

## EXEMPTED DOCUMENT

Listing of consideration shares  
issued in connection with the acquisition of  
100% of the shares in PetroNor E&P Ltd



African Petroleum Corporation Limited

(A public limited liability company validly incorporated and registered in Australia under  
the Australian Corporations Act 2001)

---

The information in this exempted document (the "Exempted Document") relates to the acquisition of 100% of the shares in PetroNor E&P Ltd ("PetroNor", and together with its consolidated subsidiaries, the "PetroNor Group") by African Petroleum Corporation Limited (the "Company" or "African Petroleum", and, together with its consolidated subsidiaries, the "Group") (the "Transaction").

---

On 19 March 2019, the Company entered into a combination agreement (the "Combination Agreement") with PetroNor and its shareholders NOR Energy AS ("NOR") and Petromal – Sole Proprietorship LLC ("Petromal") in respect of the Transaction. The Transaction was completed on 30 August 2019. Pursuant to the terms and conditions of the Combination Agreement, the Company has acquired 100% of the shares in PetroNor, against consideration in the form of 816,198,842 new shares in the Company (the "Consideration Shares"). The Consideration Shares are expected to be issued on or about 2 September 2019, and will be issued and delivered with the VPS in the form of depository receipts and tradable on Oslo Axess as soon as possible thereafter.

---

This Exempted Document has been prepared by the Company solely in connection with the listing of the Consideration Shares on Oslo Axess, as well as listing on Oslo Axess of new shares to be issued pursuant to exercise of the warrants described herein, cf. article 1 (5) (e) of Regulation (EU) 2017/1129 of the European Parliament and of the Council. This Exempted Document does not constitute a prospectus within the meaning of Regulation (EU) 2017/1129 of the European Parliament and of the Council of 14 June 2017, therefore it has not been subject to scrutiny and approval by the Financial Supervisory Authority of Norway as set out in Article 20 of Regulation 2017/1129. This Exempted Document has been prepared in an English version only.

---

This Exempted Document does not constitute an offer to buy, subscribe or sell the securities described herein, and no securities are being offered or sold pursuant to this Exempted Document.

---

In reviewing this Exempted Document, you should carefully consider the matters described in Section 1 "Risk Factors" beginning on page 4.

Financial Advisor  
Pareto Securities

**The date of this Exempted Document is 30 August 2019**

## IMPORTANT INFORMATION

This Exempted Document has been prepared by the Company for the purpose of listing on Oslo Axess of the Consideration Shares which will be issued in connection with the Transaction on Oslo Axess, as well as listing of new shares to be issued pursuant to exercise of the warrants to be issued in connection with the Transaction, and which has been described herein.

For the definitions of terms used throughout this Exempted Document, including the preceding page, see Section 13 "Definitions and glossary".

**No shares or other securities are being offered or sold in any jurisdiction pursuant to this Exempted Document.**

All inquiries relating to this Exempted Document must be directed to the Company. No other person is authorized to give any information about, or to make any representations on behalf of, the Company in connection with the Transaction. If any such information is given or representation made, it must not be relied upon as having been authorized by the Company. The information contained herein is as of the date hereof and is subject to change, completion and amendment without further notice. The publication of this Exempted Document shall not under any circumstances create any implication that there has been no change in the Group's affairs or that the information set forth herein is correct as of any date subsequent to the date hereof.

The contents of this Exempted Document are not to be construed as legal, business or tax advice. Each reader of this Exempted Document should consult with its own legal, business or tax advisor as to legal, business or tax advice. If you are in any doubt about the contents of this Exempted Document, you should consult your stockbroker, bank manager, lawyer, accountant or other professional advisor.

This Exempted Document does not constitute a prospectus within the meaning of Regulation (EU) 2017/1129 of the European Parliament and of the Council of 14 June 2017, therefore it has not been subject to scrutiny and approval by the Financial Supervisory Authority of Norway as set out in Article 20 of Regulation 2017/1129. The content of this Exempted Document has been prepared on the basis of the Final Report: Technical advice on Minimum Information Content for Prospectus Exemption (ESMA31-62-1207).

The distribution of this Exempted Document in certain jurisdictions may be restricted by law. The Company requires persons in possession of this Exempted Document to inform themselves about, and to observe, any such restrictions. This Exempted Document is not for publication or distribution, directly or indirectly, in the United States. The Company has not registered any of the shares issued by the Company, including the Consideration Shares, (jointly, the "Shares") under the United States Securities Act of 1933, as amended (the "U.S. Securities Act"), and the Shares may not be offered or sold, directly or indirectly, in the United States absent registration except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the U.S. Securities Act and in compliance with any applicable securities laws of any state or other jurisdiction of the United States. The Company does not intend to register any of the Shares pursuant to the U.S. Securities Act.

This Exempted Document shall be governed by Norwegian law. Any dispute arising in respect of this Exempted Document is subject to the exclusive jurisdiction of the Norwegian courts, with Oslo District Court as legal venue. Investing in the Company's Shares involves risk. See Section 1 "Risk factors" below.

## TABLE OF CONTENTS

1	RISK FACTORS.....	4
2	RESPONSIBILITY STATEMENT .....	11
3	GENERAL INFORMATION .....	12
4	DESCRIPTION OF THE TRANSACTION.....	14
5	PRESENTATION OF AFRICAN PETROLEUM.....	21
6	PRESENTATION OF PETRONOR.....	45
7	SELECTED FINANCIAL INFORMATION .....	59
8	CAPITALISATION AND INDEBTEDNESS .....	76
9	PRO FORMA FINANCIAL INFORMATION .....	79
10	INDUSTRY OVERVIEW .....	84
11	TAXATION .....	92
12	ADDITIONAL INFORMATION .....	97
13	DEFINITIONS AND GLOSSARY .....	99

## APPENDICES

**APPENDIX A** AUDITED FINANCIAL STATEMENTS FOR PETRONOR FOR THE YEARS ENDED 31 DECEMBER 2018 AND 31 DECEMBER 2017, AS WELL AS THE AUDITED FINANCIAL STATEMENTS FOR HEMLA AFRICA HOLDING AS AS OF 31 DECEMBER 2016

**APPENDIX B** INDEPENDENT PRACTITIONER'S ASSURANCE REPORT ON THE PROCESS TO COMPILE PRO FORMA FINANCIAL INFORMATION

**APPENDIX C** CONSTITUTION OF AFRICAN PETROLEUM CORPORATION LIMITED

## **1 RISK FACTORS**

*The following risk factors and all other information contained in this Exempted Document, including the financial statements and related notes, should be carefully considered when analysing the Company, the Group, the PetroNor Group and/or the Transaction. For the purpose of these risk factors, the term "Group" includes the PetroNor Group and its business, results of operations, cash flows, financial condition and/or prospects. The risks and uncertainties described in this Section 1 are the principal known risks and uncertainties faced by the Group as of the date hereof that the Company believes are the material risks relevant to the Group. If any of the following risks were to materialise, individually or together with other circumstances, they could have a material and adverse effect on the Group and/or its business, results of operations, cash flows, financial condition and/or prospects, which may cause a decline in the value and trading price of the Shares in the Company.*

### **1.1 Risks related to the countries in which the Group operates**

#### **1.1.1 The Group operates in developing countries facing political, economic and social uncertainties**

The Group participates or expects to participate in oil and gas projects in countries in West Africa with emerging economies, including but not limited to Senegal and The Gambia, Congo Brazzaville and potentially Nigeria. Oil and gas exploration, development and production activities in such emerging markets are subject to significant political and economic uncertainties that may have a material adverse effect on the Group. Uncertainties include, but are not limited to, the risk of war, terrorism, expropriation, nationalization, renegotiation or nullification of existing or future licences and contracts, changes in crude oil or natural gas pricing policies, changes in taxation and fiscal policies, imposition of currency controls and imposition of international sanctions. Travel bans, asset freezes or other sanctions may be imposed and have historically been imposed on countries in which the Group operates. These risk factors, all of which are beyond the Group's control, could have a material adverse effect on the Group's business, prospects, financial position and/or results of operations.

#### **1.1.2 The Group operates in countries with a high risk of corrupt practices**

Certain jurisdictions in which the Group has operations have a low score on Transparency International's Corruption Perception Index, which implies that these countries are perceived as jurisdictions where there is a higher risk of corruption. The Group's core assets are located in Senegal, The Gambia and Congo Brazzaville. In addition, the Group targets to acquire assets in Nigeria and other countries in Africa. For the Group's assets in the oil and gas segment in Congo Brazzaville this risk is regarded as substantial. According to Transparency International, Congo Brazzaville ranks 19 on a scale from 0 (highly corrupt) to 100 (very clean) measuring public sector corruption.

The production sharing or other licencing contracts in such jurisdictions provide for payments to the Governments and/or national oil companies (farm-in fees, signature bonuses, taxes, training budgets, equipment budgets, carry of certain expenditures etc). Furthermore, the Group has a number of consultants working for it in the area. Although the Group believes all its consultancy agreements are entered into on clear and transparent terms, there is a risk that agents or other persons acting on behalf of the Group may engage in corrupt activities without the knowledge of the Group. Under Congolese law local participation is required in the oil and gas sector, but it may prove difficult to always receive final confirmation as to who the ultimate owners and affiliations of such local partners are. Through the Group's investigation, it has not been possible to substantiate ultimate ownership and affiliations of all, current local partners in Congo and there can be no assurance that there are no government affiliations within the ultimate shareholders of the local partners in Congo.

Corrupt practices of third parties or anyone working for the Group, or allegations of such practices, may have a material adverse effect on the reputation, performance, financial condition, cash flow, prospects and/or results of the Group.



## **1.2 Risks related to the business of the Group**

### **1.2.1 The Group's business, results of operations, value of assets, reserves, cash flows, financial condition and access to capital depend significantly upon, and may be adversely affected by, the level of oil and gas prices, which are highly volatile**

The Group's revenues, cash flow, reserve estimates, profitability and rate of growth depend substantially on prevailing international and local prices of oil and gas. Prices for oil and gas may fluctuate substantially based on factors beyond the Group's control. Consequently, it is impossible to accurately predict future oil and gas price movements. Oil and gas prices are volatile and have witnessed significant changes in recent years, for many reasons including, but not limited to changes in global and regional supply and demand, geopolitical uncertainty, availability of equipment and new technologies, weather conditions and natural disasters, terrorism as well as global and regional economic conditions. Sustained lower oil and gas prices or price declines may *inter alia* lead to a material decrease in the Group's net production revenues.

Sustained lower oil and gas prices may also cause the Group to make substantial downward adjustments to its oil and gas reserves. If this occurs, or if the Group's estimates of production or economic factors change, the Group may be required to write-down the carrying value of its proved oil and gas properties for impairments. In addition, the depreciation of oil and gas assets charged to its income statement is dependent on the estimate of its oil and gas reserves. If oil and gas prices remain depressed over time, it could also reduce the Group's ability to raise new debt or equity financing or to refinance any outstanding loans on terms satisfactory, or at all.

### **1.2.2 Reserves and contingent resources are by their nature uncertain in respect of the inferred volume range**

Included in this Exempted Document is information relating to the reserves and resources of certain of the Group's assets and certain assets comprised by the Transaction. Reserves are defined as the volume of hydrocarbons that are expected to be produced from known accumulations in production, under development or with development committed. Reserves are also classified according to the associated risks and probability that the reserves will be actually produced.

Many of the factors in respect of which assumptions are made when estimating reserves and resources are beyond the Group's control and therefore these assumptions may prove to be incorrect over time. For example, sustained lower oil and gas prices may cause the Group to make substantial downward adjustments to its oil and gas reserves and resources. If this occurs, or the Group's estimates of production or economic factors change, the Group may be required to write-down the carrying value of its proved oil and gas properties for impairments. In addition, the depreciation of oil and gas assets charged to its income statement is dependent on the estimate of its oil and gas reserves.

If the assumptions upon which the estimates of the Group's oil and gas reserves or resources are based prove to be incorrect, the Group may be unable to recover and/or produce the estimated levels or quality of oil or gas set out in this Exempted Document, which could have a material adverse effect on the Group's business, prospects, financial condition or results of operations.

### **1.2.3 The Group is dependent on finding/acquiring, developing and producing oil and gas reserves that are economically recoverable and offshore exploration is by its nature highly speculative**

The future success of the Group depends in part on its ability to find and develop or acquire additional reserves that are economically recoverable, which is dependent, *inter alia*, on oil and gas prices. Oil and gas exploration and production activities are capital intensive and inherently uncertain in their outcome. The Group's offshore acreage is located in largely unexplored sections of the West African deep water margin.

Some of the Group's projects are in an early exploration stage, and there is a risk that any future exploration programs on these and any licences the Group may acquire in the future (whether offshore or onshore) may be unsuccessful and may not discover commercial quantities of hydrocarbons.

Drilling oil and gas wells (whether offshore or onshore) is by its nature highly speculative, may be unprofitable and may result in a total loss of the investments made by the Group. In particular, completed wells may never produce oil or gas or may not produce sufficient quantities or qualities of oil and gas to be profitable or commercially viable. Moreover, geological formations and proximity with neighbouring fields may result in a regulatory requirement to unitize the licence area with a neighbouring field. Such processes may prove complex, and thereby cause delays and uncertainties in respect of the Group's ultimate interest in the unitized field.

All of these risks may have a material adverse effect on the Group, its financial condition, cash flow, prospects and/or operations.

#### **1.2.4 Approvals, permits and licences**

Under applicable laws and regulations in certain of the countries where the Group operates, the Group will be required to renew its licences with respect to exploration activities. In addition, the Group would be required, subject to commercial petroleum discoveries being made, to apply for exclusive exploitation authorisations.

If any of these exploration and production licences are not renewed or granted or exclusive exploitation authorisations are not obtained, the Group would be required to cease operations of the affected well or production facility. The loss of some or all of the Group's licences may have a material adverse effect on the Group's financial condition, business, cash flow, prospects and/or results.

Further, the Group's licence interests for the exploration and exploitation of hydrocarbons will typically be subject to certain financial obligations or work commitments as imposed by local authorities. The existence and content of such obligations and commitments may affect the economic and commercial attractiveness for such licence interest. No assurance can be given that local authorities do not unilaterally amend current and known obligations and commitments. If such amendments are made in the future, the value and commercial and economic viability of such interest could be materially reduced or even lost, in which case the Group's financial position and future prospects could also be materially weakened.

#### **1.2.5 Risks associated with legal disputes, different legal systems and litigation**

The Group is, and may from time to time be, involved in legal disputes and legal proceedings related to the Group's operations or otherwise. To the extent the Group becomes involved in legal disputes in order to defend or enforce any of its rights or obligations under its licences, agreements or otherwise, such disputes or related litigation may be costly, time consuming and the outcome may be highly uncertain. Furthermore, legal proceedings could be ruled against the Group and the Group could be required to, *inter alia*, pay damages, halt its operations, stop its expansion projects, etc. It is further a risk that the Group could become involved in legal disputes with uninsured third parties. Even if the Group would ultimately prevail (which cannot be assured), such disputes and litigation may have a substantially negative effect on the Group, its financial condition, cash flow, prospects and/or its operations. The occurrence of any such event could have a material adverse effect on the Group's business, prospects, financial position and/or results of operations.

As at the date of this Exempted Document, the Group is involved, *inter alia*, in the following disputes (see Section 5.7 "Legal and arbitral proceedings" and Section 6.8 "Litigation, disputes and tax" for all disputes): As the claimant in The International Centre for the Settlement of Investment Disputes ("ICSID") arbitration case ARB/17/38 in relation to its 100% interest in the A1 and A4 licences in The Gambia and as the claimant in ICSID arbitration ARB/18/24 in relation to its 90% interest in the Rusfique Offshore Profond block ("ROP") and the Offshore Sud Profond block ("SOSP") licences in Senegal. The Group is dependent on a successful outcome in the arbitration cases in order to have its respective licences re-instated. The Group has no control over the outcome of the arbitration cases. Should the outcome of the arbitration cases be unfavourable to the Group, this will have a material adverse effect on the Group's financial condition, business, cash flow, prospects and/or results.

### **1.2.6 Risk of joint and several liabilities with its licence partners**

Under each licence, the Group is liable on a joint and several basis together with its licence partners for the liabilities of the licence group (including but not limited to decommissioning liabilities). Whilst such joint and several liability is regulated among the licence group through the joint operating agreement, ultimately failure by a licence partner to satisfy its obligations may result in the other licence partners (including the Group) being liable for such failure and therefore increase the Group's exposure related to the licence in question. As a consequence of joint and several liabilities, any failure by a licence partner to satisfy any significant obligations may have a material adverse effect on the Group's business, financial condition, operating results and/or cash flow.

### **1.2.7 Insurance**

Oil and natural gas exploration, development, and production operations are subject to associated risks and hazards, such as fire, explosion, blowouts, and oil spills, each of which could result in substantial damage to oil and natural gas wells, production facilities, other property, and the environment or personal injury. Insurance against all risks associated with oil and gas production is not available or affordable. The Group will maintain insurance where it is considered appropriate for its needs, however, it will not be insured against all risks either because appropriate cover is not available or because the Group considers the required premiums to be excessive having regard to the assumed benefits that would accrue. The Group may incur material uninsured losses or damages that may have a material adverse effect on the Group's financial condition, business, cash flow, prospects and/or results.

## **1.3 Risks related to the industry**

### **1.3.1 Production sharing contracts (PSCs)**

PSCs are common contracts signed between a government and a resource extraction company. The Group has entered into certain PSCs with local governments. Accordingly, the production resulting from oil operations must be shared between the Group and such government. The local governments also have an option to increase its participation in the relevant licences. The sharing of the production will naturally affect the profitability of the Group and/or the amount of profits from the project that will flow to the Company and its shareholders. This could be affected further if the government decides to increase its participation or the size of its share.

## **1.4 Financial risks**

### **1.4.1 Liquidity risk**

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Group manages liquidity risk by maintaining adequate cash reserves from funds raised in the market and by continuously monitoring forecast and actual cash flows.

Notwithstanding the Group's efforts to manage the liquidity risk, there can be no assurance that the Group will have, or be able to secure, sufficient funding to meet its financial obligations as they fall due and such failure could have a material adverse effect on the Group's financial condition, business, cash flow, prospects and/or results and may entail that the Group would not be able to continue as a going concern. In the event that the Group is not able to continue as a going concern, there can be no assurance that the Group will be able to realise its assets and extinguish its liabilities in the normal course of business and at the amounts stated in its financial reports.

### **1.4.2 Future funding requirement and risk of not meeting work commitments**

Assuming a successful outcome of the arbitration proceedings in relation to the Group's interests in the A1 and A4 licences in The Gambia and/or the ROP and SOSP PSCs in Senegal, the Group will be dependent on further funding transactions and/or farm-out transactions in order to fund its operations from the second half of 2020 onwards. Based on the Group's current cash balances, the Group is in a position to finance its operations and its arbitration proceedings in 2019 and 2020; however, the Group will need to complete one or more farm-out

transactions or other significant funding in order to finance operations and planned investments from the second half of 2020 onwards, assuming a successful outcome in the arbitration proceedings.

#### **1.4.3 Foreign currency risk**

The Group is exposed to currency risk on contracts that are denominated in a currency other than the respective functional currencies of the entities making up the Group, which is primarily the United States Dollar (USD). The Group has not entered into any derivative financial instrument to hedge such risks and may as a result incur material losses. As a result of the Company's functional currency being in Australian Dollars (AUD) and several subsidiaries' functional currency being USD, the Group's financial statements and financial condition can be significantly adversely affected by movements in the USD/AUD exchange rates.

#### **1.5 Takeover risk factors**

##### **1.5.1 PetroNor may not be granted a right to enter into the PNGF Bis licence**

PetroNor has not been granted a right to enter into PNGF Bis and there is no guarantee that PetroNor will be granted such a right. PetroNor's right to PNGF Bis is strictly limited to a right to negotiate with the Republic of Congo the licence terms to enter into PNGF Bis. There can be no assurance that the negotiations will be successfully completed and that the parties will agree on the licence terms.

##### **1.5.2 The Company may not be able to successfully combine the business of the Company and PetroNor**

As a result of completion of the Transaction, PetroNor will be an integrated part of the Group. A combination of two previously independently operated groups, involves risk. There can be no assurance that the Group will meet the challenges involved with an integration or that the anticipated benefits from the Transaction will be achieved. Failure to achieve the expected advantages or any delays, unexpected difficulties or unanticipated costs incurred in the combination process, may have a material adverse effect on the Group's operating results and overall financial condition.

##### **1.5.3 The Group's future results may materially differ from the results portrayed in the unaudited pro forma financial information**

This Exempted Document includes unaudited pro forma consolidated financial information for the Group as of and for the year ending 31 December 2018. The unaudited pro forma financial information has been prepared solely for illustrative purposes and to show what the significant effects of the Transaction might have been had the Transaction occurred at an earlier date. The unaudited pro forma financial information is based on preliminary assumptions and estimates believed to be reasonable in light of the current circumstances. Actual results could however have materially differed from the results presented in the unaudited pro forma financial information and the presented results are therefore not necessarily indicative of the Group's future results.

##### **1.5.4 The Transaction will result in reduced ownership and influence of the existing shareholders**

The Company will issue 816,198,842 new shares to NOR and Petromal as compensation for receiving all of the shares in PetroNor. The Transaction will therefore result in an increased number of shares in the Company, which in turn will cause a reduced ownership percentage of the Company's existing shareholders. The reduced ownership percentage will consequently result in a reduced influence over matters submitted for vote in the general meetings of the Company, including but not limited to reduced influence over election of the members of the Company's board of directors (the "Directors" and "Board of Directors", respectively) and the distribution of dividends. As a result of the Transaction, the current shareholders of the Company will hold approximately 16% of the shares in the Company.

##### **1.5.5 The Company may discover contingent or other liabilities within PetroNor**

The Company has acquired all of the shares in PetroNor "as is". The Company may discover liabilities or other issues relating to PetroNor that may have a material adverse effect on the Company's results, cash flow, business and financial condition. The warranties and indemnities from NOR and Petromal are limited, and the Company may not be entitled to seek remedy from NOR and Petromal.

## **1.6 Risks related to the Shares**

### **1.6.1 The Company will have two major shareholders**

Following the completion of the Transaction and the issue of the Consideration Shares, Petromal and NOR will own approximately 38% and 45% of the issued share capital of the Company, respectively. As major shareholders of the Company, Petromal and NOR will in their capacity as such have the ability to significantly influence the outcome of matters submitted for vote in the general meetings. The commercial goals and interests of Petromal and NOR as shareholders and the commercial goals and interest of the Company and/or the other shareholders may not always be aligned.

### **1.6.2 The price of the Shares may fluctuate significantly**

The trading price of the Shares could fluctuate significantly in response to a number of factors beyond the Company's control, including quarterly variations in operating results, adverse business developments, changes in financial estimates and investment recommendations or ratings by securities analysts, significant contracts, acquisitions or strategic relationships, publicity about the Group, its services or its competitors, lawsuits against the Group, unforeseen liabilities, changes to the regulatory environment in which the Group operates or general market conditions. These fluctuations may materially affect the price of the Shares.

### **1.6.3 Future issuances of Shares or other securities may significantly dilute the holdings of shareholders and could materially affect the price of the Shares**

The Company may in the future decide, or may be required, to offer additional Shares or other securities in order to finance its operations, participation in new capital-intensive projects, or in connection with unanticipated liabilities, losses or expenses or for any other purposes. There are no provisions in the Company's Constitution or the Australian Corporations Act which grants pre-emptive rights for share issues. Therefore, any additional offering could significantly reduce the proportionate ownership and voting interests of holders of Shares, as well as the earnings per Share and the net asset value per Share of the Company, and any offering by the Company could have a material adverse effect on the market price of the Shares.

### **1.6.4 Investors may not be able to exercise their voting rights for Shares registered in a nominee account**

Beneficial owners of the Shares that are registered in a nominee account (such as through brokers, dealers or other third parties) may not be able to vote for such Shares (represented by Depositary Receipts issued with the VPS) unless their ownership is re-registered with the VPS in their names in sufficient time prior to the Company's general meetings. The Company cannot guarantee that beneficial owners of the Shares will receive the notice of a general meeting in time to instruct their nominees to either effect a re-registration of their Depositary Receipts or otherwise vote for their Shares in the manner desired by such beneficial owners.

### **1.6.5 The transfer of Shares is subject to restrictions under the securities laws of the United States and other jurisdictions**

The Shares have not been registered under the Securities Act or any US state securities laws or in any other jurisdiction outside of Australia and Norway and are not expected to be registered in any such jurisdiction in the future. As such, the Shares may not be offered or sold except pursuant to an exemption from the registration requirements of the Securities Act and applicable securities laws. Investors in the United States should proceed on the assumption that they must bear the economic risk of any investment in the Shares for an indefinite period of time. In addition, there can be no assurances that shareholders residing or domiciled in the United States will be able to participate in future capital increases or rights offerings in the Company.

### **1.6.6 Foreign ownership restrictions apply under Australian law**

According to statutory Australian law, foreign ownership of substantial interests in Australian companies is subject to prior approval by the Australian Foreign Investment Review Board ("FIRB"). The regulation applies to all Australian incorporated companies valued in excess of AUD 252 million by either (i) market capitalisation and/or (ii) consolidated total assets on the balance sheet. Currently, the Company does not satisfy any of the two

criteria. Accordingly, the Company is not presently required to notify and obtain the approval of FIRB in relation to an acquisition of shares which result in a foreign person acquiring a controlling interest in the Company.

#### **1.6.7 Shareholders outside of Australia are subject to exchange rate risk**

Any payments of dividends on the Shares may be declared by the Company in USD or AUD; however, such dividends distributed by the Company's registrar with the Norwegian Central Securities Depository (the "VPS"), being DNB Bank ASA (the "VPS Registrar"), through the VPS to shareholders with an address in Norway or shareholders holding NOK bank accounts will be distributed in NOK. Shareholders registered in the VPS and whose address is outside Norway and who have not supplied the VPS with details of any NOK account, will receive dividends by cheque in a local currency or in USD (following first conversion to NOK). Accordingly, the investors are subject to adverse movements in AUD, NOK and/or USD against their local currency.

#### **1.6.8 Risks related to depository receipts and the registrar agreement**

In connection with the Company's listing on Oslo Axess, the Company established a facility for the registration of beneficial interests representing the shares of the Company with the VPS (reflected in the form of Depository Receipts and defined as "Shares" in this Exempted Document). The Company has appointed DNB Bank ASA as its VPS Registrar in accordance with the Registrar Agreement. The VPS Registrar will be deemed a beneficial shareholder through a nominee arrangement with Citibank Melbourne (the "Australian Custodian") where the Australian Custodian is recorded as the shareholder in the Company's Issuer Sponsored Sub-register.

Shareholders must exercise voting rights through the VPS Registrar which in turn will instruct the Australian Custodian. Exercising of other shareholder rights through the VPS Registrar and the custodian arrangement is limited. In order to exercise full shareholder rights the shareholders must transfer their shareholding from the VPS to a registered holding on the Company's share register.

The Company cannot guarantee that the VPS Registrar will be able to execute its obligations under the Registrar Agreement. Any such failure may *inter alia* limit the access for, or prevent, shareholders to exercise the voting rights attached to the underlying shares of the Company. The VPS Registrar may terminate the Registrar Agreement by three months prior written notice. Furthermore, the VPS Registrar may terminate the Registrar Agreement with immediate effect if the Company does not fulfil its payment obligations to the VPS Registrar or commits any other material breach of the Registrar Agreement. In the event that the Registrar Agreement is terminated, the Company will use its reasonable best efforts to enter into a replacement agreement for purposes of permitting the uninterrupted listing on Oslo Axess. There can be no assurance, however, that it would be possible to enter into such an agreement on substantially the same terms or at all. A termination of the Registrar Agreement could, therefore, materially and adversely affect the Company and the shareholders. The Registrar Agreement limits the VPS Registrar's liability for any loss suffered by the Company. The VPS Registrar disclaims any liability for any loss attributable to circumstances beyond the VPS Registrar's control, including, but not limited to, errors committed by others. The VPS Registrar is liable for direct losses incurred as a result of the VPS Registrar's negligence. Thus, the Company and the shareholders may not be able to recover its entire loss if the VPS Registrar does not perform its obligations under the Registrar Agreement.

#### **1.6.9 The Company is incorporated in Australia and governed by Australian law**

The Company is incorporated in Australia. As a result, the rights of any person holding Shares will be governed by the laws of Australia and the Constitution of the Company. The laws of Australia differ from those established under statutes or judicial precedents in existence in other jurisdictions. Such differences may result in the Company's minority shareholders having less protection than they would have under the laws of other jurisdictions.

## 2 RESPONSIBILITY STATEMENT

This Exempted Document has been prepared by African Petroleum Corporation Limited to in connection with the listing of the Consideration Shares issued in connection with the Transaction.

The Board of Directors of African Petroleum Corporation Limited accepts responsibility for the information contained in this Exempted Document, pursuant to and in accordance with section 7-4 (1) of the Norwegian Securities Trading Act. The members of the Board of Directors confirm that, after having taken all reasonable care to ensure that such is the case, the information contained in this Exempted Document is, to the best of their knowledge, in accordance with the facts and contains no omission likely to affect its import.

30 August 2019

### **The Board of Directors of African Petroleum Corporation Limited**

*Eyas Alhomouz*  
*Chairman*

*Jens Pace*  
*Director*

*Stephen West*  
*Director*

*Bjarne Moe*  
*Director*

*Timothy Turner*  
*Director*

*David King*  
*Director*

*Joseph Iskander*  
*Director*

*Knut Søvold*  
*Director*

### **3 GENERAL INFORMATION**

#### **3.1 Industry and market data, third party information**

In this Exempted Document, the Company has used industry and market data obtained from independent industry publications, market research and other publicly available information.

While the Company has complied, extracted and reproduced industry and market data from external sources, the Company has not independently verified the correctness of such data. The Company cautions prospective investors not to place undue reliance on the above mentioned data. Unless otherwise indicated in the Exempted Document, the basis for any statements regarding the Group's competitive position is based on the Company's own assessment and knowledge of the potential market in which it operates.

The Company confirms that where information has been sourced from a third party, such information has been accurately reproduced and that as far as the Company is aware and is able to ascertain from information published by that third party, no facts have been omitted that would render the reproduced information inaccurate or misleading. Where information sourced from third parties has been presented, the source of such information has been identified, however, source references to websites shall not be deemed as incorporated by reference to this Exempted Document. The Company does not intend, and does not assume any obligations, to update industry or market data set forth in this Exempted Document.

Industry publications or reports generally state that the information they contain has been obtained from sources believed to be reliable, but the accuracy and completeness of such information is not guaranteed. The Company has not independently verified and cannot give any assurances as to the accuracy of market data contained in this Exempted Document that was extracted from these industry publications or reports and reproduced herein. Market data and statistics are inherently predictive and subject to uncertainty and 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.

As a result, prospective investors should be aware that statistics, data, statements and other information relating to markets, market sizes, market shares, market positions and other industry data in this Exempted Document (and projections, assumptions and estimates based on such information) may not be reliable indicators of the Company's future performance and the future performance of the industry in which it operates. Such indicators are necessarily subject to a high degree of uncertainty and risk due to the limitations described above and to a variety of other factors, including those described in Section 1 "Risk factors" and elsewhere in this Exempted Document.

#### **3.2 Rounding**

Certain figures included in this Exempted Document have been subject to rounding adjustments (by rounding to the nearest whole number or decimal or fraction, as the case may be). Accordingly, figures shown for the same category presented in different tables may vary slightly. As a result of rounding adjustments, the figures presented may not add up to the total amount presented.

#### **3.3 Other information**

In this Exempted Document, all references to "NOK" are to the lawful currency of Norway, all references to "USD" or "U.S. Dollar" are to the lawful currency of the United States, all references to "AUD" are to the lawful currency of Australia. No representation is made that the NOK, USD or AUD amounts referred to herein could have been or could be converted into NOK, USD or AUD as the case may be, at any particular rate, or at all.

#### **3.4 Cautionary note regarding forward-looking statements**

This Exempted Document includes forward-looking statements that reflect the Company's current views with respect to future events and financial and operational performance. These forward-looking statements may be



identified by the use of forward-looking terminology, such as the terms "anticipates", "assumes", "believes", "can", "could", "estimates", "expects", "forecasts", "intends", "may", "might", "plans", "should", "projects", "will", "would" or, in each case, their negative, or other variations or comparable terminology. These forward-looking statements as a general matter are all statements other than statements as to historic facts or present facts and circumstances. They appear in the following Sections in this Exempted Document: Section 4 "Description of the Transaction", Section 5 "Presentation of African Petroleum", Section 7.1 "African Petroleum selected financial information" and Section 10 "Industry Overview", and include statements regarding the Company's intentions, beliefs or current expectations concerning, among other things, financial strength and position of the Group, operating results, liquidity, prospects, growth, the implementation of strategic initiatives, as well as other statements relating to the Group's future business development and financial performance, and the industry in which the Group operates.

Prospective investors in the Shares are cautioned that forward-looking statements are not guarantees of future performance and that the Group's actual financial position, operating results and liquidity, and the development of the industry and potential market in which the Group may operate in the future, may differ materially from those made in, or suggested by, the forward-looking statements contained in this Exempted Document. The Company cannot guarantee that the intentions, beliefs or current expectations upon which its forward-looking statements are based will occur.

By their nature, forward-looking statements involve, and are subject to, known and unknown risks, uncertainties and assumptions as they relate to events and depend on circumstances that may or may not occur in the future. Because of these known and unknown risks, uncertainties and assumptions, the outcome may differ materially from those set out in the forward-looking statements.

The information contained in this Exempted Document, including the information set out under Section 1 "Risk factors", identifies additional factors that could affect the Group's financial position, operating results, liquidity and performance. Prospective investors in the Shares are urged to read all Sections of this Exempted Document and, in particular, Section 1 "Risk factors" for a more complete discussion of the factors that could affect the Group's future performance and the industry in which the Group operates when considering an investment in the Company.

These forward-looking statements speak only as at the date on which they are made. The Company undertakes no obligation to publicly update or publicly revise any forward-looking statement, whether as a result of new information, future events or otherwise. All subsequent written and oral forward-looking statements attributable to the Company or to persons acting on the Company's behalf are expressly qualified in their entirety by the cautionary statements referred to above and contained elsewhere in this Exempted Document.

## **4 DESCRIPTION OF THE TRANSACTION**

### **4.1 Overview of the Transaction**

The Company entered into an agreement on 19 March 2019 with NOR and Petromal to combine with PetroNor. The Transaction was completed on 30 August 2019. Pursuant to the terms of the Transaction, the Company shall change its name to PetroNor E&P Limited. It is expected that the name change will be registered on or about 2 September 2019. The Company's ticker code will be changed to "PNOR" following registration of the name change, and a separate announcement will be made to this effect.

The Transaction involves a transfer by NOR and Petromal of all of their shares in PetroNor, constituting 100% of the issued and outstanding share capital of PetroNor, to the Company against the delivery by the Company of 816,198,842 Consideration Shares in the Company. The Consideration Shares are expected to be issued on or about 2 September 2019, and will be listed and tradable on Oslo Axess as upon issuance and delivery of the Consideration Shares in the form of depositary receipts in the VPS. The Consideration Shares will represent 84% of the total issued and outstanding Shares in the Company and the current shareholders of the Company will hold the remaining 16% of all issued and outstanding shares. The total amount of issued and outstanding Shares in the Company will upon issuance of the Consideration Shares be 971,665,288.

### **4.2 The Parties to the Transaction**

The Company is an oil and gas exploration and development company focused on exploration offshore in West Africa. The Company holds a total of four licence blocks offshore: The Gambia and Senegal, giving the Company a total combined gross exploration licence acreage of 18,468 km<sup>2</sup>. See Section 5 "Presentation of African Petroleum" for further information about the Company.

PetroNor is a privately held, Africa focused E&P independent company, which is owned 50% by Petromal (economic benefit interest 47.62%) and 50% by NOR (economic benefit interest 52.38%). Petromal is an Abu Dhabi based integrated oil and gas company with operations and investments in the upstream, downstream, oil field service and EPC sectors. NOR is a Norwegian upstream oil and gas E&P company with its history from the North Sea and Africa.

PetroNor holds a 10.5% indirect interest in PNGF Sud and has a right under the umbrella agreement related to PNGF Sud, to in good faith negotiate with the Republic of Congo an entry into a 14.7% indirect interest in PNGF Bis. Following finalisation of licence terms for PNGF Bis, the combined Company intends to enter into a production sharing contract for this licence, with Perenco as the operator. See Section 6 "Presentation of PetroNor" for further information about PetroNor, Petromal and NOR.

### **4.3 Background and reason for the Transaction**

With the continued uncertainty related to African Petroleum's licences in The Gambia and Senegal (the "Existing Assets"), the Company believes that the Transaction will bring stability and downside protection to the Company, while maintaining substantial upside potential towards the Existing Assets. Additionally, through additional competence, contacts and resources brought to the Company by PetroNor, the Transaction is expected to have a positive impact on African Petroleum's position towards the Existing Assets. Furthermore, following the Transaction, the Company will generate substantial free cash flow that can be reinvested into value accretive growth, including, but not limited to, the Existing Assets. Potential upside from the exploration portfolio is preserved through issuance of 155,466,446 warrants to the existing African Petroleum shareholders. Through the Transaction, African Petroleum will acquire diversified, low risk, long life and high quality producing assets with competitive unit costs and a well-regarded, efficient operator (Perenco). The Transaction will transform the Company from a pure-play exploration company into a full cycle E&P company with material reserves, cash flow and significant upside potential.

The Congo Assets, which are located in shallow waters offshore Congo (Brazzaville), have net 2P reserves estimated to approximately 8.5 mmbo and net production of approximately 2,300 bopd from four fields currently

in production, in addition to net 2C contingent resources of 7.6 mmo as at 1 January 2019.<sup>1</sup> In addition to the Congo Assets, PetroNor is assessing new opportunities in Africa with significant upside potential from contingent resources to be developed.

PetroNor has entered into the Transaction with African Petroleum in order to acquire an interest in the Company's acreage in The Gambia and Senegal, and to achieve better access to the capital markets through the Company's listing on Oslo Axess, as well as to provide a liquid financial instrument for its shareholders through the receipt of the Consideration Shares.

#### 4.4 Consideration

As consideration for the transfer of all the shares in PetroNor to the Company, NOR and Petromal will receive 816,198,842 Consideration Shares in the Company<sup>2</sup>. In addition, the Company shall pay to NOR and Petromal an aggregate amount of up to USD 11,549,988.45 as cash consideration, which equals the dividends from PetroNor which NOR and Petromal are entitled to retain as part of the Transaction.

The exchange ratio of 16% African Petroleum: 84% PetroNor was ultimately arrived at after lengthy negotiations between the parties, assisted on both sides by corporate finance and legal advisers. When determining the value of consideration offered for the shares in PetroNor, the Company used discounted cash flows, net of debt and risked according to market based parameters. This valuation method was considered to be the most relevant valuation methodology for small cap E&P independent companies. The main assumptions employed for the valuation calculation were as follows:

- Input source for reserves/production: AGR CPR (2018) as provided by PetroNor
- Economic date: 1 January 2019
- Brent assumption: USD 75/bbl in 2019, USD 65/bbl flat real thereafter
- Inflation: 2% from 2020
- WACC: 10%
- SG&A: based on budgets provided by PetroNor

The Transaction was announced on 19 March 2019. The last price at which African Petroleum shares were traded prior to the announcement was NOK 1.032 and is therefore considered to be the implied issue price for the Transaction, which values the Consideration Shares at approximately NOK 842.3 million or USD 97.94 million.

The following is a comparison of the net asset per share of PetroNor as at 31 December 2018 (being the latest balance sheet date before the Transaction) and the implied consideration price per share within the Transaction (being the value of the Consideration Shares divided by the number of PetroNor shares on issue):

	Net Asset Per Share as at 31 December 2018	Implied Consideration Price per Share
	USD	USD
PetroNor	266.19	979.40

In connection with the Transaction, existing shareholders of African Petroleum at the date of the general meeting which was required to approve the Transaction (as reflected in the shareholder register and in the VPS on 26 April 2019 (the "Record Date") (the "Eligible APCL Shareholders"), will receive one (1) warrant per existing share held in the Company, in total 155,466,446 warrants (the "APCL Warrants"). An irrevocable instruction to issue the

<sup>1</sup> Part of the 2C resources relate to the unacquired PNGF Bis licence.

<sup>2</sup> An irrevocable instruction has been made to issue the Consideration Shares, which are expected to be issued and delivered on or about 2 September 2019.

APCL Warrants has been made by the Company, and a separate announcement will be made when they have been delivered in the VPS.

The APCL Warrants will vest upon (x) either (a) the reinstatement of the A1 and A4 licences in The Gambia or (b) the reinstatement of the SOSP licence in Senegal, whichever comes first, and (y) a farm-in agreement to such licence(s) being signed and legally binding, where the Company will be fully carried for the current phase work program under the licence(s), on commercially acceptable terms approved by the Board of Directors (the "APCL Warrants Vesting Event"). The APCL Warrants will lapse without compensation to the holder(s) if the APCL Warrants Vesting Event has not occurred by 31 December 2019. The APCL Warrants will not be listed or tradable and shares issued pursuant to the APCL Warrants will not be listed or tradable until the APCL Warrants Vesting Event has occurred and the APCL Warrants have been exercised accordingly.

Additionally, PetroNor shareholders, being NOR and Petromal, will receive in total 155,466,446 warrants related to a business development opportunity offshore in Nigeria which is in an advanced phase of negotiations (the "PetroNor Warrants"). The PetroNor Warrants will vest upon (x) a signed acquisition/farm-in agreement for a gas asset in Nigeria, and (y) a signed and legally binding gas offtake agreement relating to the gas from such asset, both agreements on commercially acceptable terms approved by the Board of Directors (the "PetroNor Warrants Vesting Event"). The PetroNor Warrants will lapse without compensation to the holder(s) if the PetroNor Warrants Vesting Event has not occurred by 31 December 2019. The PetroNor Warrants will not be listed or tradable and shares issued pursuant to the PetroNor Warrants will not be listed or tradable until the PetroNor Warrants Vesting Event has occurred and the PetroNor Warrants have been exercised accordingly.

In addition, 15,740,000 existing options issued to the Board, Management and consultants of African Petroleum will be replaced with 8,513,848 new performance options with the same vesting conditions as the APCL Warrants (the "APCL Replacement Performance Options").

After completion of the Transaction and the issue of the Consideration Shares, African Petroleum has a total of 971,665,288 outstanding shares<sup>3</sup> and 322,729,877 warrants, whereof existing shareholders of African Petroleum hold 155,466,446 outstanding shares and 155,466,446 warrants, existing Directors, Management members and consultants hold 8,513,848 APCL Replacement Performance Options, and former employees and brokers hold 3,283,137 legacy share options. Prior to the exercise of any warrants, existing shareholders of African Petroleum are holding 16% of the shares of the Company and existing shareholders of PetroNor are holding 84% of the shares.

The below table sets out the warrants and options which are issued in the Combined Company as per completion of the Transaction:

Expiry date	Exercise price (NOK – unless otherwise noted)	Number	Vesting condition	Holders
15 Dec 2019	A\$3.00	16,667	None	Former employees
28 Apr 2020	4.00	987,000	None	Former employees
15 Nov 2020	1.70	190,000	None	Former employees
22 Dec 2020	1.70	700,000	None	Former employees
11 Jan 2022	2.50	213,400	None	Company brokers
31 May 2022	7.75	1,176,070	None	Company brokers
31 Dec 2019	0.00	155,466,446	PetroNor Warrants	NOR and Petromal

<sup>3</sup> An irrevocable instruction has been made to issue the Consideration Shares, which are expected to be issued and delivered on or about 2 September 2019.

			Vesting Event	
31 Dec 2019	0.00	155,466,446	APCL Warrants Vesting Event	Pre-existing African Petroleum shareholders
31 Dec 2019	0.00	8,513,848	APCL Warrants Vesting Event	African Petroleum Board, management and consultants
<b>Total</b>		<b>322,729,877</b>		

Post exercise of all warrants and options (excluding options under any employee incentive program which is expected to be proposed for approval by the shareholders post-closing of the Transaction), existing shareholders and option holders of African Petroleum will hold ~24.9% of the Shares of the Company and existing shareholders of PetroNor will hold ~75.1%. Following completion of the Transaction, a new incentive program for the Company's management and employees will be established.

In connection with the Transaction, NOR and Petromal, as well as Chief Executive Officer Mr. Jens Pace and Chief Financial Officer Mr. Stephen West of African Petroleum, undertook a six months lock-up for all of their shares to the benefit of the Company, subject to certain conditions. The lock-up undertakings do not apply to the acceptance of a bona fide third party to acquire all the shares in the Company, or to a transfer to an affiliate. Prior to completion of the Transaction, NOR was released from its lock-up undertaking, due to a separate agreement whereby NOR has undertaken to provide liquidity funding to PetroNor. See Section 7.2.6 "Related party transactions" for a further description of this agreement.

Other than the granting of the PetroNor Warrants and the APCL Warrants, no agreements have or will be entered into in connection with the Transaction for the benefit of the Company's senior employees or members of the board of directors or for the senior employees or board of directors of PetroNor.

#### **4.5 Description of the Consideration Shares and VPS registration**

The Consideration Shares will be issued in accordance with the laws of Australia and pursuant to the Australian Corporations Act. An irrevocable instruction has been made for the underlying Shares to be issued to the Australian Custodian on behalf of the VPS Registrar on or about 2 September 2019.

The Consideration Shares will be issued in book-entry form and registered in the Company's Issuer Sponsored Sub-register, and thereafter registered with the VPS as Depository Receipts. The underlying shares and the Depository Receipts will have ISIN AU000000AOQ0. Each Depository Receipt represents one underlying Share. The Company's share capital is nominated in AUD, but the Shares have no par value. The Company's share registrar in Australia is Computershare Investor Services Pty Ltd ("Computershare"). The address of Computershare is Level 11, 172 St George's Terrace, Perth, Western Australia, 6000, Australia.

In order to enable trading of the Consideration Shares on Oslo Axess, the Consideration Shares will be delivered to Petromal and NOR with the VPS in the form of Depository Receipts. The Depository Receipts will be issued under Norwegian law and will be registered in book entry form with the VPS. DNB Bank ASA, in its capacity as the VPS Registrar, will be holding the Consideration Shares in the Issuer Sponsored Sub-register through a nominee arrangement with the Australian Custodian who will be recorded as the legal holder of the Consideration Shares. The currency of the Depository Receipts will be in NOK.

The Depository Receipts carry the same rights as the underlying Shares, provided however, that the exercise of voting rights and other shareholder rights by holders of the Depository Receipts must be made indirectly through the VPS Registrar.

It is expected that the Depository Receipts will be issued and delivered with the VPS and tradable on Oslo Axess as soon as possible after the issuance of the underlying shares, and a separate announcement on the Company's ticker will be made when they have been delivered in the VPS.

All references to Consideration Shares in this Exempted Document is a reference to the beneficial rights in the Consideration Shares, unless otherwise indicated.

#### **4.6 Rights conferred by the Consideration Shares**

The Consideration Shares rank *pari passu* in all respects with the existing Shares of the Company and will carry full shareholder rights in the Company from the time of issuance. The Consideration Shares are eligible for any dividends declared by the Company after said registration. All Shares, including the Consideration Shares, have voting rights and other rights and obligations pursuant to the laws of Australia, and are governed by Australian law. Generally, all Shares are freely transferable, subject to the registration of the transfer not resulting in a contravention of a failure to observe the provisions of a law of Australia and the transfer not being in breach of the Australian Corporations Act or applicable listing rules.

#### **4.7 Resolutions pertaining to the issuance of the Consideration Shares, the PetroNor Warrants, the APCL Warrants and APCL Replacement Performance Options**

The general meeting of the Company held on 24 April 2019 approved the issuance of the Consideration Shares, the PetroNor Warrants, APCL Warrants and the APCL Replacement Performance Options through the adoption of the following resolutions:

- (a) *"That, for the purposes of Section 611 (Item 7) of the Corporations Act and for all other purposes, approval is given for the Company to issue:*
- (i) *444,237,596 Shares in the Company to NOR Energy AS ("NOR Energy") and 371,961,246 Shares in the Company to Petromal – Sole Proprietorship LLC ("Petromal") (together, the "Consideration Shares");*
  - (ii) *104,162,519 warrants in the Company to NOR Energy ("NOR Warrants") and 51,303,927 warrants in the Company to Petromal ("Petromal Warrants") (jointly the "Petromal Warrants"); and*
  - (iii) *104,162,519 Shares in the Company to NOR Energy upon the exercise of the NOR Warrants and 51,303,927 Shares in the Company to Petromal upon the exercise of the Petromal Warrants, both as referred to in paragraph (b) above,*  
*on the terms and conditions set out in the Explanatory Statement, which will result in the voting power of NOR Energy in the capital of the Company increasing from nil to 48.65% and the voting power of Petromal in the capital of the Company increasing from nil to 37.55% following the issue of the Consideration Shares and the PetroNor Warrants, on the assumption that there have not been any changes to the issued share capital of the Company at the time of exercise of the PetroNor Warrants, (otherwise prohibited by section 606(1) of the Corporations Act)."*
- (b) *"That, subject to the passing of Resolution 1, approval is given for the Company to issue:*
- (i) *155,466,446 warrants allocated among existing Shareholders of the Company as at the date of the General Meeting, and for the Company's Shares registered in the VPS, as reflected in the VPS on a customary T+2 basis (the "Company Warrants"); and*
  - (ii) *8,513,848 warrants to the existing Optionholders as at the date of the Combination Agreement entered into by, inter alia, the Company (the "Replacement Warrants"), on the terms and conditions set out in the Explanatory Statement."*

#### **4.8 Completion of the Transaction, issuance, delivery and listing of the Consideration Shares**

Completion of the Transaction took place on 30 August 2019, immediately following which (i) an irrevocable instruction was issued for Consideration Shares to be issued and delivered to the Australian Custodian on behalf of the VPS Registrar, and will become listed and tradable on Oslo Axess following registration of the Depository Receipts with the VPS and (ii) an irrevocable instruction was issued for the APCL Warrants, the PetroNor Warrants and the APCL Replacement Performance Options to be issued to each of the Eligible APCL

Shareholders, NOR and Petromal and the members of the executive management of African Petroleum entitled to receive the APCL Replacement Performance Options.

