-	-	-	-	5,681	5,681	-	5,681
Issuance of equity	-	81	-	-	-	81	-	81
Issuance of convertible loan notes (note 30)	-	-	99,680	-	-	99,680	-	99,680
Expenses on issuance of equity	-	-	(559)	-	-	(559)	-	(559)
Total comprehensive (expense)/income for the year	-	-	-	(26,577)	234	(26,343)	(334)	(26,677)
Balance at 31 December 2011	5	95,273	535,295	(407,990)	30,492	253,075	23,758	276,833

Notes to the consolidated financial statements

1. GENERAL INFORMATION

Seven Energy International Limited (the Company) is incorporated in Mauritius under the Companies Act, 2001 (Act No. 15 of 2001). The address of the registered office is c/o International Management (Mauritius) Ltd, Les Cascades, Edith Cavell Street, Port Louis, and Republic of Mauritius. The Company is the parent company of a group of companies (the Group) whose principal activities are the exploration, development and production of oil and gas.

These financial statements are presented in US dollars, which is the currency of the primary economic environment in which the Group operates. Foreign operations are included in accordance with the policies set out in note 4.

2. ADOPTION OF NEW AND REVISED STANDARDS

During the year, the Group adopted a number of new or revised Standards and Interpretations, none of which significantly affected the amounts reported in these financial statements.

New Standards and Interpretations in issue but not yet effective

Certain new standards, amendments to and interpretations of existing standards have been issued and are effective for the Group's accounting periods beginning on or after 1 January 2012 or later periods which the group has not early adopted. The following are applicable to the Group for which the impact on the Group's operating results or financial position will be assessed on adoption of these standards and interpretations:

IFRS 10: Consolidated Financial Statements

The standard uses control as the single basis for consolidation. It replaces those parts of IAS 27 that address when and how an investor should prepare consolidated financial statements.

IFRS 11: Joint Arrangements

The standard provides a new definition for what constitutes a joint operation and a joint arrangement.

IFRS 12: Disclosure of interests in other entities

This standard requires the disclosure of information that enables users of financial statements to evaluate the nature of, and risks associated with, interests in other entities, and in particular interests in joint arrangements

Other new standards and amendments resulting from improvements to IFRS to standards and interpretations in issue but not yet effective are not considered to have any impact on the accounting policies, financial position or performance of the group:

IFRS 1 (amended): First-time Adoption of International Financial Reporting Standards

IFRS 7: Financial Instruments: Disclosures

IFRS 9: Financial Instruments: Classification and Measurement (2009, superseded 2010)

IFRS 13: Fair Value Measurement

IAS 1 (amended): Presentation of Financial Statements

IAS 12 (amended): Income Taxes – deferred tax recovery

IAS 19 (amended): Employee Benefits (2011)

IAS 27: Separate Financial Statements (2011)

IAS 28: Investments in Associates and Joint Ventures (2011)

IAS 32 (amended): Financial Instruments: Presentation

IFRIC 20: Stripping Costs in the Production Phase of a Surface Mine

3. CHANGE IN ACCOUNTING POLICY AND PRIOR YEAR RE-PRESENTATION

Revenue recognition

In 2010, the Group's revenue recognition policy with respect to the sale of oil and gas products in which the Group has an interest with other producers was based on the Group's working interest in those properties and the terms of the relevant contractual arrangement – the net entitlement method. Revenue recognition according to the net entitlement method was based on actual production entitlement in the period, subject to an actual lifting having taken place by either the Group or by its relevant partner.

The Group now believes that it is more appropriate to recognise revenue on an actual liftings basis such that revenue is recorded on an actual invoiced basis for the value of liftings made in the year.

No adjustment is required to revenue or net income in the prior year's results as neither the Group nor its partners had made any liftings in the period between acquiring a contractual interest in the property and 31 December 2010 and, as such, no revenue had been recognised.

Re-presentation of Other operating expenses and Administrative expenses

The Group has chosen to represent the prior year analysis of Other operating costs and Administrative expenses to reflect a consistent basis as 2011. This is considered to be a more accurate reflection of the Group's activities. The Group has chosen not to present a third balance sheet for 31 December 2009 in line with IFRS requirements as the restatement has no impact on the 2009 balance sheet and such disclosure would not benefit the users of the financial statements.

4. SIGNIFICANT ACCOUNTING POLICIES

Basis of accounting

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) adopted by the European Union and therefore the Group financial statements comply with Article 4 of the EU IAS Regulation.

The financial statements have been prepared on the historical cost basis, except for the revaluation of certain financial instruments and share-based payments. Historical cost is generally based on the fair value of the consideration given in exchange for the assets. The principal accounting policies adopted are set out below.

Going concern

The directors have, at the time of approving the financial statements, a reasonable expectation that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future, although it is acknowledged that there are a number of material uncertainties in relation to this matter. Therefore, they continue to adopt the going concern basis of accounting in preparing the financial statements. Further detail is contained in the "Going concern basis" section of the Financial Review.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (its subsidiaries), made up to 31 December each year. Control is achieved where the Company has the power to govern the financial and operating policies of an investee entity so as to obtain benefits from its activities.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated statement of comprehensive income from the date of obtaining control or up to the effective date of disposal, as appropriate. Where necessary, adjustments are made to the financial statements of subsidiaries to bring the accounting

policies used in line with those used by the Group. All intra-group transactions, balances, income and expenses are eliminated on consolidation.

Non-controlling interests in the net assets of consolidated subsidiaries are identified separately from the Group's equity therein. Non-controlling interests consist of the amount of those interests at the date of the original business combination (see below) and the non-controlling interest's share of changes in equity since the date of the combination. Losses applicable to the non-controlling interest in excess of its interest in the subsidiary's equity are allocated against the interests of the Group except to the extent that the non-controlling interest has a binding obligation and is able to make an additional investment to cover the losses.

Changes in the Group's interests in subsidiaries that do not result in a loss of control are accounted for as equity transactions. The carrying amount of the Group's interest and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to the owners of the Company.

Business combinations

Acquisitions of subsidiaries and businesses are accounted for using the acquisition method. The consideration for each acquisition is measured at the aggregate of the fair values (at the date of exchange) of assets given, liabilities incurred or assumed, and equity instruments issued by the Group in exchange for control of the acquiree. Acquisition-related costs are recognised in the statement of comprehensive income as incurred.

Where applicable, the consideration for the acquisition includes any asset or liability resulting from a contingent consideration arrangement, measured at its acquisition-date fair value. Subsequent changes in such fair values are adjusted against the cost of acquisition where they qualify as measurement period adjustments. All other subsequent changes in the fair value of contingent consideration classified as an asset or liability are accounted for in accordance with relevant IFRSs.

Where a business combination is achieved in stages, the Group's previously held interests in the acquired entity are remeasured to fair value at the acquisition date (i.e. the date the Group obtains control) and the resulting gain or loss, if any, is recognised in the statement of comprehensive income. Amounts arising from interests in the acquiree prior to the acquisition date that have previously been recognised in other comprehensive income are reclassified to consolidated statement of comprehensive income, where such treatment would be appropriate if that interest were disposed of.

The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under IFRS 3 (2008) are recognised at their fair value at the acquisition date, except that:

- deferred tax assets or liabilities and liabilities or assets related to employee benefit arrangements are recognised and measured in accordance with IAS 12 Income Taxes and IAS 19 Employee Benefits respectively;
- liabilities or equity instruments related to the replacement by the Group of an acquiree's share-based payment awards are measured in accordance with IFRS 2 Share-Based Payment; and
- assets (or disposal groups) that are classified as held for sale in accordance with IFRS 5 Non-current Assets Held for Sale and Discontinued Operations are measured in accordance with that Standard.

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Group reports provisional amounts for the items for which the accounting is incomplete. Those provisional amounts are adjusted during the measurement period, or additional assets or liabilities are recognised, to reflect new information obtained about facts and circumstances that existed as of the acquisition date that, if known, would have affected the amounts recognised as of that date.

The measurement period is the period from the date of acquisition to the date the Group obtains complete information about facts and circumstances that existed as of the acquisition date, and is subject to a maximum of one year.

Commercial reserves

The Group defines commercial reserves as proven and probable oil and gas reserves, which are defined as the estimated quantities of crude oil, natural gas and natural gas liquids that geological, geophysical and engineering data demonstrate with a specified degree of certainty to be recoverable in future years from known reservoirs and that are considered commercially producible. This is equivalent to the 2P classification established by the Society of Petroleum Engineers (SPE). There should be a 50 per cent statistical probability that the actual quantity of recoverable reserves will be more than the amount estimated as proven and probable reserves and a 50 per cent statistical probability that it will be less.

Intangible assets – oil and gas exploration and appraisal assets

The Group adopts the “successful efforts” method of accounting for exploration and evaluation costs under IFRS 6, *Exploration for and Evaluation of Mineral Resources*. All licence acquisition, exploration and evaluation costs are capitalised within intangible fixed assets in cost centres by well, field or exploration area, as appropriate. Pre-licence expenditures on oil and gas assets are recognised as an expense within the statement of comprehensive income when incurred.

If commercial reserves are established then the relevant cost is transferred (following an impairment review as described below) from intangible exploration and appraisal assets to development and production assets within property, plant and equipment. Expenditure incurred after the commerciality of the field has been established are capitalised within development and production assets.

If prospects are deemed to be impaired (unsuccessful) on completion of an evaluation, the associated capitalised costs are charged to the statement of comprehensive income.

Property, plant and equipment

Property, plant and equipment is 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, if any, 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.

With the exception of oil and gas assets, depreciation is charged to the statement of comprehensive income on a straight-line basis:

	Annual rate
Furniture, fixtures and equipment	20%
Vehicles	20%
Computer hardware and software	33%
Leasehold improvements	10%

The gain or loss arising on the disposal or retirement of an asset is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in income. Depreciation commences on assets in the course of construction when the assets are brought into use.

Depletion and amortisation – oil and gas assets

Oil and natural gas properties are depleted using a unit-of-production method, which is the ratio of oil and gas production in the period to the estimated quantities of commercial reserves at the end of the period plus

production in the period, generally on a field-by-field basis. Costs used in the unit-of-production calculation takes into account expenditures incurred to date, together with the future capital expenditure expected to be incurred. Changes in the estimates of commercial reserves or future field development costs are dealt with prospectively.

Impairment

The Group assesses assets or groups of assets for impairment whenever events or changes in circumstances indicate that the carrying value of an asset may not be recoverable, for example, low prices or margins for an extended period or, for oil and gas assets, significant downward revisions of estimated commercial reserves or increases in estimated future development expenditure. If any such indication of impairment exists, the Group makes an estimate of the asset's recoverable amount. 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. An asset group's recoverable amount is the higher of its fair value less costs to sell and its value in use. 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 assessing value in use, the estimated future cash flows are adjusted for the risks specific to the asset group and are discounted to their present value using an appropriate discount rate that reflects current market assessments of the time value of money.

An assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. 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 its 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 comprehensive income. After such a reversal, 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.

Decommissioning provision

Provision for decommissioning is recognised when the Group has a legal or constructive obligation to dismantle and remove a facility or an item of plant and to restore the site on which it is located, and where a reliable estimate can be made. A corresponding item of property, plant and equipment of an amount equivalent to the provision is also recognised. This is subsequently depreciated as part of the asset and included in depletion in the statement of comprehensive income. Changes in the estimated timing of decommissioning or decommissioning cost estimates are dealt with prospectively by recording an adjustment to the provision, and a corresponding adjustment to Property, Plant and Equipment. The unwinding of the discount on the decommissioning provision is classified in the statement of comprehensive income as Finance Costs.

Inventories

Inventories of oil and gas are stated at their net realisable values. Other inventories are stated at the lower of cost and net realisable value. Cost comprises direct materials and, where applicable, direct labour, overheads and other costs incurred in bringing the inventories to their present location and condition. Net realisable value represents the estimated selling price less all estimated costs to be incurred in marketing, selling and distribution.

Revenue recognition

Revenue arising from the sale of oil and gas products is recognised when the significant risks and rewards of ownership have passed to the buyer and it can be reliably measured. Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for oil and gas products provided in the normal course of business, net of discounts, customs duties and sales taxes.

Liftings or offtake agreements associated with the sale of oil, natural gas, natural gas liquids, liquefied natural gas, petroleum and petrochemicals products in which the Group has an interest in jointly owned or controlled operations are such that each participant may not receive and sell its precise share of the overall production in each period. The resulting imbalance between cumulative entitlement and cumulative production (less inventory) attributable to each participant at a reporting date represents 'overlift' or 'underlift'. Overlift and underlift are valued at market value and recorded as current liabilities or current assets respectively. Movements during an accounting period are adjusted through cost of sales such that gross profit is recognised on an entitlements basis. Therefore, revenue is recognised on an actual invoiced basis for the value of the liftings made in the year. This represents a change in accounting policy from 2010 and is further described at note 3. Additionally, where there is significant uncertainty as to the Group's share of cumulative entitlement or production due to delays in receiving timely information from the Group's joint interest partners, the Group does not recognise overlift, underlift and or any production entitlement.

Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.

Foreign currencies

The individual financial statements of each Group company are presented in the currency of the primary economic environment in which it operates (its functional currency). For the purpose of the consolidated financial statements, the results and financial position of each Group company are expressed in US dollars, the Company's functional currency and presentation currency for the consolidated financial statements.

In preparing the financial statements of the individual companies, transactions in currencies other than the entity's functional currency (foreign currencies) are recorded at the rates of exchange prevailing on the dates of the transactions. At each balance sheet date, monetary assets and liabilities that are denominated in foreign currencies are retranslated at the rates prevailing on the balance sheet date. Non-monetary items carried at fair value that are denominated in foreign currencies are translated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences are recognised in the statement of comprehensive income in the period in which they arise.

For the purpose of presenting consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated at exchange rates prevailing on the balance sheet date. Income and expense items are translated at the exchange rates at the date of transactions. Exchange differences arising, if any, are classified as equity and recognised in the Group's equity reserve. Such translation differences are recognised as income or expense in the period in which the operation is disposed of.

Borrowing costs

Finance costs of debt are allocated to periods over the term of the related debt at a constant rate on the carrying amount. Arrangement fees and issue costs are deducted from the debt proceeds on initial recognition of the liability and are amortised and charged to finance costs over the term of the debt.

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.

All other borrowing costs are recognised in the statement of comprehensive income in the period in which they are incurred.

Financial Instruments

Financial assets and financial liabilities are recognised on the Group's balance sheet when the Group becomes party to the contractual provision of the instrument.

Financial assets

All financial assets are initially measured at fair value. Financial assets are classified into the following specified categories: financial assets 'at fair value through profit or loss' (FVTPL), 'held-to-maturity' investments, 'available-for-sale' (AFS) financial assets and 'loans and receivables'. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition. All of the Group's financial assets are currently classified as 'loans and receivables'.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial asset and for allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees on points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset, or, where appropriate, a shorter period. Income is recognised on an effective interest basis for debt instruments.

Loans and receivables

Trade receivables, loans, and other receivables that have fixed or determinable payments that are not quoted in an active market are classified as loans and receivables. Loans and receivables are measured at amortised cost using the effective interest method, less any impairment. Interest income is recognised by applying the effective interest rate, except for short-term receivables when the recognition of interest would be immaterial.

Impairment of financial assets

Financial assets are assessed for indicators of impairment at each balance sheet date. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been impacted.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognised in the statement of comprehensive income.

Trade receivables

Trade receivables are measured at their fair value upon initial recognition. Appropriate allowances for estimated irrecoverable amounts are recognised in the statement of comprehensive income when there is objective evidence that the asset is impaired.

Cash and cash equivalents

Cash and cash equivalents consist of cash at bank and in hand and short-term deposits with an original maturity of three months or less.

Derecognition of financial assets

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire; or it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity.

Financial liabilities and equity

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into.

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. Equity instruments issued by the Group are recorded at the proceeds received, net of direct issue costs.

Compound instruments

The component parts of compound instruments issued by the Group are classified separately as financial liabilities and equity in accordance with the substance of the contractual arrangement. At the date of issue, in the case of a bond denominated in the functional currency of the issuer that may be converted into a fixed number of equity shares, the fair value of the liability component is estimated using the prevailing market interest rate for a similar non-convertible instrument. This amount is recorded as a liability on an amortised cost basis using the effective interest method until extinguished upon conversion or at the instrument's maturity date. The equity component is determined by deducting the amount of the liability component from the fair value of the compound instrument as a whole. This is recognised and included in equity, net of income tax effects, and is not subsequently remeasured.

Issue costs are apportioned between the liability and equity components of the convertible loan notes based on their relative carrying amounts at the date of issue. The portion relating to the equity component is charged directly against equity.

Financial liabilities

Financial liabilities are classified as either financial liabilities 'at fair value through the profit or loss' (FVTPL) or 'other financial liabilities'.

Financial liabilities at FVTPL

Financial liabilities are classified as at FVTPL when the financial liability is either held for trading or it is designated as at FVTPL.

A financial liability is classified as held for trading if:

- it has been incurred principally for the purpose of repurchasing it in the near term; or
- on initial recognition it is part of a portfolio of identified financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

A financial liability other than a financial liability held for trading may be designated as at FVTPL upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- the financial liability forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- it forms part of a contract containing one or more embedded derivatives, and IAS 39 Financial Instruments: Recognition and Measurement permits the entire combined contract (asset or liability) to be designated as at FVTPL.

Financial liabilities at FVTPL are stated at fair value, with any gain or losses arising on re-measurement recognised in the statement of comprehensive income. The net gain or loss recognised in the statement of comprehensive income incorporates any interest paid on the financial liability and is included in the 'other gains and losses' line item in the statement of comprehensive income.

Other financial liabilities

Other financial liabilities, including borrowings and trade payables, are initially measured at fair value, net of transaction costs. Other financial liabilities are subsequently measured at amortised cost using the effective interest method, with interest expense recognised on an effective yield basis, except for short-term trade payables when the recognition of interest would be immaterial.

Derecognition of financial liabilities

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or they expire.

Embedded derivatives

Derivatives embedded in other financial instruments or other host contracts are treated as separate derivatives when their risks and characteristics are not closely related to those of the host contracts and the host contracts are not measured at FVTPL.

An embedded derivative is presented as a non-current asset or non-current liability if the remaining maturity of the hybrid instrument to which the embedded derivative relates is more than 12 months and is not expected to be realised or settled within 12 months. Other derivatives are presented as current assets or current liabilities.

Share-based payments

The Group makes equity-settled share-based payments to certain employees. Equity-settled share-based schemes are measured at fair value (excluding the effect of non market-based vesting conditions) at the date of grant, measured by use of an option valuation model. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions and behavioural considerations.

The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the period to exercise, based on the Group's estimate of shares that will eventually vest.

At each balance sheet date, the Group revises its estimate of the number of equity instruments expected to vest as a result of the effect of non market-based vesting conditions. The impact of the revision of the original

estimates, if any, is recognised in statement of comprehensive income such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to the equity reserve.

The Company is liable for Employer's National Insurance on the difference between the market value at date of exercise and exercise price. This expense is accrued by reference to the share price of the Company at the balance sheet date.

Retirement benefit costs

Payments to defined contribution retirement benefit schemes are charged as an expense as they fall due. Payments made to state-managed retirement benefit schemes are dealt with as payments to defined contribution schemes where the Group's obligations under the schemes are equivalent to those arising in a defined contribution retirement benefit scheme.

The Group had no defined benefit schemes in place at 31 December 2011 or during the periods presented.

Taxation

Tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in the statement of comprehensive income because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from the initial recognition of goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and associates, and interests in joint ventures, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised. Deferred tax is charged or credited in the statement of comprehensive income, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

Provisions

Provisions are recognised when the Group has a present obligation as a result of a past event, and it is probable that the Group will be required to settle that obligation. Provisions are measured at the directors' best estimate of the expenditure required to settle the obligation at the balance sheet date, and are discounted to present value where the effect is material.

Operating leases

Rentals payable under operating leases are charged to income on a straight line basis over the term of the relevant lease.

5. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, which are described in note 4, the directors are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

Key sources of estimation uncertainty

The following are the critical judgements, key assumptions and other key sources of estimation uncertainty at the balance sheet date that may have a significant effect on the amounts recognised in the financial statements.

Oil and gas assets

Management is required to assess the Group's intangible assets and the oil and gas development and production assets for impairment. Notes 16 and 17 disclose the carrying values of such assets together with details of impairment charges arising. Management compares the carrying value of these assets to the estimated net present value of the underlying oil and gas reserves and related future cash flows that could be generated from these reserves based upon estimates of future revenues, development costs and operating costs and applying a suitable discount rate. The reserve estimates are management's best estimates, taking into consideration independent evaluations of the proved and probable reserves attributable to the Group's economic interests using industry standard definitions and measurement techniques.

Decommissioning

The Group has potential decommissioning obligations in respect of certain of its oil and gas field interests and related processing and transportation infrastructure in Nigeria. The extent to which a provision is recognised requires management to make judgements on the legal and constructive obligations at the date of decommissioning, estimates of the restoration costs, timing of work, long term inflation and discount rates to be applied.

Share-based payments

Management is required to make assumptions in respect of the inputs used to calculate the fair values of share-based payment arrangements. Details of these can be found in note 32.

Deferred tax assets

The Group recognises deferred tax assets on all applicable temporary differences where it is probable that future taxable profits will be available for utilisation. This requires management to make judgements and assumptions regarding the amount of deferred tax that can be recognised based on the magnitude and likelihood of future taxable profits.

Risk service contract

The Group's strategic alliance agreement with NPDC relies on an agreed 'liftings' model to determine the Group's production entitlement from this contract. Within this model, production and capital expenditure costs are initially estimated from monthly cash calls and then actualised once cost returns are agreed by the operator, resulting in either an over or under-funded position. Daily field production rates are adjusted to reflect expected terminal through-put rates based on past experience. The Group's share of revenue is determined at different percentage rates based both on baseline and incremental production volumes which change over the course of the contract. Management are currently in discussions with NPDC to agree a common interpretation of certain contract clauses. Whilst these discussions continue, management have applied their best estimate for 2011.

Going concern

Management are required to make estimates and judgements in respect to the quantum and timing of forecast cashflows used to confirm the application of the going concern principle. Further details are provided in the "Going concern basis" section of the Financial Review.

6. REVENUE

Realised revenue for the year amounted to \$86,819,000 (2010: \$nil) which related to the Group's sale of its lifting entitlement from its strategic alliance with NPDC. The Group sold 768,740 barrels (2010: nil) at an average price of \$113 per barrel.

7. COST OF SALES

Costs of sales amounted to \$46,263,000 (2010: \$973,000 net credit) which related principally to the Group's share of production costs associated with the NPDC contract. As at 31 December 2011 no production entitlement or underlift was recognised as the Group realised its full liftings to this date.

In 2010 the net credit of \$973,000 was made up of \$3,962,000 representing the Group's production entitlement of 41,000 barrels from NPDC, less production expenses of \$2,989,000. As no lifting occurred during 2010, this entitlement was shown as oil inventory and was valued at \$96 per barrel, being the oil price as at 31 December 2010 (note 19).

8. BUSINESS AND GEOGRAPHICAL SEGMENTS

In the opinion of the Directors, the operations of the Group in 2011 comprise one reportable segment in Nigeria involved in the exploration, development and production of oil and gas, supported by head office activities in the UK.

The accounting policies of the reportable segments are the same as the Group's accounting policies described in note 4. Segment result represents the loss incurred by each segment without allocation of the share of central administration costs (including directors' salaries), investment revenue and finance costs, and income tax expense. This reflects the information provided to the Group's Chief Executive and the Board for the purpose of resource allocation and assessment of segment performance.

Segment revenues and results

The following is an analysis of the Group's revenue and results by reportable segment in 2011:

	Nigeria 2011 \$'000	Corporate 2011 \$'000	Total 2011 \$'000
Revenue	86,819	-	86,819
Cost of sales	(46,263)	-	(46,263)
Depletion	(11,986)	-	(11,986)
Depreciation and amortisation expenses	(1,811)	(253)	(2,064)
Operating and other costs	(4,123)	(653)	(4,776)
Administrative expenses	(13,590)	(14,467)	(28,057)
Segment operating result	9,046	(15,373)	(6,327)
Investment revenues			182
Finance costs			(6,763)
Foreign exchange			647
Loss before tax			(12,261)
Tax			(14,650)
Loss for the year			(26,911)

The Group has chosen to represent the prior year analysis of Other operating costs and Administrative expenses to reflect a consistent basis as 2011. This is considered to be a more accurate reflection of the Group's activities. The Group has chosen not to present a third balance sheet for 1 January 2010 in line with IFRS requirements as the restatement has no impact on the 2009 balance sheet and such disclosure would not benefit the users of the financial statements.

The following is an analysis of the Group's re-presented revenue and results by reportable segment in 2010:

	Nigeria (restated) 2010 \$'000	Corporate (restated) 2010 \$'000	Total (restated) 2010 \$'000
Revenue	-	-	-
Cost of sales	973	-	973
Depletion	(924)	-	(924)
Depreciation and amortisation expenses	(1,186)	(183)	(1,369)
Operating and other costs	(41,717)	(1,265)	(42,982)
Impairment charge	(255,452)	-	(255,452)
Administrative expenses	(8,576)	(13,305)	(21,881)
Segment operating result	(306,882)	(14,753)	(321,635)
Investment revenues			70
Finance costs			(20,947)
Foreign exchange			918
Loss before tax			(341,594)
Tax			96,276
Loss for the year			(245,318)

Revenue and cost of sales in both years relate entirely to the Group's share of production entitlement from the NPDC risk service contract. Lifting quantities are notified by NPDC periodically, with cash received from Shell Western Supply & Trading Ltd from subsequent sale by the Group via Shell's Forcados Export Terminal.

Segment assets

	2011 \$'000	2010 \$'000
Nigeria	617,608	356,516
Corporate assets	14,234	72,005
Consolidated total assets	631,842	428,521

The Group's Chief Executive monitors resources allocated to each of the reportable segments through review of segment assets to include tangible, intangible and financial assets attributable to each segment. With the exception of other financial assets and tax assets, all assets are allocated to reportable segments.

Other segment information

	Additions to non-current assets	
	2011 \$'000	2010 \$'000
Nigeria	220,328	222,904
Corporate	66	783
Total consolidated	220,394	223,687

In 2010, an impairment charge of \$255.5 million was recognised in respect of tangible assets in the Nigerian segment. No impairment charge has been made in 2011.

9. OTHER OPERATING EXPENDITURES

	2011 \$'000	2010 (restated) ⁽ⁱⁱ⁾ \$'000
Operating costs		
Staff costs (note 12)	11,027	8,746
Timewriting recharges to capital projects	(10,403)	(411)
Consultant services	378	729
Security services	462	568
Inventory provision (note 19)	-	1,001
Other operating costs	3,312	2,499
	4,776	13,132
Impairment charge (note 17)	-	255,452
Other costs - contract renegotiation and termination charges ⁽ⁱ⁾	-	29,850
Total Other operating expenditures	4,776	298,434

- (i) In 2010, the contract renegotiation and termination charges included an amount of \$9,850,000 that was paid to reduce the period of various contracts for project management and gas marketing services together with a provision of \$20,000,000 for management's best estimate of the costs of terminating certain other contracts (note 25).
- (ii) As described in Note 8, the Group has chosen to represent the prior year analysis of Other operating costs and Administrative expenses to reflect a consistent basis as 2011. This is considered a more accurate reflection of the Group's activities.

During the year, timewriting recharges to capital projects increased by approximately \$10.0 million as a result of an increased number of timewriting employees, increased cost pool, increased availability of data and improvements to the Group's timewriting process at the end of 2010.

10. ADMINISTRATIVE EXPENSES

	2011 \$'000	2010 (restated) ⁽ⁱ⁾ \$'000
Staff costs (note 12)	11,664	11,371
Timewriting recharges to capital projects	(2,547)	(2,027)
Loss/(gain) on sale of equipment	38	(16)
Rents and rates	1,890	2,907
Corporate support services	6,887	3,307
Other administrative expenses	10,125	6,339
Total administrative expenses	28,057	21,881

- (i) As described in note 3, the Group has chosen to re-present the prior year analysis of Other operating costs and Administrative expenses to reflect a consistent basis as 2011. This is considered a more accurate reflection of the Group's activities.

11. AUDITORS' REMUNERATION

The analysis of auditors' remuneration is as follows:

	2011 \$'000	2010 \$'000
Fees payable to the Company's auditors for the audit of the Group's annual accounts	129	329 ⁽ⁱ⁾
Fees payable to the Company's auditor and their associates for other services to the Group:		
- Audit of the Company's subsidiaries pursuant to legislation	209	204
Total audit fees	338	533
- Tax services	11	56
- Corporate finance services	-	95
- Other services	49	36
Total non-audit fees	60	187

(i) Includes additional charges of \$149,000 relating to the finalisation of the 2010 audit which were expensed during 2011, and excluding \$77,000 relating to 2009, expensed in 2010.

12. STAFF COSTS

The average monthly number of employees (including executive directors) was:

	2011 Number	2010 Number
Management	5	5
Operations and support staff	128	100
Administration	36	33
	169	138

Their aggregate remuneration comprised:

	2011 \$'000	2010 \$'000
Wages and salaries	15,538	13,468
Social security costs	984	1,599
Defined contribution pension costs (note 27)	488	787
Expense of share-based payments (note 32)	5,681	4,263
	22,691	20,117
As analysed within:		
Other operating expenditures (note 9)	11,027	8,746
Administrative expenses (note 10)	11,664	11,371
	22,691	20,117

Some of the Group's staff costs shown above are subsequently recharged to the Group's joint venture partners or capitalised into the cost of fixed assets under the Group's accounting policy for exploration, evaluation and production assets.