#### **4.9 Expenses relating to the Transaction**

The Company's expenses relating to the Transaction, primarily fees to the Company's and PetroNor's advisors, are currently estimated to approximately NOK 18.2 million. Additional expenses may be incurred in relation to the Transaction.

#### **4.10 Interests of certain persons in the Transaction**

Except for the granting of the PetroNor Warrants and the APCL Replacement Performance Options as described in Section 4.4 "Consideration", no agreements to the benefit of the members of the Board of Directors or management of African Petroleum or PetroNor have been, or are expected to be, entered into as a result of the Transaction.

#### **4.11 Advisors**

Pareto Securities AS is acting as the Company's financial advisor in connection with the Transaction. Arctic Securities AS is acting as PetroNor's financial advisor in connection with the Transaction.

Arntzen de Besche Advokatfirma AS is acting as Norwegian legal counsel and Steinepreis Paganin is acting as Australian legal counsel to the Company in connection with the Transaction. Advokatfirmaet Schjødt AS is acting as Norwegian legal counsel to PetroNor.

#### **4.12 Independent expert report obtained in connection with the Transaction**

In relation to the Transaction, the Company obtained an independent expert report from Stantons International Securities (the "Expert Report"), as required pursuant to the Australian Corporations Act. The Expert report is dated 27 March 2019.

Stantons International Securities is a professional services firm based in West Perth, Western Australia, with business address West Perth WA 6872 Australia. The company has expertise within diverse compliance and advisory services to corporate and government sectors, with a specialist presence in audit and assurance, corporate advisory and internal auditor services. Stantons International Securities does not have any interest in the Company.

The Expert Report was prepared by request from the Company, related to the acquisition of PetroNor and related security issues. The purpose of the Expert Report was to determine whether the proposed acquisition, and issue of securities in the Company was fair and reasonable to the shareholders of the Company who were not associated with the proposed Transaction.

In the determination of the Expert Report, Stantons International Securities took into consideration the profile of both the Company and PetroNor, including principal activities, management, financial position and financial performance. The proposed transaction and the valuation of both the Company and PetroNor was firmly evaluated.

The Expert Report was prepared in accordance with ASIC regulatory guidelines, Regulatory Guide 111 ("RG 111"), whereof the primary methodology is based on a comparison of the fair market value of the Company's shares pre-Transaction on a control basis versus the fair market value of the Company's shares post-Transaction on a minority basis, taking into account the associated dilution resulting from the issue of new securities under the terms of the Transaction. In assessing the value of both companies, Stantons International also considered a range of valuation methods in accordance with RG 111.

The Expert Report concluded that, taking into account all of the factors noted in the report, the proposed Transaction was fair and reasonable to the non-associated shareholders of the Company.

The Expert Report has been produced at the Company's request. Stantons International Securities has consented to the inclusion of this Section in this Exempted Document.



## 5 PRESENTATION OF AFRICAN PETROLEUM

### 5.1 Name, incorporation and registered office

The Company's registered name is African Petroleum Corporation Limited. African Petroleum is a public limited liability company, established under the laws of Australia. The Company is subject to the Australian Corporations Act. The Company was incorporated 16 May 2007 under the name Global Iron Limited ("Global Iron") and changed its name to African Petroleum Corporation Limited on 24 June 2010, after a reverse takeover by African Petroleum Corporation Limited (Cayman Islands). The Company is registered with the Australian Securities and Investments Committee ("ASIC") under organization number ACN 125 419 730. The Company's LEI is 261700UAD5KVK8MV7J59. The Company's registered business address is Level 4, 16 Milligan Street, Perth, WA 6000, Australia. The principal offices of the Company are located in London, at 48 Dover Street, London, W1S 4FF, United Kingdom. The telephone number is +44 (0) 203 655 7810. The Company's website can be found at [www.africanpetroleum.com.au](http://www.africanpetroleum.com.au). The information on the website does not form part of the Exempted Document. The Company has been listed on Oslo Axess since May 2014 with ticker code "APCL".

It is expected that the company name change to PetroNor E&P Limited will be registered and effective on or about 2 September 2019, following which the Company will change its ticker code to "PNOR". The new website will in due course be changed to be [www.petronorep.com](http://www.petronorep.com).

### 5.2 History of the Group

The Company was incorporated in Australia on 16 May 2007 and admitted to the official list of ASX on 16 October 2007. However, the current business of the Company dates back to June 2005 when European Hydrocarbons Limited ("EHL") and Regal Liberia Ltd, following an international bidding round, were awarded 75 per cent and 25 per cent working interest respectively in licences LB-09 and LB-08 offshore Liberia. In November 2007, EHL acquired the remaining 25 per cent interest in licences LB-08 and LB-09 indirectly through its acquisition of Regal Liberia Ltd.

In 2010 a reverse takeover, resulting in the assets of EHL being transferred to Global Iron, was completed through the following steps:

- (i) On 28 January 2010, EHL completed a reverse takeover of European Hydrocarbons Limited (Cayman Islands).
- (ii) On 29 January 2010, European Hydrocarbons Limited (Cayman Islands) completed a reverse takeover of African Petroleum Corporation Limited (Cayman Islands).
- (iii) On 30 June 2010, African Petroleum Corporation Limited (Cayman Islands) completed a reverse takeover of Global Iron.

The reverse takeover described in item (iii) above was conducted by African Petroleum Corporation Limited (Cayman Islands) completing the acquisition of Global Iron in conjunction with a USD 222 million fundraising pursuant to a placement of new shares directed at professional and institutional investors.

Following the reverse takeover, the Company was admitted to the official list on NSX on 30 June 2010 and subsequently delisted from the ASX following application from the Company on 3 September 2010.

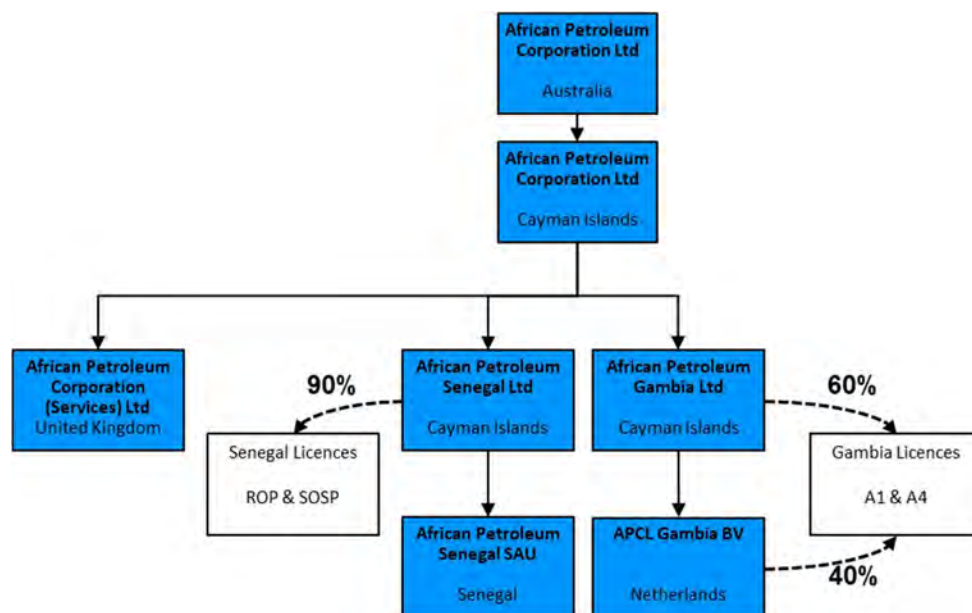
The Company's securities were admitted for trading on Oslo Axess on 30 May 2014. The Company voluntarily delisted from the NSX with effect from 4 January 2016.

On 30 August 2019 the Company completed the Transaction whereby the Company acquired 100% of the shares in PetroNor against issuance of the Consideration Shares.

### 5.3 Legal structure

The Company is the ultimate parent company of the Group. In addition, the Group consists of 17 subsidiaries. The majority of the Group's subsidiaries are incorporated on the Cayman Islands, except for certain companies incorporated in the countries where the Group conducts its activities through its licences, as well as 4 subsidiaries incorporated in the UK, including the management company African Petroleum Corporation (Services) Limited.

The figure below sets forth a condensed legal structure of the Group prior to completion of the Transaction. See Section 5.20 "Legal structure" for an overview of the legal structure of the Company post completion of the Transaction.



The table below contains a list of all the Company's subsidiaries prior to completion of the Transaction:

Company name	Country of incorporation	Group ownership
African Petroleum Corporation Limited	Cayman Islands	100%
European Hydrocarbons Limited	Cayman Islands	100%
European Hydrocarbons SL Limited	Cayman Islands	100%
African Petroleum Drilling Services Limited	Cayman Island	100%
African Petroleum Sierra Leone Limited	Cayman Islands	100%
African Petroleum Senegal Limited	Cayman Islands	90% <sup>1</sup>
African Petroleum Gambia Limited	Cayman Islands	100%
African Petroleum Côte d'Ivoire Limited	Cayman Islands	100%
African Petroleum (SL) Limited	Sierra Leone	99.99% <sup>2</sup>
European Hydrocarbon (SL) Limited	Sierra Leone	99.99% <sup>2</sup>
African Petroleum Senegal SAU	Senegal	100%
African Petroleum Côte d'Ivoire SAU	Côte d'Ivoire	100%
African Petroleum Corporation (Services) Limited	United Kingdom	100%
European Hydrocarbons Limited	United Kingdom	100%
Regal Liberia Limited	United Kingdom	100%
African Petroleum Corporation Limited	United Kingdom	100%
APCL Gambia B.V.	Netherlands	100%

1 Remaining 10% shareholding held by Prestamex Limited

2 Remaining 0.01% shareholding held by the deceased estate of Mr. Bangura (a former director of the Company).

## **5.4 The business of the Group**

### **5.4.1 Introduction**

The Group is an oil and gas exploration and development group focused on exploration offshore in West Africa. The Group holds a total of four licence blocks offshore: The Gambia and Senegal, giving the Company a total combined gross exploration licence acreage of 18,468 km<sup>2</sup>.

The Company is the ultimate holding company of the Group and has no operational activities. The subsidiaries, African Petroleum Senegal Limited and African Petroleum Gambia Limited conduct activities through licences in the countries reflected by the company names.

The Group's exploration activities have so far been financed by equity capital and the Company has raised a total of USD 615.9 million through the completion of nine capital raisings in 2010, 2011, 2012, 2014, 2015 and 2017.

The Group has drilled three wells in offshore Liberia and one well in offshore Côte d'Ivoire; however, the Company did not announce a discovery that is estimated to be possible to develop commercially and the licences held by the Company in Liberia and Côte d'Ivoire were subsequently relinquished.

The Group has 3D seismic data available for all of its four licences. The Senegal ROP Licence 3D seismic data was purchased from Société des Pétroles du Sénégal, the national oil company of Senegal ("Petrosen") and the Group acquired new 3D seismic surveys on the remaining three licences as part of agreed minimum work commitments.

### **5.4.2 Regulatory environment**

The Group is subject to regulatory requirements in each country it operates in. Failure to comply with regulatory requirements may result in the imposition of fines or the payment of compensation to third parties.

#### *The Gambia*

Pursuant to section 38 of the National Environment Management Act, a person shall not discharge any dangerous material, or substance, oil or mixture containing oil into any waters or any other segment of the environment except in accordance with regulations prescribed by the council. Section 38 provides for the polluter pays principle.

Section 59 of the National Environment Management Act provides that where an offence is committed by a body corporate, the body corporate and every director or officer who had knowledge or should have had knowledge of the commission of the offence, and who did not exercise all due diligence to ensure compliance with the Act commits the offence are liable.

Section 5 of the Continental Shelf Act provides that any act or omission which takes place on, under or above an installation in a designated area or any waters within 500 meters of such an installation and would if taking place in any part of the Gambia, constitute an offence under the laws in force in that part shall be treated as taking place in that part.

Section 7 of the Continental Shelf Act states that if oil to which this section applies or any mixture containing not less than one hundred parts of such oil in a million parts of the mixture is discharged or escapes in any part of the sea from a vessel, from a pipeline or as the result of any operations for the exploration of the seabed and subsoil or the exploitation of their natural resources in a designated area, the owner or master of the vessel, the owner of the pipeline or, as the case may be, the person carrying on the operations commits an offence unless he or she proves, in the case of a discharge from a place in his or her occupation, that it was due to the act of a person who was there without his or her permission, (express or implied) or, in the case of an escape, that he or she took all reasonable care to prevent it and that as soon as practicable after it was discovered all reasonable steps were taken for stopping or reducing it.

### *Senegal*

The creation or modification of an Installation Classified for Environmental protection (ICPE) is subject to an administrative authorisation before it can start operation. Depending on the type of procedure applicable to the installation (subject to declaration or to authorisation), in order to obtain the authorisation, the operator must register an ICPE file or an operating licence application.

Civil liability of a polluter arises in the absence of any fault when the property at the origin of damage caused is an establishment of "risk". Responsibility can be avoided only by proving that the pollution and its harmful effects are only due to a case of force majeure, fault of a third party or the victim, by action or inaction, has contributed to the damage.

Under Article 58 of the Petroleum Code, in case of expiry or termination of an agreement or a service contract and according to the provisions of Article 59 of the same code or in case of total or partial waiver, the State may exercise its right to recover the facilities and equipment related to petroleum operations abandoned area, unless such facilities and equipment are used by the owner for other oil operations in the territory of the Republic of Senegal.

If the State exercises its right of recovery, no compensation is paid to the owner.

If the State does not wish to return the facilities and equipment, the licensee must perform disassembly and removal as well as other works of abandonment; in case of failure by the licensees to fulfil such obligations the Minister may direct the necessary procedures at the expense of the licensees.

#### **5.43 Overview of the Company's operations**

The Company has established itself as an oil and gas exploration company in West Africa. The Company, through its subsidiaries, holds four hydrocarbon exploration licences offshore West Africa, two licences in each of The Gambia and Senegal with a combined gross acreage of 18,468 km<sup>2</sup>. The Group has 3D seismic data available for all of its four licences. The Senegal ROP Licence 3D seismic data was purchased from Petrosen and the Group has acquired new 3D seismic surveys on the remaining three licences as part of agreed minimum work commitments.

The Group previously held two licences in Liberia; however, following the drilling of three offshore wells in Liberia with encouraging but inconclusive results and the licences in Liberia were relinquished in 2015. Further, the Group previously held two licences in Côte d'Ivoire and, following the successful farm-out of a 45% interest in one of the licences to Ophir Energy in December 2015, the Group drilled an unsuccessful exploration well in 2017 which led to the Group relinquishing its licences in Côte d'Ivoire in 2018. Further, the Group previously held two ultra-deep water licences in Sierra Leone which, following an unsuccessful farm-out process to secure a partner to drill an exploration well, the Group relinquished its interests in November 2018.

The Group is currently in dispute with the government of The Gambia regarding the status of the A1 and A4 licences. In October 2017, the Group's wholly-owned subsidiaries African Petroleum Gambia Limited and APCL Gambia B.V lodged Requests for Arbitration ("RFA") documents with the International Centre for ICSID in order to protect its interests in the A1 and A4 licences in The Gambia. The tribunal for the case was constituted on 26 March 2018 with the first session held on 27 June 2018. The Group filed its memorial on admissibility, jurisdiction and the merits of its case on 28 February 2019 and the Respondent filed its counter-memorial on admissibility, jurisdiction and the merits on 12 July 2019.

Further, the Group is currently in dispute with the government of Senegal regarding the status of the ROP and SOSP PSCs. In January 2018 the Group's wholly owned subsidiary African Petroleum Senegal Limited lodged RFA documents with ICSID in order to protect its interests in the ROP and SOSP PSCs in Senegal. The tribunal for the case was constituted on 23 January 2019 with the first session held on 19 March 2019. The Group filed its memorial on admissibility, jurisdiction and the merits of its case on 19 July 2019.

As part of the Company's business strategy, it is seeking to resolve the disputes with the governments of The Gambia and Senegal through the arbitration process. In the event that the Group is successful in resolving the licence disputes, it will be actively exploring farm-outs in order to reduce its working interest in some or all of its exploration licences. The farm-out process is part of a process of maturing the Group's asset portfolio and is initiated to *inter alia* reduce the Group's capital commitments, generate cash sales proceeds for funding of future operations as well as introducing technically and operationally competent joint venture partners to the Group's licences. The drilling of wells will require substantial financial resources relative to the economics of the Group, and the Group is dependent on completing farm-outs or alternative financing in order to complete the expected minimum work commitments under the various licences if they are re-instated. The Group intends to fund its future drilling commitments through farm-out agreements.

As described above, funds required for the acquisition of licences or for exploration work have historically been raised through equity raisings and one farm-out transaction that completed in 2016. Going forward the Group plans to fund its exploration and development activities, including drilling commitments, through further equity raisings and by farming out interests in licences to strategic partners, together with obtaining debt financing where available and appropriate.

Going forward, the focus of the Company will be dependent on the outcome of the arbitration proceedings underway in relation to its licences in The Gambia and Senegal. Should the Company be successful in the arbitration proceedings and the licences re-instated, it will pursue a farm-out on all of the Group's licences in order to fund drilling operations. Following re-instatement of the licences, should the Group not be able to secure financing through farm-out agreements in time or obtain extensions on the drilling commitments under the relevant licences when necessary, the licences may be revoked.

#### **5.4.4 Senegal**

In Senegal, African Petroleum Senegal Limited holds a 90% operated working interest in exploration blocks ROP and SOSF. Petrosen holds the remaining 10% equity. The Company's Senegal PSCs are located offshore southern and central Senegal, with a net acreage of 14,216 km<sup>2</sup>.

The current phase of the ROP PSC ended in October 2015; however, the Company lodged a request for an extension with the Government of Senegal. Under the terms of the ROP PSC the block remains active unless and until a termination procedure is enacted by the Republic of Senegal. To date, the Republic of Senegal has not validly enacted such termination procedure, and accordingly the Company reserves its rights under the ROP PSC.

A new PSC covering the same area as the ROP PSC was awarded to Total in 2017 and subsequently farmed down to Petronas in August 2018. Irrespective of this, the Company reserves its right under its ROP PSC.

The Company elected to move into the next phase of the SOSF PSC in late 2017 and requested that the outstanding drilling commitment in the expiring phase be transferred to the next phase as a seismic commitment. To date, the Republic of Senegal has not responded to this request and accordingly the Company reserves its rights under the SOSF PSC.

Independent petroleum consultant ERC Equipoise prepared an assessment of prospective oil resources attributable to the Company's Senegal PSCs and estimates the net unrisked mean prospective oil resources at 1,779MMStb.

The Group is currently in dispute with the government of Senegal regarding the status of the ROP and SOSF PSCs and ICSID arbitration proceedings are underway. See Section 5.7 "Legal and Arbitration proceedings" for further details.

#### 5.4.5 The Gambia

African Petroleum holds a 100% operated working interest in offshore licences A1 and A4, with a combined net acreage of 2,672 km<sup>2</sup>. The Company has completed a 3D seismic survey with data covering 2,500 km<sup>2</sup> and has found a number of analogous leads and prospects in its acreage to that of the recent SNE and FAN discoveries drilled by Cairn Energy in Senegal.

The current phase of the A1 and A4 licences required the Company to drill an exploration well on either of the licences no later than 1 September 2016. The Company was unable to meet this drilling commitment and was, prior to the current dispute that led to the initiation of arbitration proceedings, in dialogue with the Government of The Gambia regarding the transfer of the outstanding drilling commitment into the next phase and entry into the next phase of the licences.

A new licence agreement covering the same area as the A1 licence was awarded to BP in April 2019. Irrespective of this, the Company reserves its right under its A1 licence.

Independent petroleum consultant ERC Equipoise prepared an assessment of prospective oil resources attributable to the Company's Gambian licences and estimates the net unrisked mean prospective oil resources at 3,079MMSb.

The Group is currently in dispute with the government of The Gambia regarding the status of the A1 and A4 licences and ICSID arbitration proceedings are underway. See Section 5.7 "Legal and Arbitration proceedings" for further details.

#### 5.4.6 Competitors

The Company holds PSCs and licences in one of the most active offshore exploration areas in the world. Accordingly, there are a number of major international oil companies and large independent oil companies operating in the Company's areas of interest.

#### 5.5 Material contracts

The Company is dependent on the following contracts, which are deemed material to the business of the Group:

##### 5.5.1 PSCs and other contracts relating to the Group's current and previous licences

The Group's main contracts are the PSCs and other licences under which the Group holds interests in its exploration blocks. PSCs are common contracts signed between a government and a resource extraction company and the Group has entered into a number of PSCs with the respective governments in the different countries in which the Group holds its licences:

- **ROP:** The Hydrocarbon Exploration and Production Sharing Contract between the Republic of Senegal, Petrosen and African Petroleum Senegal Limited over licence Rufisque Offshore Profond, Senegal, dated 25 October 2011, for an initial research phase of up to 8 years and a subsequent exploitation phase of 25 years (that may be extended a further 10 years if necessary). The PSC is in the first exploration phase which ended in October 2015; however, the Company has lodged a request for an 18 month extension with the government. The Group is currently in dispute with the government of Senegal regarding the status of the ROP PSC and ICSID arbitration proceedings are underway to resolve the dispute (see Section 5.7 "Legal and arbitration proceedings");
- **SOSP:** The Hydrocarbon Exploration and Production Sharing Contract between the Republic of Senegal, Petrosen and African Petroleum Senegal Limited over the Senegal licence Offshore Sud Profond and dated 25 October 2011, amended on 30 October 2014, for an initial research phase of up to 8 years and a subsequent exploitation phase of 25 years (that may be extended a further 10 years if necessary). The PSC was in the first renewal period which ended on 25 October 2017; however, the Company elected to move into the next phase of the SOSP PSC in late 2017 and requested that the

outstanding drilling commitment in the expiring phase be transferred to the next phase as a seismic commitment. To date, the Republic of Senegal has not responded to this request and accordingly the Company reserves its right under the SOSP PSC. The Group is currently in dispute with the government of Senegal regarding the status of the SOSP PSC and ICSID arbitration proceedings are underway to resolve the dispute (see Section 5.7 "Legal and arbitration proceedings");

- Joint operating agreements entered into on 25 November 2011 between Petrosen and African Petroleum Senegal Limited regarding licence ROP and licence SOSP;
- **A1:** Petroleum agreement entered into between the Government of the Republic of The Gambia, APCL Gambia BV and African Petroleum Gambia Limited over Alhamdulilah Licence Block A1 and dated 31 December 2007, amended on 27 November 2014, and is valid for a 30 year term. The licence is currently in the initial exploration phase which expired on 1 September 2016. The Group is currently in dispute with the government of The Gambia regarding the status of the A1 licence and the ICSID arbitration proceedings are underway to resolve the dispute (see Section 5.7 "Legal and arbitration proceedings"); and
- **A4:** Petroleum agreement entered into between the Government of the Republic of The Gambia, APCL Gambia BV and African Petroleum Gambia Limited over Alhamdulilah Licence Block A4 and dated 31 December 2007, amended on 27 November 2014, and is valid for a 30 year term. The licence is currently in the initial exploration phase which expired on 1 September 2016. The Group is currently in dispute with the government of The Gambia regarding the status of the A4 licence and ICSID arbitration proceedings are underway to resolve the dispute (see Section 5.7 "Legal and arbitration proceedings").

#### **5.6 Research and development, patents and licences**

The Group has had no material expenses related to research and development for the period covered by the last two financial years and up to the date of this Exempted Document.

Other than the licences described in Section 5.4 "The business of the Group", the Group is not dependent on any patents or licences, and does not hold any patents or licences that are critical to the business or any other significant patents.

#### **5.7 Legal and arbitration proceedings**

The Group is currently in dispute with the government of The Gambia regarding the status of the A1 and A4 licences. In October 2017, the Group's wholly-owned subsidiaries African Petroleum Gambia Limited and APCL Gambia B.V lodged RFA documents with ICSID in order to protect its interests in the A1 and A4 licences in The Gambia. The tribunal for the case was constituted on 26 March 2018 with the first session held on 27 June 2018. The Group filed its memorial on admissibility, jurisdiction and the merits of its case on 28 February 2019 and the Respondent filed its counter-memorial on admissibility, jurisdiction and the merits on 12 July 2019.

Further, the Group is currently in dispute with the government of Senegal regarding the status of the ROP and SOSP PSCs. In January 2018 the Group's wholly owned subsidiary African Petroleum Senegal Limited lodged RFA documents with ICSID in order to protect its interests in the ROP and SOSP PSCs in Senegal. The tribunal for the case was constituted on 23 January 2019 with the first session held on 19 March 2019. The Group filed its memorial on admissibility, jurisdiction and the merits of its case on 19 July 2019.

Except to the extent disclosed above, neither the Company nor any other company in the Group is, nor has been, during the course of the preceding twelve months involved in any legal, governmental or arbitration proceedings which may have, or have had in the recent past, significant effects on the Company's and/or the Group's financial position or profitability, and the Company is not aware of any such proceedings which are pending or threatened.

## 5.8 Agreements regarding third party interests in subsidiaries

Following an agreement between Prestamex Group Inc. ("Prestamex"), African Petroleum Corporation Limited (Cayman Islands) and African Petroleum Senegal Limited dated 28 November 2011, Prestamex received 10% of the shares in African Petroleum Senegal Limited for consultancy services provided by Prestamex on an exclusive basis to African Petroleum Senegal. Prestamex has maintained its 10% ownership of African Petroleum Senegal Limited (while the remaining 90% are held by African Petroleum Corporation Limited (Cayman Islands)). The agreement dated 28 November 2011 *inter alia* governs Prestamex's and African Petroleum Corporation Limited (Cayman Islands)' shareholder interests in African Petroleum Senegal Limited.

Under the agreement and in consideration for the services performed by Prestamex, African Petroleum Corporation Limited (Cayman Islands), in addition to transferring 10% of its shares in African Petroleum Senegal Limited, has paid Prestamex USD 2,000,000. There are no further liabilities on the part of the Group towards Prestamex under the agreement, save for the shareholder regulations described below.

The agreement governs *inter alia* board composition, shareholder reserved matters, restrictions on the transfer of shares, pre-emption rights and deadlock resolution in African Petroleum Senegal Limited:

- **Board composition:** the agreement allows African Petroleum Corporation Limited (Cayman Islands) to appoint four directors (including the chairman) to the board of directors African Petroleum Senegal Limited. Prestamex is entitled to appoint one director for so long as it holds 10% of the issued share capital of African Petroleum Senegal Limited.
- **Shareholder reserved matters:** The written consent of shareholders holding at least 91% of issued shares is required for certain shareholder reserved matters, which in effect gives Prestamex a veto right in respect of such matters.
- **Restrictions on the transfer of shares:** Other than permitted transfers, transfers of shares (or other dealings in shares) by any shareholder are not permitted without prior written consent of all other shareholders of African Petroleum Senegal Limited. Prestamex has also undertaken not to undergo a change of control without the prior written consent from African Petroleum Corporation Limited (Cayman Islands).
- **Deadlock:** If a deadlock arises because the parties fail to agree on any of the shareholder reserved matters (as described above) or any other management matter then the issue must be referred to the respective Chairman of each shareholder and the parties shall seek to resolve the disagreement in the best interests of African Petroleum Senegal Limited.

## 5.9 Guarantees

As of the date of this Exempted Document, the Group does not have any guarantees in place.

## 5.10 Recent development and trend information

The Group is an exploration focused oil and gas company with operations offshore in West Africa. The Group's operations consist of continuous geological and geophysical research and evaluation of its licences, leading to periods of exploration and appraisal offshore drilling activities.

The Group has not experienced any changes or trends outside the ordinary course of business that are significant to the Group between 31 December 2018 and the date of this Exempted Document, other than those described elsewhere in this Exempted Document. The Company is not aware of any known trends, uncertainties, demands, commitments or events that are reasonably likely to have a material effect on the Company's prospects for at least the current financial year. See Section 5 "Presentation of African Petroleum" and Section 10 "Industry overview" for more information about significant recent trends in the Group's business and relevant markets.



## 5.11 Environmental requirements

The Company's business is subject to a number of environmental requirements, in addition to such requirements imposed on the Company under the PSCs. Any non-compliance with environmental protection legislation may lead to breach of contracts and fines imposed by the competent authorities of the country of operations.

Currently, to the extent known to the Company, there are no environmental requirements preventing the Group from operating the Existing Assets.

## 5.12 Board of Directors, Management and employees

### 5.12.1 Board of Directors

The Company's Constitution provides that the Board of Directors shall have no fewer than three Directors and no more than twelve Directors. The Directors are elected by the shareholders' general meeting by ordinary resolution. Additionally, pursuant to Clause 13.4 of the Constitution, the Board of Directors may at any time appoint a person to be a Director, provided that the maximum number of Directors is not exceeded. Any such Director appointed will hold office until the next general meeting and will be eligible for re-election. As the Company is incorporated in Australia, the Australian Corporations Act requires the Company to have at least two Directors that reside in Australia.

The Company's current Board of Directors is composed of eight directors, whereof three Directors are independent of the management and main business associates.

The table below sets forth the names and positions, current term of office and shareholding, followed by additional biographical information, of the Directors as at the date of this Exempted Document.

Name	Position	Served since	Shares	Options
Mr. Eyas Alhomouz <sup>1</sup>	Chairman	30 August 2019	-	-
Dr. David King	Director	1 July 2013	30,000	615,536
Mr. Jens Pace <sup>2</sup>	Director	18 November 2015	1,498,938	3,919,710
Mr. Stephen West <sup>3</sup>	Director	18 November 2015	1,377,544	3,761,892
Mr. Bjarne Moe	Director	16 June 2014	10,000	346,809
Mr. Timothy Turner	Director	30 June 2010	4,167	238,382
Mr. Joseph Iskander	Director	30 August 2019	-	-
Mr. Knut Søvold <sup>4</sup>	Director	30 August 2019	222,118,798	52,081,259

<sup>1</sup> Mr. Alhomouz is appointed by Petromal, one of the Company's largest shareholders following completion of the Transaction, and is accordingly a non-independent director.

<sup>2</sup> Mr. Pace is the CEO of the Company and is accordingly a non-independent director.

<sup>3</sup> Mr. West is the CFO of the Company and is accordingly a non-independent director.

<sup>4</sup> Mr. Søvold is the COO of the Company and is accordingly a non-independent director. Mr. Søvold's shares and options are held in the name of NOR Energy SA, a company in which he is a 50% shareholder.

All the Directors have business address at 48 Dover Street, London W1S 4FF, United Kingdom in relation to their directorships with the Company.

### Mr. Eyas Alhomous, Chairman

Mr. Alhomouz has a strong experience from the oil and gas sector covering the US, North Africa, and the GCC. He began his career with Schlumberger Oilfield Service as a wireline engineer in Midland, Texas. From there he went on to work for Cromwell Energy in Denver, Colorado, in the role of international business development manager. Then, as a COO and Financial Director of Prism Seismic, he oversaw the growth of the Colorado based consulting and oil and gas software development firm and later the acquisition of the company by Sigma Cubed where, post-acquisition of Prism Seismic, he went on to serve as a director of business development, Middle East.

Mr. Alhomouz's career then took him to Qatar as a General Manager of Jaidah Energy, an Omani-Qatari owned company servicing the oil and gas sector in Qatar. Mr. Alhomouz graduated from Brigham Young University in Provo, UT with a degree in Chemical Engineering and from the Colorado School of Mines, in Golden, CO with a master's degree in Mineral and Energy Economics.

**Dr. David King, Director**

Dr. King is a professional geoscientist and has over 30 years' experience in oil and gas and other natural resources industries. He has co-founded, as well as held executive and non-executive board positions with, a number of successful ASX listed oil and gas exploration companies, including Eastern Star Gas Limited, Gas2Grid Limited and Sapex Limited. Dr. King is currently non-executive Chairman of ASX-listed biotechnology research and development company Cellmid Ltd and non-executive director of oil and gas companies Galilee Energy Ltd and Tapoil Ltd. He is also a non-executive director (formerly Chairman) of AIM-listed (formerly ASX-listed) Litigation Capital Management Ltd and a non-executive director of ASX/JSE-listed Renergen Ltd. In a long corporate career, he has also served as Managing Director of ASX listed gold producer North Flinders Mines, and Chief Executive Officer of oil & gas producers Beach Petroleum and Claremont Petroleum. He was more recently Chairman of ASX listed Robust Resources Limited, Chairman of AIM listed Tengri Resources, and non-executive director of ASX listed Republic Gold Limited.

Dr. King graduated from the University of East Anglia with a BSc (Hons) in Class 1 Physics/Mathematics, holds a MSc and D.I.C. in Geophysics from the Imperial College, University of London and a PhD in Seismology from the Australian National University. From 1974-76, Dr. King was a Research Fellow with the Royal Norwegian Council for Scientific and Industrial Research (NTNF), working on the NORSAR seismic array. Dr. King is a Fellow of the Australian Institute of Company Directors, a Fellow of the Australasian Institute of Mining & Metallurgy, a Fellow of the Australian Institute of Geoscientists, a member (and past President) of the Australian Society of Exploration Geophysicists, an active member of the Society of Exploration Geophysicists and a member of the Petroleum Exploration Society of Australia. Dr. King is an Australian citizen and resides in Australia.

**Mr. Jens Pace, Chief Executive Officer and Executive Director**

Mr. Pace has a background in geosciences and has had a career spanning over 30 years at BP Exploration Operating Company Limited ("BP"), and its heritage company Amoco (UK) Exploration Company. Mr. Pace has held senior positions at BP for over 10 years, gaining exploration and production experience in Africa, namely: Algeria, Angola, Congo, Gabon and Libya. In addition, he has experience in Europe, Russia and Trinidad. He has contributed to a number of BP's exploration discoveries over his career. Most recently, Mr. Pace managed a large and active exploration portfolio for BP in North Africa. In addition to exploration activities, Mr. Pace has gained experience in the areas of field development and as a commercial manager. Mr. Pace is a non-executive director of Taffiti Oil Limited.

Mr. Pace graduated from the University College of Swansea, University of Wales with a BSc in Geology and Oceanography. Mr. Pace graduated from the Imperial College of Science and Technology, University of London with an MSc in Geophysics. Mr. Pace is a British citizen and resides in the United Kingdom.

**Mr. Stephen West, Chief Financial Officer and Executive Director**

Mr. West is a qualified Fellow Chartered Accountant (Australia & New Zealand) and a Chartered Accountant (England & Wales) who holds a Bachelor of Commerce (Accounting and Business Law) from Curtin University of Technology in Australia. Mr. West has over 23 years of financial and corporate experience gained in public practice, oil and gas, mining and investment banking spanning Australia, United Kingdom, Europe, CIS and Africa. During his career Mr. West has held senior positions at Horwath Chartered Accountants, PricewaterhouseCoopers and Barclays Capital. Mr. West is currently a non-executive Chairman of ASX listed Zeta Petroleum plc. Mr. West is an Australian and British citizen and resides in the United Kingdom.

**Mr. Bjarne Moe, Independent Non-Executive Director**

Mr. Moe holds his degree in economics from the University of Oslo and has worked in the oil and gas sector for more than 35 years. He started out in the Ministry of Industry and was transferred to the Ministry of Petroleum and Energy when it was established in 1978. In 1988, Mr. Moe was appointed Director General and head of the Oil and Gas department. Furthermore, Mr. Moe has been a diplomat working for the Ministry of Foreign Affairs and been counsellor at the Norwegian embassy in Washington, D.C. and Mr. Moe has further chaired several international commissions for solving questions regarding median line fields, and international gas and oil pipelines. He has also been heading delegations outside of Norway to solve specific questions and been a mediator for unitization of fields etc. Mr. Moe has headed several delegations for OECD (IEA) and has been a member of the Petroleum Price board for 15 years. Mr. Moe is currently chairman of Consultor Energy AS, an energy advisory company. Mr Moe is a Norwegian citizen and resides in Norway.

**Mr. Timothy Turner, Non-Executive Director**

Mr. Turner is a senior and founding partner of the Australian accounting firm, HTG Partners. Mr. Turner specialises in business structuring and the issuing of audit opinions. Mr. Turner has 30 years' experience in new ventures and general business consultancy, in addition to 15 years of experience on ASX/NSX listed junior resource based exploration companies. Mr. Turner is a Non-Executive Director of ASX listed entities Cape Lambert Resources Limited and a Non-Executive Director of NSX listed International Petroleum Limited. Mr. Turner is a Registered Company Auditor, a registered Tax Agent and SMSF Auditor, a Fellow of CPA Australia and a Fellow of the Taxation Institute of Australia. He holds a Bachelor of Business Degree with a Major in Accounting. Mr. Turner is an Australian citizen and resides in Australia. There are no family relations between any of the Directors or the senior management.

**Mr. Joseph Iskander, Director**

Mr. Joseph Iskander joined Emirates International Investment Company in July of 2017 as the Director of Private Equity. He is responsible for spearheading and managing EIIC's investments. Mr. Iskander brings over 20 years of experience in the financial services industry, covering asset management, private equity, portfolio management, financial restructuring, research, banking, and audit. Before joining EIIC, Mr. Iskander was Managing Director of Asset Management at Dubai Group and the former Head of Research at Dubai Capital Group until 2009. He joined Dubai Group as an Investment Manager in 2004 and has worked on a range of M&A transactions, advisory services, asset management, and private equity transactions with a collective value in excess of USD 8 billion. Prior to joining Dubai Group, Mr. Iskander headed the research team at Egypt's Prime Investments and was earlier an Investment Advisor at Commercial International Bank (CIB). He began his career at Deloitte & Touche (Egypt) as an Auditor. Mr. Iskander served as Non-Executive Director on the boards of EFG Hermes in Egypt, Oasis Capital Bank in Bahrain, Sun Hung Kai & Co in Hong Kong, Qalaa Holdings in Egypt, Emirates Retakaful in UAE, Marfin Laiki Bank in Cyprus and Marfin Investment Group in Greece. He holds a Degree in Accounting and Finance with high distinction from Helwan University, Egypt (1997).

**Mr. Knut Søvold, Chief Operating Office and Executive Director**

Mr. Søvold has 30 years of experience in the oil and gas industry, from both executive management and technical levels. His extensive experience covers fields and licences in the North Sea, North and West Africa, Middle East, Far East and FSU, as well as management and administration through establishing and operating companies in Norway, UK, Kazakhstan and West Africa. Mr. Søvold was in the management team of the Snorre Field in the North Sea. Mr. Søvold has been working with West African assets since 2000 and in Nigeria since 2008. Furthermore, he has also been working with gas to LNG, including novel solutions such as FLNG, gas to power, as well as LNG-regasification. Mr. Søvold holds a MSc in Petroleum from The Institute of Technology in Trondheim (NTH), Norway.

### 5.12.2 Management

The Company's Management is responsible for the daily management and the operations of the Company. The Management consists of the Chief Executive Officer, the Chief Financial Officer, the Chief Operating Officer, the Business Development Manager, the Exploration Director and the Chief Technical Officer.

The table below sets forth the names, positions, shareholding and options held, followed by additional biographical information, of the members of the Management as at the date of this Exempted Document.

Name	Position	Employed with the Group since	Shares	Options
Mr. Jens Pace <sup>1</sup>	Chief Executive Officer	1 Oct 2012	1,498,938	3,919,710
Mr. Stephen West	Chief Financial Officer	1 Oct 2013	1,377,544	3,761,892
Mr. Michael Barrett	Exploration Director	5 Sept 2011	1,151,667	2,712,424
Mr. Knut Søvold <sup>2</sup>	Chief Operating Officer	15 Sept 2016 <sup>3</sup>	222,118,798	52,081,260
Mr. Gerhard Ludvigsen <sup>2</sup>	Business Development Manager	15 Sept 2016 <sup>3</sup>	222,118,298	52,081,259
Mr. Claus Frimann-Dahl	Chief Technical Officer	14 Jun 2018 <sup>4</sup>	-	-

1 Pursuant to the service agreement entered into between the Group and Mr. Pace, Mr. Pace shall receive 50,000 Shares, upon the Company securing a commercial discovery of hydrocarbons. This milestone has not yet occurred.

2 The shares and options are registered in the name of NOR Energy AS, a company which is owned 50% by Mr. Søvold and 50% by Mr. Ludvigsen.

3 As founders of PetroNor.

4 Employed in PetroNor on a consultancy basis.

All of the members of the Management have their business address at 48 Dover Street, London W1S 4FF, United Kingdom.

#### Mr. Jens Pace, Chief Executive Officer

See Section 5.12.1 "Board of Directors" for information about Mr. Jens Pace.

#### Mr. Stephen West, Chief Financial Officer

See 5.12.1 "Board of Directors" for information about Mr. Stephen West.

#### Mr. Michael Barrett, Exploration Director

Mr. Barrett has over 20 years global exploration experience from his career at Chevron Corporation, and more recently at Addax/Sinopec International. Mr. Barrett has held senior positions at Chevron and Addax Petroleum, gaining substantial exploration and operations experience in Africa, namely: Angola, Cameroon, Gabon, Kurdistan and Nigeria, having also extended experience in Australia. Mr. Barrett has held a variety of technical roles covering exploration and new ventures, and was part of Chevron's global Exploration Review Team, specialising in Play and Prospect risk assessment, volumetric analysis, commercial evaluation and portfolio management. Mr. Barrett also brings added strength to the team with his background in quantitative geophysics, stratigraphic interpretation workflows and 3D visualisation. Mr. Barrett has a BSc in Geology & Geophysics from Durham University and a MSc in Petroleum Geology & Geophysics from Imperial College, Royal School of Mines. He is a British citizen and resides in the United Kingdom.

#### Mr. Knut Søvold, Chief Operating Officer and Business Development Manager

See Section 5.12.1 "Board of directors" for information about Mr. Søvold.

#### Mr. Gerhard Ludvigsen, Chief Operating Officer and Business Development Manager

Mr. Ludvigsen is the founder of several companies in Norway and internationally within the oil and gas industry, as well as holding several board positions in start-up companies and being an advisor for a major securities house in Norway. Founded Hemla with AGR as co-founder with focus on oil and gas development, co-founded D&H

Solution AS with Daewoo Shipbuilding & Marine Engineering of South Korea for gas and LNG development with major international oil companies in Middle East and Africa. Mr. Ludvigsen has also been a director and major shareholder of FileFlow, developed by Fast Search & Transfer. He has recently established PetroNor with Petromal. He serves on the board of the charity foundation Power to Educate which supports education in emerging countries.

#### **Mr. Claus Frimann-Dahl, Chief Technical Officer**

Mr. Frimann-Dahl has 30 years' experience from the oil and gas industry, with managerial and technical roles. His experience covers operational roles with Phillips Petroleum, Norsk Hydro and Hess in the North Sea Norway and Denmark, Russia, Egypt and the US. He was the co-founder of Ener Petroleum which was later acquired by Dana Petroleum and KNOC. He holds a BSc in Petroleum Engineering from Texas A&M University and an MSc from the University of Trondheim (NTH).

#### **5.123 Remuneration and benefits**

The table below sets forth the amount of remuneration paid (including any contingent or deferred compensation) and benefits in kind granted to members of the administrative, management or supervisory bodies for the year ended 31 December 2018:

		Salary and fees	Health Insurance Contrib.	Pension contribution	Share based payments (options)	Total
<u>Name</u>	<u>Position</u>	<u>US\$</u>	<u>US\$</u>	<u>US\$</u>	<u>US\$</u>	<u>US\$</u>
Mr. J Pace	Chief Executive Officer	509,208	14,141	-	204,535	727,884
Mr. S West	Chief Financial Officer	361,087	6,015	36,109	204,535	607,746
Mr. M Barrett	Exploration Director	400,092	2,241	-	136,356	538,689
Mr. K Søvold <sup>1</sup>	Chief Operating Officer	380,000	1,971	21,757	-	403,728
Mr. G Ludvigsen <sup>1</sup>	Business Development Manager	380,000	1,971	22,471	-	404,443
Mr. C Frimann-Dahl <sup>1</sup>	Chief Technical Officer	235,294	1,971	21,708	-	258,973

<sup>1</sup> Remuneration and benefits received as employees in PetroNor.

There are no total amounts set aside or accrued by the Company or its subsidiaries to provide pension, retirement or similar benefits.

#### **5.124 Benefits upon termination**

None of the Directors' service agreements with the Group provides for benefits upon termination of employment. Whereas the same applies in respect of members of the Management, they are, however, entitled to salary in relation to notice periods of three or six months.

#### **5.125 Conflicts of interest**

There are no family relations between any of the Directors or the senior management.

Save as disclosed below, there is no arrangement or understanding with major shareholders, customers, suppliers or others, pursuant to which any member of the Board of Directors and/or the senior management has been selected:

- The new elected board members are appointed by the main shareholders in the Company. This may pose a potential conflict or interest.

Save as disclosed below, the Company is not aware of any conflict of interest between any duties to the Company, of the members of the senior management and of the Directors, and their private interests and or other duties.

- The Company has entered into a loan agreement with Mr. Pace for the amount to cover his tax payable on the 33,334 treasury shares that Mr. Pace was awarded upon his commencement of employment with the Company in October 2012. In consideration of the Company providing such loan, Mr. Pace has agreed that the received shares are restricted from trading until (i) repayment of the loan, or (ii) notification that the borrower will sell some shares of the treasury shares to repay the loan to the Company. Thus such shares may be transferred, but any proceeds from the sale of such shares must be paid to the Company to cover the loan commitment to the Company.
- The Company has entered into lock-up agreements, where, subject to certain conditions, each of Mr. Pace, Mr. West and Petromal, have undertaken a six months lock-up, applying to all their shares in the Company. The undertakings do not apply to the acceptance of a bona fide third party to acquire all the shares in the Company, or to a transfer to an affiliate. Mr. Alhomouz is the Chief Executive Officer of Petromal.