13. FINANCE COSTS

	2011 \$'000	2010 \$'000
Bank and other finance fees	3,310	3,711
Interest on bank overdrafts and loans	9,104	9,388
Interest and other financial costs on convertible loan notes	-	11,912
	12,414	25,011
Less: amounts included in the cost of qualifying assets (note 17)	(5,651)	(4,064)
Total finance costs	6,763	20,947

14. TAX

The (expense)/credit for the year is as follows:

	2011 \$'000	2010 \$'000
Current tax	(198)	-
Deferred tax (note 22)	(14,452)	96,276
Total tax (expense)/credit	(14,650)	96,276

Corporation tax is calculated at the applicable tax rate for each jurisdiction based on the estimated assessable profit for the year.

The Group's outstanding current tax liabilities of \$291,000 (2010: \$93,000) relate to corporation tax liabilities in Nigeria and the US.

The charge for the year can be reconciled to the result per the statement of comprehensive income as follows:

	2011 \$'000	2011 %	2010 \$'000	2010 %
Loss before tax on continuing operations:	(12,261)	-	(341,594)	-
Tax at the domestic rates applicable to losses in country concerned	3,702	(30.2%)	32,065	(9.4%)
Tax effects of:				
- Expenses not deductible for tax purposes	(2,306)	18.8%	(15,495)	4.5%
- Rate changes during the year	342	(2.7%)	(601)	0.2%
- Deferred tax assets not recognised	(3,605)	29.4%	(7,517)	2.2%
- Foreign tax	(158)	1.3%	-	-
- Recognition of deferred tax assets of a prior period	387	(3.2%)	11,667	(3.4%)
- Release of deferred tax balances	-	-	68,182	(20.0%)
Adjustments in respect of prior years	-	-	7,975	(2.3%)
Re-measurement of deferred tax – change in Universal Energy tax rate	(13,012)	106.1%	-	-
Tax (expense)/credit and effective tax rate for the year	(14,650)	119.5%	96,276	(28.2%)

The weighted average applicable tax rate was 30.2% (2010: 9.4%).

The tax rate applied, in determining a deferred tax liability recognised on the acquisition of Universal Energy has been re-measured. The deferred tax recognised is currently expected to reverse against oil profits only in the near term, rather than both oil and gas, and has therefore been re-measured using a blended Petroleum Profits

Tax Act (oil) rate of 76.15%, reflecting the reduced rate in the first five years of production of 65.75% and the 85% rate thereafter.

In 2010, the tax credit included \$68.2 million in relation to the deferred tax effect of the Uquo impairment.

Reductions to the UK corporation tax rate have been announced. The changes, which were substantively enacted on 26 March 2012, will reduce the rate from 26% to 24% from 1 April 2012. The 2012 Finance Bill also proposes to reduce the main rate of corporation tax from 24% to 23% from 1 April 2013 and also proposes to reduce the main rate to 22% from 1 April 2014. The decrease to 23% from 1 April 2013 and further decrease to 22% are not expected to be substantively enacted until future Finance Bills are approved. However, due to no deferred tax being recognised in the UK entities, these effects would not have any impact on the financial statements.

15. LOSS PER SHARE

From continuing operations

The calculation of the basic and diluted loss per share is based on the following data:

	2011	2010
Loss for the purposes of basic loss per share (\$000)	(26,577)	(244,505)
Weighted average number of ordinary shares for the purposes of basic loss per share ⁽ⁱ⁾	2,156,725	1,298,154
Basic & diluted loss per ordinary share \$ ⁽ⁱⁱ⁾	(12.3)	(188.3)

- (i) The calculation of weighted average number of ordinary shares includes the weighted average number of shares convertible during 2011 and 2010 from the issuance of the ICLNs as, for the reasons outlined in note 30, the ICLNs are believed to represent equity instruments of the Company.
- (ii) As there is a loss for both years ended 31 December 2011 and 2010 there is no difference between basic and diluted earnings per share as the share options were anti-dilutive for both years. Potentially dilutive ordinary shares at 31 December 2011 were 364,789 (2010: 344,736).

The denominators used are the same as those detailed above for both basic and diluted loss per share from continuing operations.

16. INTANGIBLE ASSETS

	Total \$'000
Oil and gas exploration and appraisal assets	
Balance at 1 January 2010	9,589
Additions	1,166
Balance at 31 December 2010	10,755
Additions	537
Balance at 31 December 2011	11,292

Additions to oil and gas exploration and appraisal intangible assets during the year were \$0.5 million (2010: \$1.2 million), all related to the Matsogo field.

17. PROPERTY, PLANT AND EQUIPMENT

	Pipeline, development and production assets \$'000	Vehicles \$'000	Leasehold improvements \$'000	Furniture, fixtures and equipment \$'000	Total \$'000
Cost					
At 1 January 2010	333,849	2,466	501	5,939	342,755
Additions	218,003	962	2,349	1,207	222,521
Reclassifications	5,109	-	-	(5,109)	-
Disposal	-	(47)	-	-	(47)
Exchange differences	-	-	(9)	(3)	(12)
At 31 December 2010	556,961	3,381	2,841	2,034	565,217
Additions	212,179	1,126	618	611	214,534
Reclassification	(845)	808	-	37	-
Disposal	-	(60)	-	(49)	(109)
Exchange differences	-	-	-	-	-
At 31 December 2011	768,295	5,255	3,459	2,633	779,642
Accumulated depreciation, depletion and impairment					
At 1 January 2010	-	(495)	(197)	(413)	(1,105)
Charge for the year	(924)	(697)	(192)	(480)	(2,293)
Impairment charge	(255,452)	-	-	-	(255,452)
Disposal	-	36	-	-	36
Exchange differences	-	9	-	4	13
At 31 December 2010	(256,376)	(1,147)	(389)	(889)	(258,801)
Charge for the year	(11,986)	(889)	(634)	(541)	(14,050)
Disposal	-	24	-	47	71
Exchange differences	-	-	-	3	3
At 31 December 2011	(268,362)	(2,012)	(1,023)	(1,380)	(272,777)
Carrying amount					
At 31 December 2011	499,933	3,243	2,436	1,253	506,865
At 31 December 2010	300,585	2,234	2,452	1,145	306,416

During the year, approximately \$188.8 million (2010: \$178.0 million) of additions to pipeline, development and production assets related to assets in the course of construction, including the drilling of wells and the construction of the Uquo to Ikot Abasi pipeline and related facilities. \$14.4 million was incurred for the Group's share of on-going capital expenditures under its strategic alliance agreement with NPDC, (2010: \$40.0 million, of which \$37.8 million related to the initial acquisition). Additions included capitalised interest of \$5.7 million (2010: \$4.1 million) from directly attributable borrowings raised by the Group's subsidiary Accugas for the construction of the Uquo-Ikot Abasi pipeline and related facilities.

The Stubb Creek oil and gas field joint venture incurred \$8.9 million (2010: \$5.5 million) in capital expenditure through the Group's subsidiary Universal Energy Resources Limited (Universal Energy).

At year end, the overall net book value of assets in the course of construction (being those related to Uquo and Stubb Creek) was \$458.5 million (2010: \$261.5 million).

In 2010, the impairment charge of \$255.5 million related to the Uquo gas field and its associated pipeline infrastructure and arose principally due to cost overruns during the year. The charge was determined by estimating the excess of the cash generating unit's carrying value over future value in use. In calculating this impairment, management used a range of assumptions, including a long-term forecast oil price of \$85 per barrel and a 10% post-tax discount rate. In 2011, management performed an impairment assessment and no impairment charge or reversal has been required.

18. TRADE AND OTHER RECEIVABLES

	2011 \$'000	2010 \$'000
Trade receivables		
Receivables from sales	48,563	-
Amounts receivable from joint interest partners	8,071	3,471
Total trade receivables	56,634	3,471
Other receivables		
Deposits	480	1,237
VAT receivables	614	1,606
Other receivables ⁽ⁱ⁾	4,967	5,477
Rental prepayments	1,159	1,218
Prepaid drilling costs	2,063	348
Other prepayments	2,222	1,576
	68,139	14,933

(i) Included within other receivables are amounts owed from former related parties of \$2,137,000 (2010: \$2,200,000) (note 34).

The average credit period given on joint interest billings and oil and gas sales is 60 days. The Group does not currently charge interest on past due receivables although in the event receivables become past due the Group can do so at rates specified in the respective joint operating agreements. The Group periodically reviews all receivables outstanding to assess their recoverability.

At 31 December 2011, a provision of \$1,501,000 (2010: nil) has been made within Other receivables for past withholding taxes refundable from Nigerian vendors. No other receivable balances were either past due or impaired.

Non-current other receivables

	2011 \$'000	2010 \$'000
Rental prepayments in Nigeria	2,124	3,846
Stamp duty escrow reserve for Group borrowings	2,603	-
Debt service reserve account for Group borrowings	1,864	-
	6,592	3,846

The directors consider that the carrying amount of trade and other receivables is approximately equal to their fair value.

19. INVENTORIES

	2011 \$'000	2010 \$'000
Crude oil inventories	-	3,962
Spare parts	5,699	5,892
Total inventories	5,699	9,854

The reduction in the balance of spare parts during the year amounting to \$193,000 (2010: \$680,000) and related to inventory used in the construction of the Group's oil and gas assets. In 2010, a provision of \$1,001,000 was made for obsolete and unusable inventory and recognised as an expense in the year (note 9). No additional provision has been made in 2011.

The crude oil inventory is the Group's production entitlement under the strategic alliance agreement with NPDC. As at 31 December 2011, the Group lifted its entire entitlement to this date, so no inventory balance was recorded. As at 31 December 2010, the Group was allocated approximately 41,000 barrels of crude oil, valued at the year-end oil price of \$96 per barrel (note 7).

20. CASH AND CASH EQUIVALENTS

	2011 \$'000	2010 \$'000
Interest bearing		
Held in Nigerian banks	87	93
Held in banks outside Nigeria	1,843	64,931
Non-interest bearing		
Held in Nigerian banks	10,173	2,155
Held in banks outside Nigeria	614	357
Total cash at bank and in hand	12,717	67,536
Restricted cash balances	4,467	-
	17,184	67,536
Presented as:		
Included in long-term other receivables	4,467	-
Total cash and cash equivalents	12,717	67,536
	17,184	67,536

Cash and cash equivalents comprise cash and short-term bank deposits with an original maturity of three months or less. Restricted cash balances include stamp duty and debt service reserve amounts required to be held relating to the Group's borrowings. The carrying amount of these assets is approximately equal to their fair value.

21. TRADE AND OTHER PAYABLES

	2011 \$'000	2010 \$'000
Trade payables	30,492	11,047
Other payables	7,014	7,794
Accruals	16,700	13,604
PAYE and social security	383	912
WHT and VAT payable	13,353	14,585
Interest payable	4,578	3,828
	72,520	51,770

Trade payables and accruals principally comprise amounts outstanding to the Group's joint venture partners, for trade purchases (including capital expenditures) and ongoing costs. The average credit period taken for trade purchases is 44 days (2010: 30 days). For most suppliers no interest is charged on the trade payables for the first 30 days from the date of the invoice. The Group has working capital risk management policies in place to ensure that all payables are paid within the agreed credit terms where possible. Other payables balance primarily contains payables in relation to the Group's risk service funding arrangements. The directors consider that the carrying amount of trade payables approximates to their fair value.

22. DEFERRED TAX

The following are the major deferred tax liabilities and assets recognised by the Group and movements thereon during the current and prior reporting period.

	Fixed Assets \$'000	Unrealised FX Gain/ Loss \$'000	Share Based Payments \$'000	Tax Losses \$'000	Redundancy Provision \$'000	Risk Service Contract \$'000	Total \$'000
As 1 January 2010	(104,029)	(480)	-	-	-	-	(104,509)
Credit to income	75,955	699	250	19,372	-	-	96,276
As 31 December 2010	(28,074)	219	250	19,372	-	-	(8,233)
Credit/(charge) to income	726	(219)	436	(1,103)	110	(1,389)	(1,439)
Re-measurement of fair value uplift	(13,013)	-	-	-	-	-	(13,013)
As 31 December 2011	(40,361)	-	686	18,269	110	(1,389)	(22,685)

Certain deferred tax assets and liabilities have been offset. The following is the analysis of the deferred tax balances (after offset) for financial reporting purposes:

	2011 \$'000	2010 \$'000
Deferred tax liabilities	(36,778)	(23,414)
Deferred tax assets	14,093	15,181
	(22,685)	(8,233)

At the balance sheet date, the Group has unused tax losses of \$126.5 million (2010: \$113.0 million) available for offset against future profits. A deferred tax asset has only been recognised where future utilisation of such losses is considered probable. A gross deferred tax asset of \$57.3 million (2010: \$63.0 million) has been recognised in respect of such losses. No deferred tax asset has been recognised in respect of the remaining \$69.2 million (2010: \$50.0 million) of losses.

The recognised and unrecognised tax losses of the Group at 31 December 2011 are summarised below by jurisdiction:

	Recognised tax losses		Unrecognised tax losses		Total tax losses	
	2011 \$'000	2010 \$'000	2011 \$'000	2010 \$'000	2011 \$'000	2010 \$'000
UK losses ⁽ⁱ⁾	-	-	(42,683)	(27,879)	(42,683)	(27,879)
Nigerian non E&P losses ⁽ⁱⁱ⁾	(57,290)	(63,021)	(11,624)	(7,494)	(68,914)	(70,515)
Nigerian E&P losses ⁽ⁱⁱⁱ⁾	-	-	(14,430)	(14,430)	(14,430)	(14,430)
Losses in other jurisdictions ^(iv)	-	-	(469)	(177)	(469)	(177)
Total tax losses	(57,290)	(63,021)	(69,206)	(49,980)	(126,496)	(113,001)

(i) UK losses are available to carry forward indefinitely for offset against future taxable profits.

(ii) Nigerian non E&P losses are available to carry forward indefinitely for offset against future taxable non E&P profits.

(iii) Nigerian E&P losses are available to carry forward indefinitely for offset against future taxable E&P profits.

(iv) Losses in other jurisdictions comprise losses from the Netherlands, that expire 9 years from the year incurred, and losses arising from Bermuda which are not carried forward as profits in Bermuda are subject to a 0 per cent corporate tax rate.

23. BORROWINGS

	2011 \$'000	2010 \$'000
Secured borrowing at amortised cost		
Bank loans ⁽ⁱ⁾		
Loans from non-related parties	105,000	55,000
Loans from related parties	25,000	-
Other loans ⁽ⁱⁱ⁾		
Loans from related parties	41,566	37,718
Unsecured borrowing at amortised cost		
Loans from other parties (non-related) ⁽ⁱⁱⁱ⁾	9,751	10,245
Total gross borrowings	181,317	102,963
Unamortised finance costs incurred on raising debt	(6,853)	(2,147)
Total net borrowings	174,464	100,816
Analysed as:		
Short-term borrowings	69,075	24,447
Long-term borrowings	105,389	76,369
	174,464	100,816

The maturity profile of the Group's gross borrowings including interest on an undiscounted basis is shown in the table below. This differs from both the carrying value and fair value due to the effect of discounting. Interest on floating rate debt is based on the relevant US Dollar LIBOR forward rates.

	2011 \$'000	2010 \$'000
Current		
Amount due within one year	84,100	29,571
Non-current		
Amount due after one year but within two years	59,540	4,915
Amount due after two years but within 5 years	66,140	92,448
Amount due after 5 years	-	11,212
	209,780	138,146

(i) Bank loans

Accugas loan

In July 2010, Accugas Limited (a wholly owned subsidiary of the Company) entered into a loan facility of \$60.0 million to finance the Uquo development of a gas transportation pipeline, processing facilities and related infrastructure. As at 31 December 2011, \$55.0 million had been drawn under this facility. The loan, which is secured by a charge over the pipeline and processing facilities that are being constructed, has an eight year term and bears interest at the rate of 3 month US LIBOR plus 8 per cent per annum, reducing to 7 per cent per annum twelve months after completion of the development.

Due to the delays experienced in commencing gas production, no operational cash flows were generated during 2011 which resulted in certain facility covenants at the year-end not being met.

As a consequence the \$55.0 million that has been drawn down under this facility has been shown within current liabilities at 31 December 2011. Since the year end, the lending banks have indicated that they do not currently intend to enforce their rights resulting from these covenant breaches.

Reserve based secured facility

In April 2011, the Group entered into a reserve based secured facility agreement with three banks (one of which is Standard Chartered, a related party of the Group) for \$150.0 million with an initial borrowing base of \$75.0 million. The debt facilities are due in December 2015 and bear interest of 7.50 per cent plus 3 month US Libor per annum for interest periods commencing before 31 December 2013 and 9.00 per cent plus 3 month US Libor per annum for interest periods commencing on or after 31 December 2013. As at 31 December 2011, \$75.0 million of the facility has been drawn down. The availability period of the remaining \$75.0 million (subject to periodic borrowing base redeterminations) expired on 30 June 2012 and there is currently no undrawn availability under this facility. The Group is currently in discussions with the lenders to extend the availability period and re-determine the borrowing base.

At 31 December 2011, as one quarter of the principal amount is due for repayment within one year, \$15.9 million (net of unamortised fees) is included within short term borrowings.

(ii) Loans from related parties (note 34)

Loan note

The Actis loan note bears interest of 10 per cent per annum through 31 December 2011 and increases one percentage point annually on 1 January in each of the years 2012 and 2013. Interest payments are deferred until the principal sum is due and payable in equal instalments on 31 December 2011, 2012 and 2013. During the deferred period, interest accrues monthly and is compounded in the loan note each February at which time the interest is added to and treated as part of the principal sum. The Company has the unconditional right to defer the repayment for two thirds of the balance until 31 December 2013 and the remainder to 31 December 2014 and therefore the loan is deemed due by the Company at these dates.

At 31 December 2011, the loan balance including accrued interest was \$45.3 million (2010: \$40.1 million). The loan is secured by way of a pledge over the share capital of GOGE (Nig) Limited. In September 2011, Actis sold the loan note to ELQ Investors II Limited, a subsidiary of Goldman Sachs International. The terms and conditions of the original loan remain unaffected.

On 14 February 2012, Seven Energy Bermuda Limited, on behalf of Seven Energy International Limited, fully repaid the loan principal and outstanding accrued interest to ELQ Investors II Limited through the issuing of \$44.6 million of convertible bonds. The convertible bonds have a term of three years and bear interest at 10.00 per cent, with currently a 15.00 per cent redemption premium on maturity. They also contain a conversion option to equity upon a qualifying IPO or company sale event.

(iii) Loans from other parties

The Group, through its' subsidiary Universal Energy, holds a loan due to Akwa Ibom Investment and Industrial Promotion Council for \$9.8 million (2010: \$10.2 million). The loan is expected to be repaid out of the production revenues generated by the Stubb Creek field, with repayments expected to commence in 2013. The loan is currently interest free. The loan is recorded at amortised cost. The fair value based on current market rates at 31 December 2011 is \$24.5 million (2010: 21.3 million).

Weighted Average Interest Rate

The weighted average interest rates charged on borrowings during the year were as follows:

	2011	2010
	%	%
Group borrowings	8.12	9.03

24. FINANCIAL INSTRUMENTS

Categories of financial instruments

	2011	2010
	\$'000	\$'000
Financial assets		
Cash and cash equivalents	14,581	67,536
Loans and receivables	66,185	10,186
	80,766	77,722
Financial liabilities		
<i>Held at amortised cost</i>		
Trade and other payables	42,039	22,302
Borrowings (note 23)	174,464	100,816
	216,503	123,118

The directors consider that with the exception of the \$9.8 million loan held by Universal Energy (as described in note 23), the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the financial statements approximate their fair values.

Significant accounting policies

Details of the significant accounting policies and methods adopted, including the criteria for recognition, the basis of measurement and the basis on which income and expenses are recognised, in respect of each class of financial asset, financial liability and equity instrument are disclosed in note 4 to the financial statements.

Capital risk management

The Group manages its capital to ensure that entities in the Group will be able to continue as going concerns while maximising the returns to stakeholders. The capital structure of the Group currently consists of debt, which includes the borrowings, irredeemable convertible loan notes, cash and cash equivalents and ordinary share capital. The irredeemable convertible loan notes are categorised as equity due to the terms of these instruments.

Financial risk management objectives

The Group's Finance function co-ordinates access to international financial markets and monitors and manages the financial risks relating to the operations of the Group. These risks include commodity price risk, currency risk, credit risk, liquidity risk and interest rate risk.

Commodity price risk

The Group's activities expose it primarily to the financial risks of changes in oil and gas commodity prices. The Group monitors and manages this risk where considered appropriate through long term fixed price sales contracts and forward contracts to hedge this commodity price risk. During 2011, as a condition precedent to securing the \$150 million reserve based lending facility, certain oil price hedging contracts were entered into with the syndicate banks to enable the Group to secure a minimum \$100 per barrel oil price for varying quantities (ranging from 45,000 to 780,000 barrels) of oil sales over the next four years. All of these contracts had settled prior to year end.

In 2009, the Group entered into a 10 year fixed price gas sales contract for a portion of expected future gas production from the Uquo field and we also entered into a 20 year fixed price gas sales agreement to supply 131 MMcf/d to the 560 MW Calabar power plant that is due to be ready for commissioning in late 2012. It is anticipated that additional fixed price gas sales contracts will be entered into to cover the remaining production from this field. As a result, changes in the market gas price over the contract period would have no impact on Group loss and equity in the current or future periods.

Foreign currency risk management and sensitivity analysis

The Group operates internationally and has exposure to currency risk on purchases, sales, cash and cash equivalents that are denominated in currencies other than US dollars. The currencies giving rise to this are principally the British Pound Sterling and Nigerian Naira. The Group's exposure to foreign exchange fluctuations is reduced by maintaining cash balances primarily in US dollars reflecting the currency of the majority of the Group's transactions.

The carrying amounts of the Group's foreign currency denominated monetary assets and monetary liabilities at the reporting date are as follows:

	Liabilities		Assets		Net Liabilities	
	2011 \$'000	2010 \$'000	2011 \$'000	2010 \$'000	2011 \$'000	2010 \$'000
British Pound Sterling	(3,924)	(4,725)	1,605	2,750	(2,318)	(1,975)
Nigerian Naira	(20,023)	(12,069)	4,311	2,433	(15,712)	(9,636)

A 20 per cent increase and decrease in the US dollar against the Sterling currency for 2011 would have resulted in a decrease in net liabilities of \$387,000 and an increase of \$579,000, respectively. For 2010, a 20 per cent increase and decrease in the US dollar against the Sterling currency for 2010 would have resulted in a decrease in net liabilities of \$329,000 and an increase of \$494,000, respectively.

A 20 per cent increase and decrease in the US dollar against the Naira currency for 2011 would have resulted in a decrease in net liabilities of \$2,623,000 and an increase of \$3,921,000, respectively. A 20 per cent increase and decrease in the US dollar against the Naira currency for 2010 would have resulted in a decrease in net liabilities of \$1,608,000 and an increase of \$2,406,000, respectively.

Credit risk management

Exposure to credit risk in the current year is considered to be relatively minor as all revenues and cash inflows are from a Nigerian National Oil company subsidiary (via an International Super-Major) and other reputable and International banking institutions and shareholders.

A concentration of credit risk is expected to arise in the future in relation to the sale of oil and gas in Nigeria. The Group will seek to mitigate this risk by obtaining Letters of Credit or bank guarantees where appropriate to support payment where possible.

The carrying amount of financial assets recorded in the financial statements, which is net of impairment losses, represents the Group's maximum exposure to credit risk as no collateral or other credit enhancements are held.

Interest rate risk management and sensitivity analysis

The Group is exposed to interest rate risk because entities in the Group borrow funds at both fixed and floating interest rates. The risk is managed by the Group maintaining an appropriate mix between fixed and floating borrowings.

The sensitivity analyses below have been determined based on the exposure to interest rates for non-derivative instruments at the balance sheet date. For floating rate liabilities, the analysis is prepared assuming the amount of liability outstanding at the balance sheet date was outstanding for the whole year.

If interest rates had been 0.5 per cent higher/lower and all other variables were held constant, the Group's loss for the year ended 31 December 2011 would increase or decrease by \$649,000 (2010: \$127,000). This is attributable to the Group's exposure to interest rates on its variable rate borrowings.

The Group had cash and cash equivalents on hand on which it earned investment income. A 0.5 per cent increase or decrease in the interest rate would have resulted in an increase or decrease by \$205,000 in 2011 (2010: \$267,000).

Warrants

No warrants were issued in 2011. In 2010, the Company issued warrants attached to the issue of \$41.8 million of Convertible Loan Notes (CLNs) and to the issue of ICLNs to Petrofac in November 2010. In total, 268,071 warrants were issued during 2010 at an exercise price of \$350.00. These warrants were recorded at fair value within the equity reserve, and valued using a binominal option valuation method. The total credit to the equity reserve for 2010 was \$16.2 million.

Liquidity risk management

Ultimate responsibility for liquidity risk management rests with the board of directors, which has built an appropriate liquidity risk management framework for the management of the Company's short, medium and long-term funding and liquidity management requirements. The Company maintains adequate liquid reserves, by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities.

The Group closely monitors and manages its liquidity risk. Cash forecasts are regularly produced and sensitivities run for different scenarios including, but not limited to, changes in commodity prices, different production rates from the Group's portfolio of producing fields and delays in development projects. On this basis, the Group's forecasts, taking into account reasonably possible changes as described above and further in the Going Concern section of the Financial Review, show that the Group will be able to operate within its current debt facilities and has sufficient financial headroom from the date of the 2011 Annual Report and Accounts.

Refer to Note 20 (Cash and cash equivalents) for the respective locations of the Group's cash reserves. All of the Group's cash and cash equivalents are currently held within reputable and well known commercial institutions.

The following table details the Group's remaining contractual maturity for its non-derivative financial liabilities (excluding borrowings, the repayment terms of which are provided in note 23). The amounts are based on undiscounted cash flows and on the earliest date on which the Group can be required to pay.

	2011	2010
	\$'000	\$'000
Less than 30 days	37,060	18,474
31 – 60 days	728	381
61 – 90 days	-	-
91 + days	3,850	3,447
	41,638	22,302

25. PROVISIONS

Decommissioning provision

	Decommissioning provision \$'000	Contract provision \$'000	Total \$'000
Balance at 1 January 2010	-	-	-
Provided during the year	2,046	20,000	22,046
Balance at 31 December 2010	2,046	20,000	22,046
Provided during the year	10,710	-	10,710
Balance at 31 December 2011	12,756	20,000	32,756
Current balance at 31 December 2010	-	-	-
Non-current balance at 31 December 2010	2,046	20,000	22,046
	2,046	20,000	22,046
Current balance at 31 December 2011	-	20,000	20,000
Non-current balance at 31 December 2011	12,756	-	12,756
	12,756	20,000	32,756

The Group provides for the present value of estimated future decommissioning costs for certain of its oil and gas properties in Nigeria. The amounts shown are expected to crystallise between 2030 to 2036.

In 2010, a provision of \$20.0 million was recognised for the estimated costs of terminating several contracts subsequent to the year-end relating to project management and gas marketing services (note 9). Discussions remain on-going in respect of the termination of these contracts, but it is anticipated this will be settled within the next 12 months.

26. CAPITAL COMMITMENTS AND OTHER CONTINGENCIES

Operating lease commitments – Group as lessee

	2011 \$'000	2010 \$'000
Minimum lease payments under operating leases recognised as an expense in the year	3,867	2,184

At the balance sheet date, the Group had outstanding commitments for future minimum lease payments under non-cancellable operating leases, which fall due as follows:

	2011 \$'000	2010 \$'000
Within one year	1,494	1,977
In the second to fifth years inclusive	1,189	2,881
	2,683	4,858

Operating lease payments represent rentals payable by the Group for certain of its office and staff housing properties. Leases are negotiated for terms of one to five years and rentals are fixed for an average of two and a half years with an option to extend at the then prevailing market rate for varying terms.

Capital commitments

	2011 \$'000	2010 \$'000
Oil and gas assets – Development	4,381	4,600
Oil and gas assets – Exploration and evaluation	25,263	25,263
	29,644	29,863

The commitments for exploration and evaluation of oil and gas assets relate to the Company's two year contracted agreement for the use of a drilling rig in Nigeria. As at 31 December 2011, the Company has assigned the use of this rig to a third party and as such, has assigned all of its rights and obligations in respect of the rig until such as time as the third party has finished its drilling programs (expected to be in the second half of 2012).

27. RETIREMENT BENEFIT SCHEMES

Defined contribution schemes

The Group operates defined contribution retirement benefit schemes for all qualifying employees. The assets of the schemes are held separately from those of the Group in funds under the control of trustees. Where there are employees who leave the schemes prior to vesting fully in the contributions, the contributions payable by the Group are reduced by the amount of forfeited contributions.

The employees of the Group's subsidiary in Nigeria are members of a state-managed retirement benefit scheme operated by the government of Nigeria. The subsidiary is required to contribute a specified percentage of payroll costs to the retirement benefit scheme to fund the benefits. The only obligation of the Group with respect to the retirement benefit scheme is to make the specified contributions.

The total cost charged to income of \$488,000 (2010: \$787,000) represents contributions payable to these schemes by the Group at rates specified in the rules of the plans. As at 31 December 2011, contributions of \$70,000 (2010: \$320,000) due in respect of the current reporting period had not been paid over to the schemes and are recorded within trade and other payables.

28. DEFERRED REVENUE

In May 2009, Septa Energy Nigeria, a wholly owned subsidiary of the Group, signed a Gas Purchase and Sale Agreement (GSA) with IBOM Power Company Limited to supply gas for a 10 year period to its gas plant located in the Akwa Ibom state in South Eastern Nigeria. The agreement included a condition that IBOM Power Company Limited would make an advance payment of \$63,510,000, which represents two years of delivery of gas. \$31,755,000 (50 per cent of the advanced payment) was paid to Septa Energy Nigeria on the signing of the contract, which was paid in 2009. The second advanced payment of \$31,755,000 (50 per cent of the advanced payment) is to be made on the delivery of first gas to the IBOM Power Company limited, expected to be in the second half of 2012. As a consequence, of first gas being expected to occur during 2012, the \$31,755,000 total amount shown as deferred revenue at 31 December 2011 has been split into \$13,231,250 shown as a current liability (2010: \$nil), and \$18,523,750 shown as a non-current liability (2010: \$31,755,000).

29. SHARE CAPITAL

	2011	2010
	\$'000	\$'000
Issued and fully paid:		
506,240 ordinary shares of \$0.01 each		
(2010: 506,240 ordinary shares of \$0.01 each)	5	5

The Company does not have a specified number of shares authorised for issue. The Company has one class of ordinary shares which carry no right to fixed income.

30. IRREDEEMABLE CONVERTIBLE LOAN NOTES

During 2009, 2010 and 2011, the Company issued irredeemable convertible loan notes (ICLNs).

The following ICLNs were issued during 2010 and 2011 and were still outstanding at the year-end:

	ICLN value \$'000	Effective Conversion price per Share \$	Number of Ordinary Shares if converted
Balance at 1 January 2010	214,373	n/a	689,930
ICLNs issued	176,678	322.69	547,512
Conversion of convertible loan notes	52,341	332.60	157,373
Issuance costs	(7,218)	n/a	-
Balance at 31 December 2010	436,174	n/a	1,394,815
ICLNs issued	99,680	350.00	284,522
Issuance costs	(559)	n/a	-
Balance at 31 December 2011	535,295	n/a	1,679,337

None of the ICLNs issued to date have been converted to ordinary shares.

The ICLNs are non-interest-bearing and are not repayable. They are convertible by the holder into ordinary shares of the Company at any time between the date of issue of the notes and certain mandatory conversion trigger events as per the convertible loan note agreements. The proceeds received, net of transaction costs, from the issue of these convertible loan notes have accordingly been included as a component of equity representing the fair value of the option to convert into ordinary shares of the Group.

31. EQUITY RESERVE

	Other equity reserve \$'000	Share- based payments reserve \$'000	Equity to be issued \$'000	Foreign currency translation reserve \$'000	Total \$'000
Balance at 1 January 2010	-	5,104	22,060	(840)	26,324
Currency translation adjustment	-	-	-	(126)	(126)
Convertible loans issued	-	-	(17,798)	-	(17,798)
Equity shares issued	-	-	(4,262)	-	(4,262)
Share-based payments	-	4,263	-	-	4,263
Warrants issued	16,176	-	-	-	16,176
Balance at 31 December 2010	16,176	9,367	-	(966)	24,577
Currency translation adjustment	-	-	-	234	234
Share-based payments	-	5,681	-	-	5,681
Balance at 31 December 2011	16,176	15,048	-	(732)	30,492

Other equity reserve: The other equity reserve represents the warrants issued by the Company.

Share-based payments reserve: The reserve represents cumulative amounts charged to the statement of comprehensive income in respect of employee share-based payment plans where the scheme has not yet been settled by means of an award of shares to an individual.

Equity to be issued: This reserve represents equity that has been committed to be issued but not yet issued.

Foreign currency translation reserve: The foreign currency translation reserve is used to record exchange differences arising from the translation of the financial statements of foreign operations. Upon disposal of foreign operations, the related accumulated exchange differences are recycled to the statement of comprehensive income.

32. SHARE-BASED PAYMENTS

The Group has in place share-based payment arrangement for its employees, has issued warrants to a contractor and has also issued share options in connection with the purchase of the GoGE Group of companies.

Discretionary Share Option Plan

The Group operates a share option scheme for employees. The Group's policy is to award options to eligible employees at the sole discretion of the Remuneration Committee of the Board of Directors. Options are issued at market price on the grant date and have a 3-year vesting period or are performance related. The options expire after 10 years if they remain unexercised and are forfeited if the employee leaves the Group before the options vest except at the discretion of the Board. The charge in 2011 is \$5,681,000 (2010: \$4,263,000).

Details of the share options outstanding during the year are as follows:

	2011 Number of share options	2011 Weighted average exercise price \$	2010 Number of share options	2010 Weighted average exercise price \$
Outstanding at beginning of year	105,035	335.92	51,545	320.86
Granted during the year	45,814	350.00	54,290	350.00
Forfeited during the year	(25,761)	342.20	(800)	320.86
Outstanding at the end of year	125,088	343.33	105,035	335.92
Exercisable at the end of year	66,194	334.29	28,370	320.86

The weighted average remaining contractual life of the options outstanding at 31 December 2011 was 8.40 years (2010: 8.83 years). The range of exercise prices of options outstanding at the year-end was \$320.86 to \$350.00.

The options granted during the year without performance conditions have been valued by reference to the Black-Scholes option valuation model. The options grants with a performance condition, which require that the share price reaches \$700.00 before vesting have been valued using a modified binomial model. The inputs into the Black-Scholes and binomial model were as follows:

	2011	2010
Weighted average share price ⁽ⁱ⁾	\$350.00	\$243.70
Weighted average exercise price	\$350.00	\$350.00
Weighted average target price before eligibility to exercise (only applicable for options with performance condition)	\$700.00	\$700.00
Expected volatility	61.00-77.00%	68.00%
Expected life (years)	2.5	2.7
Risk-free rate	0.52-0.82%	1.50%
Expected dividends	nil	nil

(i) The share price inputs to the Share based payments valuation has been determined on a basis consistent with the issue and valuation of equity linked instruments issued by Seven Energy at a similar time.

The Group's shares are not listed on an open market, therefore, to determine the expected volatility of the Company shares the Company used a peer Group's stock prices for three years prior to the option grant date.

33. NON-CONTROLLING INTEREST

	\$'000
Balance at 1 January 2010	43,024
Share of loss for the year	(813)
Step up acquisition of additional interest in Universal Energy	(18,119)
Balance at 31 December 2010	24,092
Share of loss for the year	(334)
Balance at 31 December 2011	23,758

34. RELATED PARTY TRANSACTIONS

During 2011, a related party transaction took place between the Company and Amaya Capital Partners, a company in which Phillip Ihenacho, the Company's Chairman and temporary CEO, has an interest in. Amaya Capital Partners was paid consultancy fees of \$128,000 in connection with capital-raising, identifying acquisition opportunities, and sales contract discussions (2010: \$198,000).

In May 2009 and in relation to the Group's acquisition of the GoGE companies, the Group became party to an interest bearing loan note with Actis GOG (Mauritius) Limited, a shareholder in Seven Energy International Limited through the issuance of \$33.8 million irredeemable convertible loan notes issued in conjunction with the acquisition of the GoGE companies. During 2011, this loan accrued interest at a rate of 10.2 per cent per annum, giving a loan balance at 31 December 2011 of \$45.3 million (2010: \$40.1 million) (note 23). In September 2011, Actis sold the loan note to ELQ Investors II Limited, a subsidiary of Goldman Sachs International who are not a related party of the Group. The terms and conditions of the original loan remain unaffected.

In May 2011, the Group received a short term working capital facility from JPP Ocean (Singapore) Pte. Ltd, a shareholder in the Company, for \$5.0 million. The facility was fully repaid in July 2011 along with \$253,000 of accrued interest and fees.

In April 2011, the Group entered into a reserve based secured facility agreement with three banks (one third of which being provided by Standard Chartered Bank, a shareholder in the Company via its' subsidiary Standard Chartered Private Equity (Mauritius) III Ltd) for \$150.0 million with an initial borrowing base of \$75.0 million. The debt facilities are due in December 2015 and bear interest of 7.50 per cent plus 3 month US Libor per annum for interest periods commencing before 31 December 2013 and 9.00 per cent plus 3 month US Libor per annum for interest periods commencing on or after 31 December 2013. As at 31 December 2011, \$75.0 million of the facility has been drawn down with \$0.4 million of interest payable. The availability period of the remaining \$75.0 million (subject to periodic borrowing base redeterminations) expired on 30 June 2012 and there is currently no undrawn availability under this facility. The Group is currently in discussions with the lenders to extend the availability period and re-determine the borrowing base.

In November 2010, Petrofac the international oil and gas facilities, engineering and project management services provider acquired an equity interest in the Company. In addition, the Group entered into a strategic alliance with Petrofac for the provision of engineering and capital project management services. During 2011, the Group received project management, engineering and procurement services totalling \$12.4 million (2010: nil), of which \$4.6 million remained payable at 31 December 2011 (2010: nil). The services were associated with the on-going development of the Uquo and Stubb Creek fields.

In December 2010, the Company entered into a consultancy agreement with Strand Oil & Gas Limited, a company in which Atul Gupta, a Company Director, has an interest, for the provision of corporate governance and advisory services. During 2011, fees of \$50,000 (2010: nil) were paid to Strand Oil & Gas Limited for such services. In addition, he was awarded 1,000 share options at an exercise price of \$350.00 per share.

Other transactions with key management during the periods were as follows:

	2011	2010
	\$'000	\$'000
Transactions with key management personnel during the year		
Amounts incurred on behalf of key management ⁽ⁱ⁾	(73)	215
Amounts owed by key management personnel at year end		
Loans to members of key management	-	2,050
Other amounts incurred on behalf of key management	-	150
	-	2,200

(i) Net amount represents amounts incurred offset against amounts settled by year end.

The amounts outstanding at 31 December 2010 relate to two individuals, who are no longer key management personnel of the Group. The remaining balance owed by these two individuals at 31 December 2011 was \$2,137,000 and is included within Other receivables (note 18).

Loans outstanding during 2010 and 2011 relate to share purchase loans to key management. The other amounts outstanding primarily relate to interest payable and employee advances.

Remuneration of key management personnel

The directors, Chief Executive Officer and Chief Financial Officer are considered to be the key management personnel of the Group. The remuneration of the key management personnel of the Group, is set out below in aggregate:

	2011	2010
	\$'000	\$'000
Short-term employee benefits	1,861	1,837
Other long-term benefits	90	81
Share based payments	4,415	2,182
Termination benefits	776	525
	7,142	4,625

35. SUBSIDIARIES

Details of the principal subsidiaries as at 31 December 2011 and 2010 and the percentage of share capital owned by the Company are set out below. All of these subsidiaries are included in the consolidated Group statements:

Name	Place of incorporation (or registration) and operation	Activity	Proportion of ownership interest %	Proportion of voting power held %
Seven Energy (UK) Limited	Scotland	Service company	100	100
GOGI (Nig) Limited	Nigeria	Oil and gas exploration and development	100	100
Septa Energy Nigeria Limited	Nigeria	Oil and gas exploration and development and related activities	100	100
Universal Energy Resources Limited (Universal)	Nigeria	Oil and gas exploration and development	62.5	62.5
Accugas Limited	Nigeria	Gas marketing and distribution	100	100

36. SUBSEQUENT EVENTS

As described in notes 23 and 34, on 14 February 2012 the Group refinanced its loan note held by ELQ Investors II Limited through the issuing of \$44.6 million of convertible bonds. The terms of these bonds are set out in the notes referred to above.

On 23 March 2012 the Group secured a \$40.0 million working capital facility with First City Monument Bank plc for general funding requirements. Its initial term is for 12 months and is renewable annually thereafter and has an interest rate of 9.6 per cent plus LIBOR per annum.

Between February and June 2012, the Group issued a \$33.0 million of convertible bonds and received offers of intent from additional new investors for a minimum further \$55.0 million, expected to be issued in August 2012. The terms of these bonds are set out in the notes referred to above.

Glossary of terms

“Bcf”	Billion cubic feet of gas
“Bbl”	Barrels of oil, condensate or natural gas liquids
“Bopd”	Barrels of oil per day
“Company”	Seven Energy International Limited, a company incorporated in Mauritius
“IFRS”	International Financial Reporting Standards
“the Group”	Seven Energy International Limited and its subsidiaries
“ICLNs”	Irredeemable convertible loan notes
“LIBOR”	London Interbank Offered Rate
“MMboe”	Million barrels of equivalent
“MMcfpd”	Million cubic feet of gas per day
“Naira” or “NGN”	The currency of Nigeria
“Nigerian E&P losses”	Refers to corporation tax losses arising from exploration and production activities in Nigeria
“NPDC”	Nigerian Petroleum Development Company, a subsidiary of NNPC
“OML”	Oil mining licence
“Proved and Probable (2P)”	Those unproved reserves which analysis of geological and engineering data suggests are more likely than not to be recoverable. In this context, when probabilistic methods are used, there should be at least a 50% probability that the quantities actually recovered will equal or exceed the sum of estimated Proved plus Probable reserves
“SPE”	Society of Petroleum Engineers
“SAA”	Strategic Alliance Agreement
“\$”	The currency of the USA, i.e. US dollars

EAST HORIZON GAS COMPANY LIMITED
IFRS FINANCIAL STATEMENTS
FOR THE PERIOD ENDED 31 MARCH 2014

Index to the financial statements
For the three months ended 31 March 2014

	PAGE
Statement of profit or loss and other comprehensive income	F-156
Statement of financial position	F-157
Statement of cashflow.....	F-158
Statement of changes in equity.....	F-159
Notes to the financial statements	F-160

Statement of profit or loss and other comprehensive income

For the three months ended 31 March 2014

Statement of profit or loss

	<i>Notes</i>	For the three months ended 31 March 2014 N'000	31 March 2013 N'000
Revenue	5	1,015,456	2,097,021
Cost of sales	6	(1,211,036)	(1,871,787)
Gross (loss)/profit		(195,580)	225,234
Administrative expenses	7	(40,318)	(14,785)
Operating (loss)/profit		(235,898)	210,449
Finance cost	9	(665,799)	(810,490)
Loss before tax		(901,697)	(600,041)
Taxation	10	270,508	201,207
Loss for the period		(631,189)	(398,834)
Other comprehensive income:			
Remeasurement of post employment benefit obligations		–	(510)
Deferred tax on actuarial gains or losses	10	–	(499)
Other comprehensive income for the period, net of tax		–	(1,009)
Total comprehensive loss for the period		(631,189)	(399,843)

Statement of Financial Position

As at 31 March 2014

	<i>Notes</i>	31 March 2014 N'000	31 March 2013 N'000
Assets			
Non-current assets			
Property, plant and equipment	<i>11</i>	7,256	7,930
Intangible assets	<i>12</i>	34,683,151	35,271,001
Deferred tax assets	<i>10</i>	1,356,291	1,085,783
		36,046,698	36,364,714
Current assets			
Inventories	<i>13</i>	325,161	306,917
Trade and other receivables	<i>14</i>	599,741	533,868
Cash and cash equivalents	<i>15</i>	47,640	277,614
		972,542	1,118,399
Total assets		37,019,240	37,483,113
Liabilities			
Current Liabilities			
Trade and other payables	<i>16</i>	23,704,074	22,708,555
Borrowing	<i>17</i>	2,807,239	3,006,398
		26,511,313	25,714,953
Non-current liabilities			
Borrowing	<i>17</i>	5,025,338	5,569,524
Government Grant	<i>18</i>	1,119,182	1,204,040
Total liabilities		6,144,520	6,773,564
Total net assets		32,655,833	32,488,517
Equity			
Ordinary share capital	<i>19</i>	10,000	10,000
Retained earnings		4,353,407	4,984,596
Total equity		4,353,407	4,994,596
Net equity and liabilities		37,019,240	37,483,113

The financial statements on pages F-155 to F-169 were approved and authorised for issue by the board of directors on 7 July 2014.



Phillip Ihenacho

Director

FRC/2014/IODN/00000007424



N. Okoro

Director

FRC/2014/IODN/00000005877



M. Williams

Financial Controller

FRC/2014/ICAN/00000005804

Statement of cashflow
For the three months ended 31 March 2014

	<i>Notes</i>	31 March 2014 N'000	31 March 2013 N'000
Cash flows from operating activities			
Cash generated from operations	20	1,179,171	2,387,403
Net cash generated from operating activities		1,179,171	2,387,403
Cash flows from financing activities			
Repayments of borrowings		(877,104)	(1,198,956)
Interest paid		(532,041)	(834,983)
Net cash outflow from financing activities		(1,409,145)	(2,033,939)
Movement in cash and cash equivalents			
At start of year		277,614	309,049
Net (decrease)/increase		(229,974)	353,464
Cash and cash equivalents at the end of the period	15	47,640	662,513

Statement of Changes in Equity
For the three months ended 31 March 2014

	Share capital N'000	Retained earnings N'000	Total equity N'000
<i>For the three months ended 31 March 2013</i>			
Balance as at 1 January 2013	10,000	7,255,037	7,265,037
Comprehensive income:			
Loss for the period	–	(398,834)	(398,834)
Other comprehensive income/(expense) for the year	–	(1,009)	(1,009)
Balance as at 31 March 2013	10,000	6,855,194	6,865,194
<i>For the three months ended 31 March 2014</i>			
Balance as at 1 January 2014	10,000	4,984,596	4,994,596
Loss for the period	–	(631,189)	(631,189)
Balance as at 31 March 2014	10,000	4,353,407	4,363,407

Notes to the financial statements

For the year ended 31 March 2014

1. GENERAL INFORMATION

East Horizon Gas Company Limited ('the Company') was a wholly owned subsidiary of Oando Plc up to 31 March 2014, effective from this date, ownership of the company has been transferred to Seven Energy International Limited, upon the successful completion of the sale transaction initiated on 24th December 2013. The Company was set up to develop and operate a natural gas pipeline system supplying gas to Mfamosing, Cross River State from the Nigerian Gas Company pipeline in Ukanafum, Akwa Ibom State and other prospective customers within the region. The Company's registered address is 7, Anifowoshe street, off Adeola Odeku, Victoria Island Lagos.

The pipeline system is an 18-inch, 128km gas pipeline traversing forests, swamps and built-up areas; it has a 100 million standard cubic feet per day (mmscf/d) capacity and currently supplies 22 mmscf/d to its foundation customer, United Cement Company (UNICEM). The gas is utilized to fuel UNICEM's 2.5 million metric tonnes per annum Cement Plant located in Mfamosing. EHGC will leverage the pipeline to build a distribution network that will supply natural gas to other interested off-takers in the Calabar area.

2 BASIS OF PREPARATION

a Statement of compliance

These interim financial statements for the three months ended 31 March 2014 have been prepared in accordance with IAS 34, 'Interim financial reporting'. The interim financial statements should be read in conjunction with the annual financial statements for the year ended 31 December 2013, which have been prepared in accordance with IFRSs.

b Judgements and estimates

In preparing these interim financial statements, Management make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates. The significant judgements made by Management in applying the company's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the annual financial statements as at and for the year ended 31 December 2013.

3 SIGNIFICANT ACCOUNTING POLICIES

The accounting policies, methods of computation and presentation applied in these interim financial statements are the same as those applied in the company's annual financial statements as at and for the year ended 31 December 2013.

The company has not adopted any new standards from those applied for its last audited financial statements; Amendments to IFRSs and IFRICs effective for the financial year ending 31 December 2014 are not expected to have a material impact on the company.

Seasonality of operations

East Horizon Gas Company Limited's business is not subject to seasonal fluctuations.

4 FINANCIAL RISK MANAGEMENT

4.1 Financial risk factors

The Company's activities expose it to a variety of financial risks: market risk (including foreign exchange risk, interest rate risk, and price risk), credit risk and liquidity risk. The Company's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effect on its financial and operational performance.

The interim financial statements do not include all financial risk management information and disclosures required in the annual financial statements; they should be read in conjunction with the company's annual financial statements as at 31 December 2013.

There have been no changes in the risk management department or in any risk management policies since the year end.

4.2 Fair value estimation

The table below analyses financial instruments whose fair values have been disclosed by valuation method. The different levels have been defined as follows:

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

The fair value of the company's borrowings as at 31 December 2013 and 31 March 2014 is as follows: These fall within level 2

Liabilities	31 March 2014 N'000	31 December 2013 N'000
Borrowing	6,888,671	7,362,938

The fair value of the borrowings for disclosure was determined by a discounted cashflow of the expected future cash outflows at the balance sheet date using the prime lending rate in Nigeria as at the balance sheet date for a similar tenure and amount. The prime lending rate is the interest rate commercial banks charge their most credit-worthy customers.

The fair value of the following financial assets and liabilities approximate their carrying amount:

- Trade and other receivables
- Cash and cash equivalents
- Trade and other payables

(a) Financial instruments in level 1

The fair value of financial instruments traded in active markets is based on quoted market prices at the balance sheet date. A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency, and those prices represent actual and

regularly occurring market transactions on an arm's length basis. The quoted market price used for financial assets held by the company is the current bid price. These instruments are included in Level 1. Instruments included in Level 1 comprise primarily Nigerian Stock Exchange (NSE) listed instruments classified as trading securities or available for sale.

(b) Financial instruments in level 2

The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined by using valuation techniques. These valuation techniques maximise the use of observable market data where it is available and rely as little as possible on entity specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in level 2.

(c) Financial instrument in level 3

If one or more of the significant inputs is not based on observable market data, the instrument is included in Level 3. Techniques, such as discounted cash flow analysis, are used to determine fair value for the financial instruments not in level 3.

Financial instruments by category

Financial assets and liabilities have been classified into categories that determine their basis of measurement and, for items measured at fair value, whether changes in fair value are recognized in the statement of income or other comprehensive income.

Those categories are: loans and receivable; and for liabilities, amortized cost. The following table shows the carrying values of assets and liabilities for each of these categories at March 31, 2014 and 31 December 2013.

	31 March 2014 N'000	31 December 2014 N'000
Assets		
Loans and receivable:		
Trade and other receivable	598,852	520,374
Cash and cash equivalents	47,640	277,614
	646,492	797,988
Liabilities		
Amortized cost:		
Trade and other payable	21,603,606	20,589,422
Borrowing	7,832,578	8,575,922
	29,436,184	29,165,344

Critical accounting estimates and judgements

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including experience of future events that are believed to be reasonable under the circumstances.

Impairment of intangible assets

The recognised intangible asset from the concession arrangement and other tangible assets with a definite useful life are tested for impairment whenever facts and circumstances indicate that the carrying amount may be higher than the recoverable amount. As of 31 December 2012, an impairment test was carried out on the intangible asset and the impairment charge of N 2,368 million was recognized in 2012. The recoverable amount of the intangible asset has been determined based on value-in-use calculations. These calculations require the use of estimates (note 12).

To estimate the value in use, management used the following assumptions:

- Projections of future cash flows are based on the forecasts approved by management.
- The period over which management projected cash flows is the term of the contract between Nigerian Gas Company (NGC) and the Company. Management assessed that projecting cash flows over a period greater than 5 years is justified, as sales of gas over the term of the contract can be estimated reliably on the basis of existing demand.
- Management's estimate of future sales volumes was based on current capacity and expected contracts. Currently, UNICEM is the only off taker of the gas. Management identified prospective customers in the region, such as recently constructed power plants, some identified industrial/commercial off-takers and assigned volumes to expected contracts based on their estimate of demand of those customers. It is expected that over the term of the contract volumes sold to UNICEM will comprise approximately 40% of total sales.
- The discount rate used is applicable FGN bond discount rate, which does not include the specific industry and market risks.
- The exchange rate used to translate the forecasted cash flows is N164/1USD.

Due to impairment triggers identified as at 31st March, 2014 an impairment test was carried out, the value in use of the CGU exceeds its carrying amount. If the estimated cost recovery volumes used in the value-in-use computation had been 10% lower than management's estimates at 31 March 2014, the Company would have recognised an impairment of N651.80 million and would need to reduce the carrying value of the intangible asset by N651.80 million. If management projected cash flows on the assumption that UNICEM will remain the only customer, additional impairment charge of approximately N 6,830.19 million would be required.

5 REVENUE

	31 March 2014 N'000	31 March 2013 N'000
Sale of gas	676,657	1,479,170
Revenue from service concession	338,799	617,851
	1,015,456	2,097,021

6 COST OF SALES BY NATURE

	31 March 2014 N'000	31 March 2013 N'000
<i>Included in Cost of Sales:</i>		
Gas Purchase	592,193	1,283,937
Gas pipeline maintenance expenses	30,993	
Amortisation of intangible assets (Note 12)	587,850	587,850
	1,211,036	1,871,787

7 OPERATING EXPENSES BY NATURE

	31 March 2014 N'000	31 March 2013 N'000
<i>Included in administrative expenses:</i>		
Depreciation on property, plant and equipment (Note 11)	674	304
Property lease rental	3,733	3,998
Employee benefits expense (Note 8)	6,698	7,576

8 EMPLOYEE BENEFITS EXPENSE

	31 March 2014 N'000	31 March 2013 N'000
The following items are included within employee benefits expense:		
Wages and salaries	2,116	825
Pension costs – Defined contribution scheme	346	173
Other staff costs	4,236	6,578
	6,698	7,576

9 FINANCE COSTS

	31 March 2014 N'000	31 March 2013 N'000
Interest expense	665,799	810,490

10 TAXATION

No provisions have been made for company income tax and education tax in these financial statements. due to the provisions of the pioneer status. The pioneer status was granted with effect from 1 January 2012 for an initial period of three years.

Based on the directors assessment, the company is able to generate future taxable profits against which the deferred tax assets can be utilized especially as steps have been taken to address the going concern risk identified. Deferred tax assets recognised in respect of temporary differences is as presented below and the applicable tax rate is 30%:

	Tax losses N'000	Property Plant and Equipment N'000	Actuarial losses N'000	Total N'000
At 1 January 2013	112,025	212	499	112,736
At 1 January 2013	112,025	212	499	112,736
Recognised in profit or loss account	201,207	–		201,207
Recognised in other comprehensive income statement	–	–	(499)	(499)
At 31 March 2013	313,232	212	–	313,444
At 1 January 2014	1,084,926	857	–	1,085,783
Recognised in profit or loss account	270,307	201	–	270,508
Recognised in other comprehensive income statement	–	–	–	–
At 31 March 2014	1,355,233	1,058	–	1,356,291

11 PROPERTY, PLANT AND EQUIPMENT

	Motor Vehicles N'000
Three months ended 31 March 2013	
Opening net book amount as at 1 January 2013	4,144
Depreciation charge	(304)
Closing net book amount as at 31 March 2013	3,840
Three months ended 31 March 2014	
Opening net book amount as at 1 January 2014	7,930
Depreciation charge	(674)
Closing net book amount as at 31 March 2014	7,256

12 INTANGIBLE ASSETS

	Gas Transmission Pipeline N'000
<hr/>	
Three months ended 31 March 2013	
Opening net book amount as at 1 January 2013	37,622,402
Amortisation charge	(587,850)
Closing net book amount as at 31 March 2013	37,034,552
Three months ended 31 March 2014	
Opening net book amount as at January 2014	35,271,001
Amortisation charge	(587,850)
<hr/>	
Closing net book amount as at 31 March 2014	34,683,151

Service Concession Arrangements (Gas Transmission Pipeline)

East Horizon Gas Company Limited (EHGC) entered into an arrangement with the Nigerian Gas Company Limited (NGC), a government business parastatal charged with the development and management of the Federal Government of Nigeria's natural gas reserves and interests. Under the agreement, NGC assigned its rights and obligations to provide natural gas to United Cement Company of Nigeria (UNICEM) to EHGC. EHGC was expected to build and operate a gas pipeline to deliver gas from the gas fields to UNICEM's terminals. EHGC is also at liberty to expand the connections and deliver to other customers. However, currently, UNICEM is the only off taker of the gas.

The agreement was entered into in March 2007 and shall be in force for 20 years. The total sum due to putting in place the distribution facilities shall be determined by EHGC in consultation with NGC. This amount determined shall represent capital contribution by EHGC and shall be recovered by EHGC from revenue from sale of gas over the contract period using an agreed cost recovery formula. EHGC is required to fund, design and construct the gas distribution facilities, and has a right to utilise the pipeline asset and the right of way license obtained by NGC for the generation of revenue from the use of the pipeline during the contract period. NGC is also obligated to deliver annual contract quantity of gas to EHGC and EHGC is obligated to take or pay for the quantity delivered. At the end of the contract period, the pipeline asset will be transferred to NG.

Either party has the right to terminate the agreement by serving the other party six (6) months notice in the event of failure to meet the first gas delivery date, major breach of the contract terms, force majeure and in the event of insolvency or bankruptcy of either party. Capital recovery of EHGC is capped at the total contract price plus interest costs incurred over the life of the contract. The construction was completed in 2012 and the service concession arrangement has been classified as an intangible asset as EHGC has the right to charge the users of the pipeline over the concession period and NGC has not guaranteed payment of any shortfalls on recovery from users. Amortisation expense for the gas transmission pipeline is included in cost of sales.

13 INVENTORIES

	31 March 2014 N'000	31 December 2013 N'000
<hr/>		
Materials	325,161	306,917

There was no inventory carried at net realisable value as of the interim reporting date (2013: nil).

14 TRADE AND OTHER RECEIVABLES

	31 March 2014 N'000	31 December 2013 N'000
Trade receivable	434,676	332,036
Other receivable	164,176	188,338
Prepayments	889	13,494
	599,741	533,868

Trade and other receivable do not contain any impaired assets and no receivable is pledged as security for borrowing.