#### 5.12.6 Past and present directorships and management positions:

The following table sets out current and past directorships and management positions held by the Company's directors and members of senior management in the past five years (apart from the directorships of the Company and its subsidiaries):

<b>Name</b>	<b>Current directorships/partnerships</b>	<b>Previous directorships/partnerships</b>
Dr. David King	Cellmid Limited (Chairman), Galilee Energy Limited (Director), Litigation Capital Management Ltd (Director), Tamboran Resources Ltd (Director), Tapoil Limited (Director), Renergen Ltd (Director)	Eastern Star Gas Limited (Director), Robust Resources Limited (Chairman), Tengri Resources Limited (Chairman), Republic Gold Ltd (Director)
Mr. Jens Pace	Tafiti Oil Limited (Director)	None
Mr. Stephen West	Zeta Petroleum plc (Chairman), Cresthaven Investments Limited (Director), Oilion Energy Ltd (Director)	Bettridge Limited (Director), Apollo Consolidated Limited (Director), Silk Road Oil & Gas Limited (Director), Norsve Resources Limited (Director), Incube Investments Pty Ltd (Director), Incube Invest No 1 Pty Ltd (Director), Auctus Corporation plc (Director)
Mr. Bjarne Moe	Consultor Energy AS (Chairman), Consultor E&P (Chairman), AS Oscarsgate 43 (Director)	Ricardo Corporate Finance AS (Director), Gabler Investment Consulting AS (Director)

Name	Current directorships/partnerships	Previous directorships/partnerships
Mr. Timothy Turner	<p>African Minerals Exploration Pty Ltd (Director), Cape Lambert Minsec Pty Ltd (Director), Cape Lambert Resources Limited (Non-Executive Director), Dempsey Resources Pty Ltd (Director), Metals Exploration (SL) Limited (Director), Metals Exploration (Australia) Pty Ltd (Director), Mineral Securities (UK) Ltd (Director), Mineral Securities Investments (Australia ) Pty Ltd, Mineral Securities Operations Pty Ltd (Director), Mining International Pty Ltd (Director), International Petroleum Limited (Non-Executive Director), Danae Resources Pty Ltd (Director)</p>	<p>Algarrobo Holdingsa BVI Limited (Director), Cape Lampert Lady Annie Exploration (Director), Cuesta Resources (BVI) Limited (Director), Guinea Exploration Limited (Director), Kukuna Resources Limited (Director), Lady Ammie (BVI) Limited (Director), Mineral Assets Limited (Director), Q Copper Limited (Director), Australis Exploration Pty Ltd (Director), Buka Minerals Pty Ltd (Director), Dempsey Resources Bermuda Limited (Director), Metals Exploration (Bermuda) Limited (Director), Mineral Assets (Bermuda) Limited (Director), Mineral Projects Pty Ltd, Mineral Securities Limited (Director), Mining Quest Pty Ltd (Director), Minsec Investments (BVI) Limited (Director), Mojo Mining Pty Ltd (Director), Mt Anketell Pty Ltd (Director), Pinnacle Group Assets Limited (Director), Pinnacle Group Assets Limited SA (Director), Pinnacle Group Assets SL Limited (Director), Metal Exploration Mauritius Limited (Director), Legacy Iron Ore Limited (Non-Executive Director)</p>
Mr. Eyas Alhomouz	<p>Petromal (Chief Executive Officer), PetroNor (Chairman)</p> <p>Sjøvollen AS (Chairman), Hemla Energy AS (Deputy Chairman, CEO), NOR Energy AS (Chairman), Hemla Vantage AS (Director), MozFLNG – Mozambique Floating LNG S.A. (Director), IFLNG AS (Director), Symero Limited (Director), Bream Energy Ltd (Director), Hemla-Ogoni Energy Resources Ltd (Director), Hemla Hydrocarbons (South East Asia) Pte. Ltd. (Director), Hemla Energy Trading Oman (Director), Power to Educate AS (Director), Protect Your Integrity AS (Director, CEO), Nordic LNG CRYO tainer Technology AS (Director), PetroNor E&amp;P AS (Director, CEO), Hemla Africa Holding AS (Director), Hemla Africa Holding Ltd (Director), Hemla E&amp;P Congo SA (Director), PetroNor E&amp;P Ltd (Director), PetroNor E&amp;P Ltd (Director), HexCo</p>	<p>Jaidah Energy (General manager)</p>
Mr. Knut Søvold	<p>Hodling Ltd (Director), NOR Energy Ltd (Director), Mediator AS (Deputy board member), Reserves Insight AS (Director)</p>	<p>James Bay Resources Ltd, Silk Energy AS (Director, CEO), NOR Energy AS (CEO), NOR Production AS (Director), D&amp;H Solutions AS (Director), Pangea LNG BV (Director), IPRES AS (Director), Draupner Energy AB (Director)</p>

Name	Current directorships/partnerships	Previous directorships/partnerships
Mr. Gerhard Ludvigsen	Hemla Energy AS (Chairman), NOR Energy AS (Director), MozFLNG – Mozambique Floating LNG S.A. (Director), Symero Limited (Director), Hemla Hydrocarbons (South East Asia) Pte. Ltd. (Director), Hemla Energy Trading Oman (Director), Hemla-Ogoni Energy Resources Ltd (Director), Power to Educate AS (Chairman), Protect Your Integrity AS (Chairman), Nordic LNG CRYO-tainer Technology AS (Chairman), PetroNor E&P AS (Chairman), Hemla Africa Holding AS (Director), Hemla Africa Holding Ltd (Director), Hemla E&P Congo SA (Director), HexCo Holding Ltd (Director), NOR Energy	Silk Energy AS (Chairman), D&H Solutions AS (Director), IFLNG AS (Chairman), Pangea LNG BV (Director), Kast Oil and Drilling Services AS (Chairman), Suma Holding AS (Chairman), NOR Energy AS (Director)
Mr. Michael Barrett	None	None
Mr. Claus Frimann-Dahl	Snake Oil AS (Chairman), Vestre Ullern Boligsameie (Director)	Tellus Petroleum AS (Director), Acumen Energy AS (Director), Grini Industrier AS (Director)

### 5.12.7 Additional information concerning the senior management and the Board of Directors

Except for as disclosed below, none of the members of the senior management or the Directors as listed above, have or have had during the last five years preceeding the date of this Exempted Document:

- any convictions in relation to indictable offences or convictions in relation to fraudulent offences;
- received any official public incrimination and/or sanctions by any statutory or regulatory authorities (including designated professional bodies) or ever been disqualified by a court from acting as a member of the administrative, management or supervisory bodies of a company or from acting in the management or conduct of the affairs of any company; or
- been declared bankrupt or been associated with any bankruptcy, receiverships or liquidation in his capacity as a founder, director or senior manager of a company.

Knut Søvold and Gerhard Ludvigsen have each been involved in the companies D&H Solutions AS and Pangea LNG BV, which were filed for bankruptcy in 2017. Knut Søvold was also involved in the company IPRES Norway AS until 2015, a company which filed for bankruptcy in 2017.

Knut Søvold was one of the founders of D&H Solutions AS and Pangea LNG BV. Both Søvold and Ludvigsen acted on the board of directors until 2015. After losing a contract with Statoil, the majority shareholder DSME took control over the companies, and DSME filed the companies for bankruptcy in 2017. Both Søvold and Ludvigsen had left the companies prior to the bankruptcy having been filed. Around 2012, Knut Søvold acquired approximately 10% of IPRES Norway AS, and joined the board of directors. He left the board in 2014 after a disagreement in the company strategy. The company filed for bankruptcy in 2017.

### 5.13 Employees

As at the date of the Exempted Document, the Group has 24 employees, whereof five are employed in the United Kingdom, eleven are employed in West Africa, five are employed in Norway and three are employed in Abu Dhabi.



The Company does not have a bonus incentive scheme or an option scheme for its employees at this time. However, excluding options under any employee incentive program is expected to be proposed for approval by the shareholders post-closing of the Transaction.

## **5.14 Corporate governance, audit committee and remuneration committee**

### **5.14.1 Corporate governance**

The Board of Directors of the Company is responsible for establishing the corporate governance framework of the Company having regard to the Australian Corporations Act 2001. The Board of Directors of African Petroleum is committed to administering its corporate governance policies and procedures with openness and integrity, pursuing the true spirit of corporate governance commensurate with African Petroleum's needs. Given its previous listing on the National Stock Exchange of Australia (the "NSX"), the Company's corporate governance framework has been constructed in recognition of, and with regard to, the Australian Corporations Act; the ASX Corporate Governance Council's ("CGC") 'Corporate Governance Principles and Recommendations (the Third Edition)' (Recommendations) and CGC published guidelines; and an extensive range of varying legal, regulatory and governance requirements applicable to publicly listed companies in Australia.

The Board of Directors supports the principles of effective corporate governance and is committed to adopting high standards of performance and accountability, commensurate with the size of the Company and its available resources. Accordingly, the Board of Directors has adopted corporate governance principles and practices designed to promote responsible management and conduct of the Company's business.

The current corporate governance plan adopted by the Company is available on the Company's website [www.africanpetroleum.com.au](http://www.africanpetroleum.com.au). The Company is in compliance with the NSX Corporate Governance Principles.

Following completion of the Transaction, the new Board of Directors will review the Company's corporate governance principles and assess if any amendments should be made.

### **5.14.2 Audit committee**

The audit and risk committee is a committee of the Board of Directors that supports the Board of Directors in fulfilling its requirements with respect to financial reporting, internal accounting controls and auditing matters. The audit and risk committee is required to comply with laws, regulations and stock exchange requirements, which *inter alia* require that the majority of the members are independent of management and at least one of the independent members shall have relevant qualifications within accounting/auditing.

As of the date of this Exempted Document, the audit and risk committee consists of Mr. Turner (Chairman), Dr. King and Mr. Moe. The committee is appointed by and amongst the members of the Board of Directors. All current members of the committee are independent from management. Mr. Turner satisfied the criteria of being both independent from management and competent in accounting.

According to the Company's audit and risk committee charter, the committee shall consist of at least two members appointed by the Board of Directors. All members of the committee must be non-executive directors and a majority of the members must be independent.

The primary purpose of the committee is to assist the Board of Directors in fulfilling its statutory and fiduciary responsibilities relating to:

- a) the quality and integrity of the Company's financial statements, accounting policies and financial reporting and disclosure practices;
- b) compliance with all applicable laws, regulations and company policy;
- c) the effectiveness and adequacy of internal control processes;
- d) the performance of the Company's external auditors and their appointment and removal;
- e) the independence of the external auditor and the rotation of the lead engagement partner; and
- f) the identification and management of business risks.

A secondary function of the committee is to perform such special reviews or investigations as the Board of Directors may consider necessary.

#### 5.14.3 Remuneration committee

As of the date of this Exempted Document, the remuneration committee comprises of the following members: Dr. King (Chairman), Mr. Moe and Mr. Turner.

According to the remuneration committee charter as adopted by the Board of Directors, the remuneration committee shall consist of at least two members, the majority being independent non-executive directors. The primary purpose of the committee is to support and advise the Board of Directors in fulfilling its responsibility to shareholders by:

- a) reviewing and approving the executive remuneration policy to enable the Company to attract and retain executives and Directors who will create value for shareholders;
- b) ensuring that the executive remuneration policy demonstrates a clear relationship between key executive performance and remuneration;
- c) recommending to the Board of Directors the remuneration of executive Directors;
- d) fairly and responsibly rewarding executives having regard to the performance of the Group, the performance of the executive and the prevailing remuneration expectations in the market;
- e) reviewing the Company's recruitment, retention and termination policies and procedures for senior management;
- f) reviewing and approving the remuneration of director reports to the Managing Director, and as appropriate other senior executives; and
- g) reviewing and approving any equity based plans and other incentive schemes.

#### 5.15 Major shareholders

As of 26 August 2019, the Company had 2,630 shareholders. The table below shows the 20 largest shareholders in the Company, including those registered in the VPS, as of 26 August 2019, as well as NOR and Petromal's ownership following issuance and delivery of the Consideration Shares.

#	Shareholders	Number of Shares	Percent
1	NOR Energy AS	442,237,596*	45.72%*
2	Petromal – Sole Proprietorship LLC	371,961,246*	38.28%*
3	Nordnet Bank AB	13,463,985	1.39%
4	Nordnet Livsforsikring AS	8,206,266	0.84%
5	Telinet Energi AS	7,348,718	0.76%
6	Avanza Bank AB	6,578,581	0.68%
7	Gekko AS	5,185,090	0.53%
8	Danske Bank A/S	3,593,763	0.37%
9	UBS Switzerland AG	2,290,534	0.24%
10	Ole Andreas Baksaas	2,209,809	0.23%
11	Swedbank AB	2,057,400	0.21%
12	Nordea Bank Abp	2,036,670	0.21%
13	Six Sis AG	1,714,575	0.18%
14	Minh Hoang Pham	1,590,000	0.17%
15	Creshaven Investments pty Ltd	1,377,544	0.14%
16	John Andreas Rognstad	1,325,000	0.14%
17	Kenneth Jobotn Lervik	1,230,070	0.13%
18	Sandberg JH AS	1,200,000	0.12%
19	Thor Gunnar Brastein	1,200,000	0.12%

#	Shareholders	Number of Shares	Percent
20	Clearstream Banking S.A.	1,164,949	0.12%
	<b>Others</b>	93,693,492	9.64%
	<b>Total</b>	<b>971,665,288*</b>	<b>100.00%*</b>

*\*An irrevocable instruction has been made to issue the Consideration Shares, which are expected to be issued and delivered on or about 2 September 2019*

There are no differences in voting rights between the shareholders.

The Company has Norway as its home state for the purpose of disclosure of large shareholdings. Consequently, shareholders owning 5% or more of the Shares have an interest in the Company's share capital which is notifiable pursuant to the Norwegian Securities Trading Act. Following issuance of the Consideration Shares, each of NOR Energy AS (45.72%) and Petromal – Sole Proprietorship LLC (38.28%) will own more than 5% of the Shares. The Company is not aware of any other persons or entities, who, directly or indirectly, have an interest of 5% or more of the Shares as of the time of issuance of the Consideration Shares, nor is the Company aware of any arrangements, the operations of which may at a subsequent date result in a change of control of the Company.

#### **5.16 Description of the Shares and share capital**

Upon issuance of the Consideration Shares, the Company will have 971,665,288 issued Shares fully paid in accordance with Australian law, and no issued Shares that are not fully paid. The Shares do not have a par value. Generally, all Shares are freely transferable, subject to the registration of the transfer not resulting in a contravention of a failure to observe the provisions of a law of Australia and the transfer not being in breach of the Australian Corporations Act or applicable listing rules. All of the Shares are, and will be, issued in accordance with the laws of Australia with ISIN number AU000000AOQ0. At the date of this Exempted Document all of the existing share of the Company are registered with the Company's share register in Australia, of which the beneficial rights to 152,488,276 Shares are registered in the VPS. The beneficial rights to the Consideration Shares are expected to be registered in the VPS within a few days after the issuance of the underlying shares, and a separate announcement on the Company's ticker will be made at such time. The Company is listed on Oslo Axess under the ticker code "APCL".

The Company's share register is comprised of the Issuer Sponsored Sub-register where Shares can be transferred off-market.

Shareholders may execute cross border trading between the VPS and the Issuer Sponsored Sub-register via the VPS Registrar in its capacity as Company sub-registrar in the VPS and the Australian Custodian. If a shareholder wishes to transfer the trading of its Shares from Australia to Norway or from Norway to Australia, the procedure outlined below must be followed, the shareholder being both the "delivering party" and the "receiving party".

When shares are to be transferred into Norway, the recipient party to the Shares authorises the VPS Registrar to receive the Shares and instructs the delivering party in Australia to have the Shares transferred to the Australian Custodian. Upon the VPS Registrar's receipt of confirmation from the Australian Custodian that the Shares have been received, the Depository Receipts will be created and delivered to the VPS account of the recipient party in Norway.

When Depository Receipts are to be transferred out of Norway for receipt and trading in Australia, the delivering party in Norway advises the VPS Registrar on delivery and transfer its Depository Receipts to an intermediary VPS account of the VPS Registrar. Further, the delivering party advises the recipient party that it is to receive the Shares from the Australian Custodian. Upon the VPS Registrar's receipt of the Depository Receipts, the VPS Registrar will instruct the Australian Custodian to deliver the shares to the recipient party in Australia. Once the Australian Custodian confirms the delivery of the shares to the recipient Party, the VPS Registered Shares will be

delivered to the intermediary VPS account of the VPS Registrar is terminated from registration in the VPS system. Transfers may only be done "free of pay", thus cash settlement will have to be agreed upon separately between the trading parties. The transfer of trading between Norway and Australia will normally take between one and two business days.

A charge in addition to any broker fees will apply for any transfers in or out of the VPS.

The Company only has one class of Shares on issue. The Shares are equal in all respects and each Share carries one vote at the Company' general meeting. The Company does not hold any treasury shares.

The Company is incorporated in Australia. As a result the rights of any person holding Shares will be governed by the laws of Australia and the Constitution of the Company. The laws of Australia differ from those established under statutes or judicial precedents in existence in other jurisdictions. Such differences may result in the Company's minority shareholders having less protection than they would have under the laws of other jurisdictions.

The Company's Constitution does not contain objects and purposes as may be the case for memorandum and articles of association documents for other jurisdictions.

Takeovers of Australian incorporated companies are regulated under Chapter 6 of the Australian Corporations Act. The takeover rules set out in the Norwegian Securities Trading Act, do not apply to the Company's shares.

The regime under the Australian Corporations Act relates not only to takeover bids for voting shares in publicly listed entities, but also for non-voting shares and other securities, such as convertible debt securities and options over issued or unissued securities or other securities. It also regulates the shares and securities in Australian incorporated companies which are not publicly listed but which have more than 50 holders.

The regulation of takeovers is underpinned by a set of principles which aim to protect security holders and ensure that the transition of control in a public company occurs in a manner which is transparent, fair and treats all security holders equally. The principles are enshrined in section 602 of Chapter 6 of the Australian Corporations Act and provide that:

- i. the acquisition of control should take place in an efficient, competitive and informed market;
- ii. security holders and directors of a target should:
  - a. know the identity of any bidder who proposes to acquire a substantial interest in the target;
  - b. have a reasonable time to consider a proposal; and
  - c. are given enough information to assess its merits; and
- iii. target security holders should have a reasonable and equal opportunity to participate in any benefits flowing from a proposal.

These principles form the basis for the fundamental takeovers prohibition (discussed below) and underpin the further provisions of Chapter 6 which regulate in detail the various aspects of takeovers in Australia. They also form the basis of challenges to, and decisions made by, the Takeovers Panel in relation to takeovers.

The fundamental feature of Chapter 6 is a general takeovers prohibition, contained in section 606 of the Australian Corporations Act, which prohibits a person from acquiring (whether by way of a purchase of existing securities or an issue of new securities) a 'relevant interest' in securities in an Australian company if because of the acquisition:

- i. any person's voting power in the company would increase from below 20 per cent to more than 20 per cent; or
- ii. any person's voting power in the company that is above 20 per cent and below 90 per cent would increase, unless the acquisition is expressly permitted by one of the 'gateways' set out at section 611 of the Australian Corporations Act.

Although the prohibition is directed against the acquisition of voting securities, it has the corresponding effect of limiting the options available to a security holder wanting to sell a large holding, particularly one of more than 20 per cent, in an Australian public company.

A summary of the types of acquisitions commonly permitted by section 611 is set out below:

Permitted gateways through the 20 per cent prohibition	
Off market takeover bid	Acquisitions under a takeover offer made to all target security holders where security holders sell securities to a bidder by way of off-market acceptances
On-market takeover bid	Acquisitions under a takeover offer (must be a cash offer) made to all target security holders where security holders sell securities to a bidder through the a prescribed stock exchange (which does not include OSE)
Scheme of arrangement	Acquisitions under a scheme of arrangement approved by the target security holders and the Court. For a scheme of arrangement, a court must first approve the calling of the shareholder meeting and the material sent to shareholders for the meeting. Following the meeting, the company needs court approval of the resolutions passed at the shareholder meeting. Essentially, the second court meeting is a "rubber stamping" of the scheme of arrangement which is then filed with the Australian Securities & Investments Commission to take effect.
Security holder approval	Acquisitions made with the approval of independent target security holders not affiliated with the acquisition
Creeping acquisition	Acquisitions of not more than 3 per cent of the voting power in a company in a 6 month period by a security holder already holding at least 19 per cent
Rights issue	Acquisitions resulting from pro-rata rights issues offered equally to all security holders
Underwriting	Acquisitions by an underwriter of an issue of securities made pursuant to a prospectus or other disclosure document
Downstream	Indirect acquisitions resulting from an acquisition of securities in an 'upstream' company listed on a prescribed stock exchange (which does not include OSE) which itself has a relevant interest in a 'downstream' company listed on a prescribed stock exchange (which does not include OSE)

The table below sets forth the historical development of the Company's share capital and the number of issued and outstanding Shares since 1 January 2015 and until the date of this Exempted Document.

Date	Type of change in share capital	Change in number of Shares	Issue price per Share (NOK)	Total number of issued Shares following change
Mar 2015	Private placement	271,732,000	0.35	957,589,922
Apr 2015	Retail offering	11,604,330	0.35	969,194,252
Oct 2015	Share consolidation 10:1	(872,274,408)	-	96,919,844
Oct 2015	Private placement	9,691,937	1.70	106,611,781
May 2016	Exercise of options	73,333	1.70	106,685,114
Jan 2017	Exercise of options	33,333	1.70	106,718,447
Jan 2017	Private placement	10,670,000	2.50	117,388,447
Mar 2017	Exercise of options	10,900	7.50	117,399,347

Mar 2017	Issue of shares in settlement of outstanding fees	164,857	3.02	117,564,204
April 2017	Exercise of options	333,333	4.00	117,897,537
April 2017	Exercise of options	26,667	4.00	117,924,204
May 2017	Private placement	33,250,000	7.75	151,174,204
May 2017	Exercise of options	33,334	1.70	151,207,538
Oct 2017	Issue of shares in settlement of salary	137,892	1.48	151,345,430
Dec 2017	Issue of shares in settlement of salary	4,121,016	0.91	155,466,446
Aug 2019	Issue of Consideration Shares	816,198,842 <sup>4</sup>	1.032 <sup>5</sup>	971,665,288

The number of shares outstanding at 1 January 2018 and at 31 December 2018 were 155,466,446. In connection with the Transaction, 816,198,842 shares were paid for with shares in PetroNor, constituting 84% of the total issued and outstanding share capital in the Company.

### 5.17 Convertible securities, exchangeable securities or securities with warrants issued by the Company

As at completion of the Transaction, the Company has issued in total 322,729,877 options and warrants. The Company has no convertible securities in issue. Please refer to section 4.4 for an overview of the options and warrants issued as well as a description of the terms and conditions for exercise of the APCL Warrants, the PetroNor Warrants, the Replacement Warrants and the remaining legacy options.

### 5.18 Investments

The Company's business is to invest in exploration activities in the countries in which it operates. The following table sets out the material investments made by the Company for the financial years ended 31 December 2016, 2017 and 2018:

*Amounts in USD*

<b>Investment detail</b>	<b>2018</b>	<b>2017</b>	<b>2016</b>
Exploration drilling	-	7,885,038	530,455
Other exploration expenditure	2,008,619	3,505,043	7,418,239
<b>Total</b>	<b>2,008,619</b>	<b>11,390,081</b>	<b>7,948,694</b>

There are no material investments of the Company that are in progress at the date of this Exempted Document.

There are no environmental issues that may affect the Company's utilisation of the tangible fixed assets.

### 5.19 The Company following completion of the Transaction

Through the Transaction, African Petroleum has acquired diversified, low risk, long life and high quality producing assets with competitive unit costs and a well-regarded, efficient operator in PNGF Sud (Perenco). The Transaction will transform the Company from a pure-play exploration company into a full cycle E&P company with material reserves, cash flow and significant upside potential.

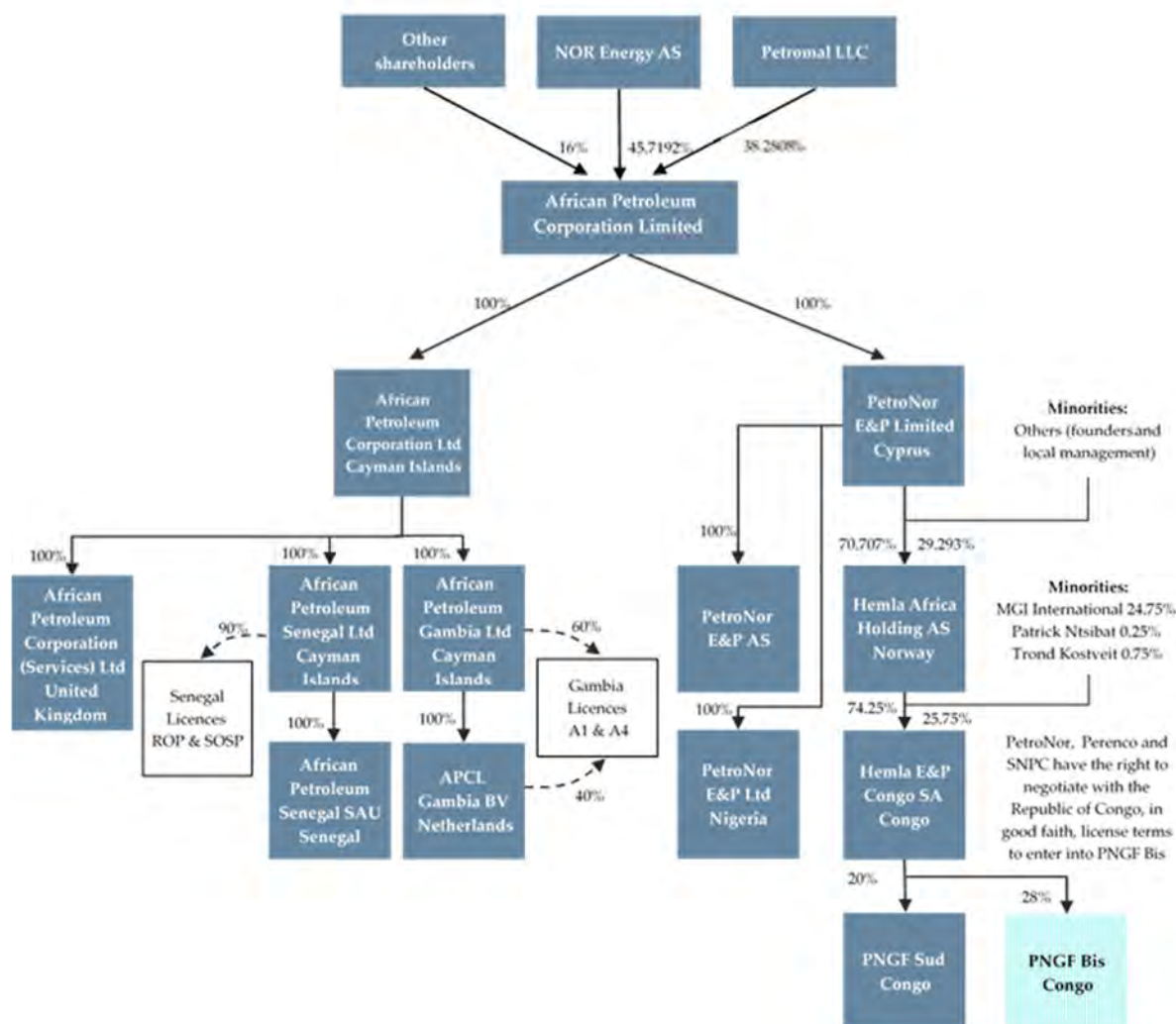
There are no significant changes in the products and/or services of either African Petroleum or PetroNor as a result of the Transaction.

<sup>4</sup> An irrevocable instruction has been made to issue the Consideration Shares, which are expected to be issued and delivered on or about 2 September 2019.

<sup>5</sup> The Transaction was announced on 19 March 2019. The last price at which African Petroleum shares were traded prior to the announcement was NOK 1.032 and is therefore considered to be the implied issue price for the Transaction.

## 5.20 Legal structure

The figure below sets forth a condensed legal structure of the Combined Group following completion of the Transaction:



## 5.21 Organisational changes

### 5.21.1 Overview of the Board of Directors and Management following the Transaction

The Transaction resulted in the following organisational changes:

- Jens Pace will continue as the Chief Executive Officer, Stephen West will continue as the Chief Financial Officer and Michael Barrett will continue as Exploration Director;
- The co-founders of PetroNor, Knut Søvold and Gerhard Ludvigsen, will become Chief Operating Officer and Business Development Manager respectively, and Claus Frimann-Dahl will be appointed Chief Technical Officer;
- Eyas Alhomouz, Knut Søvold and Joseph Iskander will join the Board of Directors of the Company. Further, Eyas Alhomouz will assume the role as Chairman; and

- Jens Pace, Stephen West, Bjarne Moe, David King, and Timothy Turner will remain board members following completion of the Transaction.

Other than Eyas Alhomouz, Joseph Iskander and Knut Søvold, all the members of the Board of Directors following the Transaction are independent of the majority shareholders. All Directors except for Jens Pace, Stephen West and Knut Søvold are independent of the Company's executive management.

See Sections 5.12.1 "Board of Directors" and 5.12.2 "Management" for further information about the members of the Board of Directors and Management.

#### **5.22 Business strategy following completion of the Transaction**

The Company's vision is to be a full-cycle, Africa focused E&P company, focusing on producing assets with upside and development of stranded assets, combined with targeted high impact exploration. The combined Company will aim to steadily build and increase its reserve base and production while using free cash flow to pursue defined exploration targets in selected and highly prospective basins with a view to delivering significant value to its shareholders from high impact wells. With the enhanced financial strength, the Company seeks to rigorously protect its position in The Gambia and Senegal through reinstatement of its licences and subsequent farm-outs to ensure drilling of wells without exposing the balance sheet of the Company.

Following completion of the Transaction, the management teams of both entities will be merged with the CEO, CFO and Exploration Director based in the London office, and the COO and Business Development Manager based in the new Oslo office.

#### **5.23 The Transaction's significance for earnings, assets and liabilities of the Combined Group**

The Transaction will have a significant effect on the key figures of the Combined Group compared to the Group prior to the Transaction. With reference to the pro forma financial information in Section 9 "Pro forma financial information", the Combined Group would have had total revenues of USD 101,560,000 in 2018. Total assets for the Combined Group would have amounted to USD 62,090,000 as of 31 December 2018.

See Section 9 "Pro forma financial information" below for a further description of the Transaction's significance for the earnings, assets and liabilities of the Combined Group. The pro forma financial information in Section 9 "Pro forma financial information" addresses a hypothetical situation and does not represent the actual financial statements of the Combined Group. The pro forma financial information is based on judgments and assumptions made by the management of Company that might not necessarily have occurred had the Transaction been made at an earlier time.

For additional information regarding the Transaction's significance, including strategic effects, reference is made to Section 4.3 "Background and reason for the Transaction".



## 6 PRESENTATION OF PETRONOR

*This Section provides an overview of the business of PetroNor as of the date of this Exempted Document. The following discussion contains Forward-looking Statements that reflect the Company's plans and estimates; see "Cautionary note regarding forward-looking statements" in Section 3.4. You should read this Section in conjunction with the other parts of this Exempted Document, in particular Section 1 "Risk Factors".*

### 6.1 Name, incorporation and registered office

PetroNor's registered name is PetroNor E&P Ltd. PetroNor is a private company limited by shares registered in the Republic of Cyprus under registration number HE 367916. PetroNor was incorporated in Cyprus as a limited liability company on 3 April 2017 and is subject to Cypriot law. PetroNor has its registered address at Pindou 4, Egkomi, 2409 Nicosia, Cyprus and its telephone number is +47 22 55 46 07 and its website is www.petronorep.com. The information on the website does not form part of the Exempted Document.

Prior to completion of the Transaction, PetroNor was owned by NOR (50%) and Petromal (50%).

NOR is a Norwegian company with registration no. 989 747 444, and its registered address is Frøyas gate 13, 0273 Oslo, Norway.

Petromal - Sole Proprietorship LLC is a company incorporated under the laws of U.A.E., with its registered address at M floor, Al Heel Tower, Al Khalidiya, Abu Dhabi, U.A.E.

### 6.2 History of the PetroNor Group

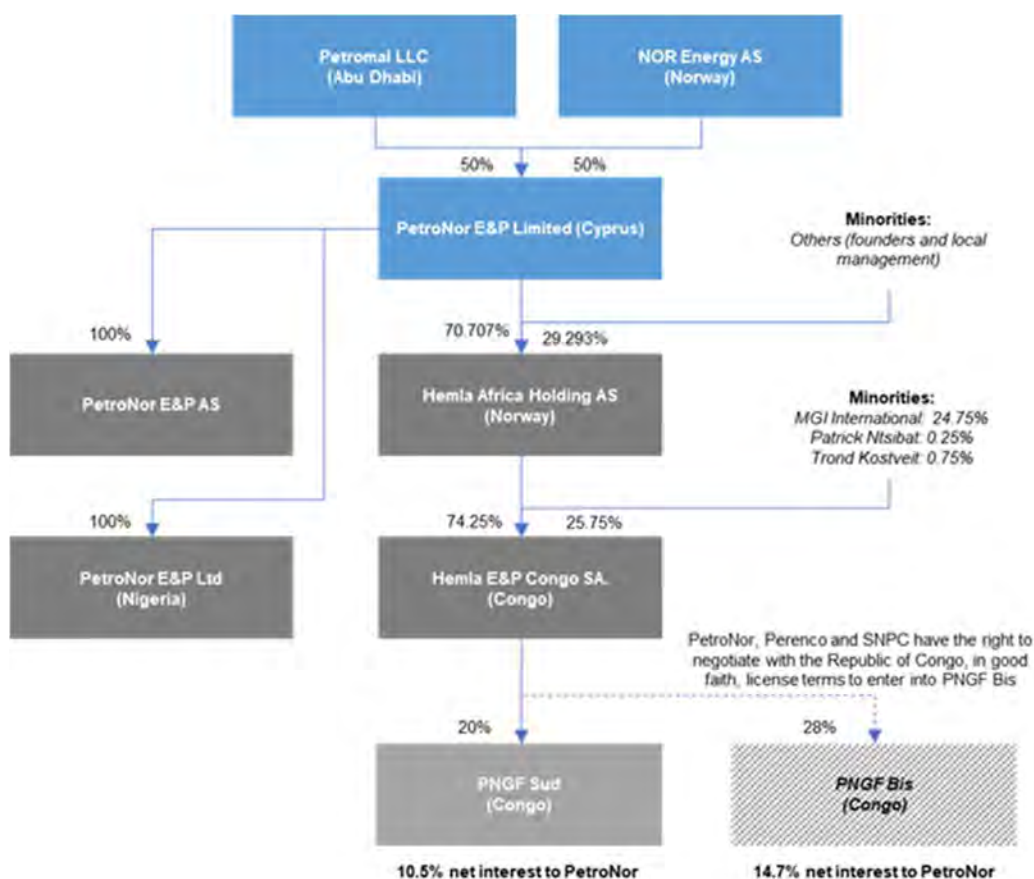
PetroNor was incorporated in the Republic of Cyprus on 3 April 2017 by Hemla Africa Holding AS (50%) ("HAH"), a subsidiary of NOR, and Petromal (50%), a subsidiary of National Holding. Both Petromal and NOR have been engaged in oil and gas production for more than a decade. NOR started its upstream activities in 2006 in the North Sea and Africa, and has for the last ten years focused on West Africa and monetization of natural gas.

PetroNor is the embodiment of NOR and Petromal's collaboration in relation to oil, gas and energy projects in Africa. NOR and Petromal entered into a funding agreement during 2016 where NOR were to the technical expertise and Petromal were to provide the financing, comprising the required capabilities for being an exploration and production company.

In late 2016, through a consortium of lead by HAH, the group participated in an international bid round organized by the Ministry of Hydrocarbons of the Republic of Congo. In December of the same year, Hemla E&P Congo SA ("HEPCO") was established with HAH as its main shareholder (74.25%), and the company was awarded a 20 per cent interest in the licence PNGF Sud. The company was awarded the licence with effective date 1 January 2017, and the licence award was approved by the Parliament of the Republic of Congo in May 2017.

Prior to completion of the Transaction, PetroNor was owned 50% by Petromal (economic interest 47.62%) and 50% (economic interest 52.38%) by NOR. PetroNor owns an indirect 10.5% and an indirect 14.7% stake in the PNGF Sud and PNGF Bis licences, respectively, the latter however being subject to successful negotiations of the licence terms, as further detailed in Section 6.4 "Research and development, patents and licences".

The below table sets out the legal structure of PetroNor prior to completion of the Transaction:



The table below contains a list of all the company's subsidiaries:

Company name	Country of incorporation	Group ownership
PetroNor E&P AS	Norway	100%
Hemla Africa Holding AS	Norway	70.707%
PetroNor E&P Ltd	Nigeria	100%
Hemla E&P Congo SA	Congo	52.50%

### 6.3 The business of the PetroNor Group

#### 6.3.1 Introduction

PetroNor is a privately held, Africa focused E&P independent, which prior to completion of the Transaction was owned 50% by Petromal (economic benefit interest 47.62%) and 50% by NOR (economic benefit interest 52.38%). Petromal is an Abu Dhabi based integrated oil and gas company with operations and investments in the upstream, downstream, oil field service and EPC sectors. NOR is a Norwegian upstream oil and gas E&P with its history from the North Sea and Africa. The operating organization is situated in PetroNor E&P AS. PetroNor owns its interests in PNGF Sud through controlling interests in HAH and HEPSCO. Following completion of the Transaction, PetroNor is now held 100% by the Company.

PetroNor's reportable segments, for both management and financial reporting purposes, are as follows:

<sup>6</sup> One (1) share in Petronor E&P Ltd (Nigeria) held by Dr. Tee Mac Omatshola Iseli as local director.

- 1) The Central African segment, which holds the following assets:
  - i) The PNGF SUD licence representing PetroNor's 10.5% working interest in the PNGF SUD licence in Republic of Congo.
- 2) The 'Corporate and others' category consists of head office and service company operations that are not directly attributable to the other segment.

PetroNor had an average production of 2,200 bbl/d in 2018 and had total revenue (net of royalties and taxes) of USD 54.69 million, all of which is attributable to the Central African segment. Total assets amounted to USD 56.85 million at the end of 2018 based on audited financials. This includes an amount of USD 5.7 million which is due from a related party which does not make part of the transaction and will be written off in the financials prepared at the completion date of the transaction.

### 6.3.2 Overview of PetroNor's operations

PetroNor's assets are located approximately 25 km off the coast of Pointe Noire in water depths of 80-100 metres. PetroNor, through HEPCO participated in the 2016 tender process with the Congo Ministry of Petroleum for participation in the PNGF Sud licence (brown field). HEPCO was awarded a 20% working interest in the PNGF Sud licence (net 10.5% to PetroNor). Furthermore, the licence partnership has through an umbrella agreement the right to negotiate, in good faith, the licence terms of the adjacent PNGF Bis licence, where Perenco is intended to be operator.

#### Field details<sup>7</sup>

Field	Official licence name	Production start	Produced to date	Gross 2P reserves	Gross 2C resources	Gross	Producing wells
						Current production	
		year	mmbbl	mmbbl	mmbbl	bbl/d	#
<b>Asset: PNGF Sud (10.5% working interest, Perenco operator)</b>							
<b>Tchibouela</b>	Tchibouela II	1987	318	47.9	12.0	12,500	33 <sup>8</sup>
<b>Tchibouela East</b>	Tchibouela II	1998	14	TBA	TBA	To be resumed in 2019	TBA
<b>Tchendo</b>	Tchendo II	1991	69	19.2	10.8	4,700	16
<b>Tchibeli</b>	Tchibeli-Litanzi II	2000	27	10.9	6.7	3,000	3
<b>Litanzi</b>	Tchibeli-Litanzi II	2006	9	3.2	2.6	1,400	1
<b>Asset: PNGF Bis (terms of licence under negotiation, Perenco expected to be operator)</b>							
<b>Loussima SW</b>	PNGF Bis	2019			28.9		
<b>Loussima</b>	PNGF Bis	TBA			TBA		

#### PNGF Sud

PNGF Sud is estimated to hold net 2P reserves per 1 January 2019 of 8.5 mmbbl and 2C contingent resources of 3.4 mmbbl. The estimate is based on a CPR prepared by AGR Petroleum Services AS dated 30 October 2018 with volumes as of 1 January 2018, adjusted for actual production during 2018. The table below sets out the licence

<sup>7</sup> Volumes as per 1.1.2019 based on CPR prepared by AGR Petroleum Services AS dated 30 October 2018 adjusted for production through 2018.

<sup>8</sup> Note that the active well number may vary from month to month for all the structures.

partners in PNGF Sud.

<b>Company</b>	<b>Interest</b>
Societe Nationale des Petroles du Congo (SNPC)	15%
Perenco Congo S.A.	40%
Hemla E&P Congo S.A.	20%
Kontinent Congo S.A.	10%
Africa Oil & Gas Corporation (AOGC) S.A.	10%
Petro Congo S.A.	5%
<b>Total</b>	<b>100%</b>

Initially discovered in 1979, PNGF Sud commenced production in 1987 and is currently producing c. 22,000 bbl/d gross from four oil fields, Tchibouela, Tchendo, Tchibeli and Litanzi. Following the entry of the new licence group in 2017, significant operational improvements have been made, increasing gross production from c. 15,000 bbl/d in January 2017 to today's level, and reducing operating costs from some 26 USD/bbl to current level of c.11 USD/bbl. The production increase has mainly been driven by work-overs of existing wells and been achieved by minor investments of USD 30 million gross. Through further work-overs, surface and process improvements and infill drilling, gross production from PNGF Sud is expected to continue to grow in the coming years.

The PNGF Sud fields are developed with seven wellhead platforms and currently produce from more than 50 active production wells, with oil exported via the onshore Djeno terminal (Tchibouela, Tchendo and Tchibeli) and the Nkossa FPSO (Litanzi). With its long production history, substantial well count and extensive infrastructure, PNGF Sud offers well diversified and low risk production and reserves with low break-even cost.

#### **Tchibouela Field**

Tchibouela Main consists of three disconnected reservoirs: Senonian, Turonian and Cenomanian with reservoir depths ranging from 300 to 1000 mTVDSS. The structure is a dome formed anticline and the reservoir quality is good but varying. The main reservoirs in Turonian and Cenomanian contain oil of 27 deg API with low GOR. The youngest reservoir, Senonian, contains gas with an oil rim below. Tchibouela Main produces from 34 active oil producers. The field came on stream in 1987, had a peak production in 1995 and is now on decline. The current water cut is high. Cenomanian is an excellent reservoir with a strong aquifer and has a high current recovery. The Turonian has more varying reservoir properties, also here the pressure is maintained by natural water influx and one water injector. Both reservoirs are currently on decline. There are two gas producers in Senonian providing gas for gas lift and electricity production. Since Perenco assumed operatorship in 2017, several well workovers; re-perforations and ESP repair/replacements have been performed to maintain and improve production from the field. The operator plans to continue this programme which is expected to significantly increase production significantly also in 2019. Existing producers are included in the reserves. There is potential for additional infill drilling in Cenomanian and Turonian. As the successful workover programme continues, additional infill wells are classified as contingent resources.

Tchibouela East is a similar smaller dome structure as Tchibouela Main, with Turonian and Cenomanian reservoir levels. The field started production in 1998 with 6 oil producers. The Cenomanian reservoir has had water breakthrough. T0 and T2 of the Turonian reservoir have not been put into production due to gas cap within a thin reservoir, but T1 has been produced. The field closed mid 2016 due to blocking of an export pipe. Production has resumed in 2019 at a moderate level but is expected to increase going forward.

#### **Tchendo Field**

Tchendo is an oil field with production from three separate reservoir levels, Senonian, Turonian and Cenomanian with reservoir depths from 450 to 750 mTVDSS. The structure is a gentle dome structure similar to Tchibouela and with similar reservoir qualities. Water depth is 95 m. Tchendo was discovered by exploration well TCDM1 in

1979 and came on stream in 1991. Peak production was reached in 1993 and pressure has been maintained by partial water injection. 16 wells are currently producing, of which seven from the Senonian and nine from Turonian supported by water injection. Water cut is high in Turonian, but still low in Senonian. Cenomanian ceased production in 2009 at a recovery factor of 56%

A similar workover programme to the Tchibouela is being conducted in Techendo with corresponding rate increases.

There is potential for infill drilling in Turonian. As the successful workover programme continues, infill wells are classified as contingent resources.

The Senonian inplace oil volume is very high with yet a modest recovery factor due to poor reservoir properties. This may constitute a significant potential for redevelopment with horizontal producers, possibly with stimulation (fracking). A modest redevelopment programme only has been included as Senonian contingent resources.

### **Tchibeli Field**

Tchibeli is an oil field producing from two reservoir levels in Sendji Fm of Albian age. The upper reservoir is a mix of carbonate and clastics, while the lower is a carbonate reservoir. The reservoir depth is 2000 mTVDSS and the water depth is 100 m. The four-way closure is as a turtle-back structure cut by several faults.

The reservoir quality is fair to good. The field was discovered in 1986 and came on stream in 2000. Peak production was reached shortly after start-up with three oil producers and the field is being pressure maintained by water injection. Production is artificially lifted by ESP (Electrical Submersible Pumps).

This field is the only one in the licence exporting to the Nkossa FPSO. A new export pipeline will be installed from Tchibeli to Tchibouela in 2019. This will make Tchibeli independent of the Nkossa FPSO and realize a significant saving on the related production tariffs.

The production from the existing three producers are included in the reserves. There is potential for some infill drilling in Albian. No infill drilling decision has yet been made in the licence and production from infill drilling is therefore classified as contingent resources.

Tchibeli NE is a smaller, undeveloped Albian discovery north-east of Tchibeli. No information about in-place volumes, nor plans for development, has been presented by the Operator.

### **Litanzi Field**

Litanzi is an oil field producing from Albian Sendji Fm carbonate reservoir. The structure is located northeast of Tchibeli, consists of a relatively thin reservoir zone cut by abundant faults dipping towards the west. The reservoir depth is at 1600 mTVDSS and the water depth is 100 m. Litanzi was discovered in 1990 and started production from one oil producer drilled from the Tchendo platform in 2006. Production is from one producer only and is supported by one water injector and production has, since mid 2016, increased slightly with a stable water-cut.

There is potential for at least one infill well, preferably in the western down-faulted area. No infill drilling decision have yet been made in the licence and production from infill drilling is therefore classified as contingent resources.

**PNGF Bis<sup>9</sup>**

Three exploration wells have been drilled on the licence area. A discovery in pre-salt Vandji Fm was made in well LUSM-1 on Loussima in 1985. Loussima SW was discovered by well LUSOM-1 in 1987 with oil in Vandji Fm. A second well, SUEM-2, was drilled on Loussima SW in 1991 to appraise the Vandji discovery. Hydrocarbon shows were detected in one of the wells in the Albian post-salt Sendji Fm, (analogue to Tchibeli/Litanzi reservoirs in PNGF Sud). The Sendji interval was not production tested.

The depth to the Vandji reservoir is 3250 mTVDSS, to Sendji around 1940 mVDSS and the water depth in the area is 110 m.

Tests on the Loussima SW LUSOM-1 well produced 4700 bopd and the SUEM-2 well yielded 1150 bopd.

**6.4 Research and development, patents and licences**

PetroNor has had no material expenses related to research and development for the period covered by the last two financial years and up to the date of this Exempted Document.

HEPCO has a 20% working interest in the PNGF Sud licence (net 10.5% to PetroNor). Furthermore, the licence partnership has through an umbrella agreement the right to negotiate, in good faith, the licence terms of the adjacent PNGF Bis licence, where Perenco is intended to be operator. For further information see Section 6.3.2 "Overview of PetroNor's operations" above.

Other than the licence interest described above, PetroNor is not dependent on any patents or licences, and does not hold any patents or licences that are critical to the business or any other significant patents.

**6.5 Investments**

PetroNor has, since 1 January 2019 and up to 30 June 2019 invested USD 2.4 million in PNGF SUD, all investments covered from the cash-flow in the subsidiary HEPCO. Further, the licence partners are considering an infill drilling program consisting of four new wells in the Litanzi field.

**6.6 Guarantees**

As pursuant to the Combination Agreement and addendum, the Company shall pay to NOR and Petromal an aggregate amount of up to USD 11,549,988.45 as cash consideration in the Transaction. This amount equals the dividends from PetroNor which NOR and Petromal, pursuant to the Combination Agreement, are entitled to. PetroNor has, to the extent permitted by law, guaranteed as its own debt towards NOR and Petromal payment by the Company of the cash consideration.

**6.7 Recent development and trends**

PetroNor's revenues are affected by changes in commodity prices, specifically crude oil and natural gas prices. During 2018 crude oil prices averaged 69 USD/bbl and were higher than in 2017 on average. In December 2018, oil prices dropped to approximately USD 54/bbl, but have recovered in 2019. Fluctuations have occurred during 2019, and the market is expected to continue to be volatile, which has a material impact on PetroNor's earnings. The average realized price for PetroNor in 2019 was approximately USD 66.5/bbl.

The oil from PNGF Sud is sold by the local company HEPCO. HEPCO has as of 1 January 2019 entered into a new oil sales agreement contract, as described in Section 6.9.2 "Material contracts" below.

---

<sup>9</sup> The PNGF Sud partnership has through an agreement dated 9 February 2017 a right to negotiate in good faith the licence terms with the Republic of Congo.

### 6.7.1 Regulatory environment

PetroNor is subject to regulatory requirements in each country it operates. Failure to comply with regulatory requirements may result in the imposition of fines or payment of compensation to third parties.

#### *Republic of Congo*

In the Republic of Congo, PetroNor (through its local subsidiary HEPCO) holds a 10.5% indirect interest in the PNGF Sud Project, comprised of three liquid and gaseous hydrocarbons production licenses: Tchendo II, Tchibouela II, and Tchibeli-Litanzi II. These three production licenses were formally awarded in 2017 to the Congolese National Oil Company (SNPC), and a separate production sharing contract ("PSC") is in place in connection with each of them. Other than SNPC, the current members of the contractor groups under these PSCs are Perenco Congo (operator), HEPCO, Kontinent Congo, Africa Oil & Gas Corporation, and Petro Congo.

As a company incorporated in the Republic of Congo, HEPCO is subject to the generally applicable regulatory requirements in force in the country – originating in both domestic and supranational sources of law, as well as to the O&G industry specific laws and regulations, bearing in mind its corporate purposes and the sector in which it operates.

The Congolese legal system draws inspiration from the French civil law system. The primary sources of law in Congo are the 2015 Constitution, the international treaties ratified by the country, the legislation passed by the Parliament, and the regulations enacted by the Government.

At an international/regional level, the Republic of Congo is a member State of the Economic and Monetary Community of Central African States ("CEMAC"), that aims to promote economic integration among countries that share a common currency, the CFA Franc, pegged to the Euro, at the rate of 1 Euro / 655.957 CFA Francs. The CEMAC enacts different acts, including Regulations. CEMAC Regulations are directly and immediately applicable in all CEMAC member States. Currently, the CEMAC member States share a common financial and regulatory structure, and maintain a common external tariff on imports from non-CEMAC countries. The Republic of Congo has enacted its own General Tax Code in accordance with the applicable CEMAC Directives.

The Republic of Congo is also a member State of the Organization for the Harmonization of Business Law in Africa ("OHADA") which provides a harmonized business legal framework for its member States. Pursuant to the OHADA Treaty, Uniform Acts are directly applicable and binding in all member States, notwithstanding any previous or subsequent conflicting provisions of domestic law. Also, the effect of each Uniform Act is to override any conflicting provisions of prior or subsequent domestic legislation or regulation. Therefore, it can be held that Uniform Acts rank above any domestic Congolese laws.

In addition, the Republic of Congo is a party to the Treaty that created the Inter-African Conference on Insurance Markets ("CIMA"), which contains the CIMA Insurance Code. As per the CIMA Treaty, the CIMA member States are required to enforce the CIMA Insurance Code provisions regardless of any conflicting rules contained in their domestic legislation, whether prior or subsequent to the Treaty.

Owing to its status as an O&G company and as holder of participating interests in the PNGF Sud Project, HEPCO is also subject to the applicable industry-specific laws and regulations, in particular the Hydrocarbons Code, enacted by Law 28-2016, of 12 October 2016.

The general principle imposed by the Hydrocarbons Code in terms of the carrying-out of petroleum operations is that no entity may engage in any upstream activity in the Republic of Congo without first being authorized the State. Such an authorization takes the form of either a prospection authorization or a mineral title (i.e. an exploration license or a production license).