15 CASH AND CASH EQUIVALENTS

	31 March 2014 N'000	31 December 2013 N'000
Cash at bank and in hand	47,640	277,614

For the purposes of the cash flow statement, cash and cash equivalents includes cash in hand and deposits held at call with banks.

16 TRADE AND OTHER PAYABLE

	31 March 2014 N'000	31 December 2013 N'000
Trade payable	1,776,623	1,827,992
Make up gas	304,570	118,236
Other payable	19,522,413	384,689
Due to related parties	–	18,258,505
Accruals	2,100,468	2,119,133
	23,704,074	22,708,555

17 BORROWING

	31 March 2014 N'000	31 December 2013 N'000
The borrowing is made up as follows:		
Non-current		
Bank loans	5,025,338	5,569,524
Current		
Bank loans	2,807,239	3,006,398
Total borrowing	7,832,577	8,575,922

Bank loans are analysed as follows:

Non-current

Loan type/purpose	Tenure/ interest rate	Available facility	Draw down balance 31-Mar 14 N'000	Draw down balance 31-Dec-13 N'000
Bank of Industry loan – Power and Aviation Intervention Fund (PAIF) Facility	4 yrs; 7%	10,344,530	10,344,530	10,344,530

18. GOVERNMENT GRANT

Government grant relates to the loan (below market rate) obtained through restructuring of the loan secured for the construction of the gas pipeline facility kinder the Bank of Industry loan scheme. The fair value of the grant was recognised initially on the grant date and subsequently amortised on a straight line basis over the tenure of the loan. There were no unfulfilled conditions relating to the grant as at the reporting date. The carrying amount of the grant was N1,n9 million as at 31 March 2014 (N1,204 million as at 31 December 2013), N84.86 million was credited to the statement of profit or loss for the period ended 31 March 2014 (31 March 2013: Nil).

19 SHARE CAPITAL

	Number of shares (thousands)	Ordinary shares N'000
Issued share capital		
At 31 December 2013	10,000	10,000
At 31 March 2014	10,000	10,000

Authorised share capital

The total authorised number of ordinary shares is 10 million (2012:10 million) with a par value of N1 per share. All issued shares are fully paid.

20 CASH GENERATED FROM OPERATIONS

	31 March 2014 N'000	31 March 2013 N'000
Reconciliation of loss before income tax to cash generated from operations:		
Loss before income tax	(901,697)	(600,041)
Adjustments for:		
Interest expense (Note 10)	665,799	810,490
Depreciation (Note 12)	674	304
Amortisation of intangible assets (Note 13)	387,850	587,850
Government grant amortisation (Note 18)	(84,857)	
Employee benefit curtail meat	–	1,663
Movement in working capital		
– Receivables and prepayments (current)	(65,873)	34,207
– Inventories	(18,244)	–
– Payables and seemed expenses	995,519	1,552,930
Cash generated from operations	1,179,171	2,387,403

21 RELATED PARTY TRANSACTIONS

i Until 31 March 2014, the immediate and ultimate parent of the company was Oando Plc. With effect from 1 April 2014, ownership of the company has changed and the new immediate and ultimate parent of the company is Seven Energy International Limited (SEIL), the shares of SEIL are widely held.

ii Payables to related parties

	31 March 2014 N'000	31 December 2013 N'000
Parent		
Oando Plc	–	3,179
	–	3,179
Subsidiaries of the parent		
Gaslink Nigeria Limited*	–	18,234,128
Akute Power Limited*	–	178
Central Horizon Gas Company Limited*	–	140
Oando Marketing Plc*	–	20,880
	–	18,255,326
Total payables to related parties	–	18,258,505

*subsidiaries of Oando Plc

The following transactions were carried out with related parties:

- (a) Oando Plc guaranteed the loan facility secured for EHOC gas pipeline project
- (b) Gaslink Nigeria Limited advanced funds to the Company in order to settle some its obligations as they fell due. The balance owed is payable to Gaslink on demand and interest is charged on the interCompany balance at the rate of 12% per annum. Included in amount due to Gaslink is an interest charge of N548.68 million for the period.

iii Key management compensation

Key management include executive directors and members of the Company's Board of Directors and the Group Leadership Council of the parent. The directors waived their rights to receive any emoluments or benefits in kind during the period ended 31 March 2014 (31 December 2013: Nil)

22 CONTINGENT LIABILITIES

Pending litigation

There is a legal suits outstanding against the Company for stated amounts of Ni billion (2013: NG 1 billion). On the advice of Counsel, the Board of Directors are of the opinion that no material losses are expected to arise. Therefore, no provision has been made in the financial statements.

The above contingencies are based on the best estimates of the board.

23 EVENTS AFTER THE REPORTING PERIOD

There are no events after the reporting date requiring disclosure.

24 GOING CONCERN

In the Interim period ended 31 March 2014, the Company made a loss after tax of N631 million on revenues of N1.02 billion, and as of that date, current liabilities exceeded current assets by N25.54 billion.

The Directors state that the Company is still within its first three years of operation and expects the negative trends to reverse in coming periods. The Directors have implemented action plans necessary to ensure increased working capital some of which include: increased revenues by growing the customer base; refinancing the Company's borrowings from a 16% commercial loan to a 7% BOI loan; and the parent Company will continue to provide the required financial support until the Company is able to settle its obligation to financial institutions. The Directors are confident that the actions taken will result in significant improvement in the Company's operating results and financial position.

The Directors have concluded that the current circumstances represent a material uncertainty that casts significant doubt on the Company's ability to continue as a going concern. However after considering the actions described above and after making appropriate enquiries the Directors have concluded that they have a reasonable expectation that the Company can continue in operational existence for the foreseeable future. For these reasons the Company continues to adopt the going concern basis in preparing the interim report and accounts.

EAST HORIZON GAS COMPANY LIMITED
AUDITED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2013

Index to the financial statements

	PAGE
Report of independent auditors.....	F-172
Statement of comprehensive income	F-174
Statement of financial position	F-175
Statement of cashflow.....	F-176
Statement of changes in equity.....	F-177
Notes to the financial statements	F-178



REPORT OF THE INDEPENDENT AUDITOR TO THE MEMBERS OF EAST HORIZON GAS COMPANY LIMITED

Report on the financial statements

We have audited the accompanying financial statements of East Horizon Gas Company Limited (“the company”). These financial statements comprise the statement of financial position as at 31 December 2013 and the statements of comprehensive income, changes in equity and 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 directors are responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards and with the requirements of the Companies and Allied Matters Act 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.

Auditor’s responsibility

Our responsibility is to express an opinion on the 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 our audit to obtain reasonable assurance that 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 auditor’s 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 opinion.

Opinion

In our opinion the accompanying financial statements give a true and fair view of the state of the company’s financial affairs at 31 December 2013 and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards and the requirements of the Companies and Allied Matters Act and the Financial Reporting Council of Nigeria Act.



REPORT OF THE INDEPENDENT AUDITOR TO THE MEMBERS OF EAST HORIZON GAS COMPANY LIMITED

Emphasis of matter

Without qualifying our opinion, we draw attention to note 27 in the financial statements which indicates that the company incurred a loss after tax of N2.3 billion on revenues of N7.1 billion for the year ended 31 December 2013 and, as of that date, the Company's current liabilities exceeded its current assets by N24.6 billion. These conditions, along with other matters as set forth in note 27, indicate the existence of a material uncertainty which may cast significant doubt about the Company's ability to continue as a going concern. The Directors of Seven Energy International Limited (Parent Company) have pledged to continue to support the company financially. On the basis of this support, these financial statements have been prepared on a going concern basis.

Report on other legal requirements

The Companies and Allied Matters Act requires that in carrying out our audit we consider and report to you on the following matters. 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 purposes of our audit;
- ii) the company has kept proper books of account, so far as appears from our examination of those books and returns adequate for our audit have been received from branches not visited by us;
- iii) the company's balance sheet and profit and loss account are in agreement with the books of account.

A handwritten signature in black ink, appearing to read 'Cyril Azobu', written over a light blue grid background.

Chartered Accountants
Cyril Azobu
Engagement Leader
Lagos, Nigeria
FERC/2013/ICAN/00000000648



8 July, 2014

Statement of comprehensive income
For the year ended 31 December 2013

Statement of profit or loss

	<i>Notes</i>	31 December 2013 N'000	31 December 2012 N'000
Revenue	6	7,111,006	22,616,394
Cost of sales	7	(6,966,931)	(10,895,684)
Gross profit		144,075	11,720,710
Administrative expenses	9	(230,403)	(194,943)
Other operating income	8	2,047	510
Operating (loss)/profit		(84,281)	11,526,277
Finance income	11	6,307	-
Finance cost	11	(3,165,005)	(4,010,221)
Net finance cost		(3,158,698)	(4,010,221)
(Loss)/profit before tax		(3,242,979)	7,516,056
Taxation	12	973,546	610
(Loss)/profit for the year		(2,269,433)	7,516,666
Other comprehensive income:			
Remeasurement of post employment benefit obligations	20	(510)	(337)
Taxation	12	(499)	101
Other comprehensive loss for the year, net of tax.		(1,009)	(236)
Total comprehensive (loss)/income for the year		(2,270,442)	7,516,430
(Loss)/Earnings per share (Kobo per share)		(227)	752

The results shown above for both 2013 and 2012 relate to continuing operations.

The notes and significant accounting policies on pages F-178 to F-210 are an integral part of these financial statements.

Statement of financial position

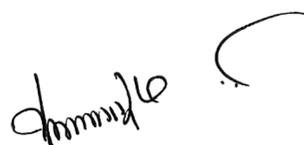
As at 31 December 2013

	<i>Notes</i>	31 December 2013 N'000	31 December 2012 N'000	1 January 2012 N'000
ASSETS				
Non-current assets				
Property, plant and equipment	13	7,930	4,144	-
Intangible assets	14	35,271,001	37,622,402	26,161,053
Deferred tax assets	12	1,085,783	112,737	112,025
		36,364,714	37,739,283	26,273,078
Current assets				
Inventories	15	306,917	276,111	-
Trade and other receivables	16	533,868	534,712	2,419,825
Cash and cash equivalents	17	277,614	309,049	69,960
		1,118,399	1,119,872	2,489,785
Total assets		37,483,113	38,859,155	28,762,863
LIABILITIES				
Current liabilities				
Trade and other payables	18	22,708,555	20,159,136	12,642,595
Borrowing	19	3,006,398	4,834,979	4,938,342
		25,714,953	24,994,115	17,580,937
Non-current liabilities				
Borrowing	19	5,569,524	6,598,339	11,433,318
Retirement benefit obligation	20	-	1,663	-
Government Grant	21	1,204,040	-	-
Total liabilities		6,773,564	6,600,002	11,433,318
Total net assets		32,488,517	31,594,117	29,014,255
EQUITY				
Ordinary share capital	22	10,000	10,000	10,000
Retained earnings		4,984,596	7,255,038	(261,392)
Total equity		4,994,596	7,265,038	(251,392)
Total equity and liabilities		37,483,113	38,859,155	28,762,863

The financial statements on pages F-174 to F-210 were approved and authorised for issue by the board of directors on 7 July 2014 and were signed on its behalf by:



Phillip Ihenacho
Director
FRC/2014/IODN/00000007424



N. Okoro
Director
FRC/2014/IODN/00000005877



M. Williams
Financial Controller
FRC/2014/ICAN/00000005804

Statement of cashflow**For the year ended 31 December 2013**

	<i>Notes</i>	31 December 2013 N'000	31 December 2012 N'000
Cash flows from operating activities			
Cash generated from operations	23	2,768,548	9,191,359
Net cash generated from operating activities		2,768,548	9,191,359
Cash flows from investing activities			
Purchase of property, plant and equipment	13	(5,935)	(4,851)
Net cash used in investing activities		(5,935)	(4,851)
Cash flows from financing activities			
Proceeds from borrowings	19	10,344,530	-
Repayments of borrowings		(12,165,922)	(4,795,825)
Interest paid		(972,656)	(4,151,594)
Net cash outflow from financing activities		(2,794,048)	(8,947,419)
Movement in cash and cash equivalents			
At start of year		309,049	69,960
Net (decrease)/increase		(31,435)	239,089
Cash and cash equivalents at the end of the year	17	277,614	309,049

The significant accounting policies and notes on page F-178 to F-210 are an integral part of these financial statements

Statement of changes in equity

For the year ended 31 December 2013

	Share capital N'000	Retained earnings N'000	Total equity N'000
Balance as at 1 January 2012	10,000	(261,392)	(251,392)
Comprehensive income:			
Profit or loss for the year	-	7,516,666	7,516,666
Other comprehensive income/(expense) for the year	-	(236)	(236)
Balance as at 31 December 2012	10,000	7,255,038	7,265,038
Statement of changes in equity			
Balance as at 1 January 2013	10,000	7,255,038	7,265,038
Profit for the year	-	(2,269,433)	(2,269,433)
Other comprehensive income for the year	-	(1,009)	(1,009)
Balance as at 31 December 2013	10,000	4,984,596	4,994,596

Notes to the financial statements

For the year ended 31 December 2013

1. GENERAL INFORMATION

East Horizon Gas Company Limited ('the Company') is a wholly owned subsidiary of Seven Energy International Limited. The Company was set up to develop and operate a natural gas pipeline system supplying gas to Mfamosing, Cross River State from the Nigerian Gas Company pipeline in Ukanafum, Akwa Ibom State and other prospective customers within the region. The Company's registered address is 7 Anifowoshe Street, Off Adeola Odeku Street, Lagos.

The pipeline system is an 18-inch, 128km gas pipeline traversing forests, swamps and built-up areas; it has a 100 million standard cubic feet per day (mmscf/d) capacity and currently supplies 22 mmscf/d to its foundation customer, United Cement Company (UNICEM). The gas is utilized to fuel UNICEM's 2.5 million metric tonnes per annum Cement Plant located in Mfamosing. EHGC will leverage the pipeline to build a distribution network that will supply natural gas to other interested off-takers in the Calabar area.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies adopted in the preparation of these annual financial statements are set out below. These policies have been consistently applied to all years presented.

a) Basis of preparation

The financial statements have been prepared in compliance with International Financial Reporting Standards (IFRS), and interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC). IFRS 1, First-time Adoption of International Financial Reporting Standards, has been applied in preparing these financial statements. These financial statements are the first East Horizon Gas Company Limited financial statements to be prepared in accordance with IFRS.

Subject to certain transition elections and exceptions disclosed in note 5, the Company has consistently applied the accounting policies used in the preparation of its opening IFRS statement of financial position at January 1, 2012 throughout all years presented, as if these policies had always been in effect. Note 5 discloses the impact of the transition to IFRS on the Company's reported financial position, financial performance and cash flows, including the nature and effect of significant changes in accounting policies from those used in the Company's financial statements for the years ended 31 December 2011 and 31 December 2012 prepared under Nigerian GAAP.

The preparation of financial statements, in conformity with generally accepted accounting principles under IFRS, requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Although these estimates are based on management's best knowledge of the amount, event or actions, actual results ultimately may differ from those estimates.

The financial statements have been prepared on a historical cost basis.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires Directors to exercise judgement in the process of applying the Company's accounting policies. The areas involving a higher degree of judgement or complexity, or where assumptions and estimates are significant to the financial statements, are disclosed in Note 4.

Changes in accounting policies and disclosures

New standards, amendments and interpretations issued but not effective for the financial year beginning 1 January 2013 and not early adopted

A number of new standards and amendments to standards and interpretations are effective for annual periods beginning after 1 January 2013, and have not been applied in preparing these consolidated financial statements. None of these is expected to have a significant effect on the consolidated financial statements of the Company, except the following set out below:

IFRS 9, 'Financial instruments', addresses the classification, measurement and recognition of financial assets and financial liabilities. IFRS 9 was issued in November 2009 and October 2010. It replaces the parts of IAS 39 that relate to the classification and measurement of financial instruments. IFRS 9 requires financial assets to be classified into two measurement categories: those measured as at fair value and those measured at amortised cost. The determination is made at initial recognition. The classification depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument. For financial liabilities, the standard retains most of the IAS 39 requirements. The main change is that, in cases where the fair value option is taken for financial liabilities, the part of a fair value change due to an entity's own credit risk is recorded in other comprehensive income rather than the statement of comprehensive income, unless this creates an accounting mismatch. The Company is yet to assess IFRS 9's full impact. The Company will also consider the impact of the remaining phases of IFRS 9 when completed by International Accounting Standards Board.

IFRIC 21, 'Levies', sets out the accounting for an obligation to pay a levy that is not income tax. The interpretation addresses what the obligating event is that gives rise to pay a levy and when should a liability be recognised. The Company is not currently subjected to significant levies so the impact on the Company is not material.

There are no other IFRSs or IFRIC interpretations that are not yet effective that would be expected to have a material impact on the Company.

b) Functional currency and translation of foreign currencies

(i) Functional and presentation currency

Items included in the financial statements of the entity are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The financial statements are presented in Naira (NGN), which is the Company's functional and presentation currency.

(ii) Transactions and balances in the Company

Foreign currency transactions are translated into the functional currency of the entity using the exchange rates prevailing at the dates of the transactions or the date of valuation where items are remeasured. Foreign exchange gains and losses resulting from the settlement of such 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. Foreign exchange gains and losses that relate to borrowings and cash and cash equivalents are presented in the statement of comprehensive income within 'finance income or costs'. All other foreign exchange gains and losses are presented in the statement of comprehensive income within 'other operating income/operating losses. Changes in the fair value of monetary securities denominated in foreign currency classified as available for sale are analysed between translation differences resulting from changes in the amortised cost of the security and other changes in the carrying amount of the security. Translation differences related to changes in amortised cost are recognised in profit or loss, and other changes in carrying amount are recognised in other comprehensive income. Translation differences on non-monetary financial assets and liabilities such as equities held at fair value through profit or loss are recognised in profit or loss as part of the fair value gain or loss. Translation differences on non-monetary financial assets, such as equities classified as available for sale, are included in other comprehensive income.

c) Revenue recognition

Revenue represents the fair value of the consideration received or receivable for sales of goods and services, in the ordinary course of the Company's activities and is stated net of value-added tax (VAT), rebates and discounts and after eliminating sales within the Company. The Company recognises revenue when the amount of revenue can be reliably measured, it is probable that future benefits will flow to the entity and when specific criteria have been met for each of the Company's activities as described below:

Revenue from construction projects is recognized in accordance with IAS 11 Construction Contracts with the use of the percentage-of-completion method provided that the conditions for application are fulfilled. The percentage of completion is mainly calculated on the basis of the ratio on the balance sheet date of the output volume already delivered to the total output volume to be delivered. The percentage of completion is also calculated from the ratio of the actual costs already incurred on the balance sheet date to the planned total costs (cost-to-cost method). If the results of construction contracts cannot be reliably estimated, revenue is calculated using the zero profit method in the amount of the costs incurred and probably recoverable.

Revenue from the provision of services is recognized in accordance with the percentage of completion method – provided that the conditions for application are fulfilled. In the area of services, percentage of completion is mainly calculated using the cost-to-cost method.

In the context of concession projects, construction services provided are recognized as revenue in accordance with the percentage of completion method. During the construction phase, construction services are recognised as revenue in accordance with the percentage of completion method. In the operating phase of concession projects, the recognition of revenue from operator services depends upon whether a financial or an intangible asset is to be received as consideration for the construction services provided. If a financial asset is to be received, i.e. the operator receives a fixed payment from the client irrespective of the extent of use, no revenue is recognised but interest income on the financial receivable is recognised.

If an intangible asset is to be received, i.e. the operator receives payments from the users or from the client depending on use, during the construction phase, construction services are recognized as revenue in accordance with the percentage of completion method. During the operating phase, the payments for use are recognized as revenue according to IAS 18 generally in line with the extent of use of the infrastructure by the users.

If the operator receives both use-dependent and use-independent payments, revenue recognition is split in accordance with the ratio of the two types of payment.

The Company has a take and/or pay arrangement with its customers. Under the arrangement, the Company is contractually required to provide a minimum Annual Contract Quantity (ACQ) of gas, and the customer is obligated to take and/or pay for the ACQ. Any quantities of gas forming part of the take-or-pay quantity paid for by Buyer and not taken during a contract year is designated "Make-up Gas" and the Buyer is entitled to nominate gas up to the remaining balance of the accrued make-up gas in any subsequent period in the chronological order in which it is accrued. Payments received under the take and/or pay arrangement, for which the customer still has a right to nominate as make-up gas in the subsequent period, is recognised as "Make up gas" (deferred income) reported as part of trade and other payable in the statement of financial position, as the risks and rewards of ownership of the gas have not been transferred to the buyer, any accrued make up gas not taken up within the contractually agreed cycle is forfeited by the buyer and revenue is recognised by the Company at this point.

Interest income is recognized using the effective interest method. When a loan or receivable is impaired, the Company reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted at the original effective interest rate of the instrument, and continues unwinding the discount as interest income. Interest income on impaired loans and receivables are recognised using the original effective interest rate.

d) Property, plant and equipment

All categories of property, plant and equipment are initially recorded at cost. Buildings and freehold land are subsequently shown at fair value, valuations are performed with sufficient regularity to ensure that the fair value of a revalued asset does not differ materially from its carrying amount. Any accumulated depreciation at the date of revaluation is eliminated against the gross carrying amount of the asset, and the net amount is restated to the revalued amount of the asset. All other property, plant and equipment are stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged to the statement of comprehensive income during the financial year in which they are incurred.

Increases in the carrying amount arising on revaluation are credited to other comprehensive income and shown as other reserves in shareholders' equity. Decreases that offset previous increases of the same asset are charged against the revaluation surplus; all other decreases are charged to the statement of comprehensive income. When revalued assets are sold, the amounts included in other reserves are transferred to retained earnings.

Freehold land is not depreciated. Depreciation on other assets is calculated using the straight line method to write down their cost or revalued amounts to their residual values over their estimated useful lives, as follows:

Buildings	20 – 50 years	(2 – 5%)
Plant and machinery	8 – 20 years	(5 – 12½)
Equipment and motor vehicles	3 – 5 years	(20 – 33½%)

Where the cost of a part of an item of property, plant and equipment is significant when compared to the total cost, that part is depreciated separately based on the pattern which reflects how economic benefits are consumed.

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance reporting date. An asset's carrying amount is written down immediately to its estimated recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposal of property, plant and equipment are determined by comparing proceeds with carrying amount and are included in the profit or loss.

e) Intangible assets

The Company has a concession arrangement to fund, design and construct gas pipeline on behalf of the Nigerian Gas Company (NGC). The arrangement requires the Company as the operator to construct gas pipelines on behalf of NGC (the grantor) and recover the cost incurred from a proportion of the sale of gas to customers. The arrangement is within the scope of IFRIC 12.

Under the terms of IFRIC 12, a concession operator has a twofold activity:

- a construction activity in respect of its obligations to design, build and finance a new asset that it makes available to the grantor: revenue is recognised on a stage of completion basis in accordance with IAS 11;
- an operating and maintenance activity in respect of concession assets: revenue is recognised in accordance with IAS 18.

The intangible asset model: The operator has a right to receive payments from users in consideration for the financing and construction of the infrastructure. The intangible asset model also applies whenever the concession grantor remunerates the concession operator to the extent of use of the infrastructure by users, but with no guarantees as to the amounts that will be paid to the operator.

Under this model, the right to receive payments (or other remuneration) is recognised in the concession operator's balance sheet under concession intangible assets. This right corresponds to the fair value of the asset under concession plus the borrowing costs capitalised during the construction phase. It is amortised over the term of the arrangement in a manner that reflects the pattern in which the asset's economic benefits are consumed by the entity, starting from the entry into service of the asset.

f) Impairment of non-financial assets

Assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation 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 (cash-generating units). Non-financial assets other than goodwill that suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

g) Financial instruments

Financial assets

The Company classifies its financial assets in the following categories: financial assets at fair value through profit or loss, loans and receivables, and available-for-sale financial assets. The classification depends on the purpose for which the investments were acquired. Management determines the classification of its financial assets at initial recognition.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Company provides money, goods or services directly to a debtor with no intention of trading the receivable. They are included in current assets, except for maturities greater than 12 months after the reporting date. These are classified as non-current assets. The Company's loans and receivables comprise of Trade and other receivables and Cash and cash equivalents (refer to notes 16 and 17).

Recognition and measurement

Purchases and sales of investments are recognised on the trade date, which is the date on which the Company commits to purchase or sell the asset. Financial assets are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Investments are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Company has transferred substantially all risks and rewards of ownership. Available for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables and held-to-maturity investments are carried at amortised cost using the effective interest method.

Realised and unrealised gains and losses arising from changes in the fair value of the 'financial assets at fair value through profit or loss' category are included in the statement of comprehensive income within other 'operating income'/'operating expenses' in the period in which they arise. Unrealised gains and losses arising from changes in the fair value of equity instruments classified as available-for-sale are recognised in other comprehensive income. When securities classified as available-for-sale are sold or impaired, the accumulated fair value adjustments are included in the statement of comprehensive income as gains and losses from investment securities.

The fair values of quoted investments are based on current bid prices. If the market for a financial asset is not active (and for unlisted securities), the Company establishes fair value by using valuation techniques. These include the use of recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis and option pricing models refined to reflect the issuer's specific circumstances.

Impairment of financial assets

The Company assesses at each reporting date whether there is objective evidence that a financial asset or a group of financial assets is impaired. In the case of equity securities classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is considered in determining whether the securities are impaired. The Company assesses the significance of a decline in the fair value below cost relative to the specific security's volatility, and regards a decline below cost of longer than 12 months to be prolonged. If any such evidence exists for available-for-sale financial assets, the cumulative loss measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in the statement of comprehensive income is removed from equity and recognised in the statement of comprehensive income. Impairment losses recognised in the statement of comprehensive income on equity instruments are not reversed through the statement of comprehensive income.

For loans and receivables category, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced and the amount of the loss is recognised in the statement of comprehensive income. If a loan or held-to-maturity investment has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the reversal of the previously recognised impairment loss is recognised in the statement of comprehensive income.

Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the statement of financial position, when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously.

h) Leases

Leases of property, plant and equipment where the Company assumes substantially all the risks and rewards of ownership are classified as finance leases. Assets acquired under finance leases are capitalised at the commencement of the lease at the lower of their fair value and the estimated present value of the underlying lease payments.

Each lease payment is allocated between the liability and finance charges so as to achieve a constant rate on the finance balance outstanding. The corresponding rental obligations, net of finance charges, are included in non-current liabilities. The interest element of the finance charge is charged to the profit or loss over the lease period so as to produce a constant rate over the lease term. Property, plant and equipment acquired under finance leases are depreciated over the shorter of the useful life of the asset and the lease term.

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases are charged to the statement of comprehensive income on a straight-line basis over the period of the lease.

i) Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined by the weighted average method. The cost of finished goods and work in progress comprises raw materials, direct labour, other direct costs and related production overheads (based on normal operating capacity), but excludes borrowing costs. Net realisable value is the estimate of the selling price in the ordinary course of business, less the costs of completion and selling expenses.

j) Receivables

Receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method less provision for impairment. A provision for impairment of receivables is established when there is objective evidence that the Company will not be able to collect all the amounts due according to the original terms of receivables. Significant financial difficulties of the debtor, probability that debtor will enter bankruptcy and default or delinquency in payment, are the indicators that trade receivable is impaired. 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 profit or loss within administrative costs. When a trade receivable is uncollectible, it is written off against the allowance account for trade receivables. Subsequent recoveries of amounts previously written off are credited against administrative costs in the profit or loss.

The amount of the provision is the difference between the carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate.

k) Payables

Payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

l) Share capital

Ordinary shares are classified as equity. Share issue costs net of tax are charged to share premium account.

m) Cash and cash equivalents

Cash and cash equivalents includes cash in hand, deposits held at call with banks, other short term highly liquid investments with original maturities of three months or less, and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities.

n) Employee benefits

Retirement benefit obligations

Defined contribution scheme

The Company operates defined contribution retirement benefit schemes for its employees. A defined contribution plan is a pension plan under which the Company pays fixed contributions into a separate entity. The Company has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods. The Company's contributions to the defined contribution schemes are charged to the profit or loss in the year to which they relate.

The assets of the scheme are held in separate trustee administered funds, which are funded by contributions from both the Company and employees.

Defined benefit scheme

The Company operates a defined benefit gratuity scheme in Nigeria, where members of staff who have spent 3 years or more in employment are entitled to benefit payments upon retirement. The benefit payments are based on final emolument of staff and length of service. A defined benefit plan is a pension plan that is not a defined contribution plan. Typically defined benefit plans define an amount of gratuity benefit that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and compensation.

The liability recognised in respect of defined benefit gratuity plans is the present value of the defined benefit obligation at the end of the reporting period less the fair value of plan assets. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using the market rates on government bonds that have terms to maturity approximating to the terms of the related pension obligation.

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are charged or credited to equity in other comprehensive income in the period in which they arise.

Current service and interest cost are included as part of employee benefit expense in the profit or loss.

Past-service costs are recognised immediately in profit or loss.

Gains or losses on curtailment or settlement are recognised in profit or loss when the curtailment or settlement occurs.

o) Provisions

Provisions for environmental restoration and legal claims are recognised when: the Company has a present legal or constructive obligation as a result of past events; it is more likely than not that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of management's best estimate of the expenditure required to settle the present obligation at the reporting date. The discount rate used to determine the present value is a pre-tax rate which reflects current market assessments of the time value of money and the specific risk. The increase in the provision due to the passage of time is recognised as interest expense.

p) Current and deferred income tax

Income tax expense is the aggregate of the charge to the statement of comprehensive income in respect of current and deferred income tax. Current income tax is the amount of income tax payable on the taxable profit for the year determined in accordance with the relevant tax legislation.