Exploration licenses and production licenses (such as the Tchendo II, Tchibouela II, and Tchibeli-Litanzi II licenses the subject of the PNGF Project) are exclusively granted to SNPC. Production licenses grant to the contractor the

exclusive right to perform hydrocarbons development and production works within the relevant production area. Production licenses are granted for a maximum period of 25 years in the case of liquid hydrocarbons, and 30 years in the case of natural gas or solid hydrocarbons (a once-only extension of up to 5 years may be applied for and granted). The development and production works must be carried out in accordance with an approved development and production plan which is to include, amongst other items, a geological and geophysical study of the deposit, a reservoir study, an economic study, a study on the exploitation of the substances associated to the liquid hydrocarbons, a detailed study on the facilities required for production, processing, transport and storage of hydrocarbons, a study on the contribution of the development and production project in terms of local content, and a timeline for the performance of the development and production works.

The rights and obligations of the contractor relating to a mineral title are defined in a petroleum contract, either in the form of a PSC or of a services agreement. These instruments define the conditions pursuant to which the contractor is to carry out the petroleum operations, and in particular the manner in which the contractor will be compensated, the accounting procedures and the contractor's commitments in terms of local content. Prior to being performed, the petroleum contracts negotiated and entered into between the State and the contractors must be submitted to the Parliament for approval. The term of a petroleum contract shall in principle correspond to the duration of the mineral title (exploration license or production license) to which it relates. Pursuant to a PSC, the State entrusts the contractor with the carrying-out of hydrocarbons exploration and/or production operations within a given area, with the contractor receiving a share of the production by way of recovery of costs and another share by way of compensation in kind. Throughout the duration of the petroleum contract, the contractor bears on an exclusive basis the technical and financial risks relating to the carrying-out of petroleum operations.

In its capacity as the entity to which exploration and/or production licenses are exclusively granted, SNPC will associate itself with third-party private entities, and together they hold participating interests in the petroleum contract corresponding to the license. The selection of the members of a contractor (other than SNPC) is made by the hydrocarbons administration pursuant to a tendering procedure (as happened in the case of the PNGF Project) or, in special cases, by direct negotiation.

The members of the contractor are jointly liable towards the State, to the extent of their respective participating interests, for the discharge of the contractor's obligations arising out from the petroleum contract. One or more members of the contractor group is appointed as operator, and it is entrusted with the carrying-out of the petroleum operations.

The State is entitled to a mandatory participation in upstream activities, ensured by means of SNPC holding a minimum non-assignable 15% participating interest in any petroleum contract. Except in case SNPC assumes the role of operator (which is not the case in the PNGF Project), the financing obligations inherent to said minimum mandatory participation are entirely discharged by the other members of the contractor, pro rata to their respective participating interests, until such time as a production license is granted. Afterwards, the financing obligations inherent to the minimum mandatory participation in said production license are likewise carried by the other members of the contractor for the account of SNPC.

Under a PSC, (i) a portion of the net production is allocated to the payment of the production royalty, (ii) the contractor is entitled to a portion of the available net production by way of reimbursement of the recoverable petroleum costs, and (iii) the balance of the available net production is shared between the State and the contractor. The maximum percentage of that portion of the net production for a calendar year which may be allocated by way of cost oil is defined in the relevant PSC, and is in principle limited to 50% (under certain conditions, it may be of up to 70%). The balance of petroleum costs not recovered in a calendar year will be carried forward to the subsequent years, until expiry of the relevant production license. As to the sharing of the profit oil between the State and the contractor, it will be made in accordance with the terms agreed in the PSC. The State's share may not however be lower than 35% of the profit oil for the relevant calendar year.



Participating interests in a petroleum contract, as well as the rights and obligations thereunder, may be assigned in whole or in part by each member of the contractor, subject to an approval of the Minister in charge of hydrocarbons being obtained. The Minister in charge of hydrocarbons is also to be notified of any assignment of shares or equity interests in the share capital of any of the members of the contractor.

In terms of local content, the contractor, and its subcontractors, service providers and suppliers are required to give preference to the hiring of Congolese personnel, and to prepare and implement programs for the recruitment, mentoring, training and development of its Congolese staff. In the production phase, these entities are also required to contribute to the programs for training and development of Congolese nationals, and to participate in the setting-up of permanent training and improvement facilities.

In terms of procurement of goods and services required for the operations, the contractor, and its subcontractors, service providers and suppliers must give preference to the goods supplied and services provided by Congolese companies, to the extent that their technical and commercial offers are substantially equivalent to those of foreign suppliers, and even if the local offers are higher than the latter (subject to a limit of 10%). Also, the development and production costs of Congolese origin must represent a minimum percentage (set on a case-by-case basis in the development and production plan, but which may not be lower than 25%) of the total development and production costs – with the costs corresponding to the difference not being recoverable, unless the contractor justifies the fact that said minimum percentage is not reached.

With respect to the risks in connection with the upstream activities, the requirement imposed by the Hydrocarbons Code is that each company take out insurance policies with insurance companies licensed in the Republic of Congo through insurance brokers organized under Congolese law. In case the required coverage exceeds the capacity of the insurance companies licensed in the Republic of Congo, the insurance policies may, in relation to the exceeding portion and subject to an express exemption being granted by the Minister in charge of insurance, be taken out with companies alien to the CIMA. In the event of failure to comply with this requirement, and in addition to the penalties set forth in the CIMA Insurance Code, the costs incurred with insurance do not qualify as petroleum costs.

Still in terms of local content, each member of a contractor which is to receive its compensation in kind must ensure that the domestic needs in terms of hydrocarbons are satisfied on a priority basis. The conditions for the supply of hydrocarbons to the domestic market are yet to be defined in developing regulations, but the Hydrocarbons Code expressly provides that it shall be exempt from duties and fees.

With respect to fiscal and parafiscal charges, the contractor and the members of the contractor are, in relation to the petroleum operations, exempt from any and all general duties and taxes, other than: the business license fee; the property tax and land tax; the commercial property occupancy tax; the single tax on salaries at the reduced rate and the labor union dues; withholdings of personal income tax, corporate income tax, investment income tax (dividends), and property rental tax payable by third parties; the contributions and fees in connection with the remuneration of services; corporate income tax; registration fees and stamp duties; and the tax on the transfer of funds between the Congo and abroad (and vice-versa).

Specifically in connection with petroleum operations, the contractor is subject to the following charges: signature bonus relating to the PSC, bonus for the granting of the production license further to an exploration license, bonus for the extension of the production licenses, and other bonuses (these bonuses do not qualify as a recoverable costs, but they are deductible from the taxable income relating to corporate income tax); surface fee and production royalty; provision for diversified investments, contributions for the training programs for Congolese personnel, for the verification and monitoring of the accounting records, and contribution for the environmental risks prevention fund; and the tax on the gains resulting from the assignment of participating interests in PSCs. These charges do not apply to companies carrying out their activities pursuant to service

agreements, which will in turn be subject to the taxes from which those operating under PSCs are exempt and to investment income tax.

The contractor is also liable for the payment of the surface fee, which is due by reference to the exploration areas or production areas covered by the petroleum contract. This fee qualifies as a petroleum cost, and is deductible from the taxable income relating to corporate income tax.

A royalty applies on the net production from each production license, at a rate of 15% for liquid hydrocarbons (under certain conditions, this rate may be reduced to a minimum of 12%) and 5% for natural gas and solid hydrocarbons.

A specific statute (not enacted to this date) will define the terms of payment, recovery and allocation of the provision for diversified investments, which is a levy corresponding to 1% of the value of the net hydrocarbons production to which contractors are subject. This is a recoverable petroleum cost, and it is deductible from the taxable income relating to corporate income tax.

The total or partial assignment by any member of the contractor of its rights and obligations under a PSC is subject to the payment of a flat fee corresponding to 10% of the resulting gain (the difference between the price paid to the assignor and the total amount of the costs yet to be recovered by the assignee). This fee does not apply in case the assignee is a company organized under Congolese law whose share capital is entirely held by the assignor.

No value added tax (or any similar tax on the turnover) applies to the contractor in relation to the activities in connection with the petroleum operations. In turn, the operations not qualifying as petroleum activities remain subject to the general tax regime.

The members of the contractor are individually subject to corporate income tax in connection with the petroleum operations, under the general conditions of the tax legislation, at a rate defined in accordance with the General Tax Code (currently set at 35%) and stated in the petroleum contract. Under PSCs, the corporate income tax is paid on a flat-rate and final-tax basis by delivering to the State its share of profit oil.

Each exploration license and each production license must be the subject of separate accounting, and no losses or profits from different exploration licenses or from different production licenses may be consolidated in any way. Accordingly, specific annual corporate income tax returns in relation to each petroleum contract must be prepared and filed by each member of the contractor, with the aggregate tax liability being determined by adding the tax calculated on the taxable income from each of exploration license and production license.

The materials, equipment and consumables intended for the petroleum operations are subject, as applicable, to one of the regimes provided for in the CEMAC Customs Code: general regime, total exemption, standard temporary importation, and reduced rate. Also, the contractor, its subcontractors and other service providers must undertake to make only the importations required for the carrying-out of the petroleum operations to the extent that the relevant goods are not available in the Republic of Congo under similar conditions in terms of price, quality and delivery time.

The Hydrocarbons Code also contains foreign exchange ("FX") provisions, which must however be interpreted in light of the FX regulations in force, including CEMAC Regulation 02/18/CEMAC/UMAC/CM, dated 21 December 2018, and the Instructions on its implementation since issued by the Central African States Bank (BEAC). Pursuant to the Hydrocarbons Code, the members of the contractor are afforded the following main rights and guarantees: (i) to receive abroad the funds obtained or borrowed, including the proceeds of the sales of their share of the production, and to freely dispose thereof; (ii) to transfer abroad the proceeds of the local sales of hydrocarbons, the proceeds of any type of the capitals invested, as well as the proceeds of the liquidation or realization of their assets in the Republic of Congo; (iii) to pay directly abroad the suppliers not domiciled in the

Republic of Congo of goods and services required for the carrying-out of the petroleum operations in the country; and (iv) to freely convert local and foreign currency in connection with any FX operations relating to the petroleum operations in the Republic of Congo. In particular, the members of the contractor which are organized as Congolese companies for the purposes of holding participating interests in a petroleum contract (such as HEPCO) are entitled to hold accounts in foreign currency and assets abroad. The abovementioned CEMAC Regulation (which, as noted above, is directly and immediately applicable in all CEMAC member States, including the Republic of Congo) and BEAC Instructions could impact the rights and guarantees afforded by the Hydrocarbons Code to the members of the contractor (including HEPCO), even if many of the requirements and restrictions of the new CEMAC Regulation are similar to those of the 2000 Regulation it expressly repealed. However, the fact that the new CEMAC Regulation gives the BEAC authority to impose sanctions suggest that such requirements and restrictions may be actively enforced from now on, at least to a certain extent. The most stringent / cumbersome of said requirements and restrictions are as follows: (i) legal persons qualifying as FX residents cannot open foreign currency bank accounts outside or inside the CEMAC, unless they obtain a prior authorization from the BEAC; (ii) FX residents must use their XAF local bank accounts to pay FX residents; (iii) export proceeds received abroad by FX residents must be repatriated within 150 days; (iv) transfers to non-CEMAC countries exceeding XAF 100 million must be notified 30 days in advance; (v) all imports must be declared, and those exceeding XAF 5 million must be domiciled with a CEMAC bank; (vi) funds borrowed abroad by FX residents must be repatriated or used for the purpose for which they were obtained; and (vii) investments of FX residents abroad are subject to the BEAC's prior authorization.

Turning to the regulatory requirements in the field of health, safety and the environment, the contractor, its subcontractors and its service providers are required to ensure, under the applicable international treaties and domestic laws and regulations: (i) the conservation of the natural resources, and the protection of health, safety and the environment, (ii) the use of techniques consistent with best international practice aimed at preventing the damage to health, safety or the environment within the exploration and production areas and the neighboring areas, and (iii) the implementation of programs for pollution prevention, waste management, natural resources preservation, and restoration and reclamation of the damaged lands. In its capacity as member of the PNGF Project contractor group(s), HEPCO is subject to these regulatory requirements.

These requirements include the preparation and submission to the Minister in charge of hydrocarbons of an environmental and social impact study, on whose approval the commencement of any in-field operations is dependent. The risks identified in the environmental and social impact studies must be the subject of budgeted plans for the management thereof, including (i) an emergency response plan in the case of a major incident, (ii) a waste management plan, (iii) a plan for the abandonment, dismantling and restoration of the sites, and (iv) an air discharges management plan.

Also, any incident in the carrying-out of the operations must be immediately notified by the contractor to the appropriate authorities, and after being overcome must be the subject of an incident management report. A national emergency response plan designed to ensure a swift and effective intervention in the event of a major hydrocarbons spill or of any other major incident is to be jointly implemented by the Ministers in charge of hydrocarbons, the environment, defense and territorial planning (in cooperation with other administrative authorities and the petroleum companies). This plan will provide for the setting-up of a national fund for the prevention of environmental risks, which is to be financed by an annual contribution from each contractor (corresponding to 0.05% of the net production). This is a recoverable cost which may be deducted from the taxable income.

The contractor is required to restore all sites at which operations were carried out, as well as the neighboring areas, and shall bear all costs in connection therewith. This is to be made in accordance with an approved sites abandonment and restoration plan, addressing, amongst others, the following topics: (i) the technical and financial evaluation, as well as the abandonment works planning; (ii) the terms of the creation and funding of a

provision allocated to the financing of the sites abandonment and restoration works; (iii) the procedures for the dismantling of all equipment and facilities installed by the contractor in connection with the petroleum operations; and (iv) the conditions for restoration of the sites in accordance with the best practices accepted in the international petroleum industry. The creation of the abovementioned provision for abandonment does neither relieve the contractor from its obligation to restore the sites nor does it limit said obligation.

The form of and conditions for submission and approval of the abovementioned plans, the terms of their implementation, the creation of the provision for abandonment, and the collection and management of the funds allocated to it are all matters yet to be further detailed and defined in developing regulations.

The Republic of Congo has been experiencing a stable political climate in recent years, with no record of significant civil unrest. Despite some inefficiencies, the State's institutions (legislative, executive and judicial branches) function properly, and the country is committed to consolidate its economic development and the social advancement of its people – whilst knowing that, to a significant extent, these efforts are contingent upon external factors, such as the country's attractiveness in the eyes of foreign investors (including those operating in the O&G industry) and the international financial assistance programs sponsored by institutions such as the International Monetary Fund. Also, the Republic of Congo is an active and effective participant in the regional organizations of which it is a member, such as OHADA, CEMAC, and CIMA, which is another indication that the risk of the existing legal, political, economic and investor-friendly environment being disrupted may be perceived as low – including as regards PetroNor's presence, interests and operations in the Republic of Congo (through its local subsidiary HEPCO), which have all been consistently characterized by a strong commitment to comply in full with the statutory and regulatory requirements applicable to it, both as a company incorporated in the country and as a holder of participating interests in the PNGF Sud Project.

#### **6.8 Litigation, disputes and tax**

HAH has received a writ of summons to Oslo District Court from a minority shareholder in HEPCO concerning ownership in HEPCO. The minority shareholder argues that he is entitled to a larger ownership position in HEPCO, including past dividends taking such ownership position into account, based on an alleged oral agreement with Mr. Ludvigsen, Mr. Søvold and Petromal. The writ of summons is also directed against Mr. Ludvigsen and Mr. Søvold directly. The claim is contested by all three defendants. To the extent the claim should be adversely determined against HAH, NOR, has agreed to provide an indemnification, on certain conditions and subject to certain limitations, for any reduction in value of the indirect ownership in HEPCO resulting from such adverse outcome. The main proceedings are scheduled for October 2019.

HAH is in dispute with a local partner concerning (indirect) ownership in HEPCO. The local partner argues that he is entitled to an (indirect) ownership position in HEPCO, including past dividends taking such ownership position into account. The local partner has filed the claim before the Commercial Court in Pointe-Noire. He has also filed a petition for arrest, relating to HAH's shares in HEPCO. The claim is based on an alleged agreement with HAH, MGI International S.A., Petromal and the other local partners. The claim is disputed.

There are ongoing discussions also with other minority stakeholders in HEPCO regarding their right to (indirect) ownership in HEPCO, but these are expected to be dealt with through distribution of indirect ownership in HEPCO which will not impact PetroNor.

Pursuant to a new finance law effective 1 January 2019, changes were made to the general tax code in Congo, whereafter conventions, contracts or other agreements of any kind entered into by the Congolese authorities and which provides for tax benefits derogating from the provisions of the general tax code, shall be presented to the Ministry of Finance in Congo and be subject to renegotiations. Perenco as operator of the relevant PNGF Sud PSCs licences have submitted these, and there are ongoing discussions with the authorities on whether inter alia a withholding tax will be imposed on dividend payments from contractors that are parties to PSCs such as the ones

for PNGF Sud. These changes and discussions are not specific to PNGF Sud or to HEPCO but apply to the oil and gas industry in Congo in general.

Except to the extent disclosed above, neither PetroNor nor any other company in the PetroNor group is, nor has been, during the course of the preceding twelve months involved in any legal, governmental or arbitration proceedings which may have, or have had in the recent past, significant effects on PetroNor's and/or the PetroNor group's financial position or profitability, and PetroNor is not aware of any such proceedings which are pending or threatened.

## **6.9 Material contracts**

### **6.9.1 Disclosure about dependency on contracts, patents and licences**

PetroNor's activities in PNGF Sud are carried out through its subsidiary HEPCO under three production sharing contracts, in which PetroNor holds a 10.5% indirect interest through HEPCO. It is crucial for PetroNor's business that HEPCO remains party to the PSCs, and that the contracts referenced below are not revoked.

### **6.9.2 Material contracts**

HEPCO holds three production sharing contracts, "Contrat de Partage de Production Tchendo II", "Contrat de Partage de Production Tchibouela II" and "Contrat de Partage de Production Tchibeli-Litanzi II". Under the tender award the contractor group entered into an umbrella agreement for PNGF Sud which in addition to the above three Production Sharing Contracts ("PSCs") also holds the right to negotiate, in good faith, licence terms to enter into a PSC on the adjacent licence PNGF Bis. The licence terms for PNGF Bis are currently negotiated by Perenco, the Operator, on behalf of the PNGF Sud licence partners.

The subsidiary of PetroNor, HEPCO, has entered into an oil sales agreement with ENI to sell all of HEPCO's share of the oil extracted from PNGF Sud. The contract period runs to 31 December 2021, with one or two lots on a monthly basis through the contract period. The contract may not be terminated during the contract period, except in the event of breach of any of the representations, warranties and undertakings.

HEPCO is producing two qualities of crude oil, Djeno blend and Nkossa Blend which both are piped to the Djeno terminal outside of Pointe Noire in the Republic of Congo. ENI is lifting both qualities on a monthly basis and HEPCO has entered into a pooling agreement with ENI for co-loading with ENI from 1 January 2019 and until 31 December 2021. The crude oil (Djeno and Nkossa Blend) is sold FOB on monthly average price linked to Brent DTD as published by Platts. The final contract price is adjusted for quality and the differential is negotiated for each cargo lifted. In 2018, the price adjustment averaged USD 2/bbl.

HEPCO has entered into service agreements with each of HAH and MGI International S.A. The agreement with MGI International S.A. particularly relates to logistic, administrative and commercial assistance in the Republic of Congo. The agreement with HAH particularly relates to technical assistance, cost accounting, negotiation for the search of new petroleum permits, assistance for petroleum trade and development of oil and gas strategies. For further information, see Section 7.2.6 "Related party transactions and conflict of interest" below.

NOR and PetroNor have entered into a shareholding undertaking agreement, where NOR has undertaken to provide liquidity funding to PetroNor, amounting to up to USD 7,000,000 in total. For further information, see Section 7.2.6 "Related party transactions and conflict of interest" below.

### **6.9.3 Environmental requirements**

PetroNor's business is subject to a number of environmental requirements, in addition to such requirements imposed on PetroNor under the PSCs. Any non-compliance with environmental protection legislation may lead to breach of contracts and fines imposed by the competent authorities of the country of operations.

Currently, to the extent known to PetroNor, there are no environmental requirements preventing the PetroNor Group from operating under its current licences.

**6.10 Board of directors, management and employees**

**6.10.1 Board of directors**

The board of directors of PetroNor consists of Eyas Alhomouz as Chairman (Chief Executive Officer of Petromal), Knut Søvold, Gerhard Ludvigsen, Hawary Marshad Nicos Kouyialis and Andri Georghiou.

**6.10.2 Management and employees**

PetroNor's executive management consists of four individuals, Eyas Alhomouz as executive Chairman, Usama Saeed Ali as financial controller, Knut Søvold as chief executive officer and Gerhard Ludvigsen as executive director.

Prior to completion, PetroNor's organisation had fifteen employees, five in Norway, three in Abu Dhabi and seven in West Africa.

**6.11 Shareholdings and stock options**

Following completion of the Transaction, all shares in PetroNor are owned by the Company. There are no outstanding options or other rights to receive shares in PetroNor.

**6.12 Conflicts of interest**

The Company believes that no material conflict of interests exist between PetroNor and the Company, nor between PetroNor and its previous shareholders NOR and Petromal – Sole Proprietorship LLC. For conflicts of interests related to the Company following the combination with PetroNor, see Section 7.2.6 "Related party transactions and conflict of interest" below.

## 7 SELECTED FINANCIAL INFORMATION

### 7.1 African Petroleum selected financial information

#### 7.1.1 Historical financial information and summary of accounting policies

The Company's historical consolidated financial statements have been prepared in accordance with International Financial Reporting Standard ("IFRS").

The Company's audited consolidated financial statements as of and for the years ended, 31 December 2018, 2017 and 2016, including an overview of the Company's accounting policies, explanatory notes and auditor's statements, are incorporated by reference hereto, see Section 12.2 "Incorporation by reference" below. The Company's unaudited consolidated financial statements as at, and for the six month periods ended, 30 June 2019 and 2018, are incorporated by reference hereto, see Section 12.2 "Incorporation by reference" below.

The Company's independent auditor is BDO Audit (WA) Pty Ltd ("BDO"), a member firm of BDO International Ltd, 38 Station Street, Subiaco, Western Australia 6008. BDO is a Chartered Firm with the Institute of Chartered Accountants Australia. BDO has audited the Company's consolidated financial statements as at, and for the years ended, 31 December 2018, 2017 and 2016, without qualifications or disclaimers. The financial statements for the years ended 31 December 2018, 2017 and 2016 have however included the following remark regarding material uncertainty related to going concern: *"We draw attention to Note 2 in the financial report which describes the events and/or conditions which give rise to the existence of a material uncertainty that may cast significant doubt about the Group's ability to continue as a going concern and therefore the Group may be unable to realise its assets and discharge its liabilities in the normal course of business. Our opinion is not modified in respect of this matter"*.

BDO has issued an Independent Practitioner's Assurance Report on the process to compile the pro forma financial information included in this Exempted Document set out in Appendix B. BDO has not audited or reviewed or produced any report on other information provided in this Exempted Document.

#### 7.1.2 Significant change since 30 June 2019

Other than the Transaction described in Section 4 "Description of the Transaction", there has not been any significant change to the Group's financial and/or trading position since 30 June 2019 and to the date of this Exempted Document.

#### 7.1.3 Consolidated historical financial information

The following tables present selected financial information for the Company that has been derived from the Company's unaudited consolidated financial statements as at, and for the six month periods ended, 30 June 2019 and 2018, and the Company's audited consolidated financial statements as at, and for the years ended, 31 December 2018, 2017 and 2016.

##### 7.1.3.1 African Petroleum consolidated statement of income

In USD	Period ended 30 June		Year ended 31 December		
	2019 (unaudited)	2018 (unaudited)	2018 (audited)	2017 (audited)	2016 (audited)
<b>Continuing operations</b>					
Revenue	-	7	12	228,692	210,461
Exploration & evaluation expenditure	(52,000)	(457,165)	82,414	(9,856,447)	9,943,287
Impairment of exploration and evaluation expenditure	-	-	(1,704,155)	(18,367,865)	(8,949,626)
Consulting expenses	(2,520,000)	(1,188,384)	(3,388,239)	(1,423,965)	(860,541)
Compliance and regulatory					

<i>In USD</i>	Period ended 30 June		Year ended 31 December		
	2019	2018	2018	2017	2016
	<i>(unaudited)</i>	<i>(unaudited)</i>	<i>(audited)</i>	<i>(audited)</i>	<i>(audited)</i>
expenses	(96,000)	(100,795)	(122,754)	(242,759)	(162,877)
Administration expenses	(212,000)	(234,635)	(497,451)	(572,101)	(724,561)
Employee benefits	(891,000)	(1,527,878)	2,655,457	(4,387,472)	(2,505,712)
Travel expenses	(58,000)	(48,420)	(160,537)	(476,776)	(260,293)
Aircraft expenses	-	-	-	-	(9,328)
Impairment of aircraft	-	-	-	-	-
Depreciation & amortisation expense	(2,000)	(1,227)	(4,539)	(3,387)	(4,272)
Net unrealised gains on fair value of financial liabilities		-	-	77,645	414,927
Foreign exchange gain / (loss)	28,000	(30,680)	38,544	4,883	298,537
<b>Loss from continuing operations before income tax</b>	<b>(3,803,000)</b>	<b>(3,589,177)</b>	<b>(8,412,162)</b>	<b>(35,019,552)</b>	<b>(2,609,998)</b>
Income tax expense	-	-	-	-	(7,618)
<b>Loss from continuing operations</b>	<b>(3,803,000)</b>	<b>(3,589,177)</b>	<b>(8,412,162)</b>	<b>(35,019,552)</b>	<b>(2,617,616)</b>
<b>Other comprehensive gains</b>					
Foreign exchange (loss) / gain on translation of functional currency to presentation currency	-	2,405	(77,102)	(33,930)	(216,466)
<b>Total comprehensive loss for the year</b>	<b>(3,803,000)</b>	<b>(3,586,772)</b>	<b>(8,489,264)</b>	<b>(35,053,482)</b>	<b>(2,834,082)</b>
Loss attributable to:					
Non-controlling interest	(75,000)	(19,982)	(68,175)	(399,488)	(56,660)
Owners of the parent	(3,728,000)	(3,569,195)	(8,343,987)	(34,620,064)	(2,560,956)
Comprehensive loss attributable to:					
Non-controlling interest	(75,000)	(19,982)	(68,175)	(399,488)	(56,660)
Owners of the parent	(3,728,000)	(3,566,789)	(8,421,089)	(34,653,995)	(2,777,422)
<b>Loss per share to members</b>					
Basic and diluted loss per share (US cents)	<b>(2.40)</b>	<b>(2.37)</b>	<b>(5.37)</b>	<b>(24.86)</b>	<b>(2.40)</b>

Exploration and evaluation yearly expenditure will vary significantly, due to the level of operational activity. In 2016, a USD 13.6 million provision for historic exploration activities was reassessed and considered remote, which created a net gain on the income statement. During 2017, the Company participated in the Ayamé-1X exploration well in Côte d'Ivoire that included USD 7.9 million of drilling costs.

As the outcome on the arbitration hearings in The Gambia and Senegal is uncertain, previously capitalised exploration licence costs have been impaired with a loss recognised in the income statement. Similarly, licence costs for past operations in Sierra Leone, Cote d'Ivoire and Liberia have been impaired when the licences were relinquished.



## 7.1.3.2 African Petroleum consolidated statements of financial position

In USD	As at 30 June		As at 31 December		
	2019 (unaudited)	2018 (unaudited)	2018 (audited)	2017 (audited)	2016 (audited)
<b>Assets</b>					
<b>Current assets</b>					
Cash and cash equivalents	1,690,000	9,423,048	6,286,407	13,186,482	233,298
Trade and other receivables	94,000	106,736	119,915	113,844	199,223
Restricted cash	903,000	902,937	902,937	902,937	4,944,093
Prepayments	18,000	176,175	22,919	125,748	120,403
<b>Total current assets</b>	<b>2,705,000</b>	<b>10,608,897</b>	<b>7,332,178</b>	<b>14,329,011</b>	<b>5,497,017</b>
<b>Non current assets</b>					
Inventories		1,006,908	-	1,006,908	1,006,908
Property, plant and equipment	7,000	2,516	7,100	3,743	4,104
Exploration and evaluation expenditure	-	9,406,536	-	9,107,859	27,582,689
<b>Total non current assets</b>	<b>7,000</b>	<b>10,415,960</b>	<b>7,100</b>	<b>10,118,510</b>	<b>28,593,701</b>
<b>Total assets</b>	<b>2,712,000</b>	<b>21,024,857</b>	<b>7,339,278</b>	<b>24,447,521</b>	<b>34,090,718</b>
<b>Liabilities</b>					
<b>Current liabilities</b>					
Trade and other payables	1,411,000	12,867,865	3,839,524	13,288,671	21,691,260
Derivative financial liabilities	1,605,000	-	-	-	75,218
<b>Total current liabilities</b>	<b>3,016,000</b>	<b>12,867,865</b>	<b>3,839,524</b>	<b>13,288,671</b>	<b>21,766,478</b>
<b>Total liabilities</b>	<b>3,016,000</b>	<b>12,867,865</b>	<b>3,839,524</b>	<b>13,288,671</b>	<b>21,766,478</b>
<b>Net assets</b>	<b>(303,000)</b>	<b>8,156,992</b>	<b>3,499,754</b>	<b>11,158,850</b>	<b>12,324,240</b>
<b>Equity</b>					
Issued capital	642,740,000	643,438,272	642,740,272	642,740,272	611,455,218
Reserves	22,704,000	21,840,267	22,704,013	21,950,647	19,381,839
Accumulated losses	(662,158,000)	(653,655,877)	(658,430,669)	(650,086,682)	(615,466,618)
<b>Parent interests</b>	<b>3,286,000</b>	<b>11,622,662</b>	<b>7,013,616</b>	<b>14,604,537</b>	<b>15,370,439</b>
<b>Non-controlling interests</b>	<b>(3,589,000)</b>	<b>(3,465,670)</b>	<b>(3,513,862)</b>	<b>(3,445,687)</b>	<b>(3,046,199)</b>
<b>Total equity</b>	<b>(303,000)</b>	<b>8,156,992</b>	<b>3,499,754</b>	<b>11,158,850</b>	<b>12,324,240</b>

During 2017, the Company issued shares to raise USD 33.1 million to fund the drilling program in Côte d'Ivoire and ongoing working capital obligations.

As the outcome on the arbitration hearings in The Gambia and Senegal is uncertain, previously capitalised exploration licence costs have been fully impaired. Similarly, licence costs for past operations in Sierra Leone, Cote d'Ivoire and Liberia have been impaired when the licences were relinquished.

In 2017, with the completion of the Ayamé-1X well, USD 4 million of restricted cash was released and utilised to pay the ongoing joint venture obligations in Côte d'Ivoire. In 2018, the USD 900,000 restricted cash balance is held as a security deposit for licence training obligations in The Gambia.

In 2016 and 2017, the Company retained inventory from its past drilling operations, with intentions to utilise the well heads on future drilling programs.

The trade and other payables balance has decreased with the reduction in the Company's operations, and relinquishment of exploration licences.

### 7.1.3.3 African Petroleum consolidated statement of cash flows

<i>In USD</i>	Period ended		Year ended		
	30 June		31 December		
	2019	2018	2018	2017	2016
	(unaudited)	(unaudited)	(audited)	(audited)	(audited)
<b>Cash flows from operating activities</b>					
Payments to suppliers and employees	(4,620,000)	(3,426,696)	(6,533,682)	(22,200,485)	(3,288,233)
Interest received	-	7	12	9	6,885
Finance costs	-	(9,794)	(16,560)	(29,322)	(37,089)
Other income	-	-	-	197,804	172,589
<b>Net cash flows used in operating activities</b>	<b>(4,620,000)</b>	<b>(3,436,483)</b>	<b>(6,550,230)</b>	<b>(22,031,994)</b>	<b>(3,145,848)</b>
<b>Cash flows from investing activities</b>					
Proceeds from sale of plant and equipment	-	-	-	30,879	2,500
Payment for plant and equipment	(2,000)	-	(7,896)	(3,026)	(4,337)
Payment for exploration and evaluation activities	-	(298,677)	(303,394)	(1,037,835)	(5,288,328)
Proceeds from farm out of exploration and evaluation assets	-	-	-	-	6,339,480
Cash backing security returned	-	-	-	4,375,000	6,000,000
Cash backing security provided	-	-	-	(333,844)	(4,375,000)
<b>Net cash from investing activities</b>	<b>(2,000)</b>	<b>(298,677)</b>	<b>(311,290)</b>	<b>3,031,174</b>	<b>2,674,315</b>
<b>Cash flows from financing activities</b>					
Proceeds from issue of shares	-	-	-	33,644,423	-
Capital raising costs	-	-	-	(1,852,606)	-
Proceeds from exercise of share options	-	-	-	191,238	15,251
<b>Net cash from financing activities</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>31,983,055</b>	<b>15,251</b>
<b>Net increase/(decrease) in cash and cash equivalents</b>	<b>(4,622,000)</b>	<b>(3,735,160)</b>	<b>(6,861,520)</b>	<b>12,982,235</b>	<b>(456,282)</b>
Cash and cash equivalents at the beginning of the period	6,286,000	13,186,482	13,186,482	233,298	607,512
Net foreign exchange differences	26,000	(28,274)	(38,555)	(29,051)	82,068
<b>Cash and cash equivalents at the end of period</b>	<b>1,690,000</b>	<b>9,423,048</b>	<b>6,286,407</b>	<b>13,186,482</b>	<b>233,298</b>

The operating cash requirements for exploration programs will vary significantly depending on the nature of the activity, and consequently fluctuate from year to year. The drilling costs of the Ayamé-1X well increased the payments of suppliers and employees in 2017, compared with G&G studies and interpretation in other years.

Payments for exploration and evaluation activities represent the payments of licence rental and other fees required under the exploration licences. These amounts have decreased annually, as the Company has reduced the number of licences it holds and has not paid any fees for licences that are in arbitration.

During 2017, the Company issued shares to raise USD 33.1 million to fund the drilling program in Côte d'Ivoire and ongoing working capital obligations.

#### 7.1.3.4 African Petroleum consolidated statement of changes in equity

In USD\$	Period ended		Year ended		
	30 June		31 December		
	2019	2018	2018	2017	2016
	(unaudited)	(unaudited)	(audited)	(audited)	(audited)
<b>Balance at 1 January</b>	<b>3,500,000</b>	<b>11,158,850</b>	<b>11,158,850</b>	<b>12,324,240</b>	<b>14,470,597</b>
Loss for period	(3,803,000)	(3,589,178)	(8,412,162)	(35,019,552)	(2,617,616)
Foreign currency exchange differences on translation from functional currency	-	2,405	(77,102)	(33,930)	(216,466)
<b>Total comprehensive loss for period</b>	<b>(3,803,000)</b>	<b>(3,586,773)</b>	<b>(8,489,264)</b>	<b>(35,053,482)</b>	<b>(2,834,082)</b>
Issue of capital	-	-	-	31,093,816	-
Exercise of options	-	-	-	191,238	15,251
Share-based payments	-	584,915	830,168	2,603,038	672,474
<b>Balance at period end</b>	<b>(303,000)</b>	<b>8,156,992</b>	<b>3,499,754</b>	<b>11,158,850</b>	<b>12,324,240</b>

During 2017, the Company issued shares to raise USD 33.1 million to fund the drilling program in Côte d'Ivoire and ongoing working capital obligations. The Company partially settled the fees associated with the fundraise, by issuing options to the brokers, this generated the larger share based payment in 2017.

#### 7.14 Operating and financial results of African Petroleum

During the year ended 31 December 2016 the Company operated in a depressed oil price environment and a difficult equity capital market, and accordingly the Company was focused on maintaining reduced overhead costs across the business. Significant cost savings were implemented by reducing staff headcount, reducing salaries of remaining staff and reducing director's fees.

In 2015 the Group signed a joint bidding agreement ("JBA") with Ophir Energy plc that resulted in the Group and Ophir Energy plc entering into a new petroleum sharing contract ("PSC") in December 2015 covering the Company's CI-513 licence area in Côte d'Ivoire. The new CI-513 PSC became effective in March 2016 with Ophir Energy plc holding a 45% operated interest, the Company holding a non-operated 45% interest and Petroci holding a 10% carried interest. In accordance with the terms of the JBA, Ophir Energy plc paid US\$16.9 million in relation to back costs to the Company upon the PSC becoming effective.

On 23 November 2016 the Company announced that Liberian production sharing contracts LB-08 and LB-09 ("Liberia PSCs") had expired and would not be extended. The Company had been in discussions with the relevant Liberian authorities regarding the possible amendment of terms and extension of the Liberia PSCs to enable the Company additional time to attract an industry partner whilst not enduring costly work commitments; however, agreement could not be reached.

As at 31 December 2016 the Company held licence interests in Côte d'Ivoire (CI-513 & CI-509), Sierra Leone (SL-03 & SL-4A-10), Senegal (ROP & SOSOP) and The Gambia (A1 & A4).

During the year ended 31 December 2017 the Company completed two private placements:

- a) On 23 January 2017 the Company completed a private placement to certain existing and new investors to raise NOK 26,675,000 (approximately USD 3.1 million) (before costs) through the issue of 10,670,000 new fully paid ordinary shares at a price of NOK 2.50 per share; and
- b) On 12 May 2017 the Company completed a further private placement to certain existing and new investors to raise NOK 257,687,500 (approximately USD 30 million) (before costs) through the issue of 33,250,000 new fully paid ordinary shares at a price of NOK 7.75 per share.

The proceeds from the two private placements were used to strengthen the Company's balance sheet and liquidity position, to fund the Company's ongoing exploration program, including the Ayamé-1X exploration well drilled in Côte d'Ivoire in May 2017, as well as for working capital and for general corporate purposes.

On 29 April 2017 the Ayamé-1X exploration well was spud on the CI-513 licence (Ophir Energy (Operator) 45%, African Petroleum 45%, Petroci 10%) in Côte d'Ivoire using the Seadrill West Saturn drillship. The Ayamé-1X well was targeting Santonian and Turonian turbidite channel complexes through a water depth of 2,835 metres. On 15 May 2017 the Company announced that the Ayamé-1X exploration well had reached total depth of 5,394m True Vertical Depth Sub Sea. Oil shows were recorded in the target reservoirs but significant hydrocarbons were not encountered and the well was plugged and abandoned as a dry hole. Ophir Energy completed the well safely and under budget with a final gross cost of approximately US\$19 million.

On 18 October 2017 the Company announced that its wholly owned subsidiaries African Petroleum Gambia Limited and APCL Gambia B.V had lodged Requests for Arbitration ("RFA") documents with the International Centre for the Settlement of Investment Disputes ("ICSID") in order to protect its interests in the A1 and A4 licences in The Gambia, and that these RFAs had been registered and allocated case numbers by ICSID.

As at 31 December 2017 the Company held licence interests in Côte d'Ivoire (CI-513 & CI-509), Sierra Leone (SL-03 & SL-4A-10), Senegal (ROP & SOSOP) and The Gambia (A1 & A4 – in arbitration).

During the year ended 31 December 2018 the Company relinquished its licence interests in Sierra Leone and Côte d'Ivoire:

- a) On 22 November 2018, the Company announced the relinquishment of its interests in licences SL-03-17 and SL-4A-17 with immediate effect. This followed a period of discussion with the Petroleum Directorate of Sierra Leone, during which the parties failed to agree an extension to the licences on suitable terms. The Company was not able to not commit to an ultra-deepwater drilling program and accordingly relinquished these licences. After relinquishment, previous exploration commitments required by the licences that had been capitalised, including surface rental, social and training obligations, as well as past signature bonuses have been written off as an impairment expense within the consolidated statement of comprehensive income; and
- b) Following the post-well analysis work of the Ayamé-1X exploration well in May 2017, it was concluded that the remaining prospectivity of the CI-513 block did not represent an attractive investment opportunity that would justify entering the next phase of the PSC and associated work programme and financial commitment therein. Subsequently on 8 March 2018, the Company announced the intention to relinquish its interests in licences CI-509 and CI-513. The previous year's impairment provision for exploration and evaluation assets has been crystallised.

On 11 July 2018 the Company's subsidiary African Petroleum Senegal Limited registered a request for arbitration proceedings with ICSID (ICSID case ARB/18/24) to protect its interests in the Senegal Offshore Sud Profond ("SOSP") and Rufisque Offshore Profond ("ROP") blocks in Senegal.

As at 31 December 2018 the Company held licence interests in Senegal (ROP & SOSP – in arbitration) and The Gambia (A1 & A4 – in arbitration).

### 7.15 Operating results

The Company does not have any sales revenue or income from operations.

### 7.16 Key financial information by segment

The Group operates only in one segment, which is exploration for hydrocarbons.

For management purposes, the Group is organised into one main operating segment, which involves exploration for hydrocarbons. All of the Group's activities are interrelated, and discrete financial information is reported to the Board of Directors and the executive management team (Chief Operating Decision Makers) as a single segment. Accordingly, all significant operating decisions are based upon analysis of the Group as one segment. The financial results from this segment are equivalent to the financial statements of the Group as a whole.

The analysis of the location of non-current assets is as follows:

<i>In USD\$</i>	<b>Period ended</b>		<b>Year ended</b>		
	<b>30 June</b>		<b>31 December</b>		
	<b>2019</b>	<b>2018</b>	<b>2018</b>	<b>2017</b>	<b>2016</b>
	<i>(unaudited)</i>	<i>(unaudited)</i>	<i>(audited)</i>	<i>(audited)</i>	<i>(audited)</i>
Côte d'Ivoire	-	-	-	-	8,225,750
The Gambia	-	-	-	-	6,380,591
Senegal	3,000	-	2,385	-	3,900,274
Sierra Leone	-	9,406,536	-	9,107,859	9,076,824
United Kingdom	4,000	1,009,424	4,715	1,010,651	1,010,262
	<b>7,000</b>	<b>10,415,960</b>	<b>7,100</b>	<b>10,118,510</b>	<b>28,593,701</b>

### **7.1.7 Related party transactions**

For information regarding the Company's related party transactions, please see related party information in the annual reports of 2018, 2017 and 2016. The documents are enclosed in section 12.2 "Incorporation by reference".

### **7.1.8 Liquidity and capital resources**

For the period covered by the historical financial information and up to the date of this Exempted Document, the Company has completed one equity placement in October 2015 raising NOK 16.5 million (approximately USD 2 million), one equity placement in January 2017 raising NOK 26.7 million (approximately USD 3.1 million) and one equity placement in May 2017 raising NOK 258 million (approximately USD 30 million).

As at 31 December 2018, the Company had available liquid funds in the form of cash and cash equivalents amounting to USD 6,286,407. The Group does not have any financial debt at the date of this Exempted Document.

On a longer term basis, the Group will be dependent on further capital raisings and/or farm-out transactions in order to fund its operations from the second half of 2020 onwards. Based on the Group's current cash balances, the Group is in a position to finance its operations and its arbitration proceedings in 2019 and 2020; however, the Group will need to complete one or more farm-out transactions or other significant funding in order to finance operations and planned investments from the second half of 2020 onwards, assuming a successful outcome in the arbitration proceedings.

#### *7.1.8.1 Restrictions on use of capital*

As at the date of this Exempted Document, the Group does not have any interest bearing debt that restricts or has restricted the use of capital and that have materially affected, or could materially affect, directly or indirectly, the Group's operations.

#### *7.1.8.2 Working capital statement*

The Company is of the opinion that the working capital available to the Group is sufficient for the Group's present requirements, for the period covering at least 12 months from the date of this Exempted Document.

#### *7.1.8.3 Borrowing requirements and funding structure*

Prior to the completion of the Transaction, the Company did not have any external borrowings. For a description of the Group's borrowings post the combination with PetroNor, please refer to Section 7.2.7.2 "Borrowing requirements and funding structure" below.

#### *7.1.8.4 Anticipated sources of funds needed*

The Group will be dependent on further capital raisings and/or farm-out transactions in order to fund its operations from the second half of 2020 onwards, assuming a successful outcome in the arbitration proceedings.

### **7.1.9 Dividend policy**

The Group's principal activity is exploration for hydrocarbons and the licences held by the Group are still in an early stage of exploration and development. Consequently, the Group has insofar no expectation to be in a position to distribute dividends in the foreseeable future.

Up to and including the date of this Exemption Document, the Company has neither declared nor paid any dividends.

The Company's Constitution does not provide for any time limit after which entitlement to dividends lapses. The Directors may from time to time declare a dividend to be paid to shareholders entitled to the dividend. The dividend shall (subject to the Company's Constitution and to the rights of any preference shareholders and to the rights of the holders of any shares created or raised under any special arrangement as to dividends) be payable on all shares in accordance with the Australian Corporations Act. The Directors may from time to time pay to the shareholders such interim dividends as they may determine. No dividends shall be payable except out of profits. A determination by the Directors as to the profits of the Company shall be conclusive. No dividend shall carry interest as against the Company. There are no dividend restrictions or specific procedures for the right of non-Australian resident shareholders to claim dividends. However, where a non-resident investor holds Shares in the Company, any dividends (or other amounts treated as dividend for Australian income tax purposes) paid by the Company may be subject to dividend withholding tax as further described in Section 11 "Taxation".

Under Australian law, a company must not pay a dividend unless:

- (a) Assets exceed liabilities immediately before the dividend is declared and the excess is sufficient to cover the payment of the dividend;
- (b) The payment of the dividend is fair and reasonable to the shareholders as a whole; and
- (c) The payment of the dividend does not materially prejudice the company's ability to pay its creditors.

Directors may determine that a dividend is payable and fix the amount, time for payment and the method of payment.

## **7.2 PetroNor selected financial information**

### **7.2.1 Introduction**

The Company's historical consolidated financial statements have been prepared in accordance with IFRS.

The Company's audited consolidated financial statements as at, and for the years ended, 31 December 2018 and 2017, including an overview of the Company's accounting policies, explanatory notes and auditor's statements, are incorporated by reference hereto, please see section 12.2 "Incorporation by reference" below.

The following selected financial information has been extracted from the audited financial statements for PetroNor for the year ended 31 December 2018 and the year ended 31 December 2017 (which covers the full period where PetroNor has existed). The historical results of PetroNor are not necessarily indicative of its results for any future period.

PetroNor's independent auditor is Ernst & Young Cyprus Ltd ("EY"), a member firm of Ernst & Young Global Limited, Jean Nouvel Tower, 6 Stasinou Avenue, 1511 Nicosia, Cyprus. EY has audited the annual accounts of PetroNor as at, and for the two years ended, 31 December 2018 and 2017, without qualifications or disclaimers. EY has not audited or reviewed or produced any report on other information provided in this Exempted Document.

### **7.2.2 Significant change**

Other than the Transaction described in Section 4 "Description of the Transaction", there has been no significant change in the financial or trading position of PetroNor since the end of the last reporting period.

### **7.2.3 PetroNor consolidated historical financial statement**

The following tables present selected financial information for PetroNor that has been derived from PetroNor's audited consolidated financial statements for the years ended 31 December 2018 and 31 December 2017.

**PetroNor Consolidated statement of comprehensive income**

(USD'000)	For the Years ended 31 December	
	2018	2017
	<i>Audited</i>	<i>Audited</i>
Revenue from contracts with customers	101,069	68,351
Cost of sales	(41,577)	(30,113)
<b>Gross profit</b>	<b>59,492</b>	<b>38,238</b>
Other income	491	-
General and administrative expenses	(10,090)	(3,428)
<b>Operating profit</b>	<b>49,893</b>	<b>34,810</b>
Finance costs	(1,623)	(878)
Foreign exchange loss	(88)	(157)
<b>Profit before income tax</b>	<b>48,182</b>	<b>33,775</b>
Income tax expense	(31,124)	(22,621)
<b>Profit for the year</b>	<b>17,058</b>	<b>11,154</b>
Other comprehensive income	-	-
<b>Total comprehensive income</b>	<b>17,058</b>	<b>11,154</b>
<b>Attributable to:</b>		
Equity holders of the parent	7,838	5,850
Non-controlling interest	9,220	5,304
	<b>17,058</b>	<b>11,154</b>

Oil & gas revenues in 2018 was (net of royalties & taxes) USD 55 million (USD 35 million in 2017) arising from sale of 0.81 million barrels of crude oil at an average price of USD 67.52 per barrel. The revenue increased by 55% as compared to 2017. There is a 29% increase in the oil production and 20% increase in the average price, as compared to 2017.

Increase in general and administrative expenses is mainly attributable to travel, legal & professional expenses incurred for the business development and expansion

**PetroNor Consolidated statement of financial position**

(USD'000)	For the years ended 31 December	
	2018	2017
	<i>Audited</i>	<i>Audited</i>
<b>ASSETS</b>		
<b>Non-current assets</b>		
<b>Intangible assets</b>		
Licences	5,556	6,451
Goodwill	9	9
	<b>5,565</b>	<b>6,460</b>
<b>Tangible assets</b>		
Production assets and equipment	12,580	10,854



(USD'000)	For the years ended 31 December	
	2018	2017
	<i>Audited</i>	<i>Audited</i>
	<b>12,580</b>	<b>10,854</b>
<b>Total non-current assets</b>	<b>18,145</b>	<b>17,314</b>
<b>Current assets</b>		
Inventory	2,570	2,369
Accounts receivable, deposits and prepayments <sup>10</sup>	28,210	7,043
Cash and bank balances	7,926	8,069
<b>Total current assets</b>	<b>38,706</b>	<b>17,481</b>
<b>TOTAL ASSETS</b>	<b>56,851</b>	<b>34,795</b>
<b>EQUITY &amp; LIABILITIES</b>		
<b>Equity</b>		
Share capital	120	120
Retained earnings	13,688	5,850
	<b>13,808</b>	<b>5,970</b>
Non-controlling interest	12,811	5,713
<b>Total equity</b>	<b>26,619</b>	<b>11,683</b>
<b>Non-current liabilities</b>		
Decommissioning liability	13,496	12,672
Loan	2,083	-
<b>Total non-current liabilities</b>	<b>15,579</b>	<b>12,672</b>
<b>Current liabilities</b>		
Current portion of long term loan	5,000	-
Accounts payable and accrued liabilities	9,653	10,440
<b>Total current liabilities</b>	<b>14,653</b>	<b>10,440</b>
<b>Total liabilities</b>	<b>30,232</b>	<b>23,112</b>
<b>TOTAL EQUITY AND LIABILITIES</b>	<b>56,851</b>	<b>34,795</b>

Increase in production assets and equipments is mainly attributable to the CAPEX investment of USD 4 million in PNGF SUD. Increase in current assets is because of a loan given to a related party during the year (USD 7 million) and the advance paid to the operator for asset retirement obligation (USD 11.4 million).

<sup>10</sup> Accounts receivable, deposits and prepayments include an amount of USD 5.5 million, which is due from a related party. This does not make part of the Transaction and was written off in the financials done at the completion date of the Transaction.

**PetroNor Consolidated statement of cash flows**

(USD'000)	For the Years ended 31 December	
	2018	2017
	<i>Audited</i>	<i>Audited</i>
<b>OPERATING ACTIVITIES</b>		
Profit before tax for the year	48,182	33,775
Adjustments for:		
Depreciation & amortization	3,206	2,511
Unwinding of discount on decommissioning liability	824	773
	<b>52,212</b>	<b>37,059</b>
Working capital adjustments:		
Inventory	(201)	(2,369)
Accounts receivable, deposits and prepayments	(9,807)	(6,923)
Advance against decommissioning cost	(11,360)	-
Accounts payable and accrued liabilities	(784)	10,440
	<b>30,060</b>	<b>38,207</b>
Tax paid	(31,124)	(22,621)
<b>NET CASH FLOWS FROM OPERATING ACTIVITIES</b>	<b>(1,064)</b>	<b>15,586</b>
<b>INVESTING ACTIVITIES</b>		
Acquisition of production assets and equipment	(4,037)	(7,917)
Acquisition of subsidiary, recognized goodwill	-	(9)
Proceeds from sale of non-controlling interest	-	409
<b>NET CASH FLOWS FROM INVESTING ACTIVITIES</b>	<b>(4,037)</b>	<b>(7,517)</b>
<b>FINANCING ACTIVITIES</b>		
Proceeds from new loans	10,000	-
Repayment of loans	(2,917)	-
Dividends paid to non-controlling interest	(2,125)	-
<b>NET CASH FLOWS FROM FINANCING ACTIVITIES</b>	<b>4,958</b>	<b>-</b>
<b>CHANGE IN CASH AND CASH EQUIVALENTS</b>	<b>(143)</b>	<b>8,069</b>
Cash and cash equivalents at 1 January	8,069	-
<b>CASH AND CASH EQUIVALENTS AT 31 DECEMBER</b>	<b>7,926</b>	<b>8,069</b>

During 2018, PetroNor secured a loan from a third party Rasmallah, an investor group based in Dubai. The loan is to be repaid in 24 monthly equal instalments, and carries an interest rate of 10% plus one month LIBOR payable monthly, maturing in May 2020. Total limit of the loan is USD 15 million which could be withdrawn in two Tranches, Tranche 1 to a maximum of USD 10 million and Tranche 2 to a maximum of USD 5 million. During 2018, PetroNor withdrew only Tranche 1. Petromal has provided a guarantee as security for the loan, which will be replaced by a guarantee from African Petroleum. A pledge of shares in PetroNor shall also be established.

**Key financial information by segment**

PetroNor's reportable segments, for both management and financial reporting purposes, are as follows:

- (i) The Central African segment, which holds the following assets:
  - the PNGF SUD licence representing PetroNor's 10.5% working interest in the PNGF SUD licence in Republic of Congo.
- (ii) The "Corporate and others" category consists of head office and service company operations that are not directly attributable to the other segment.

The analysis of the revenue in terms of reportable segments is as follows:

<i>In USD\$ 000</i>	<b>Year ended 31 December</b>	
	<b>2018</b> <i>(audited)</i>	<b>2017</b> <i>(audited)</i>
Central African	101,069	68,351
Corporate and others	-	-
	<b>101,069</b>	<b>68,351</b>

The analysis of the location of non-current assets is as follows:

<i>In USD\$ 000</i>	<b>Year ended 31 December</b>	
	<b>2018</b> <i>(audited)</i>	<b>2017</b> <i>(audited)</i>
Republic of Congo	18,136	17,305
Norway	-	-
Cyprus	-	-
	<b>18,136</b>	<b>17,305</b>

**7.2.4 Fiscal and environmental conditions relating to Congo**

Under PNGF Sud, there are fiscal terms specific to each assets. The partners in the licence pay a royalty of 15%. There is a cost stop ranging from 50% to 55%. Further, the parties pay a profit oil dependent on cumulative oil produced from the individual fields: 50% until 20 mmbbl and thereafter 45% (Tchibouela), 50% until 15mmbbl (Tchendo) and 50% (Tchibeli/Litanzi). In addition, there is a super profit receivable, calculated as the differential of the actual achieved oil price and a ceiling price (which is only applicable if super profit is above zero). The price ceiling covers the maximum amount of cost oil to be recovered and super profit. As a summary, the netback is around 30% of the realised oil price.

PetroNor is not obliged to carry out environmental protection measures that would be significant to the business or financial situation. However, all phases of the oil business present environmental risks and hazards and are subject to environmental regulation pursuant to a variety of international conventions and state and municipal laws and regulations. Environmental legislation provides for, amongst other things, restrictions and prohibitions on spills, releases or emissions of various substances produced in association with oil and gas operations. The legislation also requires that wells and facility sites be operated, maintained, abandoned and reclaimed to the satisfaction of applicable regulatory authorities.

Elements of PetroNor's activities, products or services that can interact with the environment are produced formation water including chemicals, emission of greenhouse gases and the risk of acute oil discharges including loss of well control. To the extent PetroNor can control and influence the environmental aspects in the licences are dependent on its status as partner and is fundamental to the practical application of the PetroNor's environmental management system.

The primary responsibility for the environmental management of the activities within the licence area rests with the designated operator. However, as PetroNor holds joint and shared liability in connection with any environmental damage from activities undertaken in the licence block, it is in PetroNor's best interest from a risk management perspective to ensure that the operator has environmental management provisions that are consistent with its environmental standards. As such, PetroNor assesses and aligns its environmental management provisions with those of the operator.

PetroNor is committed to identify all its aspects and impacts, shall assess their significance, and ensure that appropriate operational controls are in place for those considered to be significant.

PetroNor applies a broad definition of 'environmental aspects' and considers that, in addition to the physical activities that could lead to an environmental impact, the selection of other operators with whom PetroNor chooses to invest (as a partner) in a licence group is also an aspect which can influence the occurrence and/or extent of potential environmental impacts. Similarly, PetroNor's selection of contractors to undertake activities on its behalf where it is the operator is also an aspect that can influence the extent of potential environmental impacts.

#### **7.2.5 Operating and financial review of PetroNor**

PetroNor E&P Ltd was formally established in 2017 as a joint venture company/special vehicle between the founders, Petromal of Abu Dhabi and NOR of Norway.

In a tender process for the producing oil fields jointly named PNGF SUD, initiated in 2016 by the Ministry of Hydrocarbons in the Republic of Congo, the subsidiary HEPCO was awarded a 20% participating interest in PNGF SUD while the French company Perenco took on the Operatorship and 40% interest of the same fields.

Working and collaborating with Perenco has resulted in significant achievements in 2017 & 2018, in increasing production while reducing cost. The PNGF SUD production has been increased from about 15,000 bopd at beginning of 2017 to about 20,220 bopd in 2018. This increase in production was achieved while reducing the OPEX to 11.4 USD per barrel and the breakeven cost to around 23 USD per barrel.

Following the emergence in Central Africa as a serious producer in 2017, 2018 has been focused on building on operations in the Republic of Congo and set sights for expansion in West Africa and Nigeria in specific.

2018 has also brought the decision of initiating the process of completing the Transaction, and thereby securing access to the capital market.

PetroNor is of the opinion that through the Transaction, the company will also grow into high impact exploration opportunities in Gambia and Senegal.

#### **7.2.6 Related party transactions and conflict of interest**

In 2017 and 2018 the extent of related party transactions was significant as owners (NOR and Petromal) billed PetroNor and its subsidiaries for work performed and travel costs incurred. All the related party transactions were on an arms length basis.

Transactions with related parties included in the consolidated statement of comprehensive income were as follows:

<i>In USD'000</i>	<b>2018</b>	<b>2017</b>
<i>Cost of sales:</i>		
NOR Energy AS	753	2,272
Petromal – Sole Proprietorship LLC	1,582	1,600
	2,335	3,872
<i>Charge back of expenses by a related party:</i>		
NOR Energy AS	1,000	-
	1,000	-

NOR charged back the expenses which were incurred during the setup of the PetroNor Group.

Balances due from and due to related parties disclosed in the consolidated statement of financial position consist of the following balances:

<i>In USD'000</i>	<b>2018</b>	<b>2017</b>
<i>Due from related parties:</i>		
Hemla Africa Holding Ltd.	5,700	5,700
MGI International S.A.	7,000	-
Petromal – Sole Proprietorship LLC	-	402
NOR Energy AS	229	60
	12,929	6,162
<i>Due to related parties:</i>		
Petromal – Sole Proprietorship LLC	1,163	1,385
NOR Energy AS	975	1,133
	2,138	2,518

Amounts due from/due to related parties are related to expenses incurred on behalf of the PetroNor Group and vice versa, except for the amounts due from Hemla Africa Holding Ltd. and MGI International S.A., which are arising out of loans provided to these companies.

During 2018, HAH provided a loan of USD 7 million to MGI International S.A. (minority shareholder in HEPCO). The loan will be repaid directly by HEPCO to HAH from its yearly dividends, being 25% of MGI International S.A.'s share of dividends in the first year, and 40% of its share thereafter. The loan does not carry any interest, unless there is a breach of any clause of the loan agreement, in which case 4% p.a. will be accrued on the outstanding amount of the loan.

During 2017, HAH provided a loan facility of USD 6 million to Hemla Africa Holding Ltd., which the borrower had an option to drawdown in one or more instalments. As of 31 December 2018, the borrower has drawn down USD 5.7 million, which is still outstanding as of that date. The loan does not carry any interest and is repayable on demand. The loan does not make part of the Transaction, and was written off in the financials done at the completion date of the Transaction.

Amounts due from/to related parties included in the consolidated statement of financial position (other than the loans to related parties) are interest free, and have no fixed repayment terms.

*Compensation of key management personnel*

The remuneration of directors and other members of key management during 2018 and 2017 was as follows:

<i>In USD'000</i>	<b>2018</b>	<b>2017</b>
<i>Directors' remuneration:</i>	538	384
Key management personnel	1,195	623
Number of key management personnel	4	4

The compensations stated above are for one of the subsidiaries in the PetroNor Group. PetroNor does not have any compensation to key management personnel.

*Service agreements*

HEPCO entered into service agreements with each of HAH and MGI International S.A during 2018. Pursuant to the service agreements, each of HAH and MGI International S.A. were entitled to a monthly fee of USD 100,000 and USD 60,000 respectively, for services provided to HEPCO. The agreements have expired, and will be replaced by new agreements. Back-to-back agreements with PetroNor shall further be established. The new agreements provide for hourly charges instead of fixed fees, and are expected to be approved in the autumn of 2019. The agreement with MGI International S.A. particularly relates to logistic, administrative and commercial assistance in the Republic of Congo. The agreement with HAH particularly relates to technical assistance, cost accounting, negotiation for the search of new petroleum permits, assistance for petroleum trade and development of oil and gas strategies.

*Shareholding undertaking agreement*

NOR and PetroNor entered into a shareholding undertaking agreement on 2 August 2019, where NOR has undertaken to provide liquidity funding to PetroNor, amounting to up to USD 7,000,000 in total. The loans are intended to be a bridge loan until third party funding is secured by the Group. Subject to certain conditions, the loan may be drawn on one or more occasions. The loan shall carry an interest of 10% p.a. from payment to repayment and constitute a bullet loan with due date 12 months from the first day of trading following completion of the Transaction. A facility fee of 1.5% of the total commitments (USD 105,000) shall also be paid to NOR in full within 21 calendar days of completion of the Transaction. The loan shall be unsecured.

**7.2.7 Liquidity and capital resources**

For the period covered by the historical information and up to the date of this Exempted Document, shareholders have provided the required funding to the PetroNor Group. During 2018, one of the subsidiaries in PetroNor Group secured a loan facility from a Dubai based private investor group to fund the business development and expansion expenses of PetroNor Group. The loan is to be repaid in 24 monthly equal instalments, and carries an interest rate of 10% plus one month LIBOR payable monthly, maturing in May 2020. Total limit of the loan is USD 15 million which could be withdrawn in two Tranches, Tranche 1 to a maximum of USD 10 million and Tranche 2 to a maximum of USD 5 million. During 2018, PetroNor withdrew only Tranche 1. Petromal has provided a guarantee as security for the loan, which will be replaced by a guarantee from African Petroleum. A pledge of shares in PetroNor shall also be established.

As at 31 December 2018, PetroNor Group had available funds in the form of cash & cash equivalents amounting to USD 7.9 million and had a financial debt of USD 7.1 million as of that date. In January 2019, PetroNor Group drewdown second trench of the facility and have an outstanding debt of USD 6.5 million as of 30 June 2019 versus the cash and cash equivalents of USD 17.6 million. For more information regarding the financing, please see Section 7.2.3 "PetroNor consolidated historical financial statement".

#### *7.2.7.1 Restrictions on use of capital*

As at the date of this Exempted Document, PetroNor Group does not have any interest bearing debt that restricts or has restricted the use of capital and that have materially affected, or could materially affect, directly or indirectly, the PetroNor Group's operations.

#### *7.2.7.2 Borrowing requirements and funding structure*

Following the completion of the Transaction, although NOR is guaranteed to provide necessary funding for the working capital and expansion of the business of the Group, the intention is to establish a relationship with a reputable bank(s) to get term loan(s) to bridge the funding gaps. The new loan will replace the existing loan that PetroNor has, and the remaining balance will be used to fund the probes into the new opportunities in Africa.

NOR and PetroNor entered into a shareholding undertaking agreement on 2 August 2019, where NOR has undertaken to provide liquidity funding to PetroNor, amounting to up to USD 7,000,000 in total. Please see Section 7.2.6 "Related party transactions and conflict of interest" for further information.

#### **7.2.8 Dividend policy**

Following completion of the Transaction, PetroNor does not have a dividend policy separate from the Company.

## 8 CAPITALISATION AND INDEBTEDNESS

### 8.1 Capitalisation and indebtedness for African Petroleum

As of 31 December 2018, the Company had available liquid funds in the form of cash and cash equivalents amounting to USD 6,286,407. The Group does not have any financial debt on the date of this Exemption Document.

The financial information presented below should be read in connection with the other parts of this Exempted Document, in particular Section 7.1 "African Petroleum selected financial information" and the financial statements for African Petroleum and related notes incorporated by reference hereto, see Section 12.2 "Incorporation by reference".

The financial information presented below provides information about African Petroleum's capitalisation and net financial indebtedness on an actual basis as at 30 June 2019 and, in the "As adjusted" columns, African Petroleum's capitalisation and net financial indebtedness on an adjusted basis to give effect to the Transaction.

Other than as set out above, there has been no material change to the African Petroleum's capitalisation and net financial indebtedness since 30 June 2019.

<i>In USD'000</i>	<b>As at</b>		
	<b>30 June 2019</b>	<b>Adjustment</b>	<b>As adjusted</b>
	<i>(unaudited)</i>	<i>(unaudited)</i>	<i>(unaudited)</i>
<b>Indebtedness</b>			
<i>Total current debt:</i>			
Guaranteed and secured	-	6,471	6,471
Unguaranteed/unsecured	-	-	-
<i>Total non-current debt:</i>			
Guaranteed and secured	-	-	-
Unguaranteed/unsecured	-	-	-
<b>Total indebtedness</b>	<b>-</b>	<b>6,471</b>	<b>6,471</b>
<b>Shareholders' equity</b>			
Share capital	642,740	624,040	18,700
Other equity	(639,913)	621,373	18,540
Non-controlling interests	(3,590)	568	3,022
<b>Total shareholders' equity</b>	<b>(763)</b>	<b>2,100</b>	<b>2,863</b>
<b>Total capitalisation</b>	<b>(763)</b>	<b>2,100</b>	<b>2,863</b>

<i>In USD'000</i>	<b>As at</b>		
	<b>30 June 2019</b>	<b>Adjustment</b>	<b>As adjusted</b>
	<i>(unaudited)</i>	<i>(unaudited)</i>	<i>(unaudited)</i>
Net indebtedness			
(A) Cash	1,682	15,508	17,190
(B) Cash equivalents	-	-	-
(C) Interest bearing receivables	-	-	-
<b>(D) Liquidity (A)+(B)+(C)</b>	<b>1,682</b>	<b>15,508</b>	<b>17,190</b>
<b>(E) Current financial receivables</b>	<b>53</b>	<b>22,689</b>	<b>22,742</b>



<i>In USD'000</i>	<b>As at</b>		
	<b>30 June 2019</b>	<b>Adjustment</b>	<b>As adjusted</b>
	<i>(unaudited)</i>	<i>(unaudited)</i>	<i>(unaudited)</i>
(F) Current bank debt	-	-	-
(G) Current portion of non-current debt	-	-	-
(H) Other current financial debt	-	6,471	6,471
<b>(I) Current financial debt (F)+(G)+(H)</b>	-	<b>6,471</b>	<b>6,471</b>
<b>(J) Net current financial indebtedness (I)-(E)-(D)</b>	<b>(1,735)</b>	<b>31,726</b>	<b>33,461</b>
(K) Non-current bank loans	-	-	-
(L) Bonds issued	-	-	-
(M) Other non-current debt	-	-	-
<b>(N) Non-current financial indebtedness (K)+(L)+(M)</b>	-	-	-
<b>(O) Net financial indebtedness (J)+(N)</b>	<b>(1,735)</b>	<b>31,726</b>	<b>33,461</b>

## 8.2 Capitalisation and indebtedness for PetroNor

As of 31 December 2018, PetroNor had available liquid funds in the form of cash and cash equivalents amounting to USD 7.9 million. PetroNor Group has an outstanding financial debt of USD 6.5 million as of 30 June 2019 (30 December 2018: USD 7.1 million).

The financial information presented below should be read in connection with the other parts of this Exempted Document, in particular Section 7 "Selected financial information" and the financial statements for PetroNor and related notes.

The financial information presented below provides information about PetroNor's capitalisation and net financial indebtedness on an actual basis as at 30 June 2019.

Other than as set out above, there has been no material change to the PetroNor's capitalisation and net financial indebtedness since 30 June 2019.

<i>In USD\$ 000</i>	<b>As at 30 June 2019</b>
	<i>(unaudited)</i>
<b>Indebtedness</b>	
<i>Total current debt:</i>	
Guaranteed and secured	6,471
Unguaranteed/unsecured	-
<i>Total non-current debt:</i>	
Guaranteed and secured	-
Unguaranteed/unsecured	-
<b>Total indebtedness</b>	<b>6,471</b>
<b>Shareholders' equity</b>	
Share capital	120
Share premium	-
Other equity	14,752
Non-controlling interests	17,444

<i>In USD\$ 000</i>	<b>As at 30 June 2019</b>
	<i>(unaudited)</i>
<b>Total shareholders' equity</b>	<b>32,316</b>
<b>Total capitalisation</b>	<b>39,057</b>

<i>In USD\$ 000</i>	<b>As at 30 June 2019</b>
	<i>(audited)</i>
Net indebtedness	
(A) Cash	17,608
(B) Cash equivalents	-
(C) Interest bearing receivables	-
<b>(D) Liquidity (A)+(B)+(C)</b>	<b>17,608</b>
<b>(E) Current financial receivables</b>	<b>22,689</b>
(F) Current bank debt	-
(G) Current portion of non-current debt	-
(H) Other current financial debt	6,471
<b>(I) Current financial debt (F)+(G)+(H)</b>	<b>6,471</b>
<b>(J) Net current financial indebtedness (I)-(E)-(D)</b>	<b>(33,826)</b>
(K) Non-current bank loans	-
(L) Bonds issued	-
(M) Other non-current debt	-
<b>(N) Non-current financial indebtedness (K)+(L)+(M)</b>	<b>-</b>
<b>(O) Net financial indebtedness (J)+(N)</b>	<b>(33,826)</b>

## **9 PRO FORMA FINANCIAL INFORMATION**

### **9.1 Audited pro forma financial information**

The acquisition of PetroNor resulted in "a significant gross change" for the Company, as defined in Annex IV section 3, which sets out the requirements to the Pro Forma financial information which needs to be included in an Exempted Document. For the purpose of complying with this, the Company has prepared the pro forma statements of financial position and comprehensive income so as to illustrate how the acquisition of PetroNor affected the Company had it been completed at 1 January 2018, and this hypothetical compilation may differ from the Group's actual financial position or results. Completion of the Transaction occurred on 30 August 2019.

Apart from the Transaction, no other circumstances occurring after 31 December 2018 are covered by the pro forma statements financial information. The sources of the historical financial information included in the pro forma financial statements are:

- For the Company, extracted from the audited consolidated financial statements as of 31 December 2018 and;
- For PetroNor E&P Ltd, extracted from the audited consolidated financial statements as of 31 December 2018.

### **9.2 General information and purpose of the unaudited pro forma comprehensive financial information**

In the preparation of the pro forma financial information, the Transaction was a reverse takeover, but not a business combination. PetroNor is considered as the accounting acquirer and African Petroleum as the accounting acquiree.

The pro forma financial information has been compiled solely to comply with Annex IV section 3.

The underlying pro forma adjustments and the principles of reverse takeover accounting are described in the notes to the pro forma information included in Section 9.5 "Notes to the pro forma financial information". The resulting pro forma financial information has not been audited in accordance with Norwegian or International Standards on Auditing ("ISAs").

However, the Company's independent accountant, BDO (WA) Pty Ltd, has issued a report on the Pro Forma financial information included in Appendix B hereto. The report is prepared in accordance with ISAE 3420 "Assurance Engagements to Report on the Compilation of Pro Forma Financial Information Included in a Prospectus".

### **9.3 Accounting principles**

The underlying financial information for the Group as of 31 December 2018 included in the pro forma financial information is extracted from financial statements that have been prepared under Australian Accounting Standards and also complies with IFRS as issued by the International Accounting Standards Board. PetroNor prepares its respective consolidated financial statements in accordance with IFRS as adopted by the EU, though management has not identified any differences between the Company's accounting policies and those applied that would impact the pro forma financial information.

**9.4 Unaudited pro forma comprehensive financial information****Pro forma statement of comprehensive income for the year ended 31 December 2018**

USD '000	PetroNor Consolidated Audited	APCL Consolidated Audited	NGAAP / IFRS Adjustments	Pro Forma Adjustments	Pro Forma Income Statement Reviewed
<b>OPERATING INCOME AND EXPENSES</b>					
Revenue					
Oil sales	101,069	-	-	-	101,069
Other	491	-	-	-	491
<b>Operating Income</b>	<b>101,560</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>101,560</b>
Cost of sales	(41,577)	-	-	-	(41,577)
Exploration costs	-	82	-	-	82
Exploration impairment	-	(1,704)	-	-	(1,704)
General and administrative expenses	(10,090)	(6,829)	-	-	(16,919)
Share based payment – Costs of listing	-	-	-	(9,641)	(9,641)
<b>Operating expenses</b>	<b>(51,667)</b>	<b>(8,451)</b>	<b>-</b>	<b>(9,641)</b>	<b>(69,759)</b>
<b>OPERATING PROFIT / (LOSS)</b>	<b>49,893</b>	<b>(8,451)</b>	<b>-</b>	<b>(9,641)</b>	<b>31,801</b>
<b>FINANCIAL INCOME AND EXPENSES</b>					
Finance costs	(1,623)	-	-	-	(1,623)
Foreign exchange (loss)/gain	(88)	39	-	-	(49)
<b>NET FINANCIAL INCOME AND EXPENSES</b>	<b>(1,711)</b>	<b>39</b>	<b>-</b>	<b>-</b>	<b>(1,672)</b>
<b>OPERATING RESULT BEFORE TAX</b>	<b>48,182</b>	<b>(8,412)</b>	<b>-</b>	<b>(9,641)</b>	<b>30,129</b>
Tax on ordinary result	(31,124)	-	-	-	(31,124)
<b>OPERATING RESULT AFTER TAX</b>	<b>17,058</b>	<b>(8,412)</b>	<b>-</b>	<b>(9,641)</b>	<b>(995)</b>
<b>OTHER COMPREHENSIVE GAINS</b>					
<b>Foreign currency translation reserve</b>					
Foreign exchange loss on translation of functional currency to presentation currency	-	(77)	-	-	(77)
<b>TOAL COMPREHENSIVE RESULT</b>	<b>17,058</b>	<b>(8,489)</b>	<b>-</b>	<b>(9,641)</b>	<b>(1,072)</b>

USD '000	PetroNor Consolidated Audited	APCL Consolidated Audited	NGAAP / IFRS Adjustments	Pro Forma Adjustments	Pro Forma Income Statement Reviewed
Operating result after tax:					
Non-controlling interest	9,220	(68)	-	(2,878)	6,274
Owners of the parent	7,838	(8,344)	-	(6,763)	(7,269)
Total comprehensive result:					
Non-controlling interest	9,220	(68)	-	(2,878)	6,274
Owners of the parent	7,838	(8,421)	-	(6,763)	(7,346)

*Pro forma statement of financial position as at 31 December 2018*

USD '000	PetroNor Consolidated Audited	APCL Consolidated Audited	NGAAP / IFRS Adjustments	Pro forma Adjustments	Pro forma Financial Position Reviewed
<b>ASSETS</b>					
<b>CURRENT ASSETS</b>					
Cash and cash equivalents	7,926	6,286	-	(2,100)	12,110
Trade and other receivables	28,210	143	-	-	28,353
Inventories	2,570	-	-	-	2,570
Restricted cash	-	903	-	-	903
<b>TOTAL CURRENT ASSETS</b>	<b>38,706</b>	<b>7,332</b>	<b>-</b>	<b>(2,100)</b>	<b>43,938</b>
<b>NON CURRENT ASSETS</b>					
Production, plant and equipment	12,580	7	-	-	12,587
Exploration licences	5,556	-	-	-	5,556
Goodwill	9	-	-	-	9
<b>TOTAL NON CURRENT ASSETS</b>	<b>18,145</b>	<b>7</b>	<b>-</b>	<b>-</b>	<b>18,152</b>
<b>TOTAL ASSETS</b>	<b>56,851</b>	<b>7,339</b>	<b>-</b>	<b>(2,100)</b>	<b>62,090</b>
<b>LIABILITIES</b>					
<b>CURRENT LIABILITIES</b>					
Trade payables	3,787	1,838	-	-	5,625
Other payables	5,886	2,002	-	-	7,868
Current portion of long term loan	5,000	-	-	-	5,000
<b>TOTAL CURRENT LIABILITIES</b>	<b>14,653</b>	<b>3,840</b>	<b>-</b>	<b>-</b>	<b>18,493</b>
<b>NON CURRENT LIABILITIES</b>					
Provisions	13,496	-	-	-	13,496
Loan	2,083	-	-	-	2,083

USD '000	PetroNor Consolidated	APCL Consolidated	NGAAP / IFRS Adjustments	Pro forma Adjustments	Pro forma Financial Position Reviewed
	Audited	Audited			
<b>TOTAL NON CURRENT LIABILITIES</b>	<b>15,579</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>15,579</b>
<b>TOTAL LIABILITIES</b>	<b>30,232</b>	<b>3,840</b>	<b>-</b>	<b>-</b>	<b>34,072</b>
<b>NET ASSETS</b>	<b>26,619</b>	<b>3,499</b>	<b>-</b>	<b>(2,100)</b>	<b>28,018</b>
<b>EQUITY</b>					
Issued capital	120	642,740	-	(624,040)	18,280
Reserves	-	22,704	-	(21,951)	753
Retained earnings / (losses)	13,688	(658,431)	-	643,324	(1,419)
<b>Parent interests</b>	<b>13,808</b>	<b>7,013</b>	<b>-</b>	<b>(2,668)</b>	<b>18,153</b>
<b>Non-controlling interests</b>	<b>12,811</b>	<b>(3,514)</b>	<b>-</b>	<b>568</b>	<b>9,865</b>
<b>TOTAL EQUITY</b>	<b>26,619</b>	<b>3,499</b>	<b>-</b>	<b>(2,100)</b>	<b>28,018</b>

## 9.5 Notes to the pro forma financial information

In the Pro Forma financial information, the acquisition is accounted for as a continuation of the financial statements of PetroNor. The Transaction assessed fair value excess of the over the net assets of APCL and an estimate for listing expenses has been expensed as a share-based payment. The estimate for listing expenses is based on the deemed market capitalisation of the company less the net assets acquired as outlined below.

Fair Value		US\$ 000
APCL issued shares currently in issue	155,466,446	
APCL share price used in Pro Forma calculations	NOK 1.10	
Foreign exchange rate NOK : USD	USD \$0.127	
<b>Fair value consideration</b>		<b>19,750</b>
<b>Share capital</b>	<b>US\$ 000</b>	<b>US\$ 000</b>
APCL issued capital as at 1 January 2018	642,740	
PetroNor issued capital as at 1 January 2018	120	642,860
<i>Pro Forma adjustments</i>		
Elimination of APCL issued capital at 1 January 2017	(642,740)	
PetroNor issued capital for APCL acquisition	19,750	
Costs associated with the APCL acquisition	(1,050)	(624,040)
<b>Post transaction</b>		<b>18,820</b>
<b>Retained earnings / Accumulated losses</b>	<b>US\$ 000</b>	<b>US\$ 000</b>
APCL accumulated losses as at 1 January 2018	(650,087)	
PetroNor retained earnings as at 1 January 2018	5,850	(644,237)

APCL loss for the year	(8,344)	
PetroNor profit for the year	7,838	(506)
<i>Pro Forma adjustments</i>		
Elimination of APCL accumulated losses as at 1 January 2018	650,087	
Reflect minority interest of APCL	(6,763)	643,324
<b>Post transaction</b>		<b>(1,419)</b>
<hr/>		
<b>Share based payment – Costs of listing</b>	<b>US\$ 000</b>	<b>US\$ 000</b>
<i>Pro Forma adjustments</i>		
PetroNor issued capital for APCL acquisition	19,750	
Cash utilised for Transaction costs	2,100	
Proportion of Transaction costs attributable to the issue of shares <sup>11</sup>	(1,050)	
Fair value of APCL net assets acquired as at 1 January 2017	(11,159)	9,641
<b>Post transaction</b>		<b>9,641</b>

As the fair value consideration is calculated using the share price of APCL, consideration will change on a daily basis. Consequently the Pro Forma financial information has used the trading share price several days before the release of this Exempted Document to allow time for the Company's independent accountant to complete their report.

If the APCL share price was to move by +/- 5% from the NOK 1.10 figure used in the pro forma financial information, the variance in the fair value consideration is as follows:

APCL share price	NOK 1.05	NOK 1.05	NOK 1.16
Fair value consideration	USD 18,760,000	19,750,000	20,730,000
Increase/(decrease) in share based payment	USD (990,000)	-	USD 980,000
Increase/(decrease) in share capital	USD (990,000)	-	USD 980,000

## 9.6 Independent assurance report on audited pro forma financial information

BDO (WA) Pty Ltd has issued a report on the pro forma financial information. The report is included in Appendix B in this Exempted Document.

<sup>11</sup> The pro forma financial information assumes that 50% of the cash used to pay the Transaction costs was directly attributable to the issue of shares for cash and would have been avoided if the Transaction had not occurred, consequently these costs are deducted from equity.

## 10 INDUSTRY OVERVIEW

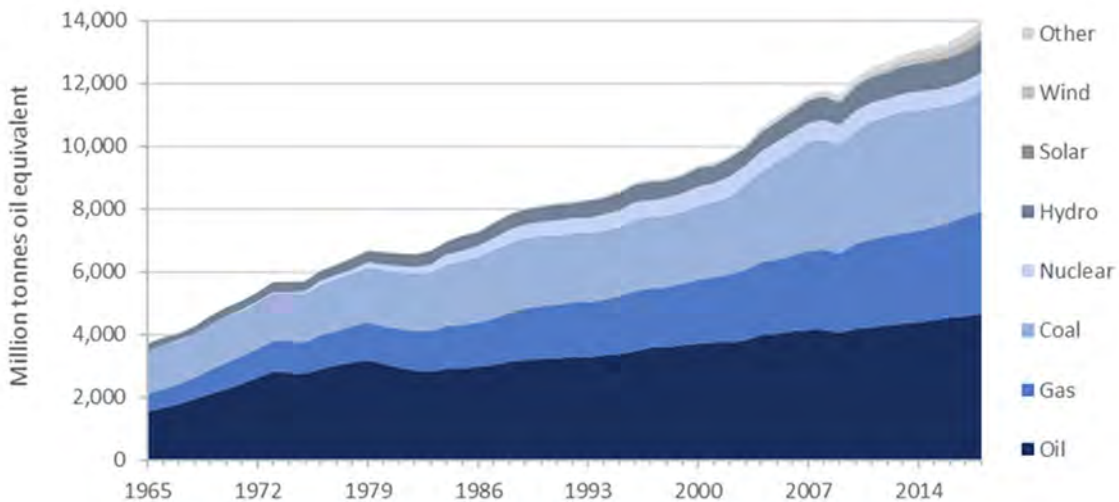
The Group is an upstream oil and gas business focused on the exploration, development and production phases of the upstream value chain. The Group's business is to gain and de-risk oil and gas licences in the West African region and successfully explore for oil and gas in its licences. In the event of a commercial discovery the Group will participate in maturing its discoveries towards development and eventually commercial hydrocarbon production. While the Group has internal resources to conduct geological and geophysical work, as well as drilling operations, to conduct its business, the Group is reliant on third party providers of (when relevant) seismic data, offshore vessel and drilling rig services, as well as engineering and other consultancy services. The long-term profitability of the Group is highly dependent on its success in discovering oil and gas, as well as the long-term development of hydrocarbon commodity prices. As such this chapter provides certain background information on the dynamics in the pricing of oil and gas, as well as the historic pricing of oil.

### 10.1 The global energy markets

World energy consumption has steadily increased since the industrial revolution, a trend which is expected to continue in the medium term. Fossil fuels continue to supply approximately 85 per cent of the world's energy. Oil is the largest energy source, meeting 34 per cent of the world's energy consumption, while natural gas accounts for 24 per cent and coal for 27 per cent.<sup>12</sup>

The world consumption of primary energy, including oil, natural gas, coal, nuclear, hydro power and other renewable energy, increased by 2.9 per cent in 2018. Global oil consumption increased by 1.4 million barrels per day or 1.5 per cent in 2018.

**Figure 7.1: Global Energy Consumption (Mtoe)**



Source: BP Statistical Review of World Energy 2019.

### 10.2 The oil and gas market in Africa

Resources generally, and oil and gas specifically, have played an important role in Africa's economic growth. African countries continue to increase their production of oil and/or gas.

Most of the oil reserves (and production) in Africa comes from Nigeria, Angola, Algeria and Libya, which together account for approximately 75 per cent of the continent's oil production and 85 per cent of its remaining proven reserves.

<sup>12</sup> BP Statistical Review of World Energy 2019, latest publication as per the date of this Exempted Document.



Over the past twelve months the Republic of Congo, Libya, Nigeria and South Sudan have increased their production levels, whereas Angola, Algeria and Gabon have seen their production declining.

Proved natural gas reserves in Africa are mainly concentrated in four countries – Algeria, Egypt, Libya and Nigeria – which possess more than 90 per cent of the continent's proved reserves. The continent has vast gas resources, however, due to lack of commercial contracts and development plans these are currently classified as contingent resources and have not been converted into proven (or probable) reserves. Over the next few years it is expected that a significant amount of resources in Mozambique, Senegal and Mauritania are expected to be converted into reserves.<sup>13</sup>

Until 2010, the biggest importer of Africa's oil production was the United States with 1.8 million barrels per day exported from sub-Saharan African countries to the United States. By 2015 the United States was only importing 274,000 barrels per day from sub-Saharan Africa due to a dramatic increase in domestic production in the United States. The decreased demand from the United States has been compensated by the increasing demand from emerging economies such as China, India and Brazil.

### **10.3 Overview of the global oil market**

#### **10.3.1 World oil production, consumption and reserves**

Oil is a common description of hydrocarbons in liquid form. Crude oil produced from different oil fields varies greatly in composition, and the composition and distribution of hydrocarbon components determines the weight of the oil, with light crude oil having a higher percentage of light hydrocarbons than heavier oil. Light oil requires less refinement to be usable and is therefore typically more valuable than heavy oil, however pricing and quality differentials are subject to market dynamics and may change from time to time.

Oil is well-suited for storage and transportation and is transported over long distances in large crude oil tankers or pipelines. Because of this, oil is a commodity with a well-developed global market. The prices are determined on the world's leading commodities exchanges, with New York Mercantile Exchange (NYMEX) in New York and the Intercontinental Exchange (ICE) in London the most important markets for the determination of global oil prices. Relative oil price differentials are primarily determined by the weight of the oil and its sulfur content, with WTI, the main benchmark for NYMEX, as the lightest and sweetest (lowest in sulfur) of the main benchmarks in oil pricing. Brent crude, the main benchmark for ICE, is slightly heavier.

Crude oil is used for a variety of purposes, the most important being the production of energy rich fuels, with approximately 70 per cent of hydrocarbons being used for gasoline, diesel, jet fuel and other fuel oils. The remaining hydrocarbons are used as raw material for many chemical products, including pharmaceuticals, solvents, fertilizers, pesticides and plastics.

World oil consumption in 2018 was approximately 99.8 million barrels per day, of which Asia Pacific, North America and Europe including Eurasia (most importantly, Russia) accounted for approximately 36 per cent, 25 per cent and 19 per cent, respectively. Consumption in the Middle East was about 9 per cent of the world total consumption. In Africa oil remains the leading fuel, accounting for 34 per cent of the continent's energy consumption by 2040.<sup>14</sup>

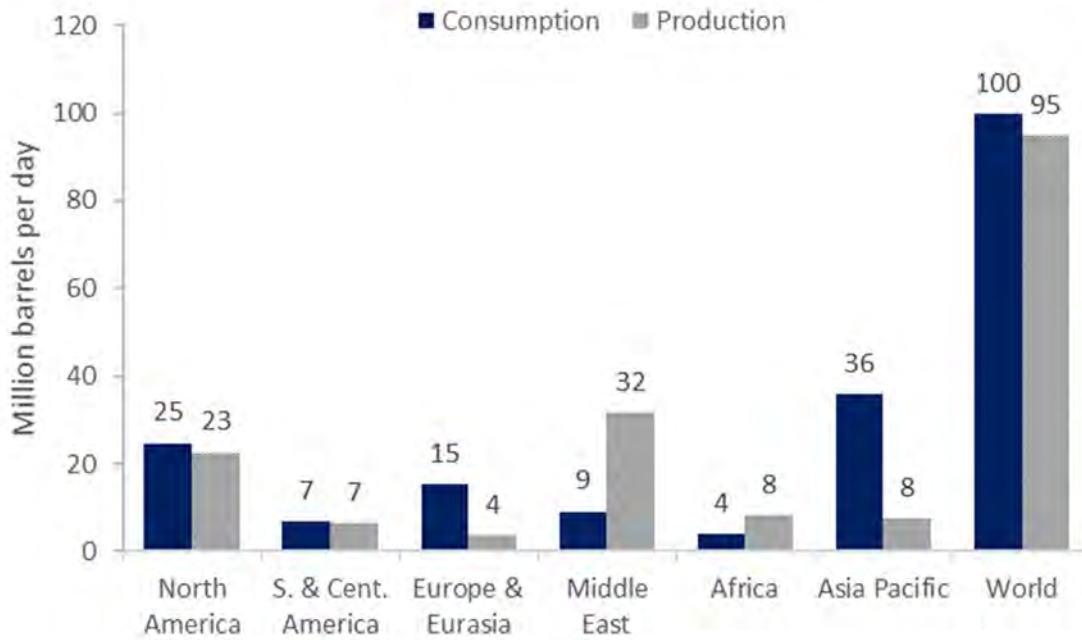
The Middle East is the world's largest oil producing region, accounting for 34 per cent of the world total. North America is second behind the Middle East, accounting for 24 per cent, followed by Europe and Eurasia with 19 per cent. Despite being the largest consuming region, oil production in Asia Pacific accounts for only 8 per cent of total world production.

---

<sup>13</sup> Source: BP and Kosmos investor presentations.

<sup>14</sup> Source: BP Energy Outlook 2019 edition.

Figure 7.2: Global oil consumption and production by region, 2018

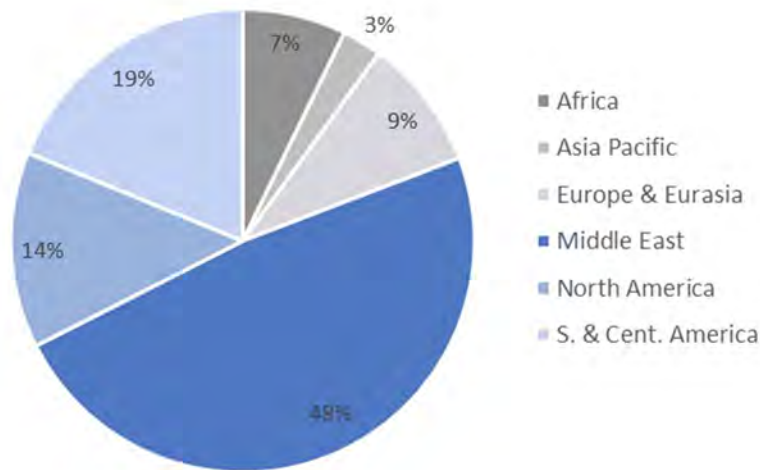


Source: Left chart: BP Statistical Review of World Energy 2019.

Worldwide proven oil reserves stood at an estimated 1,730 billion barrels at the end of 2018, enough to meet some 50 years of global production at 2018 production levels.

The members of OPEC together held 70.4 per cent of total global reserves in 2018. OPEC includes the largest Middle East oil producers, namely Iran, Iraq, Kuwait, Saudi Arabia and the UAE, in addition to Algeria, Angola, Congo, Equatorial Guinea, Libya, Nigeria, Gabon, Ecuador, and Venezuela, a total of 14 countries after Qatar left OPEC during 2019. OPEC has historically played the role of swing producer in the global oil market and its decisions have had considerable influence on oil supply availability and thus international oil prices.

Chart 7.3 below shows the historical development in proven oil reserves, as well as the current composition between OPEC and main non-OPEC countries.

**Figure 7.3: Distribution of proven world oil reserves, 2018**

Source: BP Statistical Review of World Energy 2019.

### 10.3.2 The oil price

Oil prices were close to all-time highs for most of 2011, 2012, 2013 and the first half of 2014, with Brent oil trading within a USD 100-125/bbl range most of the time. However, during the second half of 2014, oil prices declined steeply and in 2015 Brent averaged USD 54/bbl. Towards the end of 2015 and into 2016, oil prices decreased further, and Brent reached a low of USD 28/bbl in January 2016. Since then, prices have recovered substantially with Brent averaging USD 55/bbl in 2017 and USD 71.5/bbl in 2018. After a decline towards the end of 2018, oil prices have recovered and Brent is currently trading at a range between USD 60-70/bbl.<sup>15</sup> Over the past twelve months, Brent has averaged USD 68/bbl.<sup>16</sup>

As evidenced by the price changes in recent years, the oil price is highly dependent on the current and expected future supply and demand of oil. As such, it is influenced by global macroeconomic conditions and may experience material fluctuations based on economic indicators and material economic events as well as geopolitical events. Historically, oil prices have also been heavily influenced by organizational and national policies, most significantly the formation of OPEC and subsequent production policies announced by the organization. The figure below shows Brent oil price development from 1 January 2018 to 1 August 2019.

<sup>15</sup> Factset as of 1 August 2019.

<sup>16</sup> As above.

**Figure 7.4: Development in crude oil prices (USD per barrel)**

Source: Factset, 1 August 2019.

#### 10.4 Overview of the global gas market

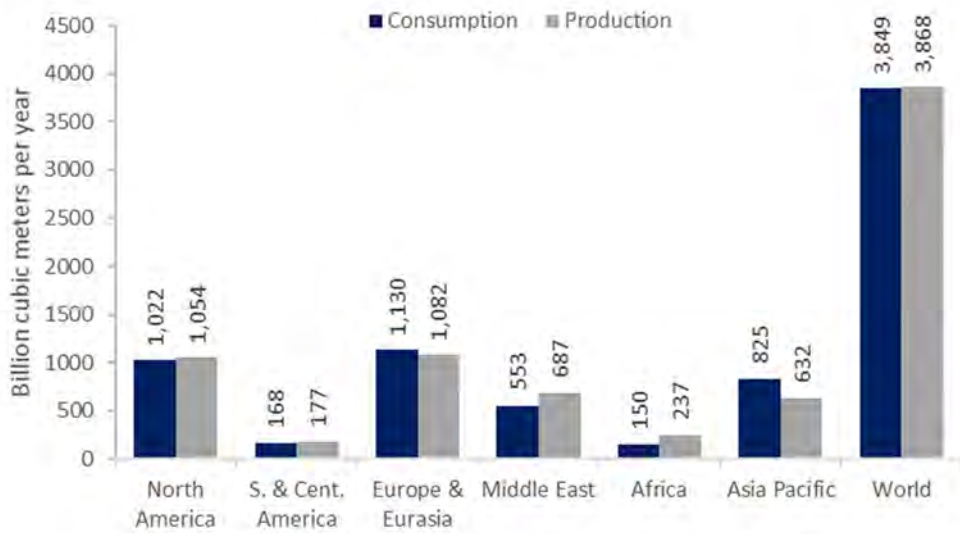
Natural gas is typically colourless, odourless and non-toxic at ambient temperatures. It can be found in onshore and offshore reservoirs, either as associated gas in crude oil or condensate or alone as non-associated gas. Natural gas is composed primarily of methane, but may also contain ethane, propane and heavier hydrocarbons. Small quantities of nitrogen, oxygen, carbon dioxide, sulphur compounds and water can also be found in natural gas. It is often termed a premium commodity for its value as both an energy source and as a feedstock for petrochemical products, and because it is relatively clean-burning. As a result, natural gas is used in a variety of ways: for home and business heating, electric power generation, the manufacture of petrochemical products ranging from plastics to fertilizers and intermediate materials, and as a vehicle fuel.

##### 10.4.1 World gas production, consumption and reserves

In 2017, total world consumption of gas was approximately 3,849 billion cubic meters ("bcm") of which Europe and Eurasia, North America and Asia Pacific accounted for approximately 29 per cent, 27 per cent and 21 per cent, respectively. Consumption of gas in the Middle East was approximately 553 bcm in 2018, representing approximately 14 per cent of the world total. Production in the Middle East exceeded consumption by 134 bcm. Africa will become an increasingly important producer of natural gas, with production expected to increase by 245 bcm to 470 bcm in 2040<sup>17</sup>

<sup>17</sup> Source: BP Energy outlook -2019.

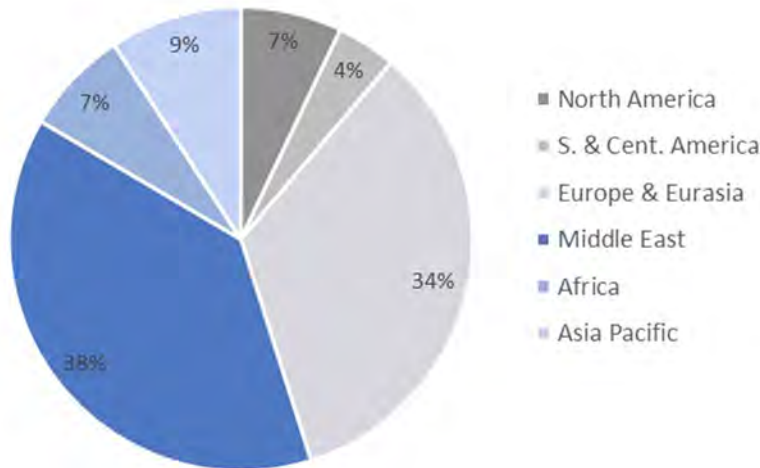
Figure 7.5: Global gas consumption and production by region, 2018



Source: Left chart: BP Statistical Review of World Energy 2019.

Total world proven gas reserves stood at approximately 197 trillion cubic meters at the end of 2018. These reserves are enough to meet approximately 51 years of global gas production at 2018 levels. Approximately 38 per cent of total world proven gas reserves are in the Middle East, while Europe and Eurasia contain 34 per cent (of which the majority is in Russia and Turkmenistan).

Figure 7.6: Distribution of proven world gas reserves, 2018



Source: BP Statistical Review of World Energy 2019.