Education tax is provided at 2% of assessable profits of companies operating within Nigeria.

Deferred income tax is provided in full, using the liability method, on all temporary differences arising between the tax bases of assets and liabilities and their carrying values for financial reporting purposes. However, if the deferred income tax arises from the initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss, it is not accounted for. Current and deferred income tax is determined using tax rates and laws enacted or

substantively enacted at the reporting date and are expected to apply when the related deferred income tax liability is settled.

Deferred income tax assets are recognised only to the extent that it is probable that future taxable profits will be available against which the temporary differences can be utilised.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries and associates, except where the timing of the reversal of the temporary difference is controlled by the Company and it is probable that the temporary difference will not reverse in the foreseeable future.

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 taxes 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.

q) Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost using the effective interest method; any differences between proceeds (net of transaction costs) and the redemption value is recognised in the statement of comprehensive income over the period of the borrowings, using the effective interest method.

Borrowings are classified as current liabilities unless the Company has an unconditional right to defer settlement of the liability for at least 12 months after the reporting date.

Borrowing costs

Borrowing costs are recognised as an expense in the period in which they are incurred, except when they are directly attributable to the acquisition, construction or production of a qualifying asset, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale. These are added to the cost of the assets, until such a time as the assets are substantially ready for their intended use or sale.

r) Dividends

Dividend payable to the Company's shareholders is recognised as a liability in the period in which they are declared (i.e. approved by the shareholders).

s) Government Grants

The Company benefits from the Bank of Industry (BOI) Scheme where the government through the BOI provides finance to companies in certain industries at subsidised interest rates. Grants from the government are recognised at their fair value where there is a reasonable assurance that the grant will be received and the Company will comply with all attached conditions. Government grants relating to costs are deferred and recognised in the statement of comprehensive income over the period necessary to match them with the costs that they are intended to compensate.

3. FINANCIAL RISK MANAGEMENT

3.1 Financial risk factors

The Company's activities expose it to a variety of financial risks: market risk (including foreign exchange risk, interest rate risk, and price risk), credit risk and liquidity risk. The Company's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effect on its financial and operational performance.

The Company has a risk management function that manages the financial risks relating to the Company's operations under the policies approved by the Board of Directors. The Company's liquidity, credit, foreign currency, interest rate and price risks are continuously monitored. The Board approves 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 investing excess liquidity.

Market risk

(i) Foreign exchange risk

Foreign exchange risk arises when future commercial transactions and recorded assets and liabilities are denominated in a currency that is not the entity's functional currency e.g. foreign denominated loans, purchases and sales transactions etc. The Company manages its foreign exchange risk by revising cost estimates of orders based on exchange rate fluctuations and forward contracts transacted with commercial banks.

As at 31 December 2013, the Company had no balances denominated in foreign currencies (31 December 2012: Nil), as a result fluctuations in foreign exchange rates would have had no impact on profits.

(ii) Interest rate risk

The Company holds short term highly liquid bank deposit at fixed interest rates. No limits are placed on the ratio of variable rate borrowing to fixed rate borrowings.

The effect of an increase or decrease in interest on bank deposits by 100 basis points is not material.

The Company has borrowings at variable rates which exposes the Company to cashflow interest rate risk. The Company regularly monitors financing options available to ensure optimum interest rates are obtained. At 31 December 2013, an increase/decrease of 100 basis points on Monetary Policy Rate (MPR) would have resulted in a decrease/increase in consolidated pre-tax profit of N0.51 million, mainly as a result of higher/lower charges on variable rate borrowings.

Credit risk

Credit risk arises from cash and cash equivalents and trade and other receivables. The Company has policies in place to ensure that credit limits are set for commercial customers taking into consideration the customers' financial position, past trading relationship, credit history and other factors. The Company has policies that limit the amount of credit exposure to any financial institution.

Management monitors the aging analysis of receivables on a periodic basis. The analysis of current, past due but not impaired and impaired receivables is as follows:

	31 December 2013 N'000	31 December 2012 N'000
Current:		
Cash and cash equivalents	277,614	309,049
Trade and other receivables:	332,036	472,263
	609,650	781,312
Past due but not impaired:		
- by up to 30 days	123,695	58,486
Total past due but not impaired	123,695	58,486
Impaired	-	-
	733,345	839,798

Trade and other receivables of N332 million (2012: 472 million) are neither past due nor impaired.

Credit quality of financial assets

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:

	31 December 2013 N'000	31 December 2012 N'000	1 January 2012 N'000
<i>Trade receivables</i>			
Counter parties without external credit rating:			
Group 2	332,036	472,263	-
<i>Other receivables</i>			
Counter parties without external credit rating:			
Group 2	123,695	58,486	2,392,683

Group 2 – existing counter parties/customers (more than 6 months) with no defaults in the past

There are no group 1 (new customers - less than 6 months) and group 3 (existing customers - over 6 months with some defaults in the past) customers in the trade and other receivables balance

	31 December 2013 N'000	31 December 2012 N'000	1 January 2012 N'000
<i>Rating of Cash at bank and short term bank deposits</i>			
B+	277,614	309,049	69,960

Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and marketable securities, the availability of funding through an adequate amount of committed credit facilities and the ability to close out market positions. Due to the dynamic nature of the underlying businesses, Company Treasury maintains flexibility in funding by keeping committed credit lines available.

Management monitors rolling forecasts of the Company's liquidity reserve comprising cash and cash equivalents and borrowings (notes 17 and 19 respectively) on the basis of expected cash flow.

The table below analyses the Company's financial liabilities into relevant maturity groupings based on the remaining period at the reporting date to the contractual maturity date. The amounts disclosed in the table below are the contractual undiscounted cash flows. Balances due within 12 months equal their carrying balances, as the impact of discounting is not significant.

	Less than 1 year N'000	Between 1 and 2 years N'000	Between 2 and 5 years N'000
At 31 December 2013:			
Borrowings	3,508,417	6,114,960	-
Trade and other payables	22,708,555	-	-
At 31 December 2012:			
Borrowings	4,795,825	4,795,825	1,853,119
Trade and other payables	20,159,136	-	-

3.2 Capital risk management

The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern in order to provide returns for shareholders and to maintain an optimal capital structure to reduce the cost of capital. In order to maintain or adjust the capital structure, the Company may issue new capital or sell assets to reduce debt.

Various financial ratios and internal targets are assessed and reported to the Board on a quarterly basis to monitor and support the key objectives set out above. These ratios and targets include:

- Earnings Before Interest Tax Depreciation and Amortisation (EBITDA) Interest Cover;
- Fixed/Floating Debt Ratio;
- Current Asset Ratio;

The Company's objective is to maintain these financial ratios in excess of any debt covenant restrictions and use them as a performance measurement and hurdle rate. The failure of a covenant test could render the facilities in default and repayable on demand at the option of the lender.

Accordingly, in situations where these ratios are not met, the Company takes immediate steps to redress the potential negative impact on its financial performance.

Total capital is calculated as equity plus net debt. During 2013 the Company's strategy was to maintain a gearing ratio between 60% and 70% (2012: 50% and 65%). The gearing ratios as at the end of December 2013 and 2012 were as follows:

	31 December 2013 N'000	31 December 2012 N'000
Total borrowing	8,575,922	11,433,318
Less: cash and cash equivalents	(277,614)	(309,049)
Net debt	8,298,308	11,124,269
Total equity	4,994,596	7,265,038
Total capital	13,292,904	18,389,307
Gearing ratio	62.43%	60.49%

3.3 Fair value estimation

The table below analyses financial instruments whose fair values have been disclosed by valuation method. The different levels have been defined as follows:

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

The fair value of the company's borrowings as at 31 December 2013 and 31 December 2012 is as follows:
These fall within level 2

	31 December 2013 N'000	31 December 2012 N'000	1 January 2012 N'000
Liabilities			
Borrowing	7,362,938	11,571,646	16,676,598

The fair value of the borrowings for disclosure was determined by a discounted cashflow of the expected future cash outflows at the balance sheet date using the prime lending rate in Nigeria as at the balance sheet date for a similar tenure and amount. The prime lending rate is the interest rate commercial banks charge their most credit-worthy customers.

The fair value of the following financial assets and liabilities approximate their carrying amount:

- Trade and other receivables
- Cash and cash equivalents
- Trade and other payables

(a) Financial instruments in level 1

The fair value of financial instruments traded in active markets is based on quoted market prices at the balance sheet date. A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis. The quoted market price used for financial assets held by the Company is the current bid price. These instruments are included in Level 1. Instruments included in Level 1 comprise primarily Nigerian Stock Exchange (NSE) listed instruments classified as trading securities or available for sale.

(b) Financial instruments in level 2

The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined by using valuation techniques. These valuation techniques maximise the use of observable market data where it is available and rely as little as possible on entity specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in level 2.

(c) Financial instrument in level 3

If one or more of the significant inputs is not based on observable market data, the instrument is included in Level 3. Techniques, such as discounted cash flow analysis, are used to determine fair value for the financial instruments not in level 3.

Financial instruments by category

Financial assets and liabilities have been classified into categories that determine their basis of measurement and, for items measured at fair value, whether changes in fair value are recognized in the statement of income or other comprehensive income.

Those categories are: loans and receivables; and for liabilities, amortized cost. The following table shows the carrying values of assets and liabilities for each of these categories at December 31, 2012 and 2011 and January 1, 2011.

	31 December 2013 N'000	31 December 2012 N'000	1 January 2012 N'000
Assets			
Loans and receivables:			
Cash and cash equivalents	277,614	309,049	69,960
Trade and other receivables	520,374	532,763	2,392,683
	797,988	841,812	2,462,643
Liabilities			
Amortized cost:			
Trade and other payables	22,708,555	20,159,136	12,642,596
Borrowings	8,575,922	11,433,318	16,371,660
	31,284,477	31,592,454	29,014,256

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including experience of future events that are believed to be reasonable under the circumstances.

4.1 Critical accounting estimates and assumptions

Pension benefits

The present value of the pension obligations depends on a number of factors that are determined on an actuarial basis using a number of assumptions. The assumptions used in determining the net cost (income) for pensions include the discount rate. Any changes in these assumptions will impact the carrying amount of pension obligations.

The Company determines the appropriate discount rate at the end of each year. This is the interest rate that should be used to determine the present value of estimated future cash outflows expected to be required to settle the pension obligations. In determining the appropriate discount rate, the Company considers the interest rates of government bonds that are denominated in the currency in which the benefits will be paid and that have terms to maturity approximating the terms of the related pension obligation.

Other key assumptions for pension obligations are based in part on current market conditions. Additional information is disclosed in note 20.

Useful lives and residual value of property, plant and equipment

The residual values, depreciation methods and useful lives of property, plant and equipment are reviewed for reasonableness at least annually. The review is based on the current market situation. The review of useful lives did not significantly impact depreciation.

The residual value of the Company's Property, Plant and Equipment (PPE) is estimated to be nil.

Income taxes

The Company is subject to income tax under the Company income tax act. Significant judgment is required in determining the Company's provision for income taxes. The Company recognises liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

As of the reporting date, no liability in respect of pending tax issues has been recognised in the financial statements.

Impairment of intangible assets

The recognised intangible asset from the concession arrangement and other tangible assets with a definite useful life are tested for impairment whenever facts and circumstances indicate that the carrying amount may be higher than the recoverable amount. As of 31 December 2012, an impairment test was carried out on the intangible asset and the impairment charge of N2,368million was recognized in 2012. The recoverable amount of the intangible asset has been determined based on value-in-use calculations. These calculations require the use of estimates (note 14).

To estimate the value in use, management used the following assumptions:

- Projections of future cash flows are based on the forecasts approved by management.
- The period over which management projected cash flows is the term of the contract between Nigerian Gas Company (NGC) and the Company. Management assessed that projecting cash flows over a period greater than 5 years is justified, as sales of gas over the term of the contract can be estimated reliably on the basis of existing demand.
- Management's estimate of future sales volumes was based on current capacity and expected contracts. Currently, UNICEM is the only "off-taker" of the gas. Management identified prospective customers in the region, such as recently constructed power plants, and assigned volumes to expected contracts based on their estimate of demand of those customers. It is expected that over the term of the contract volumes sold to UNICEM will comprise approximately 40% of total sales.
- The discount rate used is applicable FGN bond discount rate, which does not include the specific industry and market risks.
- The exchange rate used to translate the forecasted cash flows is N155.77/1USD.

An impairment charge of N2,368million arose in the service concession intangible asset during the course of the 2012 period, resulting in the carrying amount of the CGU being written down to its recoverable amount. If the estimated cost recovery volumes used in the value-in-use computation had been 10% lower than management's estimates at 31 December 2012, the Company would have recognised a further impairment of N3,762million and would need to reduce the carrying value of the intangible asset by N3,762million. If management projected cash flows on the assumption that UNICEM will remain the only customer, additional impairment charge of approximately N 10,500 million would be required.

If the estimated FGN bond rate used in determining the pre-tax discount rate had been 10% higher than management's estimates, the Company would have recognised a further impairment loss of N4,042million.

4.2 Critical judgements in applying the entity's accounting policies

Service concessions agreement (IFRIC 12)

The contract between Nigerian Gas Company (NGC) and the Company, for the construction of gas transmission pipelines fall within the scope of IFRIC 12. Management is of the opinion that the recovery of construction and interest costs are conditional upon sale of gas as specified in the contract and does not give the Company an unconditional right to receive cash. Hence an intangible asset has been recognised at the present value of the estimated value of capital recovery and interest charges from the sale of gas over the duration of the contract. The assessment of the present value of the estimated capital recovery requires the use of estimates and assumptions (Note 14).

The intangible asset has been recognised at the present value of the estimated value of capital recovery and interest charges from the sale of gas over the duration of the contract. The volume of sales of gas over the term

of the contract is the main driver for capital recovery. Estimates of future cash flows for recovery of construction costs have been based on the assumption that the sale of gas from the pipeline will approximate the total capacity of the pipeline.

Based on this assumption, the full recovery of the investment and interest costs is expected to be achieved within nine years.

The assumption that the volume of sales over the term of the contract will approximate the total capacity of the pipeline has been based on management's estimate of existing and future demand for gas in a region. The present value of the estimated capital recovery amount would be equal to the cost of capital construction (including borrowing costs capitalized during the construction period), if sales volumes approximated to 45% of total capacity. In that case, the value of the intangible asset would be N12 billion lower.

Estimates of future cash flows for recovery of interest costs were arrived at assuming current bank interest rates applied up until the full recovery of the investment.

Other assumptions include exchange rate of N155.77/1USD and applicable FGN bond discount rate, which does not include the specific industry and market risks.

Take or pay - embedded derivatives

There is a take or pay relationship between the Nigerian Gas Company (NGC, the gas supplier), EHGC (the Company) and Unicem (the customer). The terms of the agreement requires the sales price of gas to Unicem to be indexed to the price of Low Pour Fuel Oil (LPFO), graduated between 60% of the ex-depot pricing of LPFO in year one and increased by 5% until year 5. The increase in gas price is capped at 80% of the LPFO price till the end of the contract. This may suggest the existence of an embedded derivative.

However in practice, gas prices are regulated in Nigeria by NGC. Periodic notices are sent to all oil and gas companies with the schedule of gas prices; Also, the portion of the sales price due to the gas supplier (in this case NGC) is advised. EHGC bills Unicem based on this advise and pays NGC based on the regulated prices as communicated by NGC. This is the practice among market participants. Embedded derivatives that may be apparent from the contract are not recognised, as in practice both the purchase from NGC and the sales to Unicem are based on regulated prices.

Going concern

The Directors of the Company have identified circumstances which represent a material uncertainty that casts significant doubt on the Company's ability to continue as a going concern. However, measures have been put in place to improve the Company's financial position. The Company refinanced its existing borrowings from a 16% to 7% facility and have taken steps to increase the earnings of the Company. The Directors have a reasonable expectation that the Company would continue to operate in the foreseeable future. For these reasons the Company continues to adopt the going concern basis in preparing the annual report and accounts. A going concern note has been included in note 27.

5. TRANSITION TO IFRS

Explanation of transition to IFRS

As stated in note 2, these are the Company's first financial statements prepared in accordance with IFRS. The Company has applied IFRS 1 in preparing these financial statements and the accounting policies set out in note 2 have been applied in preparing the financial statements for the year ended 31 December 2013, the comparative information presented in these financial statements for both the year ended 31 December 2012, and in the preparation of an opening IFRS balance sheet at 1 January 2012 (the date of the Company's transition to IFRS).

In preparing its opening IFRS balance sheet, the Company has adjusted amounts reported previously in financial statements prepared in accordance with Statements of Accounting Standards issued by the Nigerian Accounting Standards Board (“Nigerian GAAP”). An explanation of how the transition from Nigerian GAAP to IFRS has affected the Company’s financial position, financial performance and cash flows is set out in the following tables and the notes that accompany the tables.

In preparing these financial statements in accordance with IFRS 1, the Company has applied the mandatory exceptions from full retrospective application of IFRS. The optional exemptions from full retrospective application selected by the Company are summarised below.

5.1 Initial elections upon adoption

Set out below are the applicable IFRS 1 exemptions and exceptions applied in the conversion from NGAAP to IFRS:

5.1.1 IFRS exemption options

The Company applied the following optional exemptions from retrospective application:

Borrowing costs

The Company applied the exemption on borrowing costs to capitalise prospectively from 1 January 2012.

Assets and liabilities of subsidiaries, joint ventures and associates

The Company is controlled by an existing IFRS reporter, and has applied the exemption to report its assets and liabilities as reported to its controlling entity, as at the transition date.

Employee benefits

The Company applied the exemption to recognise all cumulative actuarial gains/losses on 1 January 2012.

Financial assets or intangible assets accounted for in accordance with IFRIC 12

The Company applied the transitional provisions of IFRIC 12 which limits the retrospective application in certain instances.

5.1.2 IFRS mandatory exceptions

Below is the list of seven mandatory exceptions from retrospective application of IFRS:

- (1) Estimates
- (2) Derecognition of financial assets and financial liabilities
- (3) Hedge accounting
- (4) Non-controlling interests
- (5) Classification and measurement of financial assets
- (6) Embedded derivatives
- (7) Government loans

Explained below are the exceptions that are applicable to the entity on transition:

Estimates

Estimates under IFRS at 1 Jan 2012 should be consistent with estimates made for the same date under Nigerian GAAP, unless there is evidence that those estimates were in error.

Derecognition of financial assets and liabilities

Financial assets and liabilities derecognised before transition date are not re-recognised under IFRS.

Classification and measurement of financial assets and financial liabilities

The assessment of whether the Company's financial assets and liabilities meet the measurement requirements as set out in IFRS 9, was performed at 1 January 2012.

5.2 Reconciliations of Nigerian GAAP to IFRS

Reconciliation of shareholders' equity as at 1 January 2012

		Effect of transition to IFRS		
	Note	NGAAP	Adjustment	IFRS
Non Current assets				
Property Plant and Equipment		-	-	-
Intangible assets	a	-	26,161,053	26,161,053
Long term receivables	a	26,161,053	-	-
Deferred Tax	c	72,705	39,320	112,025
		26,233,758	26,200,373	26,273,078
Current assets				
Inventories		-	-	-
Trade receivables and prepayments		2,419,825	-	2,419,825
Cash and cash equivalents		69,960	-	69,960
		2,489,785	-	2,489,785
Total assets		28,723,543	26,200,373	28,762,863
Current liabilities				
Trade and other payables		12,642,595		12,642,595
Borrowings	b	4,795,825	142,517	4,938,342
		17,438,420	142,517	17,580,937
Non-current liabilities				
Borrowings	b	11,444,769	(11,451)	11,433,318
Retirement benefit obligation		-	-	-
		11,444,769	(11,451)	11,433,318
Total liabilities		28,883,189	131,066	29,014,255
Equity				
Ordinary share capital		10,000	-	10,000
Retained earnings		(169,646)	(91,746)	(261,392)
Total equity		(159,646)	(91,746)	(251,392)
Total equity and liabilities		28,723,543	39,320	28,762,863

Reconciliation of shareholders' equity as at 31 December 2012

		Effect of transition to IFRS		
	Note	NGAAP	Adjustment	IFRS
Non Current assets				
Property Plant and Equipment		4,144	-	4,144
Intangible assets	<i>a</i>	-	37,622,402	37,622,402
Long term receivables	<i>a</i>	43,962,182	(43,962,182)	0
Deferred Tax	<i>c</i>	73,417	39,320	112,737
		44,039,743	(6,300,460)	37,739,283
Effect of transition to IFRS				
	Note	NGAAP	Adjustment	IFRS
Current assets				
Inventories		276,111	-	276,111
Trade receivables and prepayments		534,712	-	534,712
Cash and cash equivalents		309,049	-	309,049
		1,119,872	-	1,119,872
Total assets		45,159,615	(6,300,460)	38,859,155
Current liabilities				
Trade and other payables		20,159,136	-	20,159,136
Borrowings	<i>b</i>	4,795,825	39,154	4,834,979
		24,954,961	39,154	24,994,115
Non-current liabilities				
Borrowings	<i>b</i>	6,648,944	(50,605)	6,598,339
Retirement benefit obligation		1,663	-	1,663
		6,650,607	(50,605)	6,600,002
Total liabilities		31,605,568	(11,451)	31,594,1175
Equity				
Ordinary share capital		10,000	-	10,000
Retained earnings		13,554,047	(6,289,009)	7,255,038
Total equity		13,554,047	(6,289,009)	7,265,038
Total equity and liabilities		45,159.615	(6,300,460)	38,859,155

Reconciliation of comprehensive income

IFRS 1 requires an entity to reconcile equity, comprehensive income and cash flows for prior periods. The Company's first-time adoption did not have an impact on the total operating, investing or financing cash flows. The following tables represent the reconciliations from Nigerian GAAP to IFRS for the respective periods noted for equity, earnings and comprehensive income.

Reconciliation of Comprehensive Income for the year ended 31 December 2012.

	Reference to IFRS Adjustments N'000	Effect of transition to IFRS		
		NGAAP N'000	IFRS Adjustment N'000	IFRS N'000
Continuing operations				
Turnover	<i>a</i>	4,406,614	18,209,780	22,616,394
Cost of sales	<i>a</i>	(2,737,567)	(8,158,117)	(10,895,684)
Gross profit		1,669,047	10,051,663	11,720,710
Administration expenses	<i>a</i>	(195,280)	337	(194,943)
Operating profit		1,473,767	10,052,000	11,525,767
Other income	<i>a</i>	12,240,359	(12,239,849)	510
Finance cost	<i>b</i>	(1,144)	(4,009,077)	(4,010,221)
Net operating profit		13,712,982	(6,196,926)	7,516,056
Profit before taxation		13,712,982	(6,196,926)	7,516,056
Taxation		711	(101)	610
Profit for the year		13,713,693	(6,196,926)	7,516,666
Other comprehensive income:				
Remeasurement of post employment benefit obligations		-	(337)	(337)
Taxation		-	101	101
Other comprehensive income for the year, net of tax			(236)	(236)
Total comprehensive income for the year		13,713,693	(6,197,163)	7,516,430

- (a) The Company has applied the requirements of IFRIC 12 - Service Concession Arrangements in accounting for the service concession arrangement with the Nigeria Gas Company (NGC); this led to the recognition of an intangible asset. This represents the right to recover the cost of construction of the concession asset - gas pipeline through the sale of gas. Consequently, at 1 January 2012, long term receivable (otherwise referred to as the Pipeline Cost Recovery Account) of N26,161 million (N43,962 million at 31 December 2012) previously recorded was derecognised.

At 1 January 2012, N26,161 million was recognised as assets under construction under intangible assets and when the construction was completed in 2012, an intangible asset of N42,899 million was recognised at fair value. On 31 December 2012, the intangible asset was tested for impairment due to the presence of certain impairment triggers and after considering the impact of amortisation and impairment, the intangible asset was written down to a carrying value of N37,622 million as at 31 December 2012.

The profit or loss impact of these journals were:

- an increase in revenue of N5,970 million for the year ended 31 December 2012 being valuation gain of N16.3 billion on the recognition of the intangible asset on completion of construction, amounts recovered from customers (N1.4 billion) on the use of the pipeline for the period (capital recovery) and net contract revenue recognised by EHGC in its books under NGAAP of N11.7 billion;
- A reclassification of N12,240 million from other income to revenue for 31 December, 2012, being revenue on service concession contract;
- increase in amortisation expense (cost of sales) of N2,499 million for 31 December 2012 being amortisation of the intangible asset on a straight line over the concession period;

- increase in cost of sales of N3,291 million for 31 December 2012 being additional expenses incurred on maintaining the pipeline for the period;
 - an impairment loss (cost of sales) of N2,368 million for 31 December 2012; and
 - an increase in finance cost of N4,009 million for 31 December 2012 being additional interest costs incurred over the period (adjusted for Effective Interest Rate computation) previously capitalised as part of long term receivables under NGAAP.
- (b) IFRS requires financial assets and liabilities carried at amortised cost to be measured using the effective interest method. The effect of applying the effective interest rate resulted in an increase in borrowings of N11.5 million as at 31 December 2012 (1 January 2012: N131 million). The corresponding effect was recorded as finance costs in the statement of comprehensive income.
- (c) The additional losses in 2011 due to IFRS adjustment resulted in to a deferred tax asset of N39.3 million at a tax rate of 30%.
- (d) Retained Earnings

Reconciliation of retained earnings under NGAAP to retained earnings under IFRS

	1 January 2012 N'000	31 December 2012 N'000
Retained earnings under NGAAP	(169,646)	13,544,046
Borrowings	(131,066)	(131,066)
Contract revenue	-	5,969,931
Deferred Tax Asset	39,320	39,320
Interest Expense	-	(4,009,077)
Additional pipeline expenses	-	(3,291,111)
Amortisation of intangible	-	(2,499,377)
Impairment Expense	-	(2,367,628)
Retained earnings under IFRS	(261,392)	7,255,038

6. REVENUE

	31 December 2013 N'000	31 December 2012 N'000
Gas Revenue	4,660,132	3,730,352
Make up gas revenue	274,656	1,185,210
Revenue from service concession	2,176,218	17,700,832
	7,111,006	(22,616,394)

7. COST OF SALES BY NATURE

	31 December 2013 N'000	31 December 2012 N'000
<i>Included in Cost of Sales:</i>		
Gas Purchase	4,045,052	2,737,567
Amortisation of intangible assets (Note 14)	2,351,401	2,499,377
Impairment of Intangible asset	-	2,367,628
Gas pipeline maintenance expenses	570,478	3,291,112
	6,966,931	10,895,684

8. OTHER OPERATING INCOME

	31 December 2013 N'000	31 December 2012 N'000
Realised Exchange gain	2,047	510

9. EXPENSES BY NATURE

	31 December 2013 N'000	31 December 2012 N'000
<i>Included in administrative expenses:</i>		
Depreciation on property, plant and equipment – others (Note 13)	2,149	707
Employee benefits expense (Note 10)	34,666	34,439
Auditors' remuneration	7,000	5,350
Group service cost	33,132	35,082

10. EMPLOYEE BENEFITS EXPENSE

The following items are included within employee benefits expense:

	31 December 2013 N'000	31 December 2012 N'000
Wages and salaries	31,632	31,689
Pension costs- Defined contribution scheme	1,144	807
Pension costs- Defined benefit scheme (Note 20)	1,890	1,663
Other staff costs	-	280
	34,666	34,439

Number of Employees of the Company (excluding directors) in receipt of emoluments within the ranges:

	2013 Number	2012 Number
N500,001 - N4,000,000	-	1
N4,000,001 - N6,000,000	2	3
N6,000,001 - N8,000,000	1	1

Average number of employees during the year:

	Number	Number
Senior staff	3	5

11. FINANCE COSTS AND INCOME

	Number	Number
Finance Costs		
Interest expense	3,165,005	4,010,221
Finance income		
Interest income	6,307	-

12. TAXATION

No provisions have been made for Company income tax and education tax in these financial statements, due to the provisions of the pioneer status. The pioneer status was granted with effect from 1 January 2012 for an initial period of three years.