#### 10.4.2 The gas price

Because gas is not easily transported, gas prices are not determined by a world-wide market. Gas prices are usually determined regionally, with regions defined by pipeline and LNG transportation networks. There is less correlation between regional gas prices than there is between the prices of various types of oil, but there is correlation between gas prices and the oil price and other energy prices.

Gas price volatility is significantly higher than oil price volatility. This is primarily since gas is more difficult to store (and transport) than oil, meaning that gas prices are affected by immediate supply and demand within pipeline networks and other associated transporting costs.

Three broad pricing mechanisms exist for gas. The first, mostly seen in international trade and in long-term contracts, involves linking gas to either crude or petroleum product prices. The second pricing mechanism is regulated pricing in domestic markets where governments set fixed prices usually reflecting production and transportation costs. The final mechanism is competitive pricing whereby trading points, often called hubs, are established in major markets and price is determined by supply and demand at these hubs.

The gas market in the U.S. is largely deregulated. There are multiple trading points across the U.S. and Canada, but the most active point is the Henry Hub in Louisiana. In Europe, gas has historically been traded under long-term contracts with pricing linked to diesel and heavy fuel. In recent years, however, an increasing share of European gas volumes have shifted from oil based to hub-based pricing, where gas supply demand dynamics determine the price. Several trading hubs for gas have been established, the most active of which is the National Balancing Point (NBP), in the United Kingdom. Oil-linked pricing has been prevalent in Asia, where large volumes of gas have been imported in liquefied form under long-term contracts.

In Africa, gas prices are more varied and influenced by a variety of factors. Large gas developments, where liquefaction and export are envisaged, are generally priced in line with international LNG markets. Smaller gas developments, often located onshore, are instead directly correlated to the local power prices, as gas is seen as an alternative source of power generation and as such it is directly competing against other fossil fuels such as diesel and petrol. These onshore developments typically show higher gas prices than their counterparts in the US and Europe. One common feature of gas developments in Africa is the degree of inter-dependence with local infrastructure: regions with existing gas gathering facilities and pipeline networks (such as Nigeria and South Africa) offer a much more liquid market, whereas regions with less sophisticated infrastructure are more dependent on a single off-taker to determine ultimate pricing.

### 10.5 Competition in the oil market

The oil market is a highly competitive environment, where all competitors offer the same product: crude oil. There is little differentiation with regards to the product throughout the industry, although the product may be offered with different quality (and with correspondingly different price). The market for oil production is dominated by a few producers with a substantial share of total production and a very long list of smaller producers. Of a total production of liquids in excess of 94 million barrels per day, the top ten largest producers have a market share in excess of approximately 64 per cent.

Figure 7.7: Top Ten Largest Oil Producers 2018

Company	Estimated Equivalent Production (millions of barrels per day)	Share of Production
Saudi Aramco	13.5	14%
Gazprom	10.4	11%
National Iranian Oil Co	9.2	10%
PetroChina	5.0	5%
ExxonMobil	4.8	5%
Royal Dutch Shell	4.4	5%
BP	3.6	4%
Chevron	3.6	4%
Kuwait Petroleum Corp	3.3	4%
Pemex	2.5	3%
<b>Total Top 10</b>	<b>60.3</b>	<b>64%</b>

Source: Rystad Energy

Oil and gas production in Africa is led by the major integrated companies, particularly the Italian and French majors, ENI and Total SA respectively. Italian and French investors, who have deep roots in the region, aren't the only foreign investors interested in Africa. In recent years, Africa has seen increasing interest from NOCs as well as traded companies from outside the region, notably from China, India, Malaysia and Russia.

## 11 TAXATION

*Set out below is a summary of certain Norwegian and Australian tax matters related to Company's Shares. The statements below regarding Norwegian and Australian taxation are based on the laws in force and administrative practice in Norway and Australia as of the date of this Exempted Document, which may be subject to any changes in law occurring after such date. Such changes could possibly be made on a retroactive basis. Shareholders should be aware that the ultimate interpretation of tax law rests with the Courts. The summary does not address tax laws in other jurisdictions.*

*The summary is of a general nature and does not purport to be a comprehensive description of all the Norwegian and Australian tax considerations that may be relevant for a decision to purchase, own or dispose of shares in the Company. Shareholders who wish to clarify their own tax situation should consult with and rely upon their own tax advisers. Shareholders resident in jurisdictions other than Norway or Australia and shareholders who cease to be resident in Norway or Australia for tax purposes (due to domestic tax law or tax treaty) should specifically consult with and rely upon their own tax advisers with respect to the tax position in their country of residence and the tax consequences related to ceasing to be resident in Norway or Australia for tax purposes. The summary only applies to shareholders who are beneficial owners of the shares.*

*Please note that for the purpose of the summary below, a reference to a Norwegian or Australian or non-Norwegian/non-Australian shareholder refers to the tax residency rather than the nationality of the shareholder.*

### 11.1 Taxation of the Company

As the Company is an Australian resident for income tax purposes, it will be taxed on its worldwide income at the Australian corporate tax rate which is currently 30 per cent. The payment of Australian corporate tax by the Company will generate franking credits which may be passed onto shareholders upon payment of dividends (see below).

Losses which the Company makes whether on revenue or capital account may be used by the Company to offset its taxable income provided it satisfies certain company loss rules. Such losses cannot be distributed to shareholders for their benefit.

### 11.2 Norway

Set out below is a summary of certain Norwegian tax matters related to the purchase, holding and disposal of the Company's Shares. Please note that for these purposes, a reference to a Norwegian or non-Norwegian shareholder refers to the tax residency rather than the nationality of the shareholder.

There may be Australian tax consequences for Norwegian holders of the Company's Shares, including on disposal of the shares. These are discussed below in Section 11.3 "Australian taxation".

#### 11.2.1 Individual investors

##### *Dividends*

Dividends from the Company received by shareholders who are individuals resident in Norway for tax purposes are taxable as ordinary income for such shareholders at a flat effective rate of 31.68 per cent to the extent the dividend exceeds a tax-free allowance. (i.e. dividends received, less the tax free allowance, shall be multiplied by 1.44 which is then included as ordinary income taxable at a flat rate of 22%, increasing the effective tax rate on dividends received by Norwegian Individual investor to 31.68%).

The allowance is calculated on a share-by-share basis. The allowance for each share is equal to the cost price of the share multiplied by a determined risk free interest rate. The risk-free interest rate is based on the effective rate after tax of interest on treasury bills (Norwegian: "statskassveksler") with three months maturity. The allowance is calculated for each calendar year, and is allocated solely to Norwegian individual shareholders holding shares at the expiration of the relevant calendar year. Norwegian individual shareholders who transfer shares will thus not be entitled to deduct any calculated allowance related to the year of transfer. Any part of the calculated allowance one year exceeding the dividend distributed on the share ("excess allowance") may be carried forward



and set off against future dividends received on, or gains upon realization, of the same share. Any excess allowance will also be included in the basis for calculating the allowance on the same share the following years.

To the extent withholding tax is levied in Australia (up to 15 per cent according to the tax treaty), double taxation will in general be avoidable in Norway in accordance with the tax treaty and/or domestic Norwegian Tax legislation, through a credit in Norwegian tax for tax paid in Australia. The Company will be responsible for withholding tax at the applicable rate of withholding.

#### *Disposal of shares*

Sale, redemptions which alters the relative ownership of the Company or other disposal of shares is considered a realization for Norwegian tax purposes. A capital gain or loss generated by a Norwegian individual shareholder through a realization of shares is taxable or tax deductible in Norway. Such capital gain or loss is included in or deducted from the shareholder's ordinary income in the year of disposal. Ordinary income is taxable at a rate of 22 per cent, but the effective tax rate on a gain on disposal of shares is 31.68 per cent due to the 1.44 gross up method described above. The gain is subject to tax and the loss is tax-deductible irrespective of the duration of the ownership and the number of shares disposed of.

The taxable gain/deductible loss is calculated per share, as the difference between the consideration for the share and the Norwegian individual shareholder's cost price of the share, including any costs incurred in relation to the acquisition or realization of the share. From this capital gain, Norwegian individual shareholders are entitled to deduct a calculated allowance, provided that such allowance has not already been used to reduce taxable dividend income. See above for a description of the calculation of the allowance. The allowance may only be deducted in order to reduce a taxable gain, and cannot increase or produce a deductible loss, i.e. any unused allowance exceeding the capital gain upon the realization of a share will be annulled (and may not be set off against gains from realization of other shares).

If the Norwegian individual shareholder owns shares acquired at different points in time, the shares that were acquired first will be regarded as the first to be disposed of, on a first-in first-out basis.

If a Norwegian individual shareholder cease to be a tax resident of Norway certain specific regulations applies with regard to realization of shares held by such person.

### **11.22 Corporate investors**

#### *Dividends*

Dividends from the Company received by shareholders who are Norwegian corporate investors (i.e. limited liability companies and similar entities) resident in Norway for tax purposes are in general taxable as ordinary income. Ordinary income is subject to tax at a flat rate of 22 per cent.

The Company has its tax resident in Australia. Norwegian corporate investors are not taxed on dividends received on shares in limited liability companies and similar entities tax resident in jurisdictions outside the EEA area provided that the jurisdiction is not considered to be a low tax jurisdiction and that the corporate shareholder has been the beneficial owner of at least 10 per cent of the capital and has at least 10 per cent of the votes to be given in a shareholders meeting of the company for a consecutive period of two years. Whether a jurisdiction is a low tax jurisdiction for Norwegian tax purposes is based on a case to case assessment. However, jurisdictions which have a tax rate less than 2/3 of the Norwegian corporate tax rate is considered to be a low tax jurisdiction for Norwegian tax purposes. Based on information available at the date of this Exempted Document, the Company does not appear to be located in a low tax jurisdiction. When dividends qualify for the Norwegian exemption method, 3 per cent of the dividend is taxed as ordinary income at the 22 per cent rate (i.e. 22 per cent tax on 3 per cent = 0.66 per cent effective tax).

To the extent withholding tax is levied in Australia (up to 15 per cent according to the tax treaty, although 5 per cent if the ownership interest held is at least 10 per cent), double taxation will in general be avoidable in Norway in accordance with the tax treaty and/or domestic Norwegian Tax legislation, through a credit in Norwegian tax for tax paid in Australia, or alternatively, by way of application of the Norwegian exemption method. The Company will be responsible for withholding tax at the applicable rate of withholding.

### *Disposal of shares*

Sale, redemption or other disposal of shares is considered a realisation for Norwegian tax purposes. Capital gains by shareholders who are Norwegian corporate investors (i.e. limited liability companies and similar entities) resident in Norway for tax purposes, from the realisation of shares in the Company, are in general taxable as ordinary income. Ordinary income is subject to a flat tax rate of 22 per cent.

Norwegian corporate investors are, however, not taxed on gains on shares in limited liability companies and similar entities tax resident in jurisdictions outside the EEA area provided that the jurisdiction is not considered to be a low tax jurisdiction and that the corporate shareholder has been the beneficial owner of at least 10 per cent of the capital and has at least 10 per cent of the votes to be given in a shareholders meeting of the company for a consecutive period of two years. Whether a jurisdiction is a low tax jurisdiction for Norwegian tax purposes is based on a case by case assessment. However, jurisdictions which have a tax rate less than 2/3 of the Norwegian corporate tax rate is considered to be a low tax jurisdiction for Norwegian tax purposes. Based on information available at the date of this Exempted Document, the Company does not appear to be located in a low tax jurisdiction.

#### **11.2.3 Net wealth tax**

The value of shares is included in the basis for the computation of wealth tax imposed on Norwegian individual investors. Currently, the marginal wealth tax rate is 0.85 per cent on net wealth of NOK 1.5 million and higher. The value for assessment purposes for shares listed on Oslo Axess is the listed value as of 1 January in the year of assessment.

Norwegian corporate investors are not subject to wealth tax.

### **11.3 Australian taxation**

#### **11.3.1 Share disposals**

##### **(i) Capital gains tax - Australian shareholders**

Shareholders who hold their shares on capital account will make a capital gain on the disposal of such shares where the capital proceeds received on disposal exceed the shares' cost base. Broadly, a share's cost base will include the price paid by the shareholder, certain incidental costs, and the costs of owning the shares (e.g. interest on money borrowed to acquire the shares where the interest is not otherwise allowable as a tax deduction).

Conversely, a shareholder will make a capital loss on the disposal of a share where the disposal proceeds received are less than the share's reduced cost base. The reduced cost base includes the price paid by the shareholder and incidental costs. However, it does not include the costs of owning the share.

Capital gains and capital losses made by a shareholder in an income year are aggregated, and it is only the net capital gain which is included in the shareholder's assessable income. Net capital losses can only be used to offset capital gains. Capital losses cannot be used to offset other assessable income, but may be carried forward to offset capital gains derived by the shareholder in future income years. Shareholders who are companies are only able to carry forward capital losses where they satisfy certain company loss rules.

A shareholder who has owned their shares for more than 12 months and is either an individual or a trustee may claim the benefit of the capital gains tax ("CGT") discount concession to exempt from tax a portion of any capital gain made on the disposal of the shares. The portion exempted is generally 50 per cent where the shareholder is

an individual or a trustee of a trust (other than a trustee of a complying superannuation fund), or 33.33 per cent for a trustee of a complying superannuation fund. Shareholders who are companies are not able to claim the benefit of the CGT discount.

(ii) Capital gains tax - Non-Australian shareholders

Non-Australian shareholders who (together with their associates) hold less than 10 per cent of the interests in the Company are not liable to pay Australian tax on any capital gain made on the disposal of their shares.

Non-Australian shareholders who own a 10 per cent or more interest in the Company would be subject to Australian capital gains tax if, at the time of the disposal, more than 50 per cent of the Company's direct or indirect assets determined by reference to market value, consists of Australian land, leasehold interests or Australian mining, quarrying or prospecting rights. Australian capital gains tax applies to net capital gains at a taxpayer's marginal tax rate.

The Australian government has proposed that a new withholding regime will apply from 1 July 2016. This new regime may require a purchaser of shares to withhold 10 per cent of the purchase price of the shares if the company holds, directly or indirectly, valuable Australian real property assets.

Non-Australian shareholders are not entitled to a CGT discount. Net capital gains are calculated after reduction for capital losses, which may only be offset against capital gains.

(iii) Shareholders holding shares on revenue account

Some shareholders may hold shares on revenue rather than on capital account, for example, share traders. Broadly, Australian shareholders holding their shares on revenue account will include the profit arising from the disposal of their shares in their assessable income and will be taxed on the profit at marginal tax rates. Conversely, a loss arising from the disposal of shares held on revenue account may be allowed as a deduction from assessable income.

Non-Australian shareholders who hold their shares on revenue account and do not have the benefit of a tax treaty may be subject to tax on the profit from the sale if the profit has an Australian source. The Australian law on the source of profits on the sale of shares, and the Commissioner of Taxation's interpretation of that law, is not clear in some circumstances. Non-Australian shareholders holding their shares on revenue account should seek their own Australian tax advice.

To the extent an amount would be included in a shareholder's assessable income under both the capital gains tax provisions and the ordinary income provisions, the capital gain amount would generally be reduced, so that the shareholder would not be subject to double tax on any part of the profit or capital gain.

(iv) Other shareholders

Shareholders who are banks, insurance companies, tax exempt organisations, superannuation funds or who acquire their shares under an employee share or option plan may be subject to special or different tax consequences peculiar to their circumstances which are not discussed in this summary.

### 11.3.2 Dividends

Australia operates a dividend imputation system under which dividends may be declared to be 'franked' to the extent that Australian tax is paid on company profits. Franking credits do not arise in respect of foreign tax paid by an Australian company.

Franked dividends have franking credits attached to them which represent the Australian corporate tax that has already been paid on the profits distributed. An unfranked dividend is paid from profits which have not been subject to Australian corporate tax, and has no franking credits attached.

The tax consequences for a shareholder receiving a dividend differ depending on the residency status of the shareholder and whether a dividend is franked or unfranked.

(i) Australian shareholders

Australian resident shareholders are required to include dividends together with any attached franking credits in their assessable income. Provided a shareholder has held their shares at risk for the requisite holding period, they may claim a tax offset equal to the amount of franking credits attached to the dividend. Shareholders who are individuals or complying superannuation funds may claim a refund to the extent that the tax offset exceeds their tax liability for the income year.

Where a franked dividend is paid to a shareholder who is an Australian resident corporate entity, a franking credit will arise in the corporate entity's franking account to the extent that the dividend is franked. Such a corporate shareholder cannot claim a refund for excess franking credits but may convert them into tax losses.

Unfranked dividends are included in an Australian resident shareholder's assessable income and subject to tax at marginal tax rates. No tax offsets can be claimed in respect of unfranked dividends.

(ii) Non-Australian shareholders

Fully franked dividends are not subject to dividend withholding tax.

Dividends payable to non-Australian resident shareholders that are not operating from an Australian permanent establishment will be subject to dividend withholding tax, to the extent the dividends are not foreign sourced and declared to be conduit foreign income and are unfranked. For shareholders who do not qualify for the benefit of a tax treaty, the rate of withholding will be 30 per cent. For shareholders who qualify for the benefits of a Double Taxation Convention, the rate of withholding may be limited to a lower rate. The Company will be responsible for withholding tax at the applicable rate of withholding.

**11.3.3 Tax file number withholding**

Whilst Australian resident shareholders are not obliged to, they should provide the Company with their tax file number ("TFN"). Failure to do so may result in the Company being required to withhold tax at the top marginal individual rate including Medicare levy from any dividends paid to the shareholder. Where a shareholder invests in the Company in the course of carrying on an enterprise then they may quote their Australian Business Number instead.

A Shareholder who has been subjected to TFN withholding may claim a credit in their annual income tax return to the extent of the tax withheld. Non-resident shareholders are generally exempt from TFN withholding.

## 12 ADDITIONAL INFORMATION

### 12.1 Documents on display

Copies of the following documents will, during a period of 12 months following the publication of this Exempted Document, be available for inspection at any time during normal business hours on any business day free of charge at the Company's offices at 48 Dover Street, London, W1S 4FF, United Kingdom or requested by telephone: +44 (0) 203 655 7810 or downloaded from the Company's web-page [www.africanpetroleum.com.au](http://www.africanpetroleum.com.au).

- the Memorandum and Articles of Association of the Company;
- all reports, letters, and other documents, historical financial information, valuations and statements prepared by any expert at the Company's request any part which is included or referred to in this Exempted Document;
- the independent expert report;
- the historical financial information for the Company and its subsidiary undertakings for each of the two financial years preceding the publication of this Exempted Document; and
- this Exempted Document, including appendices.

### 12.2 Incorporation by reference

The information incorporated by reference in this Exempted Document should be read in connection with the cross-reference list set out in the table below. Except as provided in this Section, no other information is incorporated by reference in this Exempted Document. The Company incorporates by reference the Company's audited consolidated financial statements as at, and for the years ended, 31 December 2018, 2017 and 2016, and the Group's unaudited consolidated financial statements as at, and for the six month periods ended, 30 June 2019 and 2018, as well as certain other documents specified below.

Section in the Exempted Document	Disclosure requirement	Reference document and link	Page (P) in the reference document
Section 7.1.3	Audited historical financial information (Annex I, Section 20.1)	<b>Financial statements 2018:</b> <a href="https://newsweb.oslobors.no/message/452905">https://newsweb.oslobors.no/message/452905</a>	P 17 – 20
		<b>Financial statements 2017:</b> <a href="https://newsweb.oslobors.no/message/452905">https://newsweb.oslobors.no/message/452905</a>	P 24 - 51
		<b>Financial statements 2016:</b> <a href="https://newsweb.oslobors.no/message/427601">https://newsweb.oslobors.no/message/427601</a>	P 33 - 66
	Audit report (Annex I, Section 20.4.1)	<b>Auditors report 2018:</b> <a href="https://newsweb.oslobors.no/message/478340">https://newsweb.oslobors.no/message/478340</a>	P 41 - 42
		<b>Audit's report 2017:</b> <a href="https://newsweb.oslobors.no/message/452905">https://newsweb.oslobors.no/message/452905</a>	P 52 - 53
		<b>Audit's report 2016:</b> <a href="https://newsweb.oslobors.no/message/427601">https://newsweb.oslobors.no/message/427601</a>	P 67 - 69
Section 7.1	Accounting policies (Annex I, Section 20.1)	<b>Accounting principles:</b> <a href="https://newsweb.oslobors.no/message/452905">https://newsweb.oslobors.no/message/452905</a>	P 28 – 34
Section 7.1.3	Interim financial information (Annex I, Section 20.6.1)	<b>Interim financial statements H1 2019:</b> <a href="https://newsweb.oslobors.no/message/483740">https://newsweb.oslobors.no/message/483740</a>	P 1 – 13
		<b>Interim financial statements H1 2018:</b> <a href="https://newsweb.oslobors.no/message/458535">https://newsweb.oslobors.no/message/458535</a>	P 1 – 17
Section 0	Note 17, Related party information	<b>Related party information 2018:</b> <a href="https://newsweb.oslobors.no/message/452905">https://newsweb.oslobors.no/message/452905</a>	P 34 – 36

---

Section in the Exempted Document	Disclosure requirement	Reference document and link	Page (P) in the reference document
Section 0	Note 19, Related party information	<b>Related party information 2017:</b> <a href="https://newsweb.oslobors.no/message/452905">https://newsweb.oslobors.no/message/452905</a>	P 43 – 45
Section 0	Note 20, Related party information	<b>Related party information 2016:</b> <a href="https://newsweb.oslobors.no/message/427601">https://newsweb.oslobors.no/message/427601</a>	P 57 – 59

---

**13 DEFINITIONS AND GLOSSARY****13.1 Definitions**

African Petroleum	African Petroleum Corporation Limited
APCL Replacement Performance Options	The 8,513,848 new performance options that will replace the 15,740,000 existing options issued to the Company's Board, management and consultants in connection with the Transaction
APCL Warrants	The 155,466,446 warrants to be allocated among the existing shareholders of the Company at the date of the general meeting required to approve the Transaction
APCL Warrants Vesting Event	Either (a) the reinstatement of the A1 and A4 licences in The Gambia or (b) the reinstatement of the SOSIP licence in Senegal, whichever comes first, and (y) a farm-in agreement to such licence(s) being signed and legally binding, where the Company will be fully carried for the current phase work program under the licence(s), on commercially acceptable terms approved by the Board of Directors
ASIC	Australian Securities and Investments Committee
ASX	Australian Securities Exchange
AUD	Australian Dollars, the lawful currency of Australia
Australian Corporations Act	The Australian Corporations Act of 2001
Australian Custodian	Citibank Melbourne
Board of Directors or Board	The board of directors of the Company
BDO	BDO Audit (WA) Pty Ltd
BP	BP Exploration Operating Company Limited
CGC	The ASX Corporate Governance Council
Company	African Petroleum Corporation Limited
Computershare	Computershare Investor Services Pty Ltd
Consideration Shares	The 816,198,842 new shares in the Company to be issued to NOR and Petromal as consideration in the Transaction
Directors	Members of the Board of Directors of the Company
EHL	European Hydrocarbons Limited (UK)
ENI	ENI Trading and Shipping SPA
ERC Equipoise	ERC Equipoise Ltd
EY	Ernst & Young Cyprus Ltd
Exempted Document	This Exempted Document dated 30 August 2019
Existing Assets	The Company's hydrocarbon licences in The Gambia and Senegal
FIRB	The Australian Foreign Investment Review Board
Forward-looking statements	Statements, including, without limitation, projections and expectations regarding the Group's future financial position, business strategy, plans and objectives, and statements such as "anticipate", "believe", "estimate", "expect", "seek to" and similar expressions, as they relate to the Company, its Subsidiaries or its management
Global Iron	Global Iron Limited
Group	The Company, together with its consolidated subsidiaries

HAH	Hemla Africa Holding AS
HEPCO	Hemla E&P Congo S.A.
ICSID	The International Centre for the Settlement of Investment Disputes
IFRS	International Financial Reporting Standards
Issuer Sponsored Sub-register	A sub-register of the Company's Share Register administrated by Computershare, which constitutes the Company's share register
LIBOR	London Interbank Offered Rate
NOK	Norwegian Kroner, the lawful currency in Norway
NOR	NOR Energy AS
Norwegian Securities Trading Act	The Norwegian Securities Trading Act of 29 June 2007 "Verdipapirhandelloven"
NSX	The National Stock Exchange of Australia
Oslo Axess	A regulated market place operated by Oslo Børs ASA
Oslo Stock Exchange	Oslo Børs ASA
Petromal	Petromal – Sole Proprietorship LLC
PetroNor	PetroNor E&P Ltd
PetroNor Group	PetroNor E&P Ltd, together with its consolidated subsidiaries
PetroNor Warrants	The 155,466,446 warrants to be issued to NOR and Petromal in connection with the Transaction
PetroNor Warrants Vesting Event	(x) a signed acquisition/farm-in agreement for a gas asset in Nigeria, and (y) a signed and legally binding gas offtake agreement relating to the gas from such asset, both agreements on commercially acceptable terms approved by the Board of Directors
Petrosen	Société des Pétroles du Sénégal, the national oil company of Senegal
Prestamex	Prestamex Group Inc.
Record Date	26 April 2019, as further described in Section 4.4 "Consideration"
RFA	Requests for Arbitration
ROP	The Rufisque Offshore Profond block
Shares	The issued and outstanding shares in the Company at any given time
SOSP	The Senegal Offshore Sud Profond block
The Gambia	The Republic of The Gambia
Transaction	The contemplated acquisition of 100% of the shares in PetroNor by the Company
UK	The United Kingdom
USD	United States Dollars, the lawful currency in the United States
U.S. Securities Act	The Securities Act of 1933, as amended
VPS	Verdipapirsentralen (Norwegian Central Securities Depository), which organises the Norwegian paperless securities registration system and where the Consideration Shares will be registered
VPS Registrar	DNB Bank ASA



**13.2 Glossary of terms**

AAPG	The American Association of Petroleum Geologists
API	A measure of how heavy or light a petroleum liquid is compared to water
bcm	Billion cubic meters
2D seismic	Powerful echo sounders that receive sound reflected from the underground along straight lines.
3D seismic	As 2D seismic, but here the sound is captured in a net of receivers, enabling the construction of a three-dimensional picture of the underground. Smaller oil traps can more often than not be mapped only with the use of 3D seismic
E&P	Exploration and production
Farm-in/Farm-out	Acquire or to dispose of an oil interest to a third party
HSE	Health, safety and environmental
MMstb	Million barrels of oil
OPEC	Organization of Petroleum Exporting Countries
PetroNor shares	The issued and outstanding shares in PetroNor as of the date of this Exempted Document
PRMS	The Petroleum Resources Management System, issued by SPE, AAPG, WPC and SPEE in March 2007
Prospective resources	Estimated volumes associated with undiscovered accumulations. These represent quantities of petroleum which are estimated, as of a given date, to be potentially recoverable from oil and gas deposits identified on the basis of indirect evidence but which have not yet been drilled. This class represents a higher risk than contingent resources since the risk of discovery is also added.
PSCs	Production Sharing Contracts
SPE	The Society of Petroleum Engineers
SPEE	The Society of Petroleum Evaluation Engineers
TVDSS	True Vertical Depth Sub Sea level
WPC	The World Petroleum Council

**APPENDIX A:**

**AUDITED FINANCIAL STATEMENTS FOR PETRONOR FOR THE YEARS ENDED  
31 DECEMBER 2018 AND 31 DECEMBER 2017, AS WELL AS THE AUDITED  
FINANCIAL STATEMENTS FOR HEMLA AFRICA HOLDING AS AS OF 31  
DECEMBER 2016**

**ANNUAL REPORT 2018**

**PETRONOR E&P LTD**

## CONTENTS

1	Group at a glance Statement	3
2	CEO letter	5
3	Group Operations Report	6
4	Annual Statement of Reserves	8
5	Management Report	13
6	Board of Directors and Senior Management	19
7	Independent Auditor's Report	21
8	Consolidated Statement of Comprehensive income	24
9	Consolidated Statement of Financial Position	25
10	Consolidated Statement of Changes in Equity	26
11	Consolidated Statement of Cash Flows	27
12	Notes to the consolidated financial statements	28
13	Statement of Directors' Responsibility	60
16	Corporate Social Responsibility / Ethical Code of conduct	61
17	Glossary and Definitions	62



## GROUP AT A GLANCE STATEMENT

---

KEY FIGURES	2018
EBITDA (USD mill.)	54.10
EBIT (USD mill.)	50.89
Net profit / (loss) (USD mill.)	17.06
2P Reserves (MMbbl)	8.54
2C Contingent Resources (MMbbl)	7.63

---

### 2018 HIGHLIGHTS AND SUBSEQUENT EVENTS

---

- Following our emergence in West Africa as a serious producer in 2017, 2018 has been focussed on building on our operations in the Republic of Congo and set our sights for expansion in West Africa and Nigeria in specific.
  - Working and collaborating with Perenco has resulted in significant achievements in 2018 too, in increasing production while reducing cost. The PNGF SUD production has been increased from about 15,000 bopd at beginning of 2017 to about 20,220 bopd in 2018. This increase in production was achieved while reducing the OPEX to 11.4 USD per barrel and the breakeven cost to around 23 USD per barrel.
  - 2018 has also brought the decision of initiating the process of listing on the Oslo Stock Exchange through a reverse take-over of a London-based E&P company, African Petroleum Corporation Ltd.
  - We believe that through the reverse take-over, we will also grow into high impact exploration opportunities in Gambia and Senegal.
- 

### ASSETS

---

#### Republic of Congo (Brazzaville)

- 10.5% indirect participation interest in the license group of PNGF SUD (Tchibouela II, Tchendo II and Tchibeli-Litanzi II) through Hemla E&P Congo SA.
  - The Group holds a right to negotiate, in good terms, along with the contractor group of PNGF SUD, the terms of the adjacent license of PNGF BIS and a 14.7% indirect participation.
- 

### OFFICES

---

The Company has its registered address in Nicosia, Cyprus. The Group maintains headquarters in Oslo and Abu Dhabi, and operational offices in Pointe-Noire and Lagos.

---





Figure 1

**GROUP STRUCTURE<sup>1</sup>**



Figure 2

<sup>1</sup> PetroNor E&P Ltd subsidiaries and group structure including current producing asset PNGF SUD (green box) and prospect PNGF BIS (dotted green box)

## CEO LETTER

Dear Fellow Shareholders,

2018 has been a year of continuous development for PetroNor. Following our emergence in West Africa as a serious producer, we have been building on our operations in the Republic of Congo and set our sights for expansion in West Africa.

Working and collaborating with Perenco has resulted in significant achievements in 2018 as well, in increasing production while reducing cost. The field production increased from about 15,000 bopd at beginning of 2017 to about 20,220 bopd in 2018. This increase in production was achieved while reducing the OPEX to 11.4 USD per barrel and the breakeven cost to around 23 USD per barrel.

PetroNor maintained focus on West Africa and planned to capitalize on the Congo success and leverage our production to enhance shareholder value. PetroNor achieved a stable and very cost effective off-take agreement since production start-up, initially with TOTSA (Total Oil Trading) and currently with ENI.

2018 has also brought the decision of initiating the process of listing on the Oslo Stock Exchange through a reverse take-over of a London-based E&P company, African Petroleum Corporation Ltd., which is also present in Africa, thus the Company believes there are strong synergies to be achieved for both through the reverse take-over. I am excited about this process which should lead to a successful listing in 2019.

For 2019, PetroNor is continuing discussions with multiple potential partners and has identified excellent new opportunities that will potentially further enhance shareholder value.

One major opportunity worth mentioning in this report is the potential farm in deal in a producing asset in Nigeria which would give us access to vast gas resource to be developed jointly with one of the most stable operators in Nigeria.

Our near term mission is to enhance our financing structure and avail more efficient financing for future opportunities. This will be key for our ambitious growth in the region.

On behalf of the management team, I would like to thank the shareholders for their trust and commitment.



Knut Søvdal

CEO, PetroNor E&P Ltd.

## GROUP OPERATIONS REPORT

PetroNor E&P Ltd. has producing assets in West Africa, namely the PNGF SUD group of licenses in the Republic of Congo, and the right to enter into good faith negotiations alongside its partners in PNGF SUD for the license terms of the neighbouring PNGF BIS license.

### PNGF SUD

PNGF SUD comprises 3 production sharing contracts (in French “Contrat de Partage de Production” or “CPP”): Tchibouela II, Tchendo II and Tcibeli-Litanzi II. The licenses cover five oil fields: Tchibouela Main, Tchibouela East, Tchendo, Tchibeli and Litanzi, which have been developed as an integrated group named PNGF SUD. The licenses are located approximately 25 km off the coast of Pointe-Noire in water depths of 80-100 metres.

PetroNor, through Hemla E&P Congo, participated in the 2016 tender process with the Congo Ministry of Hydrocarbons for participation in the PNGF SUD license. With effect from 1 of January 2017, HEPCO was awarded a 20% working interest in the PNGF SUD (net 10.5% to PetroNor). The National Assembly / Senate formally approved the license contracts on 24 May 2017 and subsequently made public on 25 May 2017.

Initially discovered in 1979, PNGF SUD commenced production in 1987 and produced on average in 2018 approx. 20,220 bopd gross from four oil fields, Tchibouela, Tchendo, Tchibeli and Litanzi. Following the entry of the new license group in 2017, significant operational improvements have been made, increasing gross production from c. 15,000 bopd in January 2017 to 21,600 bopd at the end of 2018. Through further work-overs, surface and process improvements and infill drilling, gross production from PNGF SUD is expected to continue to grow in the coming years.

The PNGF SUD fields are developed with seven wellhead platforms and currently produce from more than 50 active production wells, with oil exported via the onshore Djeno terminal (Tchibouela, Tchendo and Tchibeli) and the Nkossa FPSO (Litanzi). With its long production history, substantial well count and extensive infrastructure, PNGF SUD offers well diversified



Figure 3 – PNGF SUD (blue border)

and low risk production and reserves with low break-even cost.

In 2018, AGR Petroleum Services (“AGR”) prepared a Competent Person’s Report (“CPR”) (dated 30 October 2018 with volumes evaluated as of 1 January 2018) according to which PNGF SUD is estimated to hold net 2P reserves of 8.54 MMbbl and 2C contingent resources of 3.38 MMbbl.

During 2018, the gross production was 7.38 MMbbl of oil and 4.57 bcf of gas, corresponding to a net to PetroNor of 0.86 MMboe.

### PNGF BIS

PNGF BIS is located to the North-West of PNGF SUD and comprises 2 fields: Loussima SW and Loussima.

Through an umbrella agreement, the license partners of PNGF SUD have the right to negotiate, in good faith, the license terms to enter into a PSC for PNGF BIS. Subject to successful completion of negotiations, PetroNor is expected to hold a 14.7% indirect interest.



Three exploration wells have been drilled on the license area. A discovery in pre-salt Vandji Fm was made in well LUSOM-1 on Loussima in 1985.

Loussima SW was discovered by well LUSOM-1 in 1987 with oil in Vandji Fm.



Figure 4 – PNGF BIS (orange border)

A second well, SUEM-2, was drilled on Loussima SW in 1991 to appraise the Vandji discovery. Hydrocarbon shows were detected in one of the wells in the Albian post-salt Sendji Fm, (analogue to Tchibeli / Litanzi reservoirs in PNGF SUD). The Sendji interval was not production tested. The depth to the Vandji reservoir is 3,250 mTV DSS, Sendji around 1,940 mTV DSS and the water depth in the area is 110 m. DSTs on the Loussima SW

LUSOM-1 well produced 4,700 bopd and the SUEM-2 well yielded 1,150 bopd.

The CPR report prepared by AGR estimates that PNGF BIS holds gross 2C resources of approx. 28.9 MMbbl, corresponding to a net 2C resource of 4.25 MMbbl.

#### FUTURE EXPANSION

The Company's vision is to be a full-cycle, Africa-focused E&P company focusing on producing assets with upside and development of stranded assets, combined with targeted high impact exploration. The Company aims to steadily build and increase its reserve base and production while using free cash flow to pursue defined exploration targets in selected and highly prospective basins with a view to delivering significant value to its shareholders from high impact wells.

In addition to entering PNGF BIS, pending successful negotiations of the license terms, PetroNor is looking at expanding its operations in West Africa within 2019. It is its intention to acquire one or more assets in Nigeria within the next 2 years. The target assets are proven and producing licenses with development and IOR potential. PetroNor is also looking at incorporating gas projects, particularly flared gas projects to LNG or power at a later stage.

## ANNUAL STATEMENT OF RESERVES 2018

### INTRODUCTION

PetroNor's classification of reserves and resources complies with the guidelines established by the Oslo Stock Exchange and are based on the definitions set by the Petroleum Resources Management System (PRMS-2007), sponsored by the Society of Petroleum Engineers / World Petroleum Council / American Association of Petroleum Geologists / Society of Petroleum Evaluation Engineers (SPE/PRMS) from 2007 and 2011.

Reserves are the volume of hydrocarbons that are expected to be produced from known accumulations:

- On Production;
- Approved for Development;
- Justified for Development.

Reserves are also classified according to the associated risks and probability that the reserves will be produced.

**1P** – Proved reserves represent volumes that will be recovered with 90% probability.

**2P** – Proved + Probable represent volumes that will be recovered with 50% probability.

**3P** – Proved + Probable + Possible volumes that will be recovered with 10% probability.

Contingent Resources are the volumes of hydrocarbons expected to be produced from known accumulations:

- In planning phase;
- Where development is likely;
- Where development is unlikely with present basic assumptions;
- Under evaluation.

Contingent Resources are reported as **1C**, **2C**, and **3C**, reflecting similar probabilities as reserves.

### DISCLAIMER

The information provided in this report reflects reservoir assessments, which in general must be

recognized as subjective processes of estimating hydrocarbon volumes that cannot be measured in an exact way.

It should also be recognized that results of recent and future drilling, testing, production, and new technology applications may justify revisions that could be material.

Certain assumptions on the future beyond PetroNor's control have been made. These include assumptions made regarding market variations affecting both product prices and investment levels. As a result, actual developments may deviate materially from what is stated in this report.

The estimates in this report are based on third party assessments prepared by AGR Petroleum Services AS in October 2018 for PNGF SUD and PNGF BIS. In addition, an assessment of the Proven Developed Producing (PDP) Reserves from each of the four fields prepared by Netherland Sewell and Associated Inc ("NSAI") in February 2018, is available to PetroNor.

### PETRONOR ASSETS PORTFOLIO

As of 1 January 2017, HEPCO holds a 20% working interest in the three licenses Tchibouela II, Tchendo II and Tchibeli-Litanzi II (jointly the PNGF SUD license). Through PetroNor's ownership of 52,5% of HEPCO, the 20% interest held by HEPCO corresponds to a net 10,5% interest to PetroNor (see Figure 2 explaining the ownership structure). Furthermore, the license partnership has, through an umbrella agreement with the Ministry of Hydrocarbons, the right to negotiate, in good faith, the license terms of the adjacent PNGF BIS license, where Perenco is intended to be Operator. The umbrella agreement assigns HEPCO a 28% share in PNGF BIS, yielding an indirect 14,7% interest to PetroNor.

**PNGF SUD: offshore Republic of Congo (Brazzaville), Operator Perenco, PetroNor 10.5%.**

PNGF SUD is a development and exploitation license covering an area containing several oil fields: Tchibouela, Tchibouela East, Tchendo, Tchibeli and Litanzi fields. The interest in PNGF SUD is held directly and with a 20% share by Hemla E&P Congo, constituting an indirect 10.5% share in the PNGF SUD license for the Company. The license ownership has been effective since 1 January 2017 with expiry date after 20 years plus a 5-year extension period. Since granting of the license, Perenco with partner support, has been committed to strict HSE compliance while growing production, improving maintenance routines and field integrity in a stepwise and prudent manner.

In October 2018 AGR performed a full Competent Persons Report covering the Reserves (1P, 2P and 3P) and Resources (1C, 2C and 3C) in both PNGF SUD and PNGF BIS. The figures included in this Annual Statement of Resources (ASR) are evaluated as of 1 January 2018.

Gross production during 2018 was 7.38 MMbbl of oil and 4.57 bcf of gas. This corresponds to average 20,220 bopd and 12.5 mmscfd of gas.

As per the PRMS/SPE guidelines, gas is included in the overall reserves in the AGR CPR as oil equivalents since the gas is being used centrally in the field complex as fuel for power generating turbines which is subsequently transmitted to the individual field platforms via electrical power cables.

This PetroNor ASR uses as the basis the Reserves and Resources from the 2018 October AGR CPR, subtracting only the volumes of oil and gas produced during 2018 to arrive at the Reserves and Resources as per 31.12.18. As the only product sold is oil, PetroNor will in the text below when referring to Reserves and Resources mainly refer to oil and term these with the unit MMbbl.

As of 1 January 2018, AGR evaluated that gross 1P Proved Reserves yield 55.09 MMbbl in all the PNGF SUD fields in the Cenomanien and Turonian reservoirs. Gross 2P Proved plus Probable

Reserves at PNGF SUD amounted to 81.37 MMbbl in the same reservoirs. Gross 3P Proved plus Probable plus Possible Reserves at PNGF SUD amounted to 100.06 MMbbl.

Gross 1C Resources yield 17.13 MMbbl in all the PNGF SUD fields in the Cenomanien and Turonian reservoirs. Gross 2C Resources at PNGF SUD amounted to 32.18 MMbbl in the same reservoirs. Gross 3C Resources at PNGF SUD amounted to 54.94 MMbbl.

These evaluations yield 1P Proved Reserves net to PetroNor of 5.78 MMbbl, 2P Proved plus Probable Reserves net to PetroNor of 8.54 MMbbl and 3P Proved plus Probable plus Possible Reserves net to PetroNor of 10.51 MMbbl. Additional potentially recoverable resources net to PetroNor are approximately 1.8 MMbbl 1C, 3.4 MMbbl 2C and 5.8 MMbbl 3C.

These Reserves and Contingent Resources are PetroNor's net volumes.

**PNGF BIS: offshore Republic of Congo (Brazzaville), Operator Perenco, PetroNor 14.7%.**

The PNGF BIS license neighbours the PNGF SUD license and contains two discoveries, Loussima and Loussima SW. The two discoveries are proven by three wells including DST's drilled from 1985-1991. The primary potential is identified in the pre-salt Vanji formation with promising DST rates, but the exploration and appraisal wells also include an oil column in the post-salt Senji fm (not tested). A long-term test production period with a rented jack-up with a purchase option and an 11 km pipeline tie-back to one of the existing Tchibouela wellhead platforms is a likely scenario. This allows cost recovery of the investments during the test production and allows upscaling the production levels with additional producers as resources are matured to reserves.

Gross 1C Contingent Resources yield 3.29 MMbbl in the Loussima SW Vanji and Senji fm. Gross 2C at PNGF BIS Loussima SW amounts to 4.25 MMbbl in the same reservoirs. Gross 3C amounts to 5.26 MMbbl.



## MANAGEMENT DISCUSSION AND ANALYSIS

PetroNor uses the services of AGR Petroleum Services for 3<sup>rd</sup> party verifications of its reserves and resources. All evaluations are based on standard industry practice and methodology for production decline analysis and reservoir modelling based on geological and geophysical analysis. The following discussions lead up to the year-end 2017 ASR.

**PNGF SUD:** During 2017 and 2018, production levels have grown from the initial c. 15,000 bopd when Perenco and partners took over. This has materialized through revitalizing existing producers via replacements or upsizing of Electrical Submersible Pumps (ESP's), acidizing, clean up or reperforating wells or converting wells from the Cenomanian to the Turonian (less depleted) formations. Significant surface debottlenecking is also taking place to improve and enhance the production equipment and strengthening uptime while maintaining a strict HSE focus. Production levels during 2018 are approximately 20,220 bopd. Significant infill drilling potential has been identified in all fields. Resources identified as infill potential are classified as contingent resources as these are most likely not decided until the workover potential has been exhausted. These workovers are expected to continue in all fields throughout 2019.

A comparison of the AGR Proven (1P) reserves with the NSAI Proven Developed Producing (PDP) (1P Developed Producing) reserves shows NSAI PDP\* reserves 17% less than AGR 1P.

\*AGR – AGR Petroleum Services, 30 October 2018 (70 USD/bbl); NSAI – Netherland Sewell and Associates Inc., 28 February 2018 (54 USD/bbl).

The difference may be caused by the lack of emphasis on the current workover programme and/or different evaluation methods and oil price assumptions. By way of detail, the AGR CPR is significantly more comprehensive in terms of evaluation performed and reported.

### 2018 - Gross Proven Reserves (1P and PDP)

	AGR	NSAI	Difference
PNGF SUD	1P	PDP	%
	(MMbbl)	(MMbbl)	
Tchibouela	36.55	24.29	34%
Tchendo	9.08	9.41	-4%
Tchibeli	7.60	7.93	-4%
Litanzi	1.86	3.87	-108%
<b>Total</b>	<b>55.09</b>	<b>45.50</b>	<b>17%</b>

Oil only reserves per 31.12.2018 (31.12.2017 corrected for 2018 production)

### 2018 - Net Proven Reserves (1P and PDP)

	AGR	NSAI	Difference
PNGF SUD	1P	PDP	%
(10.50%)	(MMbbl)	(MMbbl)	
Tchibouela	3.84	2.55	34%
Tchendo	0.95	0.99	-4%
Tchibeli	0.80	0.83	-4%
Litanzi	0.20	0.41	-108%
<b>Total</b>	<b>5.78</b>	<b>4.78</b>	<b>17%</b>

Net to PetroNor (10.5%)

**PNGF BIS:** Once investment decisions are made on the Loussima SW project these reserves may become reserves approved for development. A thorough mapping of the STOOIP in Loussima SW has been performed by the Operator in 2018. This work has been verified by AGR in the mentioned 2018 CPR.

Given a successful Loussima SW, a similar development potential is likely for the Loussima Discovery.

### 2018 – 2P RESERVES (MMbbl)

Balance (gross AGR, PNGF SUD – Dec 31, 2017)	88.75
Production 2018, PNGF SUD	(7.38)
Balance 31.12.2018 – 2P gross, PNGF SUD	81.37
Balance 31.12.2018 – 2P net, PNGF SUD	8.54

PetroNor's total 1P reserves at end of 2018 amount to 5.78 MMbbl according to the AGR assessment and 4.78 MMbbl according NSAI.

PetroNor's 2P reserves amount to 8.54 MMbbl and its 3P reserves amount to 10.51 MMbbl.

This reflects the October 2018 reserve report for the PNGF SUD field, conducted by AGR Petroleum Services AS and production since the field start-up.

PetroNor's Contingent Resource base includes discoveries of varying degrees of maturity towards development decisions. By end of 2018, PetroNor's assets contain a total 2C volume of approximately 7.6 MMbbl.



29 July 2019  
Knut Sørvold  
CEO, PetroNor E&P Ltd.

**2P and 2C Reserves and Resources (MMbbl)**  
**Status**

Balance 31.12.2018 - 2P/2C gross, PNGF SUD	113.55
Balance 31.12.2018 - 2P/2C net, PNGF SUD	11.92
Balance 31.12.2018 - 2P/2C gross, SUD+BIS	142.45
Balance 31.12.2018 - 2P/2C net, SUD+BIS	16.17

**ASSUMPTIONS**

The commerciality and economic tests for the PNGF SUD and BIS reserves volumes were based on an oil and condensate price of 70 USD/bbl; the reserves and resources are not very sensitive to this parameter as OPEX levels are at 11.4 USD/bbl.