Based on the directors assessment, the Company is able to generate future taxable profits against which the deferred tax assets can be utilized especially as steps have been taken to address the going concern risk identified. Deferred tax assets recognised in respect of temporary differences is as presented below and the applicable tax rate is 30%:

	Tax losses	Property, Plant and Equipment	Actuarial Losses	Total
At 1 January 2012	112,025	-	-	112,025
At 1 January 2012	112,025			112,025
Recognised in profit or loss account	-	212	398	610
Recognised in other comprehensive income statement	-		101	101
At 31 December 2012	112,025	212	499	112,737
At 1 January 2013	112,025	212	499	112,736
Recognised in profit or loss account	972,901	646	-	973,546
Recognised in other comprehensive income statement				(499)
At 31 December 2013	11,084,926	857	-	1,085,783

13. PROPERTY, PLANT AND EQUIPMENT

	Motor Vehicles	Total
At 1 January 2012	-	-
Cost or Valuation	-	-
Accumulated depreciation	-	-
Net Book value at 1 January 2012	-	-
Year ended 31 December 2012		
Opening net book amount		
Additions	4,851	4,851
Depreciation charge	(707)	(707)
Closing net book amount	4,144	4,144
At 31 December 2012		
Cost/Valuation	4,851	4,851
Accumulated depreciation	(707)	(707)
	4,144	4,144
Year ended 31 December 2013	5,935	5,935
Opening net book amount	(2,149)	(2,149)
Additions		
Depreciation charge		
Closing net book amount	7,930	7,930

14. INTANGIBLE ASSETS

	Assets under construction N'000	Gas Transportation Pipeline N'000	Total N'000
At 1 January 2012			
Cost or Valuation	26,161,053	-	26,161,053
Accumulated amortisation	-	-	-
Net book value at 1 January 2012	26,161,053	-	26,161,053
Year ended 31 December 2012			
Cost or Valuation	-	42,489,407	42,489,407
Accumulated impairment	-	(2,367,628)	(2,367,628)
Accumulated amortisation	-	(2,499,377)	(2,499,377)
Net book value at 31 December 2012	-	37,622,402	37,622,402
Year ended 31 December 2013			
Cost or Valuation	-	42,489,407	42,489,407
Accumulated impairment	-	(2,367,628)	(2,367,628)
Accumulated amortisation	-	(4,850,778)	(4,850,778)
Net book value at 31 December 2013	-	35,271,001	35,271,001
Reconciliation of Net Book Value			
Year ended 31 December 2012			
Opening net book amount	26,161,053	-	26,161,053
Additions	16,328,354	-	16,328,354
Amortisation charge	-	(2,499,377)	(2,499,377)
Transfers	(42,489,407)	42,489,407	-
Impairments	-	(2,367,628)	(2,367,628)
Net book value at 31 December 2012	-	37,622,402	37,622,402
Reconciliation of Net Book Value			
Year ended 31 December 2013			
Opening net book amount	-	37,622,402	37,622,402
Amortisation charge	-	(2,351,401)	(2,351,401)
Net book value at 31 December 2013	-	35,271,001	35,271,001

Service Concession Arrangements (Gas Transmission Pipeline)

East Horizon Gas Company Limited entered into an arrangement with the Nigerian Gas Company Limited (NGC), a government business parastatal charged with the development and management of the Federal Government of Nigeria's natural gas reserves and interests. Under the agreement, NGC assigned its rights and obligations to provide natural gas to United Cement Company of Nigeria (UNICEM) to EHGC. EHGC was expected to build and operate a gas pipeline to deliver gas from the gas fields to UNICEM's terminals. EHGC is also at liberty to expand the connections and deliver to other customers. However, currently, UNICEM is the only off taker of the gas.

The agreement was entered into in March 2007 and shall be in force for 20 years. The total sum due to putting in place the distribution facilities shall be determined by EHGC in consultation with NGC. This amount determined shall represent capital contribution by EHGC and shall be recovered by EHGC from revenue from sale of gas over the contract period using an agreed cost recovery formula. EHGC is required to fund, design and construct the gas distribution facilities, and has a right to utilise the pipeline asset and the right of way license obtained by NGC for the generation of revenue from the use of the pipeline during the contract period. NGC is also obligated to deliver annual contract quantity of gas to EHGC and EHGC is obligated to take or pay for the quantity delivered. At the end of the contract period, the pipeline asset will be transferred to NGC.

Either party has the right to terminate the agreement by serving the other party six (6) months notice in the event of failure to meet the first gas delivery date, major breach of the contract terms, force majeure and in the event of insolvency or bankruptcy of either party. Capital recovery of EHGC is capped at the total contract price plus interest costs incurred over the life of the contract. The maximum contract price recoverable by EHGC is determined based on periodic valuations done by NGC and as at 31 December 2013, the maximum contract price recoverable was capped at N30.511 billion exclusive of interest incurred (31 December 2012: N30.511 billion). The construction was completed in 2012 and the service concession arrangement has been classified as an intangible asset as EHGC has the right to charge the users of the pipeline over the concession period and NGC has not guaranteed payment of any shortfalls on recovery from users. Amortisation expense for the gas transmission pipeline is included in cost of sales.

Impairment on intangible assets

Following difficulties in achieving budgeted revenues, an impairment review was carried out and as a result, the Company recorded an impairment charge on intangible assets at 31 December 2012. The intangible assets represent EHGC's rights to recover the cost of construction of a gas transmission pipeline from the sale of gas. As at 31 December 2013, the carrying amount of the intangible asset was not higher than the recoverable amount (31 December 2012: the carrying amount was higher than the recoverable amount by N2,367 million). The recoverable amount of the intangible asset is its value in use and the rate applied in discounting estimated future cashflows is 12.23%. This impairment charge has been recognised as part of administrative expenses in the statement of comprehensive income.

15. INVENTORIES

	31 December 2013 N'000	31 December 2012 N'000	31 December 2011 N'000
Materials	306,917	276,111	-

There was no inventory carried at net realisable value as of the reporting date (2012: nil).

16. TRADE AND OTHER RECEIVABLES

	31 December 2013 N'000	31 December 2012 N'000	31 December 2011 N'000
Trade receivables	332,036	472,263	-
Make up gas	64,643	2,014	-
Other receivables	123,695	58,486	2,392,683
Prepayments	13,494	1,949	27,142
	533,868	534,712	2,419,825

The carrying amounts of trade and other receivables for 2013 and 2012 respectively approximate their fair values.

Trade and other receivables do not contain any impaired assets and no receivable is pledged as security for borrowings.

17. CASH AND CASH EQUIVALENTS

	31 December 2013 N'000	31 December 2012 N'000	31 December 2011 N'000
Cash at bank and in hand	277,614	309,049	69,960

18. TRADE AND OTHER PAYABLES

	31 December 2013 N'000	31 December 2012 N'000	31 December 2011 N'000
Trade payables	1,827,992	991,437	-
Make up gas	118,236	21,106	-
Other payables	384,689	329,843	119,367
Due to related party	18,258,505	16,592,253	12,523,228
Accruals	2,119,133	2,224,497	-
	22,708,555	20,159,136	12,642,595

The carrying amounts of trade and other payables for 2013 and 2012 respectively approximate their fair values.

19. BORROWING

	31 December 2013 N'000	31 December 2012 N'000	31 December 2011 N'000
The borrowings are made up as follows:			
Non-current			
Bank Loans	5,569,524	6,598,339	11,433,318
Current:			
Bank Loans	3,006,398	4,834,979	4,938,342
Total Borrowing:	8,575,922	11,433,318	16,371,660

Bank loans are analysed as follows:

Non-current

Loan type/Purpose

	Tenure/Interest rate	Available facility N'000	Draw down 2013 N'000	Draw down 2012 N'000	Draw down 2011 N'000
Syndicated gas project facility – UNICEM Gas pipeline project	3 yrs; 16.2%	18,043,626	-	-	18,043,626
Bank of Industry loan - Power and Aviation Intervention Fund (PAIF) Facility	4 yrs; 7%	10,344,530	10,344,530		

Bank borrowing

The carrying amounts of borrowing for 2013 and 2012 respectively approximate to their fair value as the interest rates are based on market rates. Fair values are based on discounted cash flows using a discount rate based upon the borrowing rate that directors expect would be available to the Company at the reporting date.

During the year, the Company obtained a facility of N10,344,529,586 from the Bank of Industry(BOI). This was used to refinance N8,408,759,322 of its existing loans with financial institutions. The Company also repaid N3,757,162,433 in principal repayment during the year.

20. RETIREMENT BENEFIT OBLIGATIONS

	31 December 2013 N'000	31 December 2012 N'000	31 December 2011 N'000
Balance sheet obligations for:			
Gratuity	-	1,663	-
Statement of comprehensive income charge:			
Gratuity	2,400	1,326	-
Other comprehensive income			
Actuarial gains recognised in the statement of other comprehensive income in the year	510	337	-
Cumulative actuarial losses recognised in the statement of other comprehensive income	847	337	-
		31 December 2013 N'000	31 December 2012 N'000
The movement in the defined benefit obligation over the year is as follows:			
At 1 January		1,663	-
Current service cost		506	1,213
Interest cost		275	166
Actuarial losses		510	337
Curtailments		599	-
Benefits paid		-	(53)
Transferred to staff payable		(3,553)	-
Balance at 31 December 2013		-	1,663
		31 December 2013	31 December 2012
The amounts recognised in the statement of comprehensive income are as follows:			
Current service cost		506	1,213
Interest cost		275	166
Actuarial (gains)/losses		510	337
Benefits paid		-	(53)
Curtailment expense		599	-
Total included in staff costs (Note 10)		1,890	1,663

Curtailment

With effect from 31 March 2013, the Company discontinued the Scheme for staff and increased employer's contribution in respect of their existing contribution plan under the 2004 Pension Act.

Alexander Forbes Consulting Actuaries Nigeria Limited (Alexander Forbes) was engaged to determine the liability from the curtailed scheme, which was estimated at N1.8 million. The Company intends to pay the money over to a fund manager who will manage the funds on behalf of employees. Until then, the funds shall bear an interest rate equivalent to the average of the 90 day deposit rate of First Bank of Nigeria and Guaranty Trust Bank.

The principal actuarial assumptions were as follows:

	31 December 2013 N'000	31 December 2012 N'000	31 December 2011 N'000
Discount rate	12.2%	12.2%	14.0%
Future salary increases	12.0%	12.0%	12.0%

Assumptions regarding future mortality experience are set based on actuarial advice in accordance with published statistics and experience in Nigeria. Mortality assumptions are based on the British A49/52 ultimate table published by the institute of actuaries of England.

These tables translate into withdrawal rates as follows:

	31 December 2013	31 December 2012	31 December 2011
Age			
18-29	4.5%	4.5%	5.0%
30-44	6.0%	6.0%	4.0%
45-49	2.5%	2.5%	3.0%
50-59	2.0%	2.0%	2.0%
60+	100%	100%	100%

21. GOVERNMENT GRANT

Government grant relates to the below market rate loan obtained through restructuring of the loan secured for the construction of the gas pipeline facility under the Bank of Industry loan scheme. The fair value of the grant was recognised initially on the grant date and subsequently amortised on a straight line basis over the tenure of the loan. There were no unfulfilled conditions relating to the grant as at the reporting date. The initial grant was N1,426 million out of which N222 million was credited to the statement of profit or loss.

22. SHARE CAPITAL

	Number of shares (thousands)	Ordinary shares N'000
Issued share capital		
At 1 January 2012	10,000	10,000
At 31 December 2012	10,000	10,000
At 31 December 2013	10,000	10,000

Authorised share capital

The total authorised number of ordinary shares is 10 million (2012:10 million) with a par value of N1 per share. All issued shares are fully paid.

23. CASH GENERATED FROM OPERATIONS

	31 December 2013 N'000	31 December 2012 N'000
Reconciliation of (loss)/profit before income tax to cash generated from operations:		
(Loss)/profit before income tax	(3,242,979)	7,516,056
Adjustments for:		
Interest expense (Note 11)	3,165,005	4,010,221
Unpaid Inter Company Interest	(2,024,314)	-
Depreciation (Note 13)	2,149	707
Amortisation of intangible assets (Note 14)	2,351,401	2,499,377
Valuation of intangible assets (Note 14)	-	(16,328,354)
(Decrease)/Increase in retirement benefit obligation	(1,663)	1,663
Actuarial gain/(loss)	(510)	(337)
Impairment loss on gas transmission pipeline (Note 14)	-	2,367,628
Movement in working capital		
- Receivables and prepayments (current)	844	1,885,113
- Inventories	(30,804)	(276,111)
- Payables and accrued expenses	2,549,419	7,515,396
Cash generated from operations	2,768,548	9,191,359

24. RELATED PARTY TRANSACTIONS

Ocean and Oil Investments (Nigeria) Limited (OOIL) has the largest shareholding of 43% (2012:10.53%) of the immediate parent of EHGC at the reporting date. The remaining 57% (2012:89.47%) shares are widely held. OOIL is owned by Ocean and Oil Mauritius (OOM). OOM is owned by Ocean and Oil Holdings (BVI) Limited. Two of the immediate parent Company's directors, Mr Jubril Ahmed Tinubu and Mr Omamofe Boyo both have significant influence over Ocean and Oil Investments (Nigeria) Limited.

The immediate parent of the Company is Oando Plc.

The following transactions were carried out with related parties:

- (a) Oando Plc guaranteed the loan facility secured for EHGC gas pipeline project.
- (b) Gaslink Nigeria Limited advanced funds to the Company in order to settle some its obligations as they fell due. The balance owed is payable to Gaslink on demand and interest is charged on the interCompany balance at the rate of 12% per annum. Included in amount due to Gaslink for the year is an interest payable of N2,024 million.

(i) Key management compensation

Key management include executive directors and members of the Company's Board of Directors and the Group Leadership Council of the immediate parent. The directors waived their rights to receive any emoluments or benefits in kind during the year ended 31 December 2013 (31 December 2012: Nil)

(ii) Year-end payables arising from services received from related parties

	31 December 2013 N'000	31 December 2012 N'000	31 December 2011 N'000
Oando Plc	3,179	3,179	2,390,503
Gaslink Nigeria Limited*	18,234,128	16,097,876	10,132,547
Akute Power Limited*	178	178	178
Central Horizon Gas Company Limited*	140	140	-
Oando Marketing Plc*	20,880	490,880	-
Total	18,258,505	16,592,253	12,523,228

* subsidiaries of Oando Plc

(iii) No amounts were due from related parties

25. CONTINGENT LIABILITIES

Pending litigation

There are a number of legal suits outstanding against the Company for stated amounts of N1 billion (2012: NGN 1 billion). On the advice of Counsel, the Board of Directors are of the opinion that no material losses are expected to arise. Therefore, no provision has been made in the financial statements.

The above contingencies are based on the best estimates of the board.

26. SUBSEQUENT EVENTS

On the 24th day of December 2013, Oando Plc entered into a Share Purchase and Sale Agreement for the transfer of its shares in East Horizon Gas Company Limited to Seven Energy Ltd ('the buyer'). The transfer of the shares is contingent upon the fulfilment of certain conditions.

The sale of the Company is expected to be completed at an Aggregate consideration of US\$250 million (adjusted for net liabilities) (the "Consideration") payable by way of:

- (i) an initial payment of US\$100 million in cash,
- (ii) assumption of existing liabilities of EHGC, including bank indebtedness and
- (iii) a deferred payment due on achievement of certain operational and contractual conditions that are expected to enhance the long term profitability of EHGC (the "Deferred Payment").

The sale transaction was completed on 31 March, 2014 and 100% of the share capital of EHGC was transferred to the Seven Energy International Limited.

27. GOING CONCERN

In the year ended 31 December 2013, the Company made a loss after tax of N2.3 billion on revenues of N7.1 billion, had a net cash outflow from operating activities of N2.8 billion, and a net current liabilities position of N24.6 billion.

The Directors state that the Company is still within its first three years of operation and expects the negative trends to reverse in coming periods. The Directors have implemented action plans necessary to ensure increased working capital some of which include: increased revenues by growing the customer base; refinancing the Company's borrowings from a 16% commercial loan to a 7% BOI loan; and the parent company will continue

to provide the required financial support until the Company is able to settle its obligations to financial institutions. The Directors are confident that the actions taken will result in significant improvement in the Company's operating results and financial position.

The Directors have concluded that the current circumstances represent a material uncertainty that casts significant doubt on the Company's ability to continue as a going concern. However after considering the actions described above and after making appropriate enquiries the Directors have concluded that they have a reasonable expectation that the Company can continue in operational existence for the foreseeable future. For these reasons the Company continues to adopt the going concern basis in preparing the annual report and accounts.

Additional Disclosure
Statement of Value Added
31 December 2013

	2013	%	2012	%
	N'000		N'000	
Turnover	7,111,006		22,616,394	
Bought in materials and services (All local)	(4,809,118)		(6,188,476)	
Other income	8,354		510	
Value absorbed	2,310,243	100%	16,428,428	100%
Distribution:				
Employees:				
Wages and salaries	34,666	2%	34,439	0%
Providers of capital:				
interest expense	3,165,005	137%	4,010,221	24%
Maintenance of assets:				
Depreciation of fixed assets	2,149	0%	707	0%
Amortisation	2,351,401	102%	2,499,377	15%
Impairment	-	0%	2,367,628	14%
The future:				
Deferred tax (credit)	(973,546)	-42%	(610)	0%
Retained (loss)/profit for the year	(2,269,433)	-98%	7,516,666	46%
Value absorbed	2,310,243	100%	16,428,428	100%

The statement of value added is presented in these financial statements for the purposes of the Companies and Allied Matters Act disclosure requirements.

Additional Disclosure
Five year financial summary (2009–2013)

Statement of financial position

		IFRS		NGAAP	
	2013	2012	2011	2010	2009
ASSETS EMPLOYED:					
Property, plant and equipment	7,930	4,144	-	-	-
Long term receivables	-	-	-	19,096,216	14,171,026
Intangible assets	35,271,001	37,622,402	26,161,053		
Deferred tax	1,085,783	112,737	112,025	60,158	51,203
Current assets	1,118,399	1,119,872	2,489,785	227,411	76,530
Total assets	37,483,113	38,859,155	28,762,863	19,383,785	14,298,759
FINANCED BY:					
Creditors due within one year	25,714,953	24,994,115	17,580,937	9,055,853	3,410,233
Creditors due after one year	6,773,564	6,600,002	11,433,318	10,458,300	10,998,001
Share capital	10,000	10,000	10,000	10,000	10,000
Reserves	4,984,596	7,255,038	(261,392)	(140,368)	(119,475)
	37,483,113	38,859,155	28,762,863	19,383,785	14,298,759

Statement of comprehensive income

		IFRS		NGAAP	
	2013	2012	2011	2010	2009
Turnover	7,111,006	22,616,394	-	-	-
Cost of sales	(6,966,931)	(10,895,684)	-	-	-
Gross profit	144,075	11,720,710	-	-	-
Other income	2,047	510	-	-	-
Operating expense	(230,403)	(194,943)	(41,826)	(29,849)	(30,529)
Finance income	6,307	-	-	-	-
Finance cost	(3,165,005)	(4,010,221)	-	-	-
(Loss)/Profit before taxation	(3,242,979)	7,516,056	(41,826)	(29,849)	(30,529)
Taxation	973,546	610	12,548	8,955	51,203
(Loss)/profit retained for the year	(2,269,433)	7,516,666	(29,278)	(20,894)	20,674

Statement of comprehensive income

(Loss)/profit for the year	(2,269,433)	7,516,666	(29,278)	(20,894)	20,674
Other comprehensive income:					
Actuarial gains/(loss)	(510)	(337)			
Deferred tax on actuarial gains or losses	(499)	101			
Other comprehensive loss for the year, net of tax.	(1,009)	(236)	-	-	-
Total comprehensive (loss)/income for the year	(2,270,442)	7,516,430	(29,278)	(20,894)	20,674

The five year financial summary is presented in this financial statement for the purpose of complying with the Companies and Allied Matters Act disclosure requirements, periods not covered by International Financial Reporting Standards are based on NGAAP and therefore not comparable.

EAST HORIZON GAS COMPANY LIMITED
IFRS FINANCIAL STATEMENTS
FOR THE PERIOD ENDED 30 JUNE 2013

Index to the financial statements

	PAGE
Statement of comprehensive income	F-214
Statement of financial position	F-215
Statement of changes in equity	F-216
Statement of cashflow	F-217
Notes to the financial statements	
1 General information	F-218
2 Summary of significant accounting policies	F-218
a <i>Basis of preparation</i>	F-218
<i>Changes in accounting policy and disclosures</i>	
b <i>Functional currency and translation of foreign currencies</i>	F-219
c <i>Revenue recognition</i>	F-220
d <i>Property, plant and equipment</i>	F-221
e <i>Intangible assets</i>	F-221
f <i>Impairment of non-financial assets</i>	F-222
g <i>Financial instruments</i>	F-222
h <i>Leases</i>	F-223
i <i>Inventories</i>	F-224
j <i>Receivables</i>	F-224
k <i>Payables</i>	F-224
l <i>Share capital</i>	F-224
m <i>Cash and cash equivalents</i>	F-224
n <i>Employee benefits</i>	F-224
o <i>Provisions</i>	F-225
p <i>Current and deferred tax</i>	F-225
q <i>Borrowings</i>	F-226
r <i>Dividends</i>	F-226
s <i>Government Grants</i>	F-226
3 Financial risk management	F-226
3.1 <i>Financial risk factors</i>	F-226
3.2 <i>Capital risk management</i>	F-229
3.3 <i>Fair value estimation</i>	F-229
4 Critical accounting estimates and judgements	F-231
4.2 <i>Critical judgements in applying the entity's accounting policies</i>	F-232
5 Transition to IFRS	F-233
6 Revenue	F-239
7 Cost of sales	F-239

8	Operating expenses (expenses by nature)	F-239
9	Employee benefits expense	F-239
10	Finance income and costs	F-240
11	Taxation	F-240
12	Property, plant and equipment	F-241
13	Intangible assets	F-242
14	Inventories	F-243
15	Trade and other receivables	F-243
16	Cash and cash equivalent	F-243
17	Trade and other payables	F-244
18	Borrowings	F-244
19	Retirement benefit obligation	F-245
20	Government Grant	F-246
21	Share capital	F-247
22	Cash generated from operations	F-247
23	Related party transactions	F-247
24	Contingent liabilities	F-248
25	Subsequent events	F-248
26	Going concern	F-248

Statement of profit or loss and other comprehensive income
For the period ended 30 June 2013

		For the six months ended	
	<i>Notes</i>	30 June 2013 N'000	30 June 2012 N'000
Statement of profit or loss			
Revenue	6	4,213,634	18,285,446
Cost of sales	7	(3,823,734)	(3,144,782)
Gross profit		389,900	15,140,664
Administrative expenses	8	(76,573)	(85,381)
Operating (loss)/profit		313,327	15,055,283
Finance income	10	493	-
Finance cost	10	(1,654,715)	(1,995,738)
Net finance cost		(1,654,222)	(1,995,738)
(Loss)/profit before tax		(1,340,895)	13,059,545
Taxation	11	402,413	305
(Loss)/profit for the year		(938,482)	13,059,850
Other comprehensive income:			
Remeasurement of post employment benefit obligations	19	(510)	(168)
Taxation	11	(499)	50
Other comprehensive income for the period, net of tax.		(1,009)	(118)
Total comprehensive (loss)/ income for the year		(939,491)	13,059,732

The results shown above for both 2013 and 2012 relate to continuing operations.

The notes and significant accounting policies on pages F-218 to F-249 are an integral part of these financial statements.

Statement of financial position

As at 30 June 2013

	<i>Notes</i>	30 June 2013 N'000	31 December 2012 N'000	1 January 2012 N'000
Assets				
Non-current assets				
Property, plant and equipment	<i>12</i>	8,820	4,144	-
Intangible assets	<i>13</i>	36,446,702	37,622,402	26,161,053
Deferred tax assets	<i>11</i>	514,651	112,737	112,025
		36,970,173	37,739,283	26,273,078
Current assets				
Inventories	<i>14</i>	312,166	276,111	-
Trade and other receivables	<i>15</i>	1,828,048	534,712	2,419,825
Cash and cash equivalents	<i>16</i>	366,078	309,049	69,960
		2,506,292	1,119,872	2,489,785
Total assets		39,476,465	38,859,155	28,762,863
Liabilities				
Current liabilities				
Trade and other payables	<i>17</i>	21,804,067	20,159,136	12,642,595
Borrowing	<i>18</i>	2,945,426	4,834,979	4,938,342
		24,749,493	24,994,115	17,580,937
Non-current liabilities				
Borrowing	<i>18</i>	7,023,896	6,598,339	11,433,318
Retirement benefit obligation	<i>19</i>	-	1,663	-
Government Grant	<i>20</i>	1,377,529	-	-
		8,401,425	6,600,002	11,433,318
Total liabilities		33,150,918	31,594,117	29,014,255
Total net assets				
Equity				
Ordinary share capital	<i>21</i>	10,000	10,000	10,000
Retained earnings		6,315,547	7,255,038	(261,392)
Total equity		6,325,547	7,265,038	(251,392)
Net equity and liabilities		39,476,465	38,859,155	28,762,863

The financial statements on pages F-214 to F-249 were approved and authorised for issue by the board of directors on 2014 and were sign on its behalf by



Phillip Ihenacho
Director
FRC/2014/IODN/00000007424



N. Okoro
Director
FRC/2014/IODN/00000005877



M. Williams
Financial Controller
FRC/2014/ICAN/00000005804

Statement of changes in equity
For the period ended 30 June 2013

	Share capital N'000	Retained earnings N'000	Total equity N'000
<i>For the six months ended 30 June 2013</i>			
Balance as at 1 January 2013	10,000	7,255,038	7,265,038
Profit for the period	-	(938,482)	(938,482)
Other comprehensive expense for the period	-	(1,009)	(1,009)
Balance as at 30 June 2013	10,000	6,315,547	6,325,547
<i>For the six months ended 30 June 2012</i>			
Balance as at 1 January 2012	10,000	(261,392)	(251,392)
Comprehensive income:			
Profit or loss for the period	-	13,059,850	13,059,850
Other comprehensive expense for the period	-	(118)	(118)
Balance as at 30 June 2012	10,000	12,798,340	12,808,340

The notes and significant accounting policies on pages F-218 to F-249 are an integral part of these financial statements.

Statement of Cash Flows

For the period ended 30 June 2013

	<i>Notes</i>	30 June 2013	30 June 2012
		N'000	N'000
Cash flows from operating activities			
Cash generated from operations	22	735,250	5,153,864
Net cash generated from operating activities		735,250	5,153,864
Cash flows from investing activities			
Purchase of property, plant and equipment	12	(5,513)	-
Net cash used in investing activities		(5,513)	-
Cash flows from financing activities			
Proceeds from borrowing		10,344,530	-
Repayment of borrowing		(10,411,713)	(2,501,188)
Interest paid		(605,525)	(1,950,723)
Net cash from financing activities		(672,708)	(4,451,911)
Movement in cash and cash equivalents			
At start of year		309,049	69,960
Net increase		57,029	701,953
Cash and cash equivalents at the end of the period	16	366,078	771,913

The significant accounting policies and notes on pages F-218 to F-249 are an integral part of these financial statements.

Notes to the financial statements

For the period ended 30 June 2013

1. GENERAL INFORMATION

East Horizon Gas Company Limited ('the Company') is a wholly owned subsidiary of Seven Energy International Limited. The Company was set up to develop and operate a natural gas pipeline system supplying gas to Mfamosing, Cross River State from the Nigerian Gas Company pipeline in Ukanafum, Akwa Ibom State and other prospective customers within the region. The Company's registered address is 7 Anifowoshe Street, Off Adeola Odeku Street, Lagos.

The pipeline system is an 18-inch, 128km gas pipeline traversing forests, swamps and built-up areas; it has a 100 million standard cubic feet per day (mmscf/d) capacity and currently supplies 22 mmscf/d to its foundation customer, United Cement Company (UNICEM). The gas is utilized to fuel UNICEM's 2.5 million metric tonnes per annum Cement Plant located in Mfamosing. EHGC will leverage the pipeline to build a distribution network that will supply natural gas to other interested off-takers in the Calabar area.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies adopted in the preparation of these annual financial statements are set out below. These policies have been consistently applied to all years presented.

a) Basis of preparation

The financial statements have been prepared in compliance with International Financial Reporting Standards (IFRS), and interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC). IFRS 1, First-time Adoption of International Financial Reporting Standards, has been applied in preparing these financial statements.

Subject to certain transition elections and exceptions disclosed in note 5, the Company has consistently applied the accounting policies used in the preparation of its opening IFRS statement of financial position at January 1, 2012 throughout all years presented, as if these policies had always been in effect. Note 5 discloses the impact of the transition to IFRS on the Company's reported financial position, financial performance and cash flows, including the nature and effect of significant changes in accounting policies from those used in the Company's financial statements for the years ended 31 December 2011 and 31 December 2012 prepared under Nigerian GAAP.

The preparation of financial statements, in conformity with generally accepted accounting principles under IFRS, requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Although these estimates are based on management's best knowledge of the amount, event or actions, actual results ultimately may differ from those estimates.

The financial statements have been prepared on a historical cost basis.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires Directors to exercise judgement in the process of applying the Company's accounting policies. The areas involving a higher degree of judgement or complexity, or where assumptions and estimates are significant to the financial statements, are disclosed in Note 4.

Changes in accounting policies and disclosures

New standards, amendments and interpretations issued but not effective for the financial year beginning 1 January 2013 and not early adopted

A number of new standards and amendments to standards and interpretations are effective for annual periods beginning after 1 January 2013, and have not been applied in preparing these consolidated financial statements. None of these is expected to have a significant effect on the consolidated financial statements of the Company, except the following set out below:

IFRS 9, 'Financial instruments', addresses the classification, measurement and recognition of financial assets and financial liabilities. IFRS 9 was issued in November 2009 and October 2010. It replaces the parts of IAS 39 that relate to the classification and measurement of financial instruments. IFRS 9 requires financial assets to be classified into two measurement categories: those measured as at fair value and those measured at amortised cost. The determination is made at initial recognition. The classification depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument. For financial liabilities, the standard retains most of the IAS 39 requirements. The main change is that, in cases where the fair value option is taken for financial liabilities, the part of a fair value change due to an entity's own credit risk is recorded in other comprehensive income rather than the statement of comprehensive income, unless this creates an accounting mismatch. The Company is yet to assess IFRS 9's full impact. The Company will also consider the impact of the remaining phases of IFRS 9 when completed by International Accounting Standards Board.

IFRIC 21, 'Levies', sets out the accounting for an obligation to pay a levy that is not income tax. The interpretation addresses what the obligating event is that gives rise to pay a levy and when should a liability be recognised. The Company is not currently subjected to significant levies so the impact on the Company is not material.

There are no other IFRSs or IFRIC interpretations that are not yet effective that would be expected to have a material impact on the Company.

b) Functional currency and translation of foreign currencies

(i) Functional and presentation currency

Items included in the financial statements of the entity are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The financial statements are presented in Naira (NGN), which is the Company's functional and presentation currency.

(ii) Transactions and balances in the Company

Foreign currency transactions are translated into the functional currency of the entity using the exchange rates prevailing at the dates of the transactions or the date of valuation where items are remeasured. Foreign exchange gains and losses resulting from the settlement of such 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. Foreign exchange gains and losses that relate to borrowings and cash and cash equivalents are presented in the statement of comprehensive income within 'finance income or costs'. All other foreign exchange gains and losses are presented in the statement of comprehensive income within 'other operating income/operating losses'. Changes in the fair value of monetary securities denominated in foreign currency classified as available for sale are analysed between translation differences resulting from changes in the amortised cost of the security and other changes in the carrying amount of the security. Translation differences related to changes in amortised cost are recognised in profit or loss, and other changes in carrying amount are recognised in other comprehensive income. Translation differences on non-monetary financial assets and liabilities such as equities held at fair value through profit or loss are recognised in profit or loss as part of

the fair value gain or loss. Translation differences on non-monetary financial assets, such as equities classified as available for sale, are included in other comprehensive income.

c) Revenue recognition

Revenue represents the fair value of the consideration received or receivable for sales of goods and services, in the ordinary course of the Company's activities and is stated net of value-added tax (VAT), rebates and discounts and after eliminating sales within the Company. The Company recognises revenue when the amount of revenue can be reliably measured, it is probable that future benefits will flow to the entity and when specific criteria have been met for each of the Company's activities as described below:

Revenue from construction projects is recognized in accordance with IAS 11 Construction Contracts with the use of the percentage-of completion method provided that the conditions for application are fulfilled. The percentage of completion is mainly calculated on the basis of the ratio on the balance sheet date of the output volume already delivered to the total output volume to be delivered. The percentage of completion is also calculated from the ratio of the actual costs already incurred on the balance sheet date to the planned total costs (cost-to-cost method). If the results of construction contracts cannot be reliably estimated, revenue is calculated using the zero profit method in the amount of the costs incurred and probably recoverable.

Revenue from the provision of services is recognized in accordance with the percentage of completion method – provided that the conditions for application are fulfilled. In the area of services, percentage of completion is mainly calculated using the cost-to-cost method.

In the context of concession projects, construction services provided are recognized as revenue in accordance with the percentage of completion method. During the construction phase, construction services are recognised as revenue in accordance with the percentage of completion method. In the operating phase of concession projects, the recognition of revenue from operator services depends upon whether a financial or an intangible asset is to be received as consideration for the construction services provided. If a financial asset is to be received, i.e. the operator receives a fixed payment from the client irrespective of the extent of use, no revenue is recognised but interest income on the financial receivable is recognised.

If an intangible asset is to be received, i.e. the operator receives payments from the users or from the client depending on use, during the construction phase, construction services are recognized as revenue in accordance with the percentage of completion method. During the operating phase, the payments for use are recognized as revenue according to IAS 18 generally in line with the extent of use of the infrastructure by the users. If the operator receives both use-dependent and use-independent payments, revenue recognition is split in accordance with the ratio of the two types of payment.

The Company has a take and/or pay arrangement with its customers. Under the arrangement, the Company is contractually required to provide a minimum Annual Contract Quantity (ACQ) of gas, and the customer is obligated to take and/or pay for the ACQ. Any quantities of gas forming part of the take-or-pay quantity paid for by Buyer and not taken during a contract year is designated "Make-up Gas" and the Buyer is entitled to nominate gas up to the remaining balance of the accrued make-up gas in any subsequent period in the chronological order in which it is accrued. Payments received under the take and/or pay arrangement, for which the customer still has a right to nominate as make-up gas in the subsequent period, is recognised as "Make up gas" (deferred income) reported as part of trade and other payable in the statement of financial position, as the risks and rewards of ownership of the gas have not been transferred to the buyer, any accrued make up gas not taken up within the contractually agreed cycle is forfeited by the buyer and revenue is recognised by the Company at this point.

Interest income is recognized using the effective interest method. When a loan or receivable is impaired, the Company reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted at the original effective interest rate of the instrument, and continues unwinding the discount as interest income. Interest income on impaired loans and receivables are recognised using the original effective interest rate.

d) Property, plant and equipment

All categories of property, plant and equipment are initially recorded at cost. Buildings and freehold land are subsequently shown at fair value, valuations are performed with sufficient regularity to ensure that the fair value of a revalued asset does not differ materially from its carrying amount. Any accumulated depreciation at the date of revaluation is eliminated against the gross carrying amount of the asset, and the net amount is restated to the revalued amount of the asset. All other property, plant and equipment are stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged to the statement of comprehensive income during the financial year in which they are incurred.

Increases in the carrying amount arising on revaluation are credited to other comprehensive income and shown as other reserves in shareholders' equity. Decreases that offset previous increases of the same asset are charged against the revaluation surplus; all other decreases are charged to the statement of comprehensive income. When revalued assets are sold, the amounts included in other reserves are transferred to retained earnings.

Freehold land is not depreciated. Depreciation on other assets is calculated using the straight line method to write down their cost or revalued amounts to their residual values over their estimated useful lives, as follows:

Buildings	20 – 50 years	(2 – 5%)
Plant and machinery	8 – 20 years	(5 – 12½%)
Equipment and motor vehicles	3 – 5 years	(20 – 33½%)

Where the cost of a part of an item of property, plant and equipment is significant when compared to the total cost, that part is depreciated separately based on the pattern which reflects how economic benefits are consumed.

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance reporting date. An asset's carrying amount is written down immediately to its estimated recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposal of property, plant and equipment are determined by comparing proceeds with carrying amount and are included in the profit or loss.

e) Intangible assets

The Company has a concession arrangement to fund, design and construct gas pipeline on behalf of the Nigerian Gas Company (NGC). The arrangement requires the Company as the operator to construct gas pipelines on behalf of NGC (the grantor) and recover the cost incurred from a proportion of the sale of gas to customers. The arrangement is within the scope of IFRIC 12.

Under the terms of IFRIC 12, a concession operator has a twofold activity:

- a construction activity in respect of its obligations to design, build and finance a new asset that it makes available to the grantor: revenue is recognised on a stage of completion basis in accordance with IAS 11;
- an operating and maintenance activity in respect of concession assets: revenue is recognised in accordance with IAS 18.

The intangible asset model: The operator has a right to receive payments from users in consideration for the financing and construction of the infrastructure. The intangible asset model also applies whenever the concession grantor remunerates the concession operator to the extent of use of the infrastructure by users, but with no guarantees as to the amounts that will be paid to the operator.

Under this model, the right to receive payments (or other remuneration) is recognised in the concession operator's balance sheet under concession intangible assets. This right corresponds to the fair value of the asset under concession plus the borrowing costs capitalised during the construction phase. It is amortised over the term of the arrangement in a manner that reflects the pattern in which the asset's economic benefits are consumed by the entity, starting from the entry into service of the asset.

f) Impairment of non-financial assets

Assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation 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 (cash-generating units). Non-financial assets other than goodwill that suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

g) Financial instruments

Financial assets

The Company classifies its financial assets in the following categories: financial assets at fair value through profit or loss, loans and receivables, and available-for-sale financial assets. The classification depends on the purpose for which the investments were acquired. Management determines the classification of its financial assets at initial recognition.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Company provides money, goods or services directly to a debtor with no intention of trading the receivable. They are included in current assets, except for maturities greater than 12 months after the reporting date. These are classified as non-current assets. The Company's loans and receivables comprise of Trade and other receivables and Cash and cash equivalents (refer to notes 15 and 16)

Recognition and measurement

Purchases and sales of investments are recognised on the trade date, which is the date on which the Company commits to purchase or sell the asset. Financial assets are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Investments are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Company has transferred substantially all risks and rewards of ownership. Available for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables and held-to-maturity investments are carried at amortised cost using the effective interest method.

Realised and unrealised gains and losses arising from changes in the fair value of the 'financial assets at fair value through profit or loss' category are included in the statement of comprehensive income within other 'operating income'/'operating expenses' in the period in which they arise. Unrealised gains and losses arising from changes in the fair value of equity instruments classified as available-for-sale are recognised in other comprehensive income. When securities classified as available-for-sale are sold or impaired, the accumulated fair value adjustments are included in the statement of comprehensive income as gains and losses from investment securities.

The fair values of quoted investments are based on current bid prices. If the market for a financial asset is not active (and for unlisted securities), the Company establishes fair value by using valuation techniques. These include the use of recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis and option pricing models refined to reflect the issuer's specific circumstances.

Impairment of financial assets

The Company assesses at each reporting date whether there is objective evidence that a financial asset or a group of financial assets is impaired. In the case of equity securities classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is considered in determining whether the securities are impaired. The Company assesses the significance of a decline in the fair value below cost relative to the specific security's volatility, and regards a decline below cost of longer than 12 months to be prolonged. If any such evidence exists for available-for-sale financial assets, the cumulative loss measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in the statement of comprehensive income is removed from equity and recognised in the statement of comprehensive income. Impairment losses recognised in the statement of comprehensive income on equity instruments are not reversed through the statement of comprehensive income.

For loans and receivables category, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced and the amount of the loss is recognised in the statement of comprehensive income. If a loan or held-to-maturity investment has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the reversal of the previously recognised impairment loss is recognised in the statement of comprehensive income.

Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the statement of financial position, when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously.

h) Leases

Leases of property, plant and equipment where the Company assumes substantially all the risks and rewards of ownership are classified as finance leases. Assets acquired under finance leases are capitalised at the commencement of the lease at the lower of their fair value and the estimated present value of the underlying lease payments.

Each lease payment is allocated between the liability and finance charges so as to achieve a constant rate on the finance balance outstanding. The corresponding rental obligations, net of finance charges, are included in non-current liabilities. The interest element of the finance charge is charged to the profit or loss over the lease period so as to produce a constant rate over the lease term. Property, plant and equipment acquired under finance leases are depreciated over the shorter of the useful life of the asset and the lease term.

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases are charged to the statement of comprehensive income on a straight-line basis over the period of the lease.

i) Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined by the weighted average method. The cost of finished goods and work in progress comprises raw materials, direct labour, other direct costs and related production overheads (based on normal operating capacity), but excludes borrowing costs. Net realisable value is the estimate of the selling price in the ordinary course of business, less the costs of completion and selling expenses.

j) Receivables

Receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method less provision for impairment. A provision for impairment of receivables is established when there is objective evidence that the Company will not be able to collect all the amounts due according to the original terms of receivables. Significant financial difficulties of the debtor, probability that debtor will enter bankruptcy and default or delinquency in payment, are the indicators that trade receivable is impaired. 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 profit or loss within administrative costs. When a trade receivable is uncollectible, it is written off against the allowance account for trade receivables. Subsequent recoveries of amounts previously written off are credited against administrative costs in the profit or loss.

The amount of the provision is the difference between the carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate.

k) Payables

Payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

l) Share capital

Ordinary shares are classified as equity. Share issue costs net of tax are charged to share premium account.

m) Cash and cash equivalents

Cash and cash equivalents includes cash in hand, deposits held at call with banks, other short term highly liquid investments with original maturities of three months or less, and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities.

n) Employee benefits

Retirement benefit obligations

Defined contribution scheme

The Company operates defined contribution retirement benefit schemes for its employees. A defined contribution plan is a pension plan under which the Company pays fixed contributions into a separate entity. The Company has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods. The Company's contributions to the defined contribution schemes are charged to the profit or loss in the year to which they relate.

The assets of the scheme are held in separate trustee administered funds, which are funded by contributions from both the Company and employees.

The Company operates a defined benefit gratuity scheme in Nigeria, where members of staff who have spent 3 years or more in employment are entitled to benefit payments upon retirement. The benefit payments are based on final emolument of staff and length of service. A defined benefit plan is a pension plan that is not a defined contribution plan. Typically defined benefit plans define an amount of gratuity benefit that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and compensation.

The liability recognised in respect of defined benefit gratuity plans is the present value of the defined benefit obligation at the end of the reporting period less the fair value of plan assets. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using the market rates on government bonds that have terms to maturity approximating to the terms of the related pension obligation.

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are charged or credited to equity in other comprehensive income in the period in which they arise.

Current service and interest cost are included as part of employee benefit expense in the profit or loss.

Past-service costs are recognised immediately in profit or loss.

Gains or losses on curtailment or settlement are recognised in profit or loss when the curtailment or settlement occurs.

o) Provisions

Provisions for environmental restoration and legal claims are recognised when: the Company has a present legal or constructive obligation as a result of past events; it is more likely than not that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of management's best estimate of the expenditure required to settle the present obligation at the reporting date. The discount rate used to determine the present value is a pre-tax rate which reflects current market assessments of the time value of money and the specific risk. The increase in the provision due to the passage of time is recognised as interest expense.

p) Current and deferred income tax

Income tax expense is the aggregate of the charge to the statement of comprehensive income in respect of current and deferred income tax. Current income tax is the amount of income tax payable on the taxable profit for the year determined in accordance with the relevant tax legislation.

Education tax is provided at 2% of assessable profits of companies operating within Nigeria.

Deferred income tax is provided in full, using the liability method, on all temporary differences arising between the tax bases of assets and liabilities and their carrying values for financial reporting purposes. However, if the deferred income tax arises from the initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss, it is not accounted for. Current and deferred income tax is determined using tax rates and laws enacted or substantively enacted at the reporting date and are expected to apply when the related deferred income tax liability is settled.

Deferred income tax assets are recognised only to the extent that it is probable that future taxable profits will be available against which the temporary differences can be utilised.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries and associates, except where the timing of the reversal of the temporary difference is controlled by the Company and it is probable that the temporary difference will not reverse in the foreseeable future.

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 taxes 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.

q) Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost using the effective interest method; any differences between proceeds (net of transaction costs) and the redemption value is recognised in the statement of comprehensive income over the period of the borrowings, using the effective interest method.

Borrowings are classified as current liabilities unless the Company has an unconditional right to defer settlement of the liability for at least 12 months after the reporting date.

Borrowing costs

Borrowing costs are recognised as an expense in the period in which they are incurred, except when they are directly attributable to the acquisition, construction or production of a qualifying asset, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale. These are added to the cost of the assets, until such a time as the assets are substantially ready for their intended use or sale.

r) Dividends

Dividend payable to the Company's shareholders is recognised as a liability in the period in which they are declared (i.e. approved by the shareholders).

s) Government Grants

The Company benefits from the Bank of Industry (BOI) Scheme where the government through the BOI provides finance to companies in certain industries at subsidised interest rates. Grants from the government are recognised at their fair value where there is a reasonable assurance that the grant will be received and the Company will comply with all attached conditions. Government grants relating to costs are deferred and recognised in the statement of comprehensive income over the period necessary to match them with the costs that they are intended to compensate.

3. FINANCIAL RISK MANAGEMENT

3.1 Financial risk factors

The Company's activities expose it to a variety of financial risks: market risk (including foreign exchange risk, interest rate risk, and price risk), credit risk and liquidity risk. The Company's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effect on its financial and operational performance.

The Company has a risk management function that manages the financial risks relating to the Company's operations under the policies approved by the Board of Directors. The Company's liquidity, credit, foreign currency, interest rate and price risks are continuously monitored. The Board approves 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 investing excess liquidity.

Market risk

(i) Foreign exchange risk

Foreign exchange risk arises when future commercial transactions and recorded assets and liabilities are denominated in a currency that is not the entity's functional currency e.g. foreign denominated loans, purchases and sales transactions etc. The Company manages its foreign exchange risk by revising cost estimates of orders based on exchange rate fluctuations and forward contracts transacted with commercial banks.

As at 30 June 2013, the Company had no balances denominated in foreign currencies (31 December 2012 :Nil), as a result fluctuations in foreign exchange rates would have had no impact on profits.

(ii) Interest rate risk

The company holds short term highly liquid bank deposit at fixed interest rates. No limits are placed on the ratio of variable rate borrowing to fixed rate borrowings.

The effect of an increase or decrease in interest on bank deposits by 100 basis points is not material.

The Company has borrowings at variable rates which exposes the company to cashflow interest rate risk. The company regularly monitors financing options available to ensure optimum interest rates are obtained. At 30 June 2013, the effect of an increase/decrease of 100 basis points on Monetary Policy Rate (MPR) is not material and would have mainly resulted in higher/lower charges on variable rate borrowings.

Credit risk

Credit risk arises from cash and cash equivalents and trade and other receivables. The Company has policies in place to ensure that credit limits are set for commercial customers taking into consideration the customers' financial position, past trading relationship, credit history and other factors. The Company has policies that limit the amount of credit exposure to any financial institution.

Management monitors the aging analysis of receivables on a periodic basis. The analysis of current, past due but not impaired and impaired receivables is as follows:

	30 June 2013 N'000	31 December 2012 N'000	1 January 2012 N'000
Current:			
Cash and cash equivalents	366,078	309,049	69,960
Trade and other receivables:	398,972	472,263	-
	765,050	781,312	69,960
Past due but not impaired:			
– by up to 30 days	1,424,838	58,486	2,392,683
Impaired	-	-	-
	2,189,888	839,798	2,462,643

Trade and other receivable net of impairment of NGN 399 million (Dec. 2012: N 472million) are neither past due nor impaired. There was no receivable over 30 days that is past due but not impaired.

Credit quality of financial assets

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:

	30 June 2013 N'000	31 December 2012 N'000	1 January 2012 N'000
<i>Trade receivables</i>			
Counterparties without external credit rating			
Group 2	398,972	472,263	-
<i>Other receivables</i>			
Group 2	1,424,838	58,486	2,392,683

Group 2 – existing counter parties/customers (more than 6 months) with no defaults in the past

There are no group 1 (new customers – less than 6 months) and group 3 (existing customers – over 6 months with some defaults in the past) customers in the trade and other receivables balance.

	30 June 2013 N'000	31 December 2012 N'000	1 January 2012 N'000
<i>Cash at bank and short term bank deposits</i>			
B+	366,078	309,049	69,960

Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and marketable securities, the availability of funding through an adequate amount of committed credit facilities and the ability to close out market positions. Due to the dynamic nature of the underlying businesses, Company Treasury maintains flexibility in funding by keeping committed credit lines available.

Management monitors rolling forecasts of the Company's liquidity reserve comprising cash and cash equivalents and borrowings (notes 16 and 18 respectively) on the basis of expected cash flow.

The table below analyses the Company's financial liabilities into relevant maturity groupings based on the remaining period at the reporting date to the contractual maturity date. The amounts disclosed in the table below are the contractual undiscounted cash flows. Balances due within 12 months equal their carrying balances, as the impact of discounting is not significant.

	Less than 1 year N'000	Between 1 and 2 years N'000	Between 2 and 5 years N'000
At 30 June 2013:			
Borrowings	3,508,417	3,195,978	4,673,190
Trade and other payables	19,610,118	-	-
At 31 December 2012			
Borrowings	4,795,825	4,795,825	1,853,119
Trade and other payables	20,159,136	-	-

3.2 Capital risk management

The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern in order to provide returns for shareholders and to maintain an optimal capital structure to reduce the cost of capital. In order to maintain or adjust the capital structure, the Company may issue new capital or sell assets to reduce debt.

Various financial ratios and internal targets are assessed and reported to the Board on a quarterly basis to monitor and support the key objectives set out above. These ratios and targets include:

- Earnings Before Interest Tax Depreciation and Amortisation (EBITDA) Interest Cover;
- Fixed/Floating Debt Ratio;
- Current Asset Ratio;

The Company's objective is to maintain these financial ratios in excess of any debt covenant restrictions and use them as a performance measurement and hurdle rate. The failure of a covenant test could render the facilities in default and repayable on demand at the option of the lender.

Accordingly, in situations where these ratios are not met, the Company takes immediate steps to redress the potential negative impact on its financial performance.

Total capital is calculated as equity plus net debt. During 2013 the Company's strategy was to maintain a gearing ratio between 60% and 70% (2012: 50% and 65%). The gearing ratios as at the end of June 2013 and 2012 were as follows:

	30 June 2013 N'000	31 December 2012 N'000
Total borrowings	9,969,322	11,433,318
Less cash and cash equivalents	(366,078)	(309,049)
Net Debt	9,603,244	11,124,269
Total equity	6,325,547	7,265,038
Total capital	15,928,791	18,389,307
Gearing ratio	60.29%	60.49%

3.3 Fair value estimation

The table below analyses financial instruments whose fair values have been disclosed by valuation method. The different levels have been defined as follows:

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

The fair value of the company's borrowings as at 30 June 2013, 31 December 2012 and 1 January 2012 is as follows: These fall within level 2.

	30 June 2013 N'000	31 December 2012 N'000	1 January 2012 N'000
Liabilities			
Borrowing	9,472,096	11,571,646	16,676,598

Borrowing

The fair value of the borrowings for disclosure was determined by a discounted cashflow of the expected future cash outflows at the balance sheet date using the prime lending rate in Nigeria as at the balance sheet date for a similar tenure and amount. The prime lending rate is the interest rate commercial banks charge their most credit-worthy customers.

The fair value of the following financial assets and liabilities approximate their carrying amount:

- Trade and other receivables
- Cash and cash equivalents
- Trade and other payables

(a) Financial instruments in level 1

The fair value of financial instruments traded in active markets is based on quoted market prices at the balance sheet date. A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis. The quoted market price used for financial assets held by the company is the current bid price. These instruments are included in Level 1. Instruments included in Level 1 comprise primarily Nigerian Stock Exchange (NSE) listed instruments classified as trading securities or available for sale.

(b) Financial instruments in level 2

The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined by using valuation techniques. These valuation techniques maximise the use of observable market data where it is available and rely as little as possible on entity specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in level 2.

(c) Financial instrument in level 3

If one or more of the significant inputs is not based on observable market data, the instrument is included in Level 3.

Techniques, such as discounted cash flow analysis, are used to determine fair value for the financial instruments not in level 3.

Financial instruments by category

Financial assets and liabilities have been classified into categories that determine their basis of measurement and, for items measured at fair value, whether changes in fair value are recognized in the statement of income or other comprehensive income.

Those categories are: loans and receivables; and for liabilities, amortized cost. The following table shows the carrying values of assets and liabilities for each of these categories at June 30, 2013, December 31, 2012 and January 1, 2012.

	30 June 2013 N'000	31 December 2012 N'000	1 January 2012 N'000
Assets			
Loans and receivables:			
Cash and cash equivalents	366,078	309,049	69,960
Trade and other receivables	1,825,824	532,763	2,392,683
	2,191,902	841,812	2,462,643
Liabilities			
Amortized cost:			
Trade and other payables	21,804,067	20,159,136	12,642,595
Borrowings	9,969,322	11,433,318	16,371,660
	31,773,389	31,592,454	29,014,255

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including experience of future events that are believed to be reasonable under the circumstance.

Pension benefits

The present value of the pension obligations depends on a number of factors that are determined on an actuarial basis using a number of assumptions. The assumptions used in determining the net cost (income) for pensions include the discount rate. Any changes in these assumptions will impact the carrying amount of pension obligations.

The Company determines the appropriate discount rate at the end of each year. This is the interest rate that should be used to determine the present value of estimated future cash outflows expected to be required to settle the pension obligations. In determining the appropriate discount rate, the Company considers the interest rates of government bonds that are denominated in the currency in which the benefits will be paid and that have terms to maturity approximating the terms of the related pension obligation.

Other key assumptions for pension obligations are based in part on current market conditions. Additional information is disclosed in note 19.

Useful lives and residual value of property, plant and equipment

The residual values, depreciation methods and useful lives of property, plant and equipment are reviewed for reasonableness at least annually. The review is based on the current market situation. The review of useful lives did not significantly impact depreciation.

The residual value of the company's Property, Plant and Equipment (PPE) is estimated to be nil.

Income taxes

The Company is subject to income tax under the company income tax act. Significant judgment is required in determining the Company's provision for income taxes. The Company recognises liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

As of the reporting date, no liability in respect of pending tax issues has been recognised in the financial statements.

Impairment of intangible assets

The recognised intangible asset from the concession arrangement and other tangible assets with a definite useful life are tested for impairment whenever facts and circumstances indicate that the carrying amount may be higher than the recoverable amount. As of 31 December 2012, an impairment test was carried out on the intangible asset and the impairment charge of N2,368 million was recognized in 2012. The recoverable amount of the intangible asset has been determined based on value-in-use calculations. These calculations require the use of estimates (note 13).

To estimate the value in use, management used the following assumptions:

- Projections of future cash flows are based on the forecasts approved by management.
- The period over which management projected cash flows is the term of the contract between Nigerian Gas Company (NGC) and the Company. Management assessed that projecting cash flows over a period greater than 5 years is justified, as sales of gas over the term of the contract can be estimated reliably on the basis of existing demand.
- Management's estimate of future sales volumes was based on current capacity and expected contracts. Currently, UNICEM is the only 'off taker' of the gas. Management identified prospective customers in the region, such as recently constructed power plants, and assigned volumes to expected contracts based on their estimate of demand of those customers. It is expected that over the term of the contract volumes sold to UNICEM will comprise approximately 40% of total sales.
- The discount rate used is applicable FGN bond discount rate, which does not include the specific industry and market risks.
- The exchange rate used to translate the forecasted cash flows is N155.77/1USD.

An impairment charge of N2,368million arose in the service concession intangible asset during the course of the 2012 period, resulting in the carrying amount of the CGU being written down to its recoverable amount. If the estimated cost recovery volumes used in the value-in-use computation had been 10% lower than management's estimates at 31 December 2012, the company would have recognised a further impairment of N3,762million and would need to reduce the carrying value of the intangible asset by N3,762million. If management projected cash flows on the assumption that UNICEM will remain the only customer, additional impairment charge of approximately N 10,500 million would be required.

If the estimated FGN bond rate used in determining the pre-tax discount rate had been 10% higher than management's estimates, the company would have recognised a further impairment loss of N4,042million.

4.2 Critical judgements in applying the entity's accounting policies

Service concessions agreement (IFRIC 12)

The contract between Nigerian Gas Company (NGC) and the Company, for the construction of gas transmission pipelines fall within the scope of IFRIC 12. Management is of the opinion that the recovery of construction and interest costs are conditional upon sale of gas as specified in the contract and does not give the Company an unconditional right to receive cash. Hence an intangible asset has been recognised at the present value of the estimated value of capital recovery and interest charges from the sale of gas over the duration of the contract.. The assessment of the present value of the estimated capital recovery requires the use of estimates and assumptions (Note 13).

The intangible asset has been recognised at the present value of the estimated value of capital recovery and interest charges from the sale of gas over the duration of the contract. The volume of sales of gas over the term of the contract is the main driver for capital recovery. Estimates of future cash flows for recovery of construction costs have been based on the assumption that the production and sale of gas from the pipeline will approximate the total capacity of the pipeline.

Based on this assumption, the full recovery of the investment and interest costs is expected to be achieved within nine years.

The assumption that the volume of sales over the term of the contract will approximate the total capacity of the pipeline has been based on management's estimate of existing and future demand for gas in a region. The present value of the estimated capital recovery amount would be equal to the cost of capital construction (including borrowing costs capitalized during the construction period), if sales volumes approximated to 45% of total capacity. In that case, the value of the intangible asset would be N12 billion lower.

Estimates of future cash flows for recovery of interest costs were arrived at assuming current bank interest rates applied up until the full recovery of the investment.

Other assumptions include exchange rate of N155.77/ 1USD and applicable FGN bond discount rate, which does not include the specific industry and market risks.

Take or pay - embedded derivatives

There is a take or pay relationship between the Nigerian Gas Company (NGC, the gas supplier), EHGC (the Company) and Unicem (the customer). The terms of the agreement requires the sales price of gas to Unicem to be indexed to the price of Low Pour Fuel Oil (LPFO), graduated between 60% of the ex-depot pricing of LPFO in year one and increased by 5% until year 5. The increase in gas price is capped at 80% of the LPFO price till the end of the contract. This may suggest the existence of an embedded derivative.

However in practice, gas prices are regulated in Nigeria by NGC. Periodic notices are sent to all oil and gas companies with the schedule of gas prices; Also, the portion of the sales price due to the gas supplier (in this case NGC) is advised. EHGC bills Unicem based on this advise and pays NGC based on the regulated prices as communicated by NGC. This is the practice among market participants. Embedded derivatives that may be apparent from the contract are not recognised, as in practice both the purchase from NGC and the sales to Unicem are based on regulated prices.

Going concern

The Directors of the Company have identified circumstances which represent a material uncertainty that casts significant doubt on the Company's ability to continue as a going concern. However, measures have been put in place to improve the Company's financial position. The Company refinanced its existing borrowings from a 16% to 7% facility and have taken steps to increase the earnings of the Company. The Directors have a reasonable expectation that the Company would continue to operate in the foreseeable future. For these reasons the Company continues to adopt the going concern basis in preparing the annual report and accounts. A going concern note has been included in note 26.

5. TRANSITION TO IFRS

Explanation of transition to IFRS

The Company has applied IFRS 1 in preparing these financial statements and the accounting policies set out in note 2 have been applied in preparing the financial statements for the 6 months ended 30 June 2013, the comparative information presented in these financial statements for both the 6 months ended 30 June 2012 and the year ended 31 December 2012, and in the preparation of an opening IFRS balance sheet at 1 January 2012 (the date of the Company's transition to IFRS).