Reserves and resources as per 31.12.2018 (AGR CPR dated 30.10.2018 corrected for 2018 production) All 2018 production figures included

PNGF Sud	Gross reserves												Gross Contingent Resources												Total Reserves and Resources											
	3P				2P				1C				ZC				3C				1P/1C				2P/2C				3P/2C							
	Oil mmbbo	Gas bcf	Boe mmbboe	Oil mmbbo	Gas bcf	Boe mmbboe	Oil mmbbo	Gas bcf	Boe mmbboe	Oil mmbbo	Gas bcf	Boe mmbboe	Oil mmbbo	Gas bcf	Boe mmbboe	Oil mmbbo	Gas bcf	Boe mmbboe	Oil mmbbo	Gas bcf	Boe mmbboe	Oil mmbbo	Gas bcf	Boe mmbboe	Oil mmbbo	Gas bcf	Boe mmbboe	Oil mmbbo	Gas bcf	Boe mmbboe						
Tchibouéla	36.55	13.25	38.31	47.91	17.89	51.10	58.25	22.10	62.19	6.70	2.51	6.65	12.00	4.9	12.87	20.70	8.40	23.20	42.75	15.75	45.56	59.91	22.79	63.97	78.95	31.59	84.39	81.37	18.59	43.97						
Tchendo	8.08	3.29	9.66	19.29	6.86	20.51	23.53	8.35	25.01	5.60	2.00	5.46	10.80	3.8	11.48	17.84	6.24	18.95	14.88	5.29	15.67	30.09	10.66	31.99	41.37	18.59	43.97	18.59	43.97							
Tchibell	7.60	2.00	7.95	10.92	2.91	11.44	13.72	3.68	14.37	3.95	1.06	4.14	6.74	1.9	7.08	11.40	3.10	11.99	11.58	3.08	12.20	17.66	4.81	18.51	25.12	6.78	26.32	25.12	6.78							
Litani	1.06	1.28	1.08	3.25	2.16	3.64	4.56	3.04	5.11	1.38	0.85	1.53	2.64	1.8	2.96	5.00	3.40	5.81	5.24	2.08	3.61	5.89	3.96	6.60	9.56	6.46	10.71	9.56	6.46							
<b>Total</b>	55.09	19.77	58.61	81.37	29.82	86.68	102.06	37.17	106.68	17.13	6.43	18.28	32.18	12.40	34.39	54.94	21.14	58.70	72.22	26.20	76.80	113.55	42.22	121.07	155.00	53.31	168.39	155.00	53.31							
PNGF Bis Loussimal (Bis)																																				
<b>Total</b>	55.09	19.77	58.61	81.37	29.82	86.68	100.06	37.17	106.68	39.53	6.43	40.88	61.08	12.40	63.29	90.74	21.14	94.50	96.62	26.20	98.29	142.45	42.22	149.97	190.80	58.31	201.19	190.80	58.31							

Net to Petronor - Reserves and resources as per 31.12.2018 (AGR CPR dated 30.10.2018 corrected for 2018 production) All 2018 production figures included

PNGF Sud	Net Petronor reserves												Net Petronor Contingent Resources												Total net Petronor Reserves and Resources											
	3P				2P				3C				ZC				3C				1P/1C				2P/2C				3P/2C							
	Oil mmbbo	Gas bcf	Boe mmbboe	Oil mmbbo	Gas bcf	Boe mmbboe	Oil mmbbo	Gas bcf	Boe mmbboe	Oil mmbbo	Gas bcf	Boe mmbboe	Oil mmbbo	Gas bcf	Boe mmbboe	Oil mmbbo	Gas bcf	Boe mmbboe	Oil mmbbo	Gas bcf	Boe mmbboe	Oil mmbbo	Gas bcf	Boe mmbboe	Oil mmbbo	Gas bcf	Boe mmbboe	Oil mmbbo	Gas bcf	Boe mmbboe						
Tchibouéla	3.64	1.39	4.09	5.03	1.88	5.37	6.12	3.32	6.53	0.65	0.26	0.70	1.26	0.51	1.35	2.17	0.88	7.34	4.49	1.65	4.78	6.29	2.39	6.72	8.20	3.20	8.20	3.20	8.20							
Tchendo	0.99	0.46	1.01	2.03	0.72	2.15	2.47	0.86	2.63	0.59	0.21	0.63	1.13	0.40	1.21	1.87	0.66	1.94	1.58	0.56	1.94	3.16	1.12	3.36	4.34	1.53	4.62	4.34	1.53							
Tchibell	0.80	0.21	0.84	1.15	0.31	1.20	1.46	0.39	1.51	0.41	0.11	0.43	0.71	0.20	0.74	1.00	0.33	1.25	1.21	0.32	1.27	1.85	0.50	1.94	2.64	0.71	2.76	2.64	0.71							
Litani	0.20	0.11	0.22	0.34	0.23	0.38	0.48	0.32	0.54	0.14	0.09	0.16	0.28	0.19	0.31	0.53	0.36	0.59	0.56	0.22	0.38	0.62	0.42	0.69	1.00	0.68	1.12	1.00	0.68							
<b>Total</b>	5.78	2.08	6.15	8.54	3.13	9.10	10.51	3.90	11.20	1.80	0.68	1.92	3.38	1.30	3.61	5.77	2.22	6.16	7.58	2.75	8.07	11.92	4.43	12.71	16.28	6.12	17.37	16.28	6.12							
PNGF Bis Loussimal (Bis)																																				
<b>Total</b>	5.78	2.08	6.15	8.54	3.13	9.10	10.51	3.90	11.20	5.09	0.68	5.11	7.63	1.30	7.86	11.03	2.22	11.43	10.88	2.75	11.37	16.17	4.43	16.96	21.54	6.12	22.63	21.54	6.12							

Figure 5 – Reserves and resources 2018

Oil equivalents: 5.615 mscf/boe

## MANAGEMENT REPORT 2018

### OPERATIONS

#### PNGF SUD

---

PNGF SUD fields are located approximately 25 km off the coast of Pointe-Noire in water depths of 80-100 metres. PNGF SUD comprises 3 operating licenses, Tchibouela II, Tchendo II and Tchibeli-Litanzi II, covering five oil fields: Tchibouela Main, Tchibouela East, Tchendo, Tchibeli and Litanzi.

PetroNor, through Hemla E&P Congo, participated in the 2016 tender process with the Congo Ministry of Hydrocarbon for participation in the PNGF SUD license. As of 1 of January 2017, HEPCO was awarded a 20% working interest in the PNGF SUD licenses (net 10.5% to PetroNor).

Initially discovered in 1979, PNGF SUD commenced production in 1987 and was producing approx. 20,220 bopd gross from four oil fields, Tchibouela, Tchendo, Tchibeli and Litanzi in 2018. Following the entry of the new license group in 2017, significant operational improvements have been made, increasing gross production from c. 15,000 bopd in January 2017 to approx. 21,600 bopd at the end of 2018. Through further work-overs, surface and process improvements and infill drilling, gross production from PNGF SUD is expected to continue to grow in the coming years.

The PNGF SUD fields are developed with seven wellhead platforms and currently produce from more than 50 active production wells, with oil exported via the onshore Djeno terminal (Tchibouela, Tchendo and Tchibeli) and the Nkossa FPSO (Litanzi). With its long production history, substantial well count and extensive infrastructure, PNGF SUD offers well diversified and low risk production and reserves with low break-even cost.

In 2018, AGR Petroleum prepared a Competent Person's Report (dated 30 October 2018 with volumes evaluated as of 1 January 2018) according to which PNGF SUD is estimated to hold net 2P

reserves of 8.54 MMbbl and 2C contingent resources of 3.38 MMbbl.

During 2018, the gross production was 7.38 MMbbl of oil and 4.57 bcf of gas, resulting in a net to PetroNor of 0.86 MMboe.

#### PNGF BIS

---

PNGF BIS is located to the North-West of PNGF SUD and comprises of 2 fields: Loussima SW and Loussima.

Through an umbrella agreement, the license partners of PNGF SUD have the right to negotiate, in good faith, the license terms to enter into a PSC for PNGF BIS. Subject to successful completion of negotiations, PetroNor is expected to hold a 14.7% indirect interest.

Three exploration wells have been drilled on the license area. A discovery in pre-salt Vandji Fm was made in well LUSM-1 on Loussima in 1985. Loussima SW was discovered by well LUSOM-1 in 1987 with oil in Vandji Fm.

A second well, SUEM-2, was drilled on Loussima SW in 1991 to appraise the Vandji discovery. Hydrocarbon shows were detected in one of the wells in the Albian post-salt Sendji Fm, (analogue to Tchibeli / Litanzi reservoirs in PNGF SUD). The Sendji interval was not production tested. The depth to the Vandji reservoir is 3,250 mTVDSS, to Sendji around 1,940 mVDSS and the water depth in the area is 110 m. Tests on the Loussima SW LUSOM-1 well produced 4,700 bopd and the SUEM-2 well yielded 1,150 bopd.

The CPR report prepared by AGR estimates that PNGF BIS holds gross 2C resources of approx. 28.9 MMbbl.

#### THE ACCOUNTS

The Board of Directors (the "Board") confirms that the annual financial statements have been prepared pursuant to the going concern assumption, and that this assumption was realistic as at the statement of financial position



date. The going concern assumption is based upon the financial position of the Group and the development plans currently in place. In the Board of Directors' view, the annual financial statements give a true and fair view of the Group's assets and liabilities, financial position and results. PetroNor E&P Ltd is the parent company of the PetroNor Group (the "Group"). Its financial statements have been prepared on the assumption that PetroNor will continue as a going concern.

The Group had USD 7.9 million in cash and bank balances as of 31 December 2018 (2017: USD 8.1 million).

PetroNor E&P Ltd prepares its financial statements in accordance with the International Financial Reporting Standards (IFRS), as adopted by European Union and the requirements of the Cyprus Companies Law, Cap. 113. The consolidated financial statements are presented in US dollars.

## FINANCIAL PERFORMANCE AND ACTIVITIES

### Condensed Consolidated Statement of Comprehensive Income

<i>USD Million</i>	<b>2018</b>	<b>2017</b>
Oil and gas revenue	101.07	68.35
Cost of sales	(38.37)	(27.60)
<b>Gross profit</b>	<b>62.70</b>	<b>40.75</b>
Other income	0.49	-
General and administrative expenses	(10.09)	(3.43)
<b>EBITDA</b>	<b>53.10</b>	<b>37.32</b>
Depreciation and amortization	(3.21)	(2.51)
<b>EBIT</b>	<b>49.89</b>	<b>34.81</b>
Net financial items	(1.71)	(1.04)
<b>Profit before taxes</b>	<b>48.18</b>	<b>33.77</b>
Income tax	(31.12)	(22.62)
<b>Net Profit</b>	<b>17.06</b>	<b>11.15</b>
<b>Attributable to:</b>		
Parents	7.84	5.85
NCI	9.22	5.30
	<b>17.06</b>	<b>11.15</b>

The Group reported an EBITDA of USD 53.10 Million for the year ended December 31, 2018, compared to USD 37.32 million in the same period in 2017. Net profit attributable to the equity holders of the parent was USD 7.84 million for 2018, compared to USD 5.85 million in 2017.

Oil & gas revenue in the year was (net of royalties & taxes) USD 55 million arising from sale of 0.81 million barrels of crude oil at an average price of USD 67.52 per barrel. The revenue increased by 55% as compared to last year. There is a 29% increase in the oil production and 20% increase in the price, as compared to 2017.

EBITDA Margin of 52.5% is slightly lower as compared to last year 54.6%, mainly because of the business development and legal and professional expenses incurred during 2018. The operational efficiency of the asset in Congo has improved.

### Condensed Consolidated Statement of Financial Position

<i>USD Million</i>	<b>2018</b>	<b>2017</b>
<b>ASSETS</b>		
Non-current assets	18.14	17.31
Current assets	38.71	17.48
<b>Total assets</b>	<b>56.85</b>	<b>34.79</b>
<b>EQUITY AND LIABILITIES</b>		
Equity - Parents	13.81	5.97
Equity - NCI	12.81	5.71
<b>Total Equity</b>	<b>26.62</b>	<b>11.68</b>
Non-current liabilities	15.58	12.67
Current liabilities	14.65	10.44
<b>Total liabilities</b>	<b>30.23</b>	<b>23.11</b>
<b>Total equity and liabilities</b>	<b>56.85</b>	<b>34.79</b>

Non-current assets of USD 7 million, include Tender costs, entry bonus and signature bonus paid for acquiring the share in PNGF SUD. The increase in current assets is mainly because of the advance against decommissioning liability and a loan given to MGI (related party).



Increase in non-current liabilities and current liabilities is mainly because of the loan secured during the year.

### **Condensed Consolidated Statement of Cash**

#### **Flows**

<i>USD Million</i>	<b>2018</b>	<b>2017</b>
Operating cash flows	21.09	14.44
Working capital changes	(22.15)	1.15
<b>Cash flows from operations</b>	<b>(1.06)</b>	<b>15.59</b>
<b>Cash flows from investing activities</b>	<b>(4.04)</b>	<b>(7.52)</b>
<b>Cash flows from financing activities</b>	<b>4.96</b>	<b>-</b>
<b>Net cash (decrease) / increase during the year</b>	<b>(0.14)</b>	<b>8.07</b>

### **ALLOCATION OF PROFITS AND LOSSES**

#### **Parent Company Financial Information**

<i>USD'000</i>	<b>2018</b>	<b>2017</b>
Oil and gas revenue	-	-
Cost of sales	-	-
<b>Gross profit</b>	<b>-</b>	<b>-</b>
Other income	4	0
General and administrative expenses	(1,673)	(5)
<b>EBITDA</b>	<b>(1,669)</b>	<b>(5)</b>
Depreciation and amortization	-	-
<b>EBIT</b>	<b>(1,669)</b>	<b>(5)</b>
Net financial items	(6)	-
<b>Profit before taxes</b>	<b>(1,676)</b>	<b>(5)</b>
Income tax	-	-
<b>Net Profit</b>	<b>(1,676)</b>	<b>(5)</b>

### **FUNDING**

The shareholders secured a loan of USD 10 million to cover the farm-in fees and start-up costs. This loan facility was repaid during 2017. In 2018, the

Group secured a short term debt facility of USD 10 million from Rasmala (Dubai based investor group) with a two year term.

### **RISK FACTORS**

#### **Operational Risk Factors**

The development of oil and gas fields in which the Company is involved is associated with technical risk, alignment in consortiums with regards to development plans, and on obtaining necessary licenses and approvals from the authorities. Disruptions of operations might lead to cost overruns and production shortfall, or delays compared to the schedules laid out by the operator of the fields. As a non-operator, the Group has limited influence on operational risks related to exploration and development of the licenses and fields in which it has interests.

The PNGF SUD licenses were developed since 1987 and thus significant caution has to be taken by the Operator to ensure that the old facilities are properly maintained.

The development of the oil fields, in which the Group has an ownership, is associated with significant technical risk and uncertainty with regards to timing of additional production from new development activities. The PNGF BIS license is still under negotiations and the contractor group may not reach an agreement with the government.

The Group's ability to successfully bid on and acquire additional property rights, to discover reserves, to participate in drilling opportunities and to identify and enter into commercial arrangements with third parties will be dependent upon developing and maintaining close working relationships with industry partners, joint operators and authorities, as well as its ability to select and evaluate suitable properties, and complete transactions in a highly competitive environment.

#### **Financial risk factors**

The overall risk management program seeks to minimize the potential adverse effects of unpredictable fluctuations in financial and

commodity markets on financial performance, i.e., risks associated with currency exposures, debt servicing and oil and gas prices. Financial instruments such as derivatives, forward contracts and currency swaps are continuously being evaluated for the hedging of such risk exposures.

Due to the international nature of its operations, the Group is exposed to risk arising from currency exposure, primarily with respect to the Norwegian Kroner (NOK), the US Dollar (USD), and, to a lesser extent, the Euro (EUR).

The Group currently has a debt facility with Rasmala and if the PetroNor Group wishes to target new projects, it needs to increase its debt facilities. Should additional funding be required in the future for additional capital expenditure for new development phases or working capital requirements, the Group has various alternatives available which it can explore to fulfil such additional requirements. The options include, amongst others, debt financing, off-take prepayment structures, and the issuance of shares.

#### **ORGANISATION AND HEALTH, SAFETY AND ENVIRONMENT (HSE)**

The management of the Group is led by CEO Knut Søvold. Mr. Søvold has considerable experience from various positions in the international oil and gas industry both from a technical and managerial perspective. He is supported by Business Development Manager, Gerhard Ludvigsen, and Executive Chairman, Eyas Alhomouz.

In 2018, the Group has been employing 16 individuals (including part-time employees and consultants), most of which were based in Pointe-Noire. Further, a number of consultants and services providers were engaged on a need by need basis.

The Group emphasizes the importance of maintaining a good working environment in order to achieve Group goals and objectives. The objective is to create a constructive working environment characterized by a spirit where employees' ideas and initiatives are welcomed,

founded on mutual trust between employees, management and the Board of Directors.

Health, Safety and Environment (HSE) policies are essential for PetroNor with the goal to avoid accidents and incidents and minimize the impact of its activities on the environment. PetroNor performs all its activities with focus on and respect for people and the environment. The Board believes this is a key condition for creating value in a very demanding business. The Group's objective for health, environment, safety and quality (HSEQ) is zero accidents and zero unwanted incidents in all activities. The Group strives towards performing all its activities with no harm to people or the environment. PetroNor experienced no accidents, injuries, incidents or any environmental claims during the year.

Time lost due to employee illness or accidents was negligible. Employee safety is of the highest priority, and the Group is continuously working towards identifying and employing administrative and technical solutions that ensure a safe and efficient work-place.

The Group is in process of establishing a set of operational guidelines building on its principles of Corporate Governance, covering critical operational aspects ranging from ethical issues and practical travel advice to delegation of authority matrices.

The oil and gas assets located in West Africa imply frequent travel, and the Group seeks to ensure adequate safety levels for management and employees travelling.

As a non-operator, PetroNor is dependent on the efforts of the operators with respect to achieving physical results in the field. However, the Group has chosen to take an active role in all license committees with the conviction that high safety standards are the best means to achieve successful operations. Through this involvement, the Group can influence the choice of technical solutions, vendors and quality of applied procedures and practices.

The Group's operations have been conducted by the operators on behalf of the licensees, at

acceptable HSE standards and the Operator of PNGF SUD is reporting regularly on all key HSE indicators. No accidents that resulted in loss of human lives or serious damage to people or property have been reported.

To the best of the Group's knowledge, all operations have been conducted within the limits set by approved environmental regulatory authorities.

## **CORPORATE GOVERNANCE**

The main objective for PetroNor's Corporate Governance is to develop a strong, sustainable, competitive and a successful E&P group acting in the best interest of all the stakeholders, within the laws and regulations of the countries where it operates. The Board and management aim for a controlled and profitable development and long-term creation of growth through well-founded governance principles and risk management.

PetroNor acknowledges that successful value-added business is profoundly dependent upon transparency and internal and external confidence and trust. PetroNor believes that this is achieved by building a solid reputation based on our financial performance, our values and by fulfilling our commitments. Thus, good corporate governance practices combined with PetroNor's Code of Conduct is an important tool in assisting the Board to ensure that we properly discharge our duty.

The composition of the Board ensures that the Board represents the common interests of all shareholders and meets the Group's need for expertise, experience, capacity and diversity. The members of the Board represent a range of experience including oil and gas, energy, banking and investment. The composition of the Board ensures that it can operate independently of any special interests. Members of the Board are elected for a period of two years. Recruitment of members of the Board will be phased so that the entire Board is not replaced at the same time. The Chairman of the Board of Directors is elected by the General Meeting.

The Board may be given a power of attorney by the General Meeting to issue new shares for specific purposes. Any decision to deviate from the principle of equal treatment by waiving the pre-emption rights of existing shareholders to subscribe for shares in the event of an increase in share capital will be made only if it is in the common interest of the shareholders and the Group.

The Group has not granted any loans or guarantees to anyone in the management or any of the Directors.

The Board acknowledges the Norwegian Code of Practice for Corporate Governance and the principle of comply or explain. The Group has implemented a policy for Ethical Code of Conduct and works diligently to comply with these guidelines.

## **DISCRIMINATION AND EQUAL EMPLOYMENT OPPORTUNITIES**

PetroNor is an equal opportunity employer, with an equality concept integrated in its human resources policies. A diversified working environment is embraced, and the Group's personnel policies promote equal opportunities and rights and prevent discrimination based on gender, ethnicity, colour, language, religion or belief. All employees are governed by PetroNor's Code of Conduct, to ensure uniformity in behaviour across a workforce representing a multitude of nationalities.

PetroNor is a knowledge-based group in which a majority of the workforce has earned college or university level educations, or has obtained industry-recognized skills and qualifications specific to their job requirements. Employees are remunerated exclusively based upon skill level, performance and position.

75% of the employees were men and 25% women at the end of 2018.



## SHARE CAPITAL

### Authorised Capital

Under its Memorandum, the Company fixed its share capital at 100,000 ordinary shares of nominal value of EUR1 (USD 1.20) each.

### Issued Capital

Upon incorporation on 3 April 2017 the Company issued to the subscribers of its Memorandum of Association 100,000 ordinary shares of EUR1 (USD 1.20) each at par.

## DIRECTORS AND SHAREHOLDERS

The Company has six Directors at the Board. The Directors have various backgrounds and experience, offering the Group and the Company valuable perspectives on industrial, operational and financial issues.

## EVENTS SUBSEQUENT TO REPORTING DATE AND OUTLOOK

Negotiations for entering PNGF BIS are ongoing. From the PNGF SUD contractor group, only Perenco and HEPCO have opted to enter PNGF BIS alongside SNPC. Following successful negotiations of the terms of the PSC, the Company intends for HEPCO to enter into the license.

29 July 2019  
The Board of Directors  
PetroNor E&P Ltd



Eyas Alhomouz  
Chairman of the Board

PetroNor looks forward to continued growth, where it can build upon its current operations and experienced team and capitalise on the strength of its shareholders and respective networks to expand its operations in West Africa.

Therefore, during 2019 PetroNor proceeded with the listing process on the Oslo Stock Exchange through a reverse take-over of London-based, African Petroleum Corporation Ltd.

On 19 March 2019, PetroNor and African Petroleum Corporation Ltd jointly announced the reverse take-over of the London-based company.

African Petroleum Corporation Ltd has also presence in Africa, thus the Company believes there are strong synergies to be achieved for both through the reverse take-over.

The Board wishes to thank the staff, consultants, services providers and shareholders for their continued commitment to the Company.

## INDEPENDENT AUDITORS

The independent auditors, Ernst & Young Cyprus Limited, were reappointed by the Company as auditors and have expressed their willingness to continue in office and a resolution giving authority to the Board of Directors to fix their remuneration will be proposed at the Annual General Meeting.

## **BOARD OF DIRECTORS AND SENIOR MANAGEMENT**

### **Eyas Alhomouz (Chairman of the Board of Directors)**

Mr. Alhomouz has a strong experience from the oil and gas sector covering the US, North Africa, and the GCC. He began his career with Schlumberger Oilfield Service as a wireline engineer in Midland, Texas. From there he went on to work for Cromwell Energy in Denver, Colorado, in the role of international business development manager. Then, as a COO and Financial Director of Prism Seismic, he oversaw the growth of the Colorado based consulting and oil and gas software development firm and later the acquisition of the company by Sigma Cubed where, post-acquisition of Prism Seismic, he went on to serve as a director of business development, Middle East. Mr. Alhomouz's career then took him to Qatar as a General Manager of Jaidah Energy, an Omani-Qatari owned company servicing the oil and gas sector in Qatar. Mr. Alhomouz graduated from Brigham Young University in Provo, UT with a degree in Chemical Engineering and from the Colorado School of Mines, in Golden, CO with a master's degree in Mineral and Energy Economics.

### **Knut Søvold (Director and Chief Executive Officer)**

Mr. Søvold has 30 years of experience in the oil and gas industry, from both executive management and technical levels. His extensive experience covers fields and licenses in the North Sea, North and West Africa, Middle East, Far East and FSU, as well as management and administration through establishing and operating companies in Norway, UK, Kazakhstan and West Africa. Mr. Søvold was in the management team of the Snorre Field in the North Sea, with a production of 200,000 bopd. Mr. Søvold has been working with West African assets since 2000 and in Nigeria since 2008. Furthermore, he has also been working with gas to LNG, including novel solutions such as FLNG, gas to power, as well as LNG-regasification. Mr. Søvold holds a MSc in Petroleum from The Institute of Technology in Trondheim (NTH), Norway.

### **Gerhard Ludvigsen (Director and Business Development Manager)**

Mr. Ludvigsen is the founder of several companies in Norway and internationally within the oil and gas industry, as well as holding several board positions in start-up companies and being an advisor for a major securities house in Norway. Founded Hemla with AGR as co-founder with focus on oil and gas development, co-founded D&H Solution AS with Daewoo Shipbuilding & Marine Engineering of South Korea for gas and LNG development with major international oil companies in Middle East and Africa. Mr. Ludvigsen has also been a director and major shareholder of FileFlow, developed by Fast Search & Transfer. He has recently established PetroNor E&P with Petromal which holds oil production in West Africa with focus on IOR development. He serves on the board of the charity foundation Power to Educate which supports education in emerging countries.

### **Hawary Marshad (Director)**

Mr. Marshad graduated from the University of Houston in 1990 with his BBA, majoring in finance. He began his career in auditing at a public accounting firm in Dubai and earned his CPA in 1994. He worked at Ernst & Young for 11 years moving up to Executive Director the last three years there. Main areas of focus were audit, accounting, valuation and due diligence, consulting and internal audit services. From there, he moved into the industry and became the Head of Finance for a Saudi FMGC conglomerate, where he was a key member of senior management, including the acting COO for the last 18 months that he was there. After six years in Saudi, he moved back to Dubai and joined Zabeel Investment as the Group CFO. The company had significant investments in Real Estate, Private Equity and Capital Markets. He led the financial restructuring of the group and oversaw the completion of several key projects during a very turbulent time. After the restructuring of Zabeel, Hawary joined Deyaar, a fully integrated real estate development and management company, as the CFO, where he initiated a strategic five-year plan for the Company, with a focus on

diversification to counter the cyclical nature of real estate. After Deyaar, he migrated to Canada for a couple of years, where he setup a consultancy company providing finance and accounting services and sourcing of investment opportunities. Mr. Marshad joined EIIC in February 2018 as the CFO. Under his current role, he leads the finance, accounting and treasury role, while working closely with the senior management of the group to provide support.

#### **Andri Georghiou (Director)**

Mrs. Georghiou is a Fellow Member of the Institute of Chartered Accountants in England and Wales and holds the Corporate Finance Qualification of the Institute. She is also a member of Institute of Certified Public Accountants of Cyprus. Mrs. Georghiou was the Chief Executive Officer of the Cyprus Development Bank Group (CDB), and through her career in the banking and financial services sector, she has expertise in bank general management and in-depth knowledge and experience in the whole spectrum of banking front line as well as middle and back office operations and functions. She held various senior managerial posts with the Cyprus Development Bank Group, rising from Chief Financial Officer, to Head of Banking and Treasury Operations, to Deputy Chief Executive Officer and then to Chief Executive Officer. Furthermore, Mrs. Georghiou also served on the boards of companies of the Cyprus Development Bank Group: Executive Member of the Management Body of the Cyprus Development Bank Plc, Chairman of the Supervisory Board of CDB's Russian banking subsidiary, JSC Investment Bank of Kuban (CDB Russia), Executive Member of the Board of Directors of Global Capital Securities and Financial Services Ltd (financial services firm regulated by CySEC) and Non-Executive Director of other companies of the CDB Group.

#### **Nicos Kouyialis (Director)**

Mr. Kouyialis graduated from the North Carolina State University (Raleigh, N.C., USA) with a Master of Science degree in Electrical Engineering. Since then he has lectured at the North Carolina State University and worked at Alcatel Network Systems (USA) as Systems Engineer before moving on to Siemens Medical Cyprus as a Medical Engineer. Mr. Kouyialis has worked as Manager of the Maintenance and Operation Department of the Nicosia District of the Electricity Authority of Cyprus before becoming the Minister of Agriculture, Rural Development and Environment of Cyprus. In addition to implementing and managing the Ministry's legislative strategies, Mr. Kouyialis has also represented Cyprus at the European Union; he was member of the negotiation team of EU Council for the Paris Agreement signing the Paris Agreement for Climate Change on behalf of the Republic of Cyprus. Furthermore, he has also been involved in a number of energy-related endeavours, including forming Cyprus' National Strategy for renewable energy source penetration, as well as licensing drilling and exploration activity for hydrocarbons in the Exclusive Economic Zone of Cyprus with Total, Eni, Exxon Mobil, Kogas, Noble, etc.





**Building a better  
working world**

**Ernst & Young Cyprus Ltd**

Jean Nouvel Tower  
6 Stasinou Avenue  
P.O. Box 21656  
1511 Nicosia, Cyprus

Tel: +357 2220 9999

Fax: +357 2220 9998  
ey.com

## **Independent Auditor's Report**

**To the Members of PetroNor E&P Ltd**

**Report on the Audit of the Consolidated Financial Statements**

### **Opinion**

We have audited the consolidated financial statements of PetroNor E&P Ltd (the "Company") and its subsidiaries (the "Group"), which comprise the consolidated statement of financial position as at 31 December 2018, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2018, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union and the requirements of the Cyprus Companies Law, Cap. 113.

### **Basis for Opinion**

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the "Auditor's Responsibilities for the Audit of the Consolidated Financial Statements" section of our report. We are independent of the Group in accordance with the "International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants" (IESBA Code) together with the ethical requirements that are relevant to our audit of the consolidated financial statements in Cyprus, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### **Other information**

The Board of Directors is responsible for the other information. The other information comprises the information included in the Group at a glance Statement, the CEO letter, the Group Operations Report, the Annual Statement of Reserves, the Management Report, the Board of Directors and senior management section, the Statement of Directors' Responsibility, the Corporate Social Responsibility / Ethical Code of Conduct and the Glossary and Definitions section but does not include the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

### **Responsibilities of the Board of Directors for the Consolidated Financial Statements**

The Board of Directors is responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with International Financial Reporting Standards as adopted by the European Union and the requirements of the Cyprus Companies Law, Cap. 113, and for such internal control as the Board of Directors determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.



In preparing the consolidated financial statements, the Board of Directors is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Board of Directors either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

The Board of Directors is responsible for overseeing the Group's financial reporting process.

### **Auditor's Responsibilities for the Audit of the Consolidated Financial Statements**

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Board of Directors.
- Conclude on the appropriateness of the Board of Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves a true and fair view.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the Board of Directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

### **Report on Other Legal Requirements**

Pursuant to the additional requirements of the Auditors Law of 2017, we report the following:

- In our opinion, the Management Report has been prepared in accordance with the requirements of the Cyprus Companies Law, Cap 113, and the information given is consistent with the financial statements.
- In our opinion, and in the light of the knowledge and understanding of the Company and its environment obtained in the course of the audit, we have not identified material misstatements in the Management Report.



**Other Matter**

This report, including the opinion, has been prepared for and only for the Company's members as a body in accordance with Section 69 of the Auditors Law of 2017 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whose knowledge this report may come to.



Stavros Pantzaris  
Certified Public Accountant and Registered Auditor  
for and on behalf of

**Ernst & Young Cyprus Limited**

**Certified Public Accountants and Registered Auditors**

Nicosia, 29 July 2019

## CONSOLIDATED FINANCIAL STATEMENTS

### CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2018

	Notes	2018 USD'000	2017 USD'000
Revenue from contracts with customers	3	101,069	68,351
Cost of sales	4	(41,577)	(30,113)
<b>GROSS PROFIT</b>		<b>59,492</b>	<b>38,238</b>
Other income		491	-
General and administrative expenses	5	(10,090)	(3,428)
<b>OPERATING PROFIT</b>		<b>49,893</b>	<b>34,810</b>
Finance costs	6	(1,623)	(878)
Foreign exchange loss		(88)	(157)
<b>PROFIT BEFORE INCOME TAX</b>		<b>48,182</b>	<b>33,775</b>
Income tax expense	7	(31,124)	(22,621)
<b>PROFIT FOR THE YEAR</b>		<b>17,058</b>	<b>11,154</b>
Other Comprehensive income		-	-
<b>TOTAL COMPREHENSIVE INCOME</b>		<b>17,058</b>	<b>11,154</b>
<i>Attributable to:</i>			
Equity holders of the parent		7,838	5,850
Non-controlling interest		9,220	5,304
		<b>17,058</b>	<b>11,154</b>

The attached notes 1 to 23 form part of these consolidated financial statements.

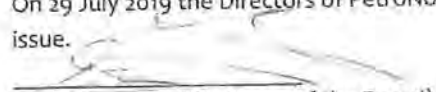
## CONSOLIDATED FINANCIAL STATEMENTS

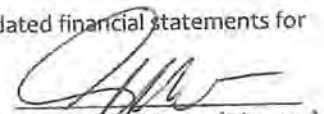
### CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2018

	Notes	2018 USD'000	2017 USD'000
<b>ASSETS</b>			
<b>Non-current assets</b>			
<b>Intangible assets</b>			
Licenses	8	5,556	6,451
Goodwill	9	9	9
		5,565	6,460
<b>Tangible assets</b>			
Production assets and equipment	10	12,580	10,854
		12,580	10,854
<b>Total non-current assets</b>		18,145	17,314
<b>Current assets</b>			
Inventory	11	2,570	2,369
Accounts receivable, deposits and prepayments	12	28,210	7,043
Cash and bank balances	13	7,926	8,069
<b>Total current assets</b>		38,706	17,481
<b>TOTAL ASSETS</b>		56,851	34,795
<b>EQUITY AND LIABILITIES</b>			
<b>Equity</b>			
Share capital	14	120	120
Retained earnings		13,688	5,850
		13,808	5,970
Non-controlling interest		12,811	5,713
<b>Total equity</b>		26,619	11,683
<b>Non-current liability</b>			
Decommissioning liability	15	13,496	12,672
Loan	16	2,083	-
<b>Total non-current liabilities</b>		15,579	12,672
<b>Current liabilities</b>			
Current portion of long term loan	16	5,000	-
Accounts payable and accrued liabilities	17	9,653	10,440
<b>Total current liabilities</b>		14,653	10,440
<b>Total liabilities</b>		30,232	23,112
<b>TOTAL EQUITY AND LIABILITIES</b>		56,851	34,795

On 29 July 2019 the Directors of PetroNor E&P Ltd authorised these consolidated financial statements for issue.

  
Eyass Alhomouz (Chairman of the Board)

  
Gerhard Ludvigsen (Director)

The attached notes 1 to 23 form part of these consolidated financial statements.

## CONSOLIDATED FINANCIAL STATEMENTS

### CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2018

	Attributable to the equity holders of the Company			Non-controlling interests	
	Share capital USD'000	Retained earnings USD'000	Total USD'000	USD'000	Total USD'000
Balance at 1 January 2017	-	-	-	-	-
Profit for the year	-	5,850	5,850	5,304	11,154
<b>Total comprehensive income for the year</b>	-	<b>5,850</b>	<b>5,850</b>	<b>5,304</b>	<b>11,154</b>
Share capital	120	-	120	-	120
Acquisition of a subsidiary	-	-	-	409	409
<b>Balance at 31 December 2017</b>	<b>120</b>	<b>5,850</b>	<b>5,970</b>	<b>5,713</b>	<b>11,683</b>
<b>Balance at 1 January 2018</b>	<b>120</b>	<b>5,850</b>	<b>5,970</b>	<b>5,713</b>	<b>11,683</b>
Profit for the year	-	7,838	7,838	9,220	17,058
<b>Total comprehensive income for the year</b>	-	<b>7,838</b>	<b>7,838</b>	<b>9,220</b>	<b>17,058</b>
Increase of share capital of a subsidiary	-	-	-	3	3
Dividends paid during the year	-	-	-	(2,125)	(2,125)
<b>Balance at 31 December 2018</b>	<b>120</b>	<b>13,688</b>	<b>13,808</b>	<b>12,811</b>	<b>26,619</b>

Companies, which do not distribute 70% of their profits after tax, as defined by the relevant tax law, within two years after the end of the relevant tax year, will be deemed to have distributed as dividends 70% of these profits. Special contribution for defence at 17% will be payable on such deemed dividends to the extent that the ultimate shareholders are both Cyprus tax resident and Cyprus domiciled. The amount of deemed distribution is reduced by any actual dividends paid out of the profits of the relevant year at any time. This special contribution for defence is payable by the Company for the account of the shareholders.

The attached notes 1 to 23 form part of these consolidated financial statements.

## CONSOLIDATED FINANCIAL STATEMENTS

### CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2018

	Notes	2018 USD'000	2017 USD'000
<b>OPERATING ACTIVITIES</b>			
Profit before tax for the year		48,182	33,775
Adjustments for:			
Depreciation and amortization	8 & 10	3,206	2,511
Unwinding of discount on decommissioning liability	5	824	773
		52,212	37,059
Working capital adjustments:			
Inventory		(201)	(2,369)
Accounts receivable, deposits and prepayments		(9,807)	(6,923)
Advance against decommissioning cost	12	(11,360)	-
Accounts payable and accrued liabilities		(784)	10,440
Tax paid	7	30,060 (31,124)	38,207 (22,621)
<b>NET CASH FLOWS FROM OPERATING ACTIVITIES</b>		<b>(1,064)</b>	<b>15,586</b>
<b>INVESTING ACTIVITIES</b>			
Acquisition of production assets and equipment		(4,037)	(7,917)
Acquisition of subsidiary, recognized goodwill		-	(9)
Proceeds from sale of non-controlling interest		-	409
<b>NET CASH FLOWS FROM INVESTING ACTIVITIES</b>		<b>(4,037)</b>	<b>(7,517)</b>
<b>FINANCING ACTIVITIES</b>			
Proceeds from new loans		10,000	-
Repayment of loans		(2,917)	-
Dividends paid to non-controlling interest		(2,125)	-
<b>NET CASH FLOWS FROM FINANCING ACTIVITIES</b>		<b>4,958</b>	<b>-</b>
<b>CHANGE IN CASH AND CASH EQUIVALENTS</b>		<b>(143)</b>	<b>8,069</b>
Cash and cash equivalents at 1 January		8,069	-
<b>CASH AND CASH EQUIVALENTS AT 31 DECEMBER</b>		<b>7,926</b>	<b>8,069</b>

The attached notes 1 to 23 form part of these consolidated financial statements.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2018

## 1 CORPORATE INFORMATION

The consolidated financial statements of the Group, which comprise PetroNor E&P Ltd (PetroNor, as the parent) and all its subsidiaries (the Group), for the year ended 31 December 2018, were authorised for issue in accordance with a resolution of the directors on 29 July 2019. PetroNor was incorporated on 3rd April 2017 as a private Company limited by shares registered in the Republic of Cyprus under registration number HE 367916. PetroNor has its registered address at Arch. Makariou III, 42E Matina Court, 3rd floor, Office 303, 1065 Nicosia, Cyprus. The company was created with a purpose of being the holding company of the operations of the PetroNor Group as per Note 2.2.

The principal activities of the Group are exploration and production of crude oil. Information on the Group's parent and other related party relationships is presented in Note 2.2.

On 21 March 2018, the Company changed its name from PetroHemla Ltd to PetroNor E&P Ltd.

## 2 BASIS OF PREPARATION AND OTHER SIGNIFICANT ACCOUNTING POLICIES

This section provides additional information about the overall basis of preparation that the directors consider is useful to be relevant in understanding these financial statements.

### 2.1 BASIS OF PREPARATION

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as adopted by European Union and the requirements of the Cyprus Companies Law, Cap. 113.

The consolidated financial statements have been prepared on a historical cost basis. The consolidated financial statements are presented in US dollars, and all values are rounded to the nearest thousand (USD 000), except where otherwise indicated.

### 2.2 BASIS OF CONSOLIDATION

The consolidated financial statements comprise the financial statements of the Company and its following subsidiaries as at 31 December 2018.

<i>Name of company</i>	<i>Activities</i>	<i>Country of incorporation</i>	<i>Percentage holding</i>
Hemla Africa Holding AS	Investing in companies and entities that are involved in the oil and gas industry nationally and internationally and project management	Norway	70.707%
Hemla E&P Congo SA	Oil and Gas exploration and production	Republic of Congo	52.500%
PetroNor E&P AS	Oil and Gas exploration and production	Norway	100.000%

Hemla E&P Congo SA is owned 74.25% by Hemla Africa Holding AS and hence effectively owned 52.50% by the Company.

PetroNor E&P AS was not involved in any oil & gas exploration and production during the year.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2018

### 2.2 BASIS OF CONSOLIDATION (continued)

On incorporation of Petronor to serve as the holding company of the operating entities of the Group, the Group has elected to use the pooling of interest method as if transfers of ownership interests in subsidiaries had occurred at the beginning of the earliest period presented (1 January 2017), reflecting in substance the date of the commencement of the Group's operations and the continuation of the Group.

Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.

When the Group has less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- The contractual arrangement with the other vote holders of the investee;
- Rights arising from other contractual arrangements; and
- The Group's voting rights and potential voting rights

The relevant activities are those which significantly affect the subsidiary's returns. The ability to approve the operating and capital budget of a subsidiary and the ability to appoint key management personnel are decisions that demonstrate that the Group has the existing rights to direct the relevant activities of a subsidiary.

The Group re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control.

Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in the statement of comprehensive income from the date the Group gains control until the date the Group ceases to control the subsidiary.

Profit or loss and each component of other comprehensive income (OCI), where applicable, are attributed to the equity holders of the parent of the Group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction. If the Group loses control over a subsidiary, it:

- derecognises the assets (including goodwill) and liabilities of the subsidiary;
- derecognises the carrying amount of any non-controlling interest;
- derecognises the cumulative translation differences, recorded in equity;
- recognises the fair value of the consideration received;
- recognises the fair value of any investment retained;
- recognises any surplus or deficit in profit or loss; and
- reclassifies the parent's share of components previously recognised in other comprehensive income to profit or loss or retained earnings, as appropriate, as would be required if the Group had directly disposed of the related assets or liabilities.



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2018

### 2.3 SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

#### 2.3.1 ESTIMATES AND ASSUMPTIONS

The preparation of the financial statements in conformity with IFRS as adopted by the EU requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities and contingent liabilities at the date of the consolidated financial statements and reported amounts of revenues and expenses during the reporting period. Estimates and assumptions are continuously evaluated and are based on management's experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. However, actual outcomes can differ from these estimates.

In particular, significant areas of estimation uncertainty considered by management in preparing the consolidated financial statements are as follows:

##### *Hydrocarbon reserve and resource estimates*

Hydrocarbon reserves are estimates of the amount of hydrocarbons that can be economically and legally extracted from the Group's oil and gas properties. The Group estimates its commercial reserves and resources based on information compiled by appropriately qualified persons relating to the geological and technical data on the size, depth, shape and grade of the hydrocarbon body and suitable production techniques and recovery rates. Commercial reserves are determined using estimates of oil and gas in place, recovery factors and future commodity prices, the latter having an impact on the total amount of recoverable reserves and the proportion of the gross reserves which are attributable to the host government under the terms of the Production-Sharing Agreements. Future development costs are estimated using assumptions as to the number of wells required to produce the commercial reserves, the cost of such wells and associated production facilities, and other capital costs. The current long-term Brent oil price assumption used in the estimation of commercial reserves is US\$55/bbl. The carrying amount of oil and gas properties at 31 December 2018 is shown in Note 10.

The Group estimates and reports hydrocarbon reserves in line with the principles contained in the Society of Petroleum Engineers (SPE) Petroleum Resources Management Reporting System (PRMS) framework. As the economic assumptions used may change and as additional geological information is obtained during the operation of a field, estimates of recoverable reserves may change. Such changes may impact the Group's reported financial position and results, which include:

- The carrying value of oil and gas properties may be affected due to changes in estimated future cash flows (Note 10);
- Depreciation and amortisation charges in the statement of profit or loss and other comprehensive income may change where such charges are determined using the UOP method, or where the useful life of the related assets change (Note 10);
- Provisions for decommissioning may require revision — where changes to reserves estimates affect expectations about when such activities will occur and the associated cost of these activities (Note 15).

##### *Taxes*

The Group operates in several tax jurisdictions, and consequently, its income is subject to various rates and rules of taxation. As a result, the Company's effective tax rate may vary significantly from the Cyprus statutory tax rate depending upon the profitability of operations in the different jurisdictions.



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2018

### 2.3.1 ESTIMATES AND ASSUMPTIONS (continued)

#### Taxes (continued)

The Group recognises the net future tax benefit related to deferred income tax assets to the extent that it is probable that the deductible temporary differences will reverse in the foreseeable future. Assessing the recoverability of deferred income tax assets requires the Group to make significant estimates related to expectations of future taxable income. Estimates of future taxable income are based on forecast cash flows from operations and the application of existing tax laws in each jurisdiction, to the extent that future cash flows and taxable income differ significantly from estimates. The ability of the Group to realise the net deferred tax assets recorded at the date of the statement of financial position could be impacted.

Additionally, future changes in tax laws in the jurisdictions in which the Group operates could limit the ability of the Group to obtain tax deductions in future periods.

Additional information on the accounting policy for taxes is explained further in Note 2.4.

#### *Decommissioning costs*

Decommissioning costs will be incurred by the Group at the end of the operating life of some of the Group's facilities and properties. The Group assesses its retirement obligation at each reporting date. The ultimate decommissioning costs are uncertain and cost estimates can vary in response to many factors, including changes to relevant legal requirements, the emergence of new restoration techniques or experience at other production sites. The expected timing, extent and amount of expenditure can also change, for example in response to changes in reserves or changes in laws and regulations or their interpretation. Therefore, significant estimates and assumptions are made in determining the provision for decommissioning costs. As a result, there could be significant adjustments to the provisions established which would affect future financial results. The provision at reporting date represents management's best estimate of the present value of the future decommissioning costs required.

### 2.3.2 JUDGEMENTS

In the process of applying the Group's accounting policies, the directors have made the following judgments, apart from those involving estimates, which have the most significant effect on the amounts recognised in the consolidated financial statements:

#### *Impairment indicators*

The Group assesses at each reporting date whether there is an indication that an asset or cash-generating unit (CGU) may be impaired. Management has assessed its CGUs as being an individual field, which is the lowest level for which cash inflows are largely independent of those of other assets. When an indication of impairment exists, a formal estimate of the recoverable amount is made. The recoverable amounts of cash-generating units and individual assets have been determined based on the higher of value-in-use calculations and fair values less costs to sell, or if relevant, a combination of these two models. These calculations require the use of estimates and assumptions. It is reasonably possible that the oil price assumption may change which may then impact the estimated life of the field and may then require a material adjustment to the carrying value of tangible assets. The Group monitors internal and external indicators of impairment relating to its tangible and intangible assets.

#### *Contingencies*

By their nature, contingencies will only be resolved when one or more future events occur or fail to occur. The assessment of contingencies inherently involves the exercise of significant judgment and estimates of the outcome of future events.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2018

### 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### INTERESTS IN JOINT ARRANGEMENTS

A joint arrangement is an arrangement over which two or more parties have joint control. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities (being those that significantly affect the returns of the arrangement) require unanimous consent of the parties sharing control.

##### *Joint operations*

A joint operation is a type of joint arrangement whereby the parties that have joint control of the arrangement have rights to the assets and obligations for the liabilities, relating to the arrangement. In relation to its interests in joint operations, the Group recognises its:

- Assets, including its share of any assets held jointly
- Liabilities, including its share of any liabilities incurred jointly
- Revenue from the sale of its share of the output arising from the joint operation
- Expenses, including its share of any expenses incurred jointly.

#### FOREIGN CURRENCIES

The consolidated financial statements are presented in US dollars, which is also the Group's presentation currency. The functional currency of the Company is Euros and that of its subsidiaries are as follows:

- Hemla Africa Holding AS      Norwegian Krone (NOK)
- Hemla E&P Congo S.A      United States Dollars (USD)
- PetroNor E&P AS      Norwegian Krone (NOK)

##### *Translation of foreign entities*

The functional currency for each of the Company's subsidiaries and jointly-controlled operations is the currency of the primary economic environment in which it operates. Operations with foreign functional currencies are translated into US dollars in the following manner:

- Monetary and non-monetary assets and liabilities are translated at the rate of exchange in effect at the statement of financial position date;
- Revenue and expense items (including depletion, depreciation, and amortization) are translated at average rates of exchange prevailing during the year (as this is considered a reasonable approximation to actual rates); and
- Exchange gains and losses that result from the translation are recognized and disclosed as a cumulative translation adjustment in other comprehensive income/loss.

##### *Translation of other foreign currency transactions and balances*

Foreign currencies are translated into the functional currency as follows:

- Monetary assets and liabilities are translated at current rates of exchange;
- Non-monetary items are translated at historical exchange rates;
- Revenue and expense items are translated at the average rates of exchange; and
- Gains or losses resulting from these translation adjustments are recognized within net income (loss) in the consolidated statement of comprehensive income (loss).

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2018

### 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

#### BUSINESS COMBINATIONS AND GOODWILL

In order to consider an acquisition as a business combination, the acquired asset or groups of assets must constitute a business (an integrated set of operations and assets conducted and managed for the purpose of providing a return to the investors). The combination consists of inputs and processes applied to these inputs that have the ability to create output. Acquired businesses are included in the financial statements from the transaction date. The transaction date is defined as the date on which the company achieves control over the financial and operating assets. This date may differ from the actual date on which the assets are transferred. Comparative figures are not adjusted for acquired, sold or liquidated businesses. On acquisition of a license that involves the right to explore for and produce petroleum resources, it is considered in each case whether the acquisition should be treated as a business combination or an asset purchase. Generally, purchases of licenses in a development or production phase will be regarded as a business combination. Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, measured at acquisition date fair value and the amount of any non-controlling interest (NCI) in the acquiree. For each business combination, the Group elects whether to measure NCI in the acquiree at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition related costs are expensed as incurred and included in administrative expenses.

When the Group acquires a business, it assesses the assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree. Those acquired petroleum reserves and resources that can be reliably measured are recognised separately in the assessment of fair values on acquisition. Other potential reserves, resources and rights, for which fair values cannot be reliably measured, are not recognised separately, but instead are subsumed in goodwill.

Any contingent consideration to be transferred by the acquirer will be recognised at fair value at the acquisition date. Contingent consideration classified as an asset or liability that is a financial instrument and within the scope of IFRS 9 Financial Instruments: Recognition and Measurement is measured at fair value, with changes in fair value recognised either in the statement of profit or loss or as a change to other comprehensive income. If the contingent consideration is not within the scope of IFRS 9, it is measured in accordance with the appropriate IFRS. Contingent consideration that is classified as equity is not re-measured, and subsequent settlement is accounted for within equity.

Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred and the amount recognised for NCI over the fair value of the identifiable net assets acquired and liabilities assumed. If the fair value of the identifiable net assets acquired is in excess of the aggregate consideration transferred (bargain purchase), before recognising a gain, the Group reassesses whether it has correctly identified all of the assets acquired and all of the liabilities assumed and reviews the procedures used to measure the amounts to be recognised at the acquisition date. If the reassessment still results in an excess of the fair value of net assets acquired over the aggregate consideration transferred, then the gain is recognised in the statement of profit or loss and other comprehensive income.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash generating units (CGUs) that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2018

### 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

#### BUSINESS COMBINATIONS AND GOODWILL (continued)

Where goodwill forms part of a CGU and part of the operation in that unit is disposed of, the goodwill associated with the disposed operation is included in the carrying amount of the operation when determining the gain or loss on disposal.

Goodwill disposed of in these circumstances is measured based on the relative values of the disposed operation and the portion of the CGU retained.

#### LICENSE INTERESTS, AND FIELD INVESTMENTS, AND DEPRECIATION

##### *License & property acquisition costs*

Exploration license and acquisition costs are capitalised in intangible assets.