In preparing its opening IFRS balance sheet, the Company has adjusted amounts reported previously in financial statements prepared in accordance with Statements of Accounting Standards issued by the Nigerian Accounting Standards Board (“Nigerian GAAP”). An explanation of how the transition from Nigerian GAAP to IFRS has affected the Company’s financial position, financial performance and cash flows is set out in the following tables and the notes that accompany the tables.

In preparing these financial statements in accordance with IFRS 1, the Company has applied the mandatory exceptions from full retrospective application of IFRS. The optional exemptions from full retrospective application selected by the Company are summarised below.

5.1 Initial elections upon adoption

Set out below are the applicable IFRS 1 exemptions and exceptions applied in the conversion from NGAAP to IFRS:

5.1.1 IFRS exemption options

EHGC applied the following optional exemptions from retrospective application:

Borrowing costs

The Company applied the exemption on borrowing costs to capitalise prospectively from 1 January 2012.

Assets and liabilities of subsidiaries, joint ventures and associates

The Company is controlled by an existing IFRS reporter, and has applied the exemption to report its assets and liabilities as reported to its controlling entity.

Employee benefits

The Company applied the exemption to recognise all cumulative actuarial gains/losses on 1 January 2012.

Financial assets or intangible assets accounted for in accordance with IFRIC 12

The Company applied the transitional provisions of IFRIC 12 which limits the retrospective application in certain instances.

5.1.2 IFRS mandatory exceptions

Below is the list of seven mandatory exceptions from retrospective application of IFRS:

- (1) Estimates
- (2) Derecognition of financial assets and financial liabilities
- (3) Hedge accounting
- (4) Non-controlling interests
- (5) Classification and measurement of financial assets
- (6) Embedded derivatives
- (7) Government loans

Explained below are the exceptions that are applicable to the entity on transition:

Estimates

Estimates under IFRS at 1 Jan 2012 should be consistent with estimates made for the same date under Nigerian GAAP, unless there is evidence that those estimates were in error.

Derecognition of financial assets and liabilities

Financial assets and liabilities derecognised before transition date are not re-recognised under IFRS.

Classification and measurement of financial assets and financial liabilities

The assessment of whether the Company's financial assets and liabilities meet the measurement requirements as set out in IFRS 9, was performed at 1 January 2012.

5.2 Reconciliations of Nigerian GAAP to IFRS

Reconciliation of shareholders' equity as at 1 January 2012

	Notes	Effect of transition to IFRS		
		NGAAP N'000	Adjustment N'000	IFRS N'000
Non-current assets				
Intangible assets	<i>a</i>	-	26,161,053	26,161,053
Long term receivables	<i>a</i>	26,161,053	(26,161,053)	-
Deferred tax	<i>c</i>	72,705	39,320	112,025
		26,233,758	39,320	26,273,078
Current assets				
Trade receivables and prepayments		2,419,825	-	2,419,825
Cash and cash equivalents		69,960	-	69,960
		2,489,785	-	2,489,785
Total assets		28,723,543	39,320	28,762,863
Current liabilities				
Trade and other payables		12,642,595	-	12,642,595
Borrowings	<i>b</i>	4,795,825	142,517	4,938,342
		17,438,420	142,517	17,580,937
Non-current liabilities				
Borrowings	<i>b</i>	11,444,769	(11,451)	11,433,318
Total liabilities		28,883,189	131,066	29,014,255
Equity				
Ordinary share capital		10,000	-	10,000
Retained earnings		(169,646)	(91,746)	(261,392)
Total equity		(159,646)	(91,746)	(251,392)
Total liabilities and equity		28,723,543	39,320	28,762,863

Reconciliation of shareholders' equity as at 31 December 2012

	Notes	Effect of transition to IFRS		
		NGAAP N'000	IFRS Adjustment N'000	IFRS N'000
Non-current assets				
Property, plant and equipment	<i>a</i>	4,144	-	4,144
Intangible assets	<i>a</i>	-	37,622,402	37,622,402
Long term receivables	<i>c</i>	43,962,182	(43,962,182)	-
Deferred Tax		73,417	39,320	112,737
		44,039,743	(6,300,460)	37,739,283
Current assets				
Inventories		276,111	-	276,111
Trade receivables and prepayments		534,712	-	534,712
Cash and cash equivalents		309,049	-	309,049
		1,119,872	-	1,119,872
Total assets		45,159,615	(6,300,460)	38,859,155
Current liabilities				
Trade and other payables		20,159,136	-	20,159,136
Borrowings	<i>b</i>	4,795,825	39,154	4,834,979
		24,954,961	39,154	24,994,115
Non-current liabilities				
Borrowings	<i>b</i>	6,648,944	(50,605)	6,598,339
Retirement benefit obligation		1,663	-	1,663
		6,650,607	(50,605)	6,600,002
Total liabilities		31,605,568	(11,451)	31,594,117
Equity				
Ordinary share capital		10,000	-	10,000
Retained earnings		13,544,047	(6,289,009)	7,255,038
Total equity		13,554,047	(6,289,009)	7,265,038
Total liabilities and equity		45,159,615	(6,300,460)	38,859,155

Reconciliation of comprehensive income

IFRS 1 requires an entity to reconcile equity, comprehensive income and cash flows for prior periods. The company's first-time adoption did not have an impact on the total operating, investing or financing cash flows. The following tables represent the reconciliations from Nigerian GAAP to IFRS for the respective periods noted for equity, earnings and comprehensive income.

Reconciliation of Comprehensive Income for the period ended 30 June 2012

	Reference to IFRS Adjustments	Effect of transition to IFRS		
		NGAAP N'000	IFRS Adjustment N'000	IFRS N'000
Continuing operations				
Turnover	<i>a</i>	1,380,674	16,904,772	18,285,446
Cost of sales	<i>a</i>	(1,161,094)	(1,983,688)	(3,144,782)
Gross profit		219,580	14,921,084	15,140,664
Administration expenses	<i>a</i>	(85,549)	168	(85,381)
Operating profit		134,031	14,921,252	15,055,283
Finance cost	<i>b</i>	-	(1,995,738)	(1,995,738)
Net operating profit		134,031	12,925,514	13,059,545
Profit before taxation		134,031	12,925,514	13,059,545
Taxation		305		305
Profit for the year		134,336	12,925,514	13,059,850
Other comprehensive income:				
Remeasurement of post employment benefit obligations		-	(168)	(168)
Deferred tax on actuarial gains or losses		-	50	50
Other comprehensive income for the year, net of tax		-	(118)	(118)
Total comprehensive (loss)/income for the year		134,336	12,925,396	13,059,732

Reconciliation of Comprehensive Income for the year ended 31 December 2012

	Reference to IFRS Adjustments	Effect of transition to IFRS		
		NGAAP N'000	IFRS Adjustment N'000	IFRS N'000
Continuing operations				
Turnover	<i>a</i>	4,406,614	18,209,780	22,616,394
Cost of sales	<i>a</i>	(2,737,567)	(8,158,117)	(10,895,684)
Gross profit		1,669,047	10,051,663	11,720,710
Administration expenses	<i>a</i>	(195,280)	337	(194,943)
Operating profit		1,473,767	10,052,000	11,525,767
Other income	<i>a</i>	12,240,359	(12,239,849)	510
Finance cost	<i>b</i>	(1,144)	(4,009,077)	(4,010,221)
Net operating profit		13,712,982	(6,196,926)	7,516,056
Profit before taxation		13,712,982	(6,196,926)	7,516,056
Taxation		711	(101)	610
Profit for the year		13,713,693	(6,196,926)	7,516,666
Other comprehensive income: (page 26)				
Remeasurement of post employment benefit obligations		-	(337)	(337)
Deferred tax on actuarial gains or losses		-	101	101
Other comprehensive income for the year, net of tax		-	(236)	(236)
Total comprehensive (loss)/income for the year		13,713,693	(6,197,163)	7,516,430

- (a) The Company has applied the requirements of IFRIC 12 – Service Concession Arrangements in accounting for the service concession arrangement with Nigeria Gas Company (NGC); this led to the recognition of an intangible asset. This represents the right to recover the cost of construction of the concession asset – gas pipeline through the sale of gas. Consequently, at 1 January 2012, long term receivable (otherwise referred to as the Pipeline Cost Recovery Account) of N26,161million (N43,962million at 31 December 2012) previously recorded was derecognised.

At 1 January 2012, N26,161million was recognised as assets under construction under intangible assets and when the construction was completed in 2012, an intangible asset of N42,899 million was recognised at fair value. On 31 December 2012, the intangible asset was tested for impairment due to the presence of certain impairment triggers and after considering the impact of amortisation and impairment, the intangible asset was written down to a carrying value of N37,622million as at 31 December 2012.

The profit or loss impact of these journals were:

- an increase in revenue of N16,905million for the 6 months ended 30 June 2012 and N5,970million for the year ended 31 December 2012 being valuation gain of N16.3 billion on the recognition of the intangible asset on completion of construction, amounts recovered from customers (N1.4 billion) on the use of the pipeline for the period (capital recovery) and net contract revenue recognised by EHGC in its books under NGAP of N11.7 billion;
 - A reclassification of N12,240 million from other income to revenue for 31 December, 2012, being revenue on service concession contract.
 - increase in amortisation expense (cost of sales) of N1,250million for the 6 months ended 30 June 2012 and N2,499 million for 31 December 2012 being amortisation of the intangible asset on a straight line over the concession period;
 - increase in cost of sales of N734million for the 6 months ended 30 June 2012 and N3,291 million for 31 December 2012 being additional expenses incurred on maintaining the pipeline for the period;
 - an impairment loss of N2,368million (cost of sales) for the year ended 31 December 2012; and
 - an increase in finance cost of N2,054 million for the 6 months ended 30 June 2012 and N4,151 million for 31 December 2012 being additional interest costs incurred over the period (adjusted for Effective Interest Rate computation) previously capitalised as part of long term receivables under NGAAP.
- (b) IFRS requires financial assets and liabilities carried at amortised cost to be measured using the effective interest method. The effect of applying the effective interest rate resulted in an increase in borrowings of N11.5 million as at 31 December 2012 (1 January 2012: N131million). The corresponding effect was recorded as finance costs in the statement of comprehensive income.
- (c) The additional losses in 2011 due to IFRS adjustment resulted in to a deferred tax asset of N39.3 million at a tax rate of 30% .

(d) Retained Earnings

Reconciliation of retained earnings under NGAAP to retained earnings under IFRS.

	31 December 2012 N'000	1 January 2012 N'000
Retained earnings under NGAAP	13,544,046	(169,646)
Borrowing	(131,066)	(131,066)
Contract revenue	5,969,931	-
Deferred Tax Asset	39,320	39,320
Interest Expense	(4,009,077)	-
Additional pipeline expenses	(3,291,111)	-
Amortisation of intangible	(2,499,377)	-
Impairment Expense	(2,367,628)	-
Retained earnings under IFRS	7,255,038	(261,392)

6. REVENUE

	Six months ended	
	30 June 2013 N'000	30 June 2012 N'000
Gas Revenue	2,975,112	1,380,674
Revenue from service concession	1,238,522	16,904,772
	4,213,634	18,285,446

7. COST OF SALES BY NATURE

	Six months ended	
	30 June 2013 N'000	30 June 2012 N'000
<i>Included in Cost of sales:</i>		
Gas Purchase	2,573,706	1,161,094
Amortisation of intangible assets (Note 13)	1,175,700	1,249,688
Gas pipeline maintenance expenses	74,328	734,000
	3,823,734	3,144,782

8. EXPENSES BY NATURE

	Six months ended	
	30 June 2013 N'000	30 June 2012 N'000
<i>Included in administrative expenses:</i>		
Depreciation on property, plant and equipment – others (Note 12)	837	-
Employee benefits expense (Note 9)	16,931	21,373
Auditors' remuneration	3,500	2,809
Group service cost	13,074	15,031

9. EMPLOYEE BENEFITS EXPENSE

	Six months ended	
	30 June 2013 N'000	30 June 2012 N'000
Wages and salaries	14,493	18,257
Pension costs- Defined contribution scheme	548	448
Pension costs- Defined benefit scheme (Note 19)	1,890	2,668
	16,931	21,373

10. FINANCE COSTS AND INCOME

	Six months ended	
	30 June 2013 N'000	30 June 2012 N'000
Interest expense:		
Finance costs	1,654,745	1,995,738
Finance income		
Interest income	493	-

11. TAXATION

No provisions have been made for company income tax and education tax in these financial statements, due to the provisions of the pioneer status. The pioneer status was granted with effect from 1 January 2012 for an initial period of three years.

Based on the directors assessment, the company is able to generate future taxable profits against which the deferred tax assets can be utilized especially as addressed the going concern risk identified. Deferred tax assets recognised in respect of temporary differences is as presented below and the applicable tax rate is 30%:

	Tax losses	Property, Plant and Equipment	Actuarial loses	Total
At 1 January 2012	112,025	-	-	112,025
At 1 January 2012	112,025	-	-	112,025
Recognised in profit or loss account	-	106	199	305
Recognised in other comprehensive income statement	-	-	50	50
At 30 June 2012	112,025	106	249	112,380
At 1 January 2013	112,025	213	499	112,737
Recognised in profit or loss account	402,413	-	-	402,413
Recognised in other comprehensive income statement	-	-	(499)	(499)
At 30 June 2013	514,438	213	-	514,651

12. PROPERTY, PLANT AND EQUIPMENT

	Motor Vehicles	Total
Year ended 31 December 2012		
Opening net book amount	-	-
Additions	4,851	4,851
Depreciation charge	(707)	(707)
Closing net book amount	4,144	4,144
Year ended 31 December 2012		
Cost or Valuation	4,851	4,851
Accumulated depreciation	(707)	(707)
Net book value at 31 December 2012	4,144	4,144
Period ended 30 June 2013		
Opening net book amount 1 January 2013	4,144	4,144
Additions	5,513	5,513
Depreciation charge	(837)	(837)
Closing net book amount	8,820	8,820
Period ended 30 June 2013		
Cost or Valuation	10,364	10,364
Accumulated depreciation	(1,544)	(1,544)
Net book value at 30 June 2013	8,820	8,820

13. INTANGIBLE ASSETS

	Assets under construction N'000	Gas Transmission Pipeline N'000	Total N'000
At 1 January 2012			
Cost or Valuation	26,161,053	-	26,161,053
Accumulated amortisation	-	-	-
Net book value at 1 January 2012	26,161,053	-	26,161,053
Year ended 31 December 2012			
Cost or Valuation	-	42,489,407	42,489,407
Accumulated impairment	-	(2,367,628)	(2,367,628)
Accumulated amortisation	-	(2,499,377)	(2,499,377)
Net book value at 31 December 2012	-	37,622,402	37,622,402
Period ended 30 June 2013			
Cost or Valuation	-	42,489,407	42,489,407
Accumulated impairment	-	(2,367,628)	(2,367,628)
Accumulated amortisation	-	(3,675,077)	(3,675,077)
Net book value at 30 June 2013	-	36,446,702	36,446,702
Reconciliation of Net Book Values			
Year ended 31 December 2012			
Opening net book amount	26,161,053	-	26,161,053
Additions	16,328,354	-	16,328,354
Amortisation charge	-	(2,499,377)	(2,499,377)
Transfers	(42,489,407)	42,489,407	-
Impairments	-	(2,367,628)	(2,367,628)
Net book value at 31 December 2012	-	37,622,402	37,622,402
Reconciliation of Net Book Values			
Period ended 30 June 2013			
Opening net book amount	-	37,622,402	37,622,402
Amortisation charge	-	(1,175,700)	(1,175,700)
Net book value at 30 June 2013	-	36,446,702	36,446,702

Service Concession Arrangements (Gas Transmission Pipeline)

East Horizon Gas Company Limited (EHGC) entered into an arrangement with the Nigerian Gas Company Limited (NGC), a government business parastatal charged with the development and management of the Federal Government of Nigeria's natural gas reserves and interests. Under the agreement, NGC assigned its rights and obligations to provide natural gas to United Cement Company of Nigeria (UNICEM) to EHGC. EHGC was expected to build and operate a gas pipeline to deliver gas from the gas fields to UNICEM's terminals. EHGC is also at liberty to expand the connections and deliver to other customers. However, currently, UNICEM is the only off taker of the gas.

The agreement was entered into in March 2007 and shall be in force for 20 years. The total sum due to putting in place the distribution facilities shall be determined by EHGC in consultation with NGC. This amount determined shall represent capital contribution by EHGC and shall be recovered by EHGC from revenue from sale of gas over the contract period using an agreed cost recovery formula. EHGC is required to fund, design and construct the gas distribution facilities, and has a right to utilise the pipeline asset and the right of way licence obtained by NGC for the generation of revenue from the use of the pipeline during the contract period. NGC is also obligated to deliver annual contract quantity of gas to EHGC and EHGC is obligated to take or pay for the quantity delivered. At the end of the contract period, the pipeline asset will be transferred to NGC.

Either party has the right to terminate the agreement by serving the other party six (6) months notice in the event of failure to meet the first gas delivery date, major breach of the contract terms, force majeure and in the event of insolvency or bankruptcy of either party. Capital recovery of EHGC is capped at the total contract price plus interest costs incurred over the life of the contract. The maximum contract price recoverable by EHGC is determined based on periodic valuations done by NGC and as at 30 June 2013, the maximum contract price recoverable was capped at N30.511billion exclusive of interest incurred (31 December 2012: N30.511billion). The construction was completed in 2012 and the service concession arrangement has been classified as an intangible asset as EHGC has the right to charge the users of the pipeline over the concession period and NGC has not guaranteed payment of any shortfalls on recovery from users. Amortisation expense for the gas transmission pipeline is included in cost of sales.

Impairment on intangible assets

Following difficulties in achieving budgeted revenues, an impairment review was carried out and as a result, the company recorded an impairment charge on intangible assets at 31 December 2012. The intangible assets represent EHGC's rights to recover the cost of construction of a gas transmission pipeline from the sale of gas. As at 30 June 2013, the carrying amount of the intangible asset was not higher than the recoverable amount (31 December 2012: the carrying amount was higher than the recoverable amount by N2,367 million). The recoverable amount of the intangible asset is its value in use and the rate applied in discounting estimated future cashflows is 12.23%. This impairment charge has been recognised as part of administrative expenses in the statement of comprehensive income.

14. INVENTORIES

	30 June 2013 N'000	31 December 2012 N'000	1 January 2012 N'000
Materials	312,166	276,111	-

There was no inventory carried at net realisable value as of the reporting date (2012: nil)

15. TRADE AND OTHER RECEIVABLES

	30 June 2013 N'000	31 December 2012 N'000	1 January 2012 N'000
Trade receivables	398,972	472,263	-
Make up gas	2,014	2,014	-
Other receivables	1,424,838	58,486	2,392,683
Prepayments	2,224	1,949	27,142
	1,828,048	534,712	2,419,825

The carrying amounts of trade and other receivables for 2013 and 2012 respectively approximate their fair values.

Trade and other receivables do not contain any impaired assets. No receivable is pledged as security for borrowings.

16. CASH AND CASH EQUIVALENTS

	30 June 2013 N'000	31 December 2012 N'000	1 January 2012 N'000
Cash at bank and in hand	366,078	309,049	69,960

For the purpose of the cash flow statement, cash and cash equivalents includes cash in hand and deposits held at call with banks.

17. TRADE AND OTHER PAYABLES

	30 June 2013 N'000	31 December 2012 N'000	1 January 2012 N'000
Trade payables	1,532,666	991,437	-
Make up gas	187,993	21,106	-
Other payables	337,514	329,843	119,367
Due to related parties	17,551,945	16,592,253	12,523,228
Accruals	2,193,949	2,224,497	-
	21,804,067	20,159,136	12,642,595

The carrying amounts of trade and other payables for 2013 and 2012 respectively approximate their fair values.

18. BORROWING

The borrowings are made up as follows:

	30 June 2013 N'000	31 December 2012 N'000	1 January 2012 N'000
Non-current			
Bank loans	7,023,896	6,598,339	11,433,318
Current			
Bank loans	2,945,426	4,834,979	4,938,342
Total borrowing	9,969,322	11,433,318	16,371,660

Bank loans are analysed as follows:

Loan type/Purpose	Tenure/Interest rate	Available facility N'000	Draw down 2013 N'000	Draw down 2011 N'000
Syndicated gas project facility – UNICEM Gas pipeline project	3 yrs; 16.2%	18,043,626	-	18,043,626
Bank of Industry loan – Power and Aviation Intervention Fund (PAIF) Facility	4 yrs; 7%	10,344,530	10,344,530	-

(a) Bank borrowing

The carrying amounts of borrowing for 2013 and 2012 respectively approximate to their fair value, as their interest rates are based on market rates. Fair values are based on discounted cash flows using a discount rate based upon the borrowing rate that directors expect would be available to the Company at the reporting date.

During the year, the company obtained a facility of N10,344,529,586 from the Bank of Industry(BOI). This was used to refinance N8,408,759,322 of its existing loans with financial institutions in addition to N2,002,953,874 principal repayment during the period.

19. RETIREMENT BENEFIT OBLIGATIONS

	30 June 2013 N'000	31 December 2012 N'000
Balance sheet obligations for:		
Gratuity	-	1,663
Income statement charge:	1,890	1,326
Gratuity		
Other comprehensive income		
Actuarial gains recognised in the statement of other comprehensive income in the period	(510)	337
Cumulative actuarial losses recognised in the statement of other comprehensive income	847	337

The gratuity scheme is unfunded.

	30 June 2013 N'000	31 December 2012 N'000
The movement in the defined benefit obligation over the year is as follows:		
At 1 January 2012	1,663	-
Current service cost	506	1,213
Interest cost	275	166
Actuarial losses	510	337
Curtailments	599	-
Benefits paid	-	(53)
Transferred to staff payable	(3,553)	-
Balance at 30 June 2013		1,663

	30 June 2013 N'000	31 December 2012 N'000
The amounts recognised in the income statement are as follows:		
Current service cost	506	1,213
Interest cost	275	166
Actuarial losses	510	337
Curtailments	599	-
Benefits paid	-	(53)
Total included in staff costs (Note 9)	1,890	1,663

Curtailment

With effect from 31 March 2013, the company discontinued the Scheme for staff and increased employer's contribution in respect of their existing contribution plan under the 2004 Pension Act.

Alexander Forbes Consulting Actuaries Nigeria Limited (Alexander Forbes) was engaged to determine the liability from the curtailed scheme, which was estimated at N1.8 million. The company intends to pay the money over to a fund manager who will manage the funds on behalf of employees. Until then, the funds shall bear an interest rate equivalent to the average of the 90 day deposit rate of First Bank of Nigeria and Guaranty Trust Bank.

The principal actuarial assumptions were as follows:

	30 June 2013 N'000	31 December 2012 N'000
Discount rate	12.2%	12.2%
Future salary increases	12.0%	12.0%

Assumptions regarding future mortality experience are set based on actuarial advice in accordance with published statistics and experience in Nigeria. Mortality assumptions are based on the British A49/52 ultimate table published by the institute of actuaries of England.

These tables translate into withdrawal rates as follows:

	30 June 2013	31 December 2012	1 January 2012
Age			
18-29	4.5%	4.5%	5.0%
30-44	6.0%	6.0%	4.0%
45-49	2.5%	2.5%	3.0%
50-59	2.0%	2.0%	2.0%
60+	100%	100%	100%

Through the Company's defined benefit plan, the Company is exposed to a number of risks, the most significant of which are detailed below:

(i) Changes in bond yield:

A decrease in Federal Government of Nigeria bond yields will increase plan liabilities.

(ii) Inflation risk:

Some of the Company pension obligations are linked to inflation, and higher inflation will lead to higher liabilities (although, in most cases, caps on the level of inflationary increases are in place to protect the plan against extreme inflation).

(iii) Life expectancy:

The majority of the plans' obligations are to provide benefits for the life of the member, so increase in life expectancy will result in an increase in the plans' liabilities.

20. GOVERNMENT GRANTS

Government grant relates to the below market rate loan obtained through restructuring of the loan secured for the construction of the gas pipeline facility under the Bank of Industry loan scheme. The fair value of the grant was recognised initially on the grant date and subsequently amortised on a straight line basis over the tenure of the loan. There were no unfulfilled conditions relating to the grant as at the reporting date. The initial grant was N1,426 million out of which N48 million was credited to the statement of profit or loss.

21. SHARE CAPITAL

	Number of shares (thousands)	Ordinary shares N'000	Total N'000
Issued share capital			
At 1 January 2012	10,000	10,000	10,000
At 31 December 2012	10,000	10,000	10,000
At 30 June 2013	10,000	10,000	10,000

Authorised share capital

The total authorised number of ordinary shares is 10 million (2012: 10 million) with a par value of N1 per share. All issued shares are fully paid.

22. CASH GENERATED FROM OPERATIONS

	30 June 2013 N'000	30 June 2012 N'000
Reconciliation of (loss)/profit before income tax to cash generated from operations:		
(Loss)/profit before income tax Adjustments for:	(1,340,895)	13,059,545
Interest expense (Note 10)	1,654,715	1,995,738
Interest income (Note 10)	(493)	-
Unpaid inter company interest expense	(1,067,981)	-
Valuation of intangible assets (Note 13)	-	(16,328,354)
Depreciation (Note 12)	837	-
Amortisation of intangible assets (Note 13)	1,175,700	1,249,688
Increase in retirement benefit obligation	(1,663)	2,668
Actuarial loss	(510)	(168)
Movement in working capital		
- Receivables and prepayments (current)	(1,293,336)	(802,001)
- Inventories	(36,055)	-
- Payables and accrued expenses	1,644,931	5,976,748
Cash generated from operations	735,250	5,153,864

23. RELATED PARTY TRANSACTIONS

Ocean and Oil Investments (Nigeria) Limited (OOIL) has the largest shareholding of 43% (2012: 10.53%) of the immediate parent of EHGC at the reporting date. The remaining 57% (2012: 89.47%) shares are widely held. OOIL is owned by Ocean and Oil Mauritius (OOM). OOM is owned by Ocean and Oil Holdings (BVI) Limited. Two of the immediate parent company's directors, Mr Jubril Ahmed Tinubu and Mr Omamofe Boyo both have significant influence over Ocean and Oil Investments (Nigeria) Limited.

The immediate parent of the Company is Oando Plc.

The following transactions were carried out with related parties:

- (a) Oando Plc guaranteed the loan facility secured for EHGC gas pipeline project.
- (b) Gaslink Nigeria Limited advanced funds to the company in order to settle some of its obligations as they fell due. The balance owed is payable to Gaslink on demand and interest is charged on the intercompany balance at the rate of 12% per annum.

(i) **Key management compensation**

Key management include executive directors and members of the Company's Board of Directors and the Group Leadership Council of the ultimate parent. The directors waived their rights to receive any emoluments or benefits in kind during the period ended 30 June 2013 (31 December 2012: Nil).

(ii) **Year-end payables arising from services received from related parties**

Loan type/Purpose	30 June 2013 N'000	31 December 2012 N'000	30 June 2012 N'000	1 January 2012 N'000
Oando Plc	3,178	3,179	2,186,018	2,390,503
Gaslink Nigerial Limited*	17,527,569	16,097,876	14,999,340	10,132,547
Akute Power Limited*	178	178	178	178
Central Horizon Gas Company Limited*	140	140	140	-
Oando Marketing Plc*	20,880	490,880	-	-
Total	17,551,945	16,592,253	17,185,676	12,523,228

* Subsidiaries of Oando Plc

(ii) **No amounts were due from related parties**

24. CONTINGENT LIABILITIES

Pending litigation

There are a number of legal suits outstanding against the Company for stated amounts of N1 billion (31 December 2012: NGN1 billion). On the advice of Counsel, the Board of Directors are of the opinion that no material losses are expected to arise. Therefore, no provision has been made in the financial statements.

The above contingencies are based on the best estimates of the board.

25. SUBSEQUENT EVENTS

On the 24th day of December 2013, Oando Plc entered into a Share Purchase and Sale Agreement for the transfer of its shares in East Horizon Gas Company Limited to Seven Energy Ltd (the "buyer"). The sale transaction was completed on 31 March, 2014 and 100% of the share capital of EHGC was transferred to the Seven Energy International Limited (99.99%) and Mr. Daniel Agbor (0.01%).

26. GOING CONCERN

In the interim period ended 31 June 2013, the Company made a loss of N938 million on revenues of N4.2 billion, had a net cash from operating activities of N735 million, and a net current liabilities of N22.2 billion.

The Directors state that the Company is still within its first three years of operation and expects the negative trends to reverse in coming periods. The Directors have implemented action plans necessary to ensure increased working capital some of which include: increased revenues by growing the customer base; refinancing the Company's borrowings from a 16% commercial loan to a 7% BOI loan; and also providing the Company with the required financial support until the Company is able to settle its obligation to financial institutions. The Directors are confident that the actions taken will result in significant improvement in the Company's operating results and financial position.

The Directors have concluded that the current circumstances represent a material uncertainty that casts significant doubt on the Company's ability to continue as a going concern. However after considering the actions described above and after making appropriate enquiries the Directors have concluded that they have a

reasonable expectation that the Company can continue in operational existence for the foreseeable future. For these reasons the Company continues to adopt the going concern basis in preparing the annual report and accounts.

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OFFERING MEMORANDUM



Seven Energy Finance Limited

\$300,000,000

10¹/₄% Senior Secured Notes due 2021

*Global Coordinators and
Joint Lead Bookrunners*

Joint Bookrunners

October 2, 2014