License costs paid in connection with a right to explore in an existing exploration area are also capitalised in intangible assets.

License and property acquisition costs are reviewed at each reporting date to confirm that there is no indication that the carrying amount exceeds the recoverable amount. This review includes confirming that exploration drilling is still under way or firmly planned, or that it has been determined, or work is under way to determine that the discovery is economically viable based on a range of technical and commercial considerations and that sufficient progress is being made on establishing development plans and timing.

If no future activity is planned or the license has been relinquished or has expired, the carrying value of the license and property acquisition costs are written off through the statement of comprehensive income.

##### *Oil & gas production assets*

Oil and gas production assets are aggregated exploration and evaluation tangible assets and development expenditures associated with the production of proved reserves.

The cost of development and production assets also includes the cost of acquisitions and purchases of such assets, directly attributable overheads and the cost of recognising provisions for future restoration and decommissioning.

Where major and identifiable parts of the production assets have different useful lives, they are accounted for as separate items of property, plant and equipment. Costs of minor repairs and maintenance are expensed as incurred.

##### *Depreciation/amortisation*

Oil and gas properties and intangible assets are depreciated or amortised using the unit-of-production method. Unit-of-production rates are based on proved reserves, which are oil, gas and other mineral reserves estimated to be recovered from existing facilities using current operating methods. Oil and gas volumes are considered produced once they have been measured through meters at custody transfer or sales transaction points at the outlet valve on the field storage tank.

Field infrastructure exceeding beyond the life of the field is depreciated over the useful life of the infrastructure using a straight-line method.



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2018

### 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

#### FINANCIAL ASSETS

##### *Initial recognition and measurement*

Financial assets are classified, at initial recognition, as subsequently measured at amortised cost, fair value through other comprehensive income (OCI), and fair value through profit or loss.

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Group's business model for managing them. With the exception of trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient, the Group initially measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs. Trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient are measured at the transaction price determined under IFRS 15. Refer to the accounting policies in section 2.25 Revenue from contracts with customers.

In order for a financial asset to be classified and measured at amortised cost or fair value through OCI, it needs to give rise to cash flows that are 'solely payments of principal and interest (SPPI)' on the principal amount outstanding. This assessment is referred to as the SPPI test and is performed at an instrument level.

The Group's business model for managing financial assets refers to how it manages its financial assets in order to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both.

Purchases or sales of financial assets that require delivery of assets within a time frame established by regulation or convention in the market place (regular way trades) are recognised on the trade date, i.e., the date that the Group commits to purchase or sell the asset. Financial assets are recognized initially at fair value, normally being the transaction price. In the case of financial assets not at fair value through profit or loss, directly attributable transaction costs are also included. The subsequent measurement of financial assets depends on their classification, as set out below. The group derecognizes financial assets when the contractual rights to the cash flows expire or the financial asset is transferred to a third party. This includes the derecognition of receivables for which discounting arrangements are entered into. The classification depends on the business model for managing the financial assets and the contractual cash flow characteristics of the financial asset.

##### *Subsequent measurement*

For purposes of subsequent measurement, financial assets are classified in three categories:

- Financial assets at amortised cost (debt instruments)
- Financial assets designated at fair value through OCI with no recycling of cumulative gains and losses upon derecognition (equity instruments)
- Financial assets at fair value through profit or loss

##### *Financial assets measured at amortized cost*

The Group measures financial assets at amortised cost if both of the following conditions are met: a) the financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows and b) the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial assets at amortised cost are subsequently measured using the effective interest (EIR) method and are subject to impairment. Gains and losses are recognised in profit or loss when the asset is derecognised, modified or impaired.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2018

### 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

#### FINANCIAL ASSETS (continued)

##### *Cash equivalents*

Cash equivalents are short-term highly liquid investments that are readily convertible to known amounts of cash, are subject to insignificant risk of changes in value and generally have a maturity of three months or less from the date of acquisition. Cash equivalents are classified as financial assets measured at amortised cost.

##### *Loans granted*

Loans granted that have fixed or determinable payments that are not quoted in an active market are classified as financial assets at amortised cost and are measured at amortised cost using the effective interest method, less any impairment. Interest income is recognised by applying the effective interest rate.

Loans granted to related parties are normally interest free and do not have a fixed repayment structure. These loans are classified as financial assets at amortised cost and are measured at amortised cost using the effective interest method, less any impairment. Effective interest rate being zero in this case.

##### *Derecognition and impairment*

##### *Derecognition*

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecognised (i.e., removed from the Group's consolidated statement of financial position) when:

The rights to receive cash flows from the asset have expired Or

The Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either (a) the Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if, and to what extent, it has retained the risks and rewards of ownership. When it has neither transferred nor retained substantially all of the risks and rewards of the asset, nor transferred control of the asset, the Group continues to recognise the transferred asset to the extent of its continuing involvement. In that case, the Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2018

### 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

#### FINANCIAL ASSETS (continued)

##### *Impairment of financial assets measured at amortized cost*

The group assesses on a forward-looking basis the expected credit losses associated with financial assets classified as measured at amortized cost at each balance sheet date. Expected credit losses are measured based on the maximum contractual period over which the group is exposed to credit risk. Since this is typically less than 12 months there is no significant difference between the measurement of 12-month and lifetime expected credit losses for the group's in-scope financial assets. The measurement of expected credit losses is a function of the probability of default, loss given default and exposure at default. The expected credit loss is estimated as the difference between the asset's carrying amount and the present value of the future cash flows the group expects to receive discounted at the financial asset's original effective interest rate. The carrying amount of the asset is adjusted, with the amount of the impairment gain or loss recognized in the income statement. A financial asset or group of financial assets classified as measured at amortized cost is considered to be credit-impaired if there is reasonable and supportable evidence that one or more events that have a detrimental impact on the estimated future cash flows of the financial asset (or group of financial assets) have occurred. Financial assets are written off where the group has no reasonable expectation of recovering amounts due.

#### FINANCIAL LIABILITIES

The measurement of financial liabilities depends on their classification as follows:

##### *Financial liabilities measured at fair value through profit or loss*

Financial liabilities that meet the definition of held for trading are classified as measured at fair value through profit or loss. Such liabilities are carried on the balance sheet at fair value with gains or losses recognized in the statement of comprehensive income. Derivatives, other than those designated as effective hedging instruments, are included in this category.

##### *Financial liabilities measured at amortized cost*

Other financial liabilities, including borrowings, are initially measured at fair value, net of transaction costs. Other financial liabilities are subsequently measured at amortised cost using the effective interest method. This category of financial liabilities includes trade and other payables and finance debt.

#### OFFSETTING OF FINANCIAL INSTRUMENTS

Financial assets and financial liabilities are offset and the net amount is reported in the consolidated statement of financial position if there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, to realise the assets and settle the liabilities simultaneously.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2018

### 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

#### PROVISIONS

##### *General*

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Where the Group expects some or all of the provision to be reimbursed, for example under an insurance contract, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is recognised through profit and loss net of any reimbursement. If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognised as interest expense. The present obligation under onerous contracts is recognised as a provision.

#### DECOMMISSIONING LIABILITY

A decommissioning liability is recognised when the Group has a present legal or constructive obligation as a result of past events, and it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount of obligation can be made. A corresponding amount equivalent to the obligation is also recognised as part of the cost of the related production plant and equipment. The amount recognised in the estimated cost of decommissioning, discounted to its present value. 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 production plant and equipment. The unwinding of the discount on the decommissioning liability is included as a finance cost.

An escrow account is maintained by the operator of the licensed and is governed by joint operating agreement and the Congolese Government rules. The Group's share paid against the decommissioning liability till the balance sheet date is classified as advance against decommissioning liability in current assets.

#### TRADE RECEIVABLES

Trade receivables, which generally have 30-90 day terms, are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment.

For trade receivables, which are not in default the Group applies the simplified approach, in accordance with IFRS 9 and calculates ECLs based on lifetime expected credit losses.

#### SHARE CAPITAL

Ordinary shares are classified as equity.

#### TRADE AND OTHER PAYABLES

Trade and other payables are recognised initially at fair value and are subsequently measured at amortised cost using the effective interest method. Accounts payable are classified as current liabilities if payment is due within one year or less. If not, they are presented as non-current liabilities.



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2018

### 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

#### DIVIDEND DISTRIBUTION

Dividend distribution to the Company's shareholders is recognised as a liability in the Group's financial statements in the period in which the dividends are declared and appropriately authorised or approved by the Company's Shareholders' General Meeting. Interim dividends proposed by the Board of Directors are recognized as liabilities upon declaration.

#### BORROWING COSTS

Borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset are added to the cost of the asset during the period of time that is required to complete and prepare the asset for its intended use.

Borrowing costs are capitalised to the extent that funds are borrowed specifically for the purpose of obtaining a qualifying asset. To the extent that funds are borrowed generally and used for the purpose of obtaining a qualifying asset, the amount of borrowing costs eligible for capitalisation is determined by applying a capitalisation rate to the expenditures on that asset. All other borrowing costs are expensed as incurred.

#### COMPARATIVE FIGURES

Where necessary, comparative figures have been reclassified to conform to changes in presentation in the current year.

#### TAXES

The income tax expense or benefit for the period consists of two components: current and deferred tax.

The current income tax payable or recoverable is calculated using the tax rates and legislation that have been enacted or substantively enacted at year-end in each of the jurisdictions and includes any adjustments for taxes payable or recovery in respect of prior periods.

Deferred tax assets and liabilities are determined using the balance sheet liability method based on temporary differences between the carrying value of assets and liabilities for financial reporting purposes and their tax bases. In calculating the deferred tax assets and liabilities, the tax rates used are those that have been enacted or substantively enacted by year-end in each of the jurisdictions and that are expected to apply when the assets are recovered or the liabilities are settled.

#### *Revenue-based taxes*

In addition to corporate income taxes, the Group's consolidated financial statements also include and recognise as income taxes, other types of taxes on net income such as certain revenue based taxes.

Revenue-based taxes are accounted for under IAS 12 when they have the characteristics of an income tax. This is considered to be the case when they are imposed under government authority and the amount payable is based on taxable income — rather than physical quantities produced or as a percentage of revenue — after adjustment for temporary differences. For such arrangements, current and deferred tax is provided on the same basis as described above for other forms of taxation. Obligations arising from royalty arrangements and other types of taxes that do not satisfy these criteria are accrued and included in cost of sales. The revenue taxes, except royalty, payable by the Group are considered to meet the criteria to be treated as part of income taxes.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2018

### 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

#### TAXES (continued)

##### *Production-sharing arrangements*

According to the production-sharing arrangement (PSA) in certain licenses, the share of the profit oil to which the Government is entitled in any calendar year in accordance with the PSA is deemed to include a portion representing the corporate income tax imposed upon and due by the Group. This amount will be paid directly by the government on behalf of the Group to the appropriate tax authorities.

##### *The income tax expense*

The current income tax is calculated using the PSA, paid in barrels and booked as income tax and also shown as revenue.

##### *Sales tax*

Revenues, expenses and assets are recognised net of the amount of sales tax except:

Where the sales tax incurred on a purchase of assets or services is not recoverable from the taxation authority, in which case, the sales tax is recognised as part of the cost of acquisition of the asset or as part of the expense item as applicable.

Receivables and payables that are stated with the amount of sales tax included.

The net amount of sales tax recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the statement of financial position.

#### LEASES

The determination of whether an arrangement is, or contains, a lease is based on the substance of the arrangement at inception date: whether fulfilment or the arrangement is dependent on the use of a specific asset or assets or the arrangement conveys a right to use the asset.

##### *Group as a lessee*

Finance leases, which transfer to the Group substantially all the risks and benefits incidental to ownership of the leased item, are capitalized at the inception of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are reflected in the income statement.

Capitalized leased assets are depreciated over the shorter of the estimated useful life of the asset and the lease term, if there is no reasonable certainty that the Group will obtain ownership by the end of the lease term.

Operating lease payments are recognized as an expense in the income statement on a straight line basis over the lease term.

#### INVENTORY

The crude oil inventory and the material and supplies inventory are valued at the lower of cost and net realizable value. Cost is determined using the weighted average method. Net realizable value is the estimated selling price, less applicable selling expenses. The cost of inventory includes all costs related to bringing the inventory to its current condition, including processing costs, labour costs, supplies, direct and allocated indirect operating overhead and depreciation expense, where applicable, including allocation of fixed and variable costs to inventory.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2018

### 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

#### REVENUE RECOGNITION

##### *Revenue from petroleum products*

Revenue from the sale of crude oil is recognised when a customer obtains control (“sales” or “lifting” method), normally this is when title passes at point of delivery. Revenues from production of oil properties are recognised based on actual volumes lifted and sold to customers during the period. Under a production sharing contract, where the group is required to pay profit oil tax on production of crude oil, such payments are settled in kind (where the government lift the crude it is entitled to). The Group presents a gross up of the profit oil tax as an income tax expense with a corresponding increase in oil and gas revenues.

The Group assesses whether it acts as a principal or agent in each of its revenue arrangements. The Group has concluded that in all sales transactions it acts as a principal.

##### *Variable consideration*

If the consideration in a contract includes a variable amount, the Group recognizes this amount as revenue only to the extent that it is highly probable that a significant reversal will not occur in the future.

#### PROPERTY PLANT AND EQUIPMENT

Property, plant and equipment not associated with exploration and production activities are carried at cost less accumulated depreciation. These assets are also evaluated for impairment. Depreciation of other assets is calculated on a straight-line basis as follows:

Computer equipment	20 – 33.33%
Furniture, fixtures & fittings	10 – 33.33%
Motor vehicles	20%

#### IMPAIRMENTS OF NON-OIL AND GAS INTERESTS

##### *Non-financial assets*

Assets that are subject to amortisation or depreciation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Goodwill is assessed for impairment on an annual basis. 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. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows (cash-generating units). Nonfinancial assets that were previously impaired are reviewed for possible reversal of the impairment at each reporting date.

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 a reversal is recognised in the income statement. 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.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2018

### 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

#### IMPAIRMENTS OF NON-OIL AND GAS INTERESTS (continued)

##### *Financial assets*

The Group recognises an allowance for expected credit losses (ECLs) for all debt instruments not held at fair value through profit or loss. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Group expects to receive, discounted at an approximation of the original effective interest rate. The expected cash flows will include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms.

ECLs are recognised in two stages. For credit exposures for which there has not been a significant increase in credit risk since initial recognition, ECLs are provided for credit losses that result from default events that are possible within the next 12-months (a 12-month ECL). For those credit exposures for which there has been a significant increase in credit risk since initial recognition, a loss allowance is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default (a lifetime ECL).

#### CURRENT VERSUS NON-CURRENT CLASSIFICATION

The Group presents assets and liabilities in the statement of financial position based on current/non-current classification. An asset is current when it is either:

- Expected to be realised or intended to be sold or consumed in the normal operating cycle;
- Held primarily for the purpose of trading;
- Expected to be realised within 12 months after the reporting period;
- Cash or cash equivalent unless restricted from being exchanged or used to settle a liability for at least 12 months after the reporting period.

All other assets are classified as non-current.

A liability is current when either:

- It is expected to be settled in the normal operating cycle
- It is held primarily for the purpose of trading
- It is due to be settled within 12 months after the reporting period
- There is no unconditional right to defer the settlement of the liability for at least 12 months after the reporting period

The Group classifies all other liabilities as non-current.

Deferred tax assets and liabilities are classified as non-current assets and liabilities.



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2018

### 2.5 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

#### New and amended standards and interpretations

The Group applied for the first-time certain standards and amendments, which are effective for annual periods beginning on or after 1 January 2018. Although these new standards and amendments are applied for the first time in 2018, the application of these new standards and amendments, did not have a material impact on the annual financial statements of the Group. The nature and the impact of each new standard or amendment is described below:

#### *IFRS 15 Revenue from Contracts with Customers*

IFRS 15 supersedes IAS 11 Construction Contracts, IAS 18 Revenue and related Interpretations and it applies, with limited exceptions, to all revenue arising from contracts with customers. IFRS 15 establishes a five-step model to account for revenue arising from contracts with customers and requires that revenue be recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer.

IFRS 15 requires entities to exercise judgement, taking into consideration all of the relevant facts and circumstances when applying each step of the model to contracts with their customers. The standard also specifies the accounting for the incremental costs of obtaining a contract and the costs directly related to fulfilling a contract. In addition, the standard requires relevant disclosures.

The Group applied this standard to all contracts for the period under review. The Group has adopted IFRS 15 from January 1, 2018, using the permitted modified retrospective approach, which resulted in changes in accounting policies; however, no adjustments were required to the amounts recognised in the financial statements.

#### *IFRS 9 Financial Instruments*

IFRS 9 replaces the provisions of IAS 39 that relate to the recognition, classification and measurement of financial assets and financial liabilities, derecognition of financial instruments, impairment of financial assets and hedge accounting. The adoption of IFRS 9 has changed the Group's accounting for impairment losses for financial assets by replacing IAS 39's incurred loss approach with a forward-looking expected credit loss (ECL) approach. IFRS 9 requires the Group to recognise an allowance for ECLs for all debt instruments not held at fair value through profit or loss and contract assets.

The adoption of IFRS 9 from January 1, 2018 resulted in changes in accounting policies; however, no adjustments were required to the amounts recognised in the financial statements.

#### *IFRS 2: Classification and Measurement of Share based Payment Transactions (Amendments)*

The Amendments provide requirements on the accounting for the effects of vesting and non-vesting conditions on the measurement of cash-settled share-based payments, for share-based payment transactions with a net settlement feature for withholding tax obligations and for modifications to the terms and conditions of a share-based payment that changes the classification of the transaction from cash-settled to equity-settled. The amendments did not have any impact on the Group's financial position and performance.

#### *IAS 40: Transfers to Investment Property (Amendments)*

The Amendments clarify when an entity should transfer property, including property under construction or development into, or out of investment property. The Amendments state that a change in use occurs when the property meets, or ceases to meet, the definition of investment property and there is evidence of the change in use. A mere change in management's intentions for the use of a property does not provide evidence of a change in use. The amendments did not have any impact on the Group's financial position and performance.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2018

### 2.5 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (continued)

IFRIC Interpretation 22: Foreign Currency Transactions and Advance Consideration

The Interpretation clarifies the accounting for transactions that include the receipt or payment of advance consideration in a foreign currency. The Interpretation covers foreign currency transactions when an entity recognizes a non-monetary asset or a non-monetary liability arising from the payment or receipt of advance consideration before the entity recognizes the related asset, expense or income. The Interpretation states that the date of the transaction, for the purpose of determining the exchange rate, is the date of initial recognition of the non-monetary prepayment asset or deferred income liability. If there are multiple payments or receipts in advance, then the entity must determine a date of the transactions for each payment or receipt of advance consideration. The interpretation did not have any impact on the Group's financial position and performance.

The IASB has issued the Annual Improvements to IFRSs 2014 – 2016 Cycle, which is a collection of amendments to IFRSs. The amendments did not have any impact on the Group's financial position and performance.

IAS 28 Investments in Associates and Joint Ventures: The amendments clarify that the election to measure at fair value through profit or loss an investment in an associate or a joint venture that is held by an entity that is venture capital organization, or other qualifying entity, is available for each investment in an associate or joint venture on an investment-by-investment basis, upon initial recognition.

### 2.6 STANDARDS ISSUED BUT NOT YET EFFECTIVE

The standards and interpretations that are issued, but not yet effective, up to the date of issuance of the Group's financial statements are disclosed below. The Group intends to adopt these standards, if applicable, when they become effective.

- IFRS 16 Leases
- IFRIC Interpretation 23 Uncertainty over Income Tax Treatments
- IFRS 17 Insurance Contracts
- Amendments to IFRS 9 Prepayment Features with Negative Compensation
- Amendments to IAS 19 Plan Amendment, Curtailment or Settlement –
- Amendments to IAS 28 Long-term Interests in Associates and Joint Ventures
- Amendments to IFRS 10 and IAS 28 Sale or Contribution of Assets between an Investor and its Associate or Joint Venture

#### **Annual Improvements 2014-2016 Cycle**

- IFRS 3 Business Combinations - Previously held Interests in a joint operation
- IFRS 11 Joint Arrangements - Previously held Interests in a joint operation
- IAS 12 Income Taxes - Income tax consequences of payments on financial instruments classified as equity
- IAS 23 Borrowing Costs - Borrowing costs eligible for capitalization

Management intends to adopt these standards and amendments, if applicable, when they become effective. Management believes that the initial application of these standards will not have a significant impact on the financial statements except from IFRS 16 for which there is no significant impact assessed as per the preliminary assessment done by the management. Management is currently further assessing the possible impact on the financial statements.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2018

### 3. REVENUE FROM CONTRACTS WITH CUSTOMERS

	Notes	2018 USD'000	2017 USD'000
Revenue from sales of petroleum products		54,687	35,316
Assignment of tax oil	7	31,124	22,621
Assignment of royalties	4	15,258	10,414
		<b>101,069</b>	<b>68,351</b>
Quantity of oil lifted (Barrels)		<b>812,000</b>	630,094
Average selling price (USD per barrel)		<b>67.35</b>	56.05

### 4. COST OF SALES

	Notes	2018 USD'000	2017 USD'000
Operating expenses		22,125	19,044
Royalty		15,258	10,414
Depreciation and amortization of oil and gas properties	8 & 10	3,206	2,511
Closing oil inventory		988	(1,856)
		<b>41,577</b>	<b>30,113</b>

### 5. GENERAL AND ADMINISTRATIVE EXPENSES

	2018 USD'000	2017 USD'000
Personnel expenses	4,206	944
Travelling expenses	1,492	800
Business development expenses	1,794	585
Legal and professional expenses	651	206
Office rent	202	157
Charge back of expenses by a related party (Note 19)	1,000	-
Other expenses	745	736
	<b>10,090</b>	<b>3,428</b>

#### 5a. PERSONNEL EXPENSES

	2018 USD'000	2017 USD'000
Salaries	1,418	731
Other compensation	2,788	213
	<b>4,206</b>	<b>944</b>

The Company didn't have any staff employed during the year, while average number of staff employed in Hemla E&P Congo and Petronor E&P AS was 11 (2017: 9).

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2018

### 5b. MANAGEMENT REMUNERATION

Executive management consisted of the Chief Executive Officer (CEO). The Company's management was not paid any remuneration during the year.

### 5c. BOARD OF DIRECTORS REMUNERATION

The remuneration of the members of the Board is determined on a yearly basis by the Company at its annual general meeting. The directors may also be reimbursed for, inter alia, travelling, hotel and other expenses incurred by them in attending meetings of the directors or in connection with the business of the Company. A director who has been given a special assignment, besides his/her normal duties as a director of the Board, in relation to the business of the Company may be paid such extra remuneration as the directors may determine.

There was no remuneration paid or accrued for the members of the Company's Board for the years ended 31 December 2017 and 2018.

### 5d. AUDITORS' REMUNERATION

Fees, excluding VAT, to the auditors are included in general and administrative expenses and are shown below:

	2018 USD'000	2017 USD'000
<b>Ernst &amp; Young</b>		
Annual audit	106	28
<b>Echas Revisjon AS</b>		
Annual audit	19	3
	125	31

### 6. FINANCE COST

	Notes	2018 USD'000	2017 USD'000
Unwinding of discount on decommissioning liability	15	824	773
Loan structuring fee	16	100	-
Interest on loan	16	699	-
Other		-	105
		1,623	878



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2018

### 7. INCOME TAX

The major components of income tax expense for the years ended 31 December 2018 and 2017 are:

	2018 USD'000	2017 USD'000
<i>Petroleum revenue tax expense</i>		
Current income tax:		
Current income tax charge	31,124	22,621
Petroleum revenue tax expense	31,124	22,621
Total tax expense reported in the consolidated statement of comprehensive income	31,124	22,621

The income tax expense is related to the subsidiary in Congo (HEPCO). There was no income tax expense in the other subsidiaries' jurisdictions nor in the parent's jurisdiction as these companies are in taxable loss position in both 2018 and 2017.

### 8. LICENSES

<i>USD'000</i>	Licenses and approvals	Software	Total
<b>2018</b>			
Cost			
At 1 January 2018	7,382	-	7,382
Additions	-	7	7
At 31 December 2018	<u>7,382</u>	<u>7</u>	<u>7,389</u>
Amortization			
At 1 January 2018	931	-	931
Charge for the year	902	-	902
At 31 December 2018	<u>1,833</u>	<u>-</u>	<u>1,833</u>
Net carrying amount			
At 31 December 2018	<u>5,549</u>	<u>7</u>	<u>5,556</u>
 <i>USD'000</i>			
<b>2017</b>			
Cost			
At 1 January 2017	-	-	-
Additions	7,382	-	7,382
At 31 December 2017	<u>7,382</u>	<u>-</u>	<u>7,382</u>
Amortization			
At 1 January 2017	-	-	-
Charge for the year	931	-	931
At 31 December 2017	<u>931</u>	<u>-</u>	<u>931</u>
Net carrying amount			
At 31 December 2017	<u>6,451</u>	<u>-</u>	<u>6,451</u>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2018

### 8. LICENSES (continued)

In 2017, the Group acquired interest in three development and production permits (Tchendo: 20%; Tchibouela: 20% and Tchibeli-Litanzi: 20%) which will respectively end in December 2037 for each of them with possible extension for 5 years. All these three licenses are called or named collectively "PNGF SUD". The Group paid the following amounts to acquire the interest in these licenses:

	<i>USD'000</i>
Signature bonus	5,882
Entry bonus	1,200
Tender costs	300
	<b>7,382</b>

### 9. ACQUISITION OF SUBSIDIARY

Upon establishment, the Company acquired 70.707% of the share capital of Hemla Africa Holding AS (HAH AS). HAH AS' business is to invest in companies and entities that are involved in the oil and gas industry nationally and internationally, as well as investment activities and other related activities, including project management. It operates under organization number 999 077 013 in Norway issued 31 October 2012.

#### Assets acquired and liabilities assumed

The fair value of the identifiable assets and liabilities of HAH AS as at the date of acquisition, during 2017 were as follows:

	<i>Fair Value recognised on acquisition USD'000</i>
<b>Assets</b>	
Bank	5
<b>Total assets</b>	5
<b>Liabilities</b>	
Accounts payable and accrued expenses	15
<b>Total liabilities</b>	15
<b>Net assets acquired</b>	<b>(10)</b>
70.707% shares acquired by the Company	(7)
Goodwill on acquisition	9
<b>Total acquisition costs</b>	<b>3</b>

The acquisition costs are settled through intercompany accounts.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2018

### 9. ACQUISITION OF SUBSIDIARY (continued)

At each reporting date, the Group determines whether there is objective evidence that the goodwill recognized is impaired. If there is such evidence, the Group calculates the amount of impairment then recognises the loss as 'impairment losses' in the statement of other comprehensive income. The management assessed that no impairment was deemed necessary during the year to 31 December 2018.

### 10. PRODUCTION ASSETS AND EQUIPMENT

USD'000	Production assets and equipment	Motor vehicles	Total
<b>2018</b>			
Cost			
At 1 January 2018	12,425	9	12,434
Additions	4,030	-	4,030
At 31 December 2018	<u>16,455</u>	<u>9</u>	<u>16,464</u>
Depreciation			
At 1 January 2018	1,571	9	1,580
Charge for the year	2,304	-	2,304
At 31 December 2018	<u>3,875</u>	<u>9</u>	<u>3,884</u>
Net carrying amount			
At 31 December 2018	<u>12,580</u>	<u>-</u>	<u>12,580</u>

USD'000	Production assets and equipment	Motor vehicles	Total
<b>2017</b>			
Cost			
At 1 January 2017	-	-	-
Additions	12,425	9	12,434
At 31 December 2017	<u>12,425</u>	<u>9</u>	<u>12,434</u>
Depreciation			
At 1 January 2017	-	-	-
Charge for the year	1,571	9	1,580
At 31 December 2017	<u>1,571</u>	<u>9</u>	<u>1,580</u>
Net carrying amount			
At 31 December 2017	<u>10,854</u>	<u>-</u>	<u>10,854</u>

Production assets and equipment includes the following:

	2018 USD'000	2017 USD'000
Decommissioning costs (Note 15)	11,899	11,899
Oil & gas CAPEX	4,556	526
	<u>16,455</u>	<u>12,425</u>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2018

### 11. INVENTORIES

	2018 USD'000	2017 USD'000
Crude oil inventory	868	1,856
Materials and supplies	1,702	513
	2,570	2,369

The crude oil inventory and the material and supplies inventory are valued at the lower of cost and net realizable value. Cost is determined using the weighted average method. Net realizable value is the estimated selling price, less applicable selling expenses. The cost of inventory includes all costs related to bringing the inventory to its current condition, including processing costs, labour costs, supplies, direct and allocated indirect operating overhead and depreciation expense, where applicable, including allocation of fixed and variable costs to inventory.

### 12. ACCOUNTS RECEIVABLE, DEPOSITS AND PREPAYMENTS

	2018 USD'000	2017 USD'000
Trade receivables	3,391	-
Due from related parties (Note 19.3)	12,929	6,162
Deposits	41	31
Prepayments	33	17
Advance against decommissioning cost (Note 12a)	11,360	-
Other receivables	456	833
	28,210	7,043

#### 12a. ADVANCE AGAINST DECOMMISSIONING COST

In addition to the booking of decommissioning cost asset and liability, the contractors group and the Congolese Government have decided to set up funds for the decommissioning cost in an escrow account which is managed by the operator. The advances of the funds for the years 2017 and 2018 amount to USD 11.36 million and are made on the basis of 4.28 USD per barrel produced.

### 13. CASH AND BANK BALANCES

	2018 USD'000	2017 USD'000
Cash in bank	7,924	7,978
Petty cash	2	91
	7,926	8,069

### 14. SHARE CAPITAL

	2018 USD'000	2017 USD'000
Authorised, issued and fully paid 100,000 shares of € 1.00 each (USD 1.20 each)	120	120

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2018

### 15. DECOMMISSIONING LIABILITY

In accordance with the agreements and legislation, the wellheads, production assets, pipelines and other installations may have to be dismantled and removed from oil and natural gas fields when the production ceases. The exact timing of the obligations is uncertain and depend on the rate the reserves of the field are depleted. However, based on the existing production profile of the PNGF SUD field and the size of the reserves, it is expected that expenditure on retirement is likely to be after more than ten years. The current bases for the provision are a discount rate of 6.5% and an inflation rate of 1.6%. The decommissioning liability (ARO) study was done internally by the operator Perenco and was presented to ARO Committee. The partners approved the study on November 13, 2018.

The following table presents a reconciliation of the beginning and ending aggregate amounts of the obligations associated with the retirement of oil and natural gas properties:

	2018 USD'000	2017 USD'000
Balance, beginning of year	12,672	-
Arising during the year	-	11,899
Unwinding of discount on decommissioning (Note 6)	824	773
	13,496	12,672

### 16. LOAN

	2018 USD'000	2017 USD'000
Balance, beginning of year	-	-
Received during the year	10,000	-
Current portion of long term loan	(5,000)	-
Principal repayment during the year	(2,917)	-
Interest on loan accrued during the year (Note 6)	699	-
Interest on loan paid during the year	(699)	-
Balance, end of year (Non-current portion)	2,083	-

During the year, the Hemla Africa Holding AS (HAH AS) secured a loan from a third party Rasmala (Dubai based investor group). The loan is to be repaid in 24 monthly equal instalments and carries an interest rate of 10% plus one month LIBOR payable monthly. A structuring fee of 1% of the loan amount was also paid. The loan is secured against the assignment of receivables by HAH AS and a corporate guarantee from Petromal – Sole Proprietorship LLC.

### 17. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	2018 USD'000	2017 USD'000
Trade payable	3,787	4,412
Due to related parties (Note 19.3)	2,138	2,518
Taxes and state payables (Note 17a.)	313	3,398
Other payables and accrued liabilities (Note 17b.)	3,415	112
	9,653	10,440

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2018

### 17a. TAXES AND STATE PAYABLES

Signing bonus for the acquisition of the interest in the license	-	2,941
Others	313	457
	313	3,398

### 17b. OTHER PAYABLES AND ACCRUED LIABILITIES

Accrual for severance benefits for employees (i)	1,520	-
Accrual for corporate social responsibility (ii)	1,700	-
Others	195	112
	3,415	112

- (i) A restructuring for HEPCO was planned in late 2018, as per which most of the staff employed in the HEPCO were to be made redundant. An accrual was created for their severance benefits as per Congolese laws and norms of business which is on average one year's gross salary.
- (ii) As per the HEPCO Board approval a provision of 5% of the Net Profit of HEPCO (based on OHADA), was created which will be spent on difference CSR projects in Congo. A CSR committee is formed which will recommend the CSR projects to the Board for review and approval.

### 18. CONTINGENCIES AND COMMITMENTS

As at 31 December 2018 and 2017, the Company had no financial contingent liabilities and commitments other than those already recognized in the normal course of business.

### 19. RELATED PARTY TRANSACTIONS

#### 19.1 SUBSIDIARIES

Subsidiary	Place of incorporation	Ownership
Hemla Africa Holding AS	Norway	70.707% (direct)
PetroNor E&P AS	Norway	100%
Hemla E&P Congo S.A.	Republic of Congo	52.50% (indirect)

#### 19.2 SHAREHOLDERS

Shareholder	Place of incorporation	Ownership
Nor Energy AS	Norway	50%
Petromal – Sole Proprietorship LLC	UAE	50%

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2018

### 19.3 RELATED PARTY TRANSACTIONS (continued)

Related parties represent major shareholders, directors and key management personnel of the Group, and entities controlled, jointly controlled or significantly influenced by such parties. Pricing policies and terms of these transactions are approved by the Group's management.

Transactions with related parties included in the consolidated statement of comprehensive income are as follows:

	2018 USD'000	2017 USD'000
<i>Cost of sales:</i>		
Nor Energy AS	753	2,272
Petromal – Sole Proprietorship LLC	1,582	1,600
	<b>2,335</b>	<b>3,872</b>
<i>Charge back of expenses by a related party:</i>		
Nor Energy AS	1,000	-
	<b>1,000</b>	<b>-</b>

Nor Energy AS charged back the expenses which were incurred during the setup of the Group.

Balances due from and due to related parties disclosed in the consolidated statement of financial position consist of the following balances:

	2018 USD'000	2017 USD'000
<i>Due from related parties:</i>		
Hemla Africa Holding Ltd.	5,700	5,700
MGI International S.A.	7,000	-
Petromal – Sole Proprietorship LLC	-	402
Nor Energy AS	229	60
	<b>12,929</b>	<b>6,162</b>
<i>Due to related parties:</i>		
Petromal – Sole Proprietorship LLC	1,163	1,385
Nor Energy AS	975	1,133
	<b>2,138</b>	<b>2,518</b>

Amounts due from / due to related parties are related to expenses incurred on behalf of the Group and vice versa except for the amounts due from Hemla Africa Holding Ltd & MGI International S.A., which are arising out of loan provided to these companies.

During the year HAH AS provided a loan of USD 7 million to MGI International S.A. (minority shareholder in HEPCO). The loan will be repaid directly by HEPCO to HAH AS from its yearly dividends being 25% of MGI's share of dividend in the first year and 40% thereafter. The loan does not carry any interest unless there is a breach of any clause of the loan agreement in which case 4% p.a. will be accrued on the outstanding amount of loan.



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2018

### 19.3 RELATED PARTY TRANSACTIONS (continued)

During 2017 HAH AS provided a loan facility of USD 6 million to Hemla Africa Holding Ltd. which the borrower had an option to drawdown in one or more instalments. As of 31 December 2018 the borrower has drawn down USD 5.7 million which is still outstanding as of that date. The loan does not carry any interest and repayable on demand.

Amounts due from / to related parties included in the consolidated statement of financial position (other than the loans to related parties) are interest free and have no fixed repayment terms.

#### Compensation of key management personnel

The remuneration of directors and other members of key management during the year was as follows:

	2018 USD'000	2017 USD'000
Directors' remuneration	538	384
Key management personnel	1,195	623
Number of key management personnel	4	4

The compensations stated above are for one of the subsidiaries in the Group. The Parent Company does not have any compensation to key management personnel.

### 20. RESERVES

The Group has adopted a policy of regional reserve reporting using external third party companies to audit its work and certify reserves and resources. Reserve and contingent resource estimates comply with the definitions set by the Petroleum Resources Management System ("PRMS") issued by the Society of Petroleum Engineers ("SPE"), the American Association of Petroleum Geologists ("AAPG"), the World Petroleum Council ("WPC") and the Society of Petroleum Evaluation Engineers ("SPEE") in March 2007. The Group uses the services of AGR Petroleum Services AS for 3rd party verifications of its reserves.

The following is a summary of key results from the reserve reports (net of the Group's share):

Asset	1P reserves (MMBOE)	2P reserves (MMBOE)	3P reserves (MMBOE)
PNGF SUD	6.15	9.10	11.20

#### Definitions:

##### 1P) Proved Reserves

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.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2018

### 20. RESERVES (continued)

#### 2P) Proved plus Probable Reserves

Probable Reserves are 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.

#### 3P) Proved plus Probable plus Possible Reserves

Possible Reserves are those additional reserves which analysis of geoscience and engineering data indicate are less likely to be recovered than Probable Reserves.

### 21. RISK MANAGEMENT

The Group's principal financial liabilities comprise of accounts payables and amounts due to related parties. The main purpose of these financial instruments is to manage short-term cash flow and raise finance for the Group's capital expenditure program. The Group has various financial assets such as accounts receivable and cash.

It is, and has been throughout the year ending 31 December 2018, the Group's policy that no speculative trading in derivatives shall be undertaken.

The main risks that could adversely affect the Group's financial assets, liabilities or future cash flows are credit risk, liquidity risk, interest rate risk and foreign currency risk. The management reviews and agrees policies for managing each of these risks which are summarized below.

The following discussion also includes a sensitivity analysis that is intended to illustrate the sensitivity to changes in the market variables on the Group's financial instruments and show the impact on profit or loss and shareholders' equity, where applicable. Financial instruments affected by market risk include, accounts receivables, accounts payable and accrued liabilities.

The sensitivity has been prepared for periods ending 31 December 2018 using the amounts of debt and other financial assets and liabilities held as at those reporting dates.

#### Credit risk

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss.

The Group seeks to limit its credit risk with respect to banks by only dealing with reputable banks and with respect to customers by setting credit limits for individual customers and monitoring outstanding receivables. However, management is confident that this concentration of credit risk will not result in any loss to the Group due to the strong business relationship with and good reputation of the customers.

With respect to credit risk arising from the other financial assets of the Group, including cash and cash equivalents, the Group's exposure to credit risk arises from default of the counterparty, with a maximum exposure equal to the carrying amount of these instruments.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2018

### 21. RISK MANAGEMENT (continued)

#### Liquidity risk

The Group seeks to limit its liquidity risk by ensuring financial support is available from the shareholders. The Group's term of sales require amounts to be paid within 45-60 days of the date of approval of progress billings. Trade payables are normally settled within 90 to 120 days of the date of receipt of invoice.

The table below summarises the maturity profile of the Group's financial liabilities at 31 December 2018 based on contractual undiscounted payments.

USD'000	On demand	Less than 1 month	Between 1 and 3 months	Between 3 months and 1 year	More than 1 year	Total
<b>31 December 2018</b>						
Trade accounts payable (note 17)	-	3,787	-	-	-	3,787
Amounts due to related parties (note 17 and 19)	-	-	2,138	-	-	2,138
Loan payable (note 16)	-	696	2,036	5,177	3,028	10,937
	-	4,483	4,174	5,177	3,028	16,862

USD'000	On demand	Less than 1 month	Between 1 and 3 months	Between 3 months and 1 year	More than 1 year	Total
<b>31 December 2017</b>						
Trade accounts payable (note 17)	-	4,412	-	-	-	4,412
Amounts due to related parties (note 17 and 19)	-	-	2,518	-	-	2,518
	-	4,412	2,518	-	-	6,930

The Company had USD 7.93 million (2017: 8.07 million) in cash and bank balances as of 31 December 2018. Should additional funding be required in the future for additional capital expenditure for new development phases or working capital requirements, the Company has various alternatives available which it can explore to fulfil such additional requirements. The options include, amongst others, debt financing, offtake prepayment structures. As a result, the financial statements have been prepared under the assumption of going concern and realization of assets and settlement of debt in normal operations.

#### Interest rate risk

The Group is exposed to interest rate risk on its interest bearing assets and liabilities and seeks to limit this risk by obtaining favourable interest rates.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2018

### 21. RISK MANAGEMENT (continued)

#### Currency risk

The Group operates internationally and is exposed to risk arising from various currency exposures, primarily with respect to the Norwegian Kroner (NOK) and the Euro (EUR). From a financial statements perspective, the subsidiary in Norway has a NOK functional currency and is exposed to fluctuations for presentation purposes in these financial statements. The volatility in NOK has resulted in a translation loss of USD 88 thousand as of 31 December 2018 (2017: USD 17 thousand).

The Group has transactional currency exposures. Such exposure arises from sales or purchases in currencies other than the respective functional currency.

The Group reports its consolidated results in USD, any change in exchange rates between its operating subsidiaries' functional currencies and the USD affects its consolidated statement of comprehensive income and statement of financial position when the results of those operating subsidiaries are translated into USD for reporting purposes.

Group companies are required to manage their foreign exchange risk against their functional currency.

A 20% strengthening or weakening of the USD against the following currencies at 31 December 2018 would have increased / (decreased) equity and profit or loss by the amounts shown below.

The Group's assessment of what a reasonable potential change in foreign currencies that it is currently exposed to have been changed as a result of the changes observed in the world financial markets. This hypothetical analysis assumes that all other variables, including interest rates and commodity prices, remain constant.

#### 31 December 2018

USD'000	+20%	-20%
<b>USD vs NOK</b>		
Cash	81	(81)
Receivables	678	(678)
Payables	(17)	17
	742	(742)
<b>USD vs EUR</b>		
Cash	-	-
Receivables	-	-
Payables	(2)	2
	(2)	2

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2018

### 21. RISK MANAGEMENT (continued)

#### Currency risk (continued)

31 December 2017

USD'000	+20%	-20%
<b>USD vs NOK</b>		
Cash	1	(1)
Receivables	140	(140)
Payables	(507)	507
	<b>(364)</b>	<b>364</b>
USD'000		
<b>USD vs EUR</b>		
Cash	-	-
Receivables	-	-
Payables	(2)	2
	<b>(2)</b>	<b>2</b>

#### Capital Risk

The primary objective of the Group's capital management is to continuously evaluate measures to strengthen its financial basis and to ensure that the Group is fully funded for its committed 2018 activities. The Group manages its capital structure and makes adjustments to it in light of changes in economic conditions. In order to maintain or change the capital structure, the Group may adjust the amount of dividend payments to shareholders, return capital to shareholders or issue new shares. The Group has no significant debt arrangements in place and has the flexibility to source conventional debt capital from the markets.

The Group is continuously evaluating the capital structure with the aim of having an optimal mix of equity and debt capital to reduce the Group's cost of capital and looking at avenues to procure that in the forthcoming year.

### 22. FINANCIAL INSTRUMENTS – FAIR VALUES

Financial instruments comprise financial assets and financial liabilities.

Financial assets consist of bank balances and cash, amounts due from related parties and trade and some other receivables. Financial liabilities consist of amounts due to related parties, loan payable, trade account payables and some other liabilities.

The fair values of the Group's financial instruments are not materially different from their carrying amounts at the reporting date largely due to the short-term maturities of these instruments.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2018

### 23. EVENTS SUBSEQUENT TO REPORTING DATE

Further negotiations for entering PNGF BIS are ongoing. From the PNGF SUD contractor group, only Perenco and HEPCO have opted to enter PNGF BIS alongside SNPC. Following successful negotiations of the terms of the PSC, the Company intends for HEPCO to enter into the license.

PetroNor looks forward to continued growth, where it can build upon its current operations and experienced team and capitalise on the strength of its shareholders and respective networks to expand its operations in West Africa.

Therefore, during 2019 PetroNor proceeded with the listing process on the Oslo Stock Exchange through a reverse take-over of London-based, African Petroleum Corporation Ltd.

On 19 March 2019, PetroNor and African Petroleum Corporation Ltd jointly announced the reverse take-over of the London-based company.

African Petroleum Corporation Ltd has also presence in Africa, thus the Company believes there are strong synergies to be achieved for both through the reverse take-over.

In February 2019, the Group has incorporated a new company in Nigeria to be the vehicle for the projects that the Group will be engaged in Nigeria.

There were no other material events after the reporting period, which have a bearing on the understanding of the financial statements.

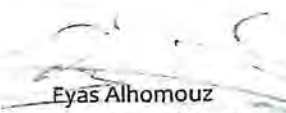


## STATEMENT OF DIRECTORS' RESPONSIBILITY

Pursuant to the Norwegian Securities Trading Act section 5-5 with pertaining regulations we hereby confirm that, to the best of our knowledge, the Company's financial statements for 2018 have been prepared in accordance with IFRS, as adopted by the EU and the requirements of the Cyprus Company Law, Cap. 113, and in accordance with the requirements for additional information provided for by the Norwegian Accounting Act. The information presented in the financial statements gives a true and fair picture of the Company's liabilities, financial position and results viewed in their entirety.

To the best of our knowledge, the Management Report gives a true and fair picture of the development, performance and financial position of the Company, and includes a description of the principal risk and uncertainty factors facing the Company.

29 July 2019  
The Board of Directors  
PetroNor E&P Ltd



Eyās Alhomouz  
Chairman of the Board




Hawary Marshad  
Director




Knut Søvold  
CEO & Director



Andri Georghiou  
Director



Gerhard Ludvigsen  
Director



Nicos Kouyialis  
Director



## **CORPORATE SOCIAL RESPONSIBILITY / ETHICAL CODE OF CONDUCT**

The Company has a strong focus on CSR as well as an ethical code of conduct. The Company founders have established a separate CSR project, Power to Educate, and is supporting the CSR projects in the subsidiary in the Republic of Congo as well as the projects organized by the Operator in the PNGF SUD license group. The Company is planning to register with the Extractive Industries Transparency Initiative, ETIT.

## GLOSSARY AND DEFINITIONS

Bbl	One barrel of oil, equal to 42 US gallons or 159 liters
Bcf	Billion cubic feet
bopd	Barrels of oil per day
CPP	Production sharing contract, “Contrat de Partage de Production” in French
CPR	Competent Persons’ Report
Group or PetroNor Group	PetroNor E&P Ltd and its subsidiaries
IOR	Improved oil recovery
MMbbl	Million barrels of oil
MMBOE	Million barrels of oil equivalents
Mmscfd	Million standard cubic feet per day
PDP	Proven Developed Producing (reserves)
PSC	Production sharing contract
SNPC	Societe National des Petrole du Congo

ANNUAL REPORT 2017

**PETRONOR E&P LTD**

(formerly PetroHemla Ltd)

## CONTENTS

---

1	Group at a glance Statement	3
2	CEO letter	5
3	Group Operations Report	6
4	Annual Statement of Reserves	8
5	Management Report	13
6	Board of Directors	19
7	Auditor's Report	21
8	Consolidated Statement of Comprehensive income	24
9	Consolidated Statement of Financial Position	25
10	Consolidated Statement of Changes in Equity	26
11	Consolidated Statement of Cash Flows	27
12	Notes to the consolidated financial statements	28
13	Statement of Directors' Responsibility	50
16	Corporate Social Responsibility / Ethical Code of conduct	51
17	Glossary and Definitions	52



## GROUP AT A GLANCE STATEMENT

---

KEY FIGURES	2017
EBITDA (USD mill.)	37.32
EBIT (USD mill.)	34.81
Net profit / (loss) (USD mill.)	11.15
2P Reserves (MMbbl)	9.32
2C Contingent Resources (MMbbl)	7.63

---

### 2017 HIGHLIGHTS AND SUBSEQUENT EVENTS

---

- PetroNor E&P Ltd (“PetroNor” or the “Company”) was formally established in 2017 as a joint venture company / special vehicle between the founders, Petromal – Sole Proprietorship LLC (“Petromal”) of Abu Dhabi and Nor Energy AS of Norway.
  - In a tender process for the producing oil fields jointly named PNGF Sud, initiated in 2016 by the Ministry of Hydrocarbons in the Republic of Congo, our subsidiary, Hemla E&P Congo SA (“HEPCO”), was awarded a 20% participating interest in PNGF Sud while the French company Perenco took on the Operatorship and 40% interest of the same fields.
  - When the new license partners took over PNGF Sud, the asset was marginally commercial with an oil production of c. 15,000 bopd, a high cost level and a continuous decline in the production combined with and oil price outlook of 30 – 40 USD/bbl. After the entry into the license from 1 January 2017, the production has been increased by 40%, costs have been reduced by 40% and the oil prices have increased by 40%, thus the asset has been converted from a marginally commercial asset and into a strong cash-generating asset.
  - PetroNor has also invested into business development in Nigeria to be prepared for the next expansion for the Group through means of acquisition.
- 

### ASSETS

---

#### Republic of Congo (Brazzaville)

- 10.5% indirect participation interest in the license group of PNGF Sud (Tchibouela II, Tchendo II and Tchibeli-Litanzi II) through Hemla E&P Congo.
  - The Group holds a right to negotiate, in good terms, along with the contractor group of PNGF Sud, the terms of the adjacent license of PNGF Bis and a 14.7% indirect participation.
- 

### OFFICES

---

The Company has its registered address in Nicosia. The Group maintains headquarters in Oslo and Abu Dhabi, and operational offices in Pointe-Noire and Lagos.

---



Figure 1

**GROUP STRUCTURE**

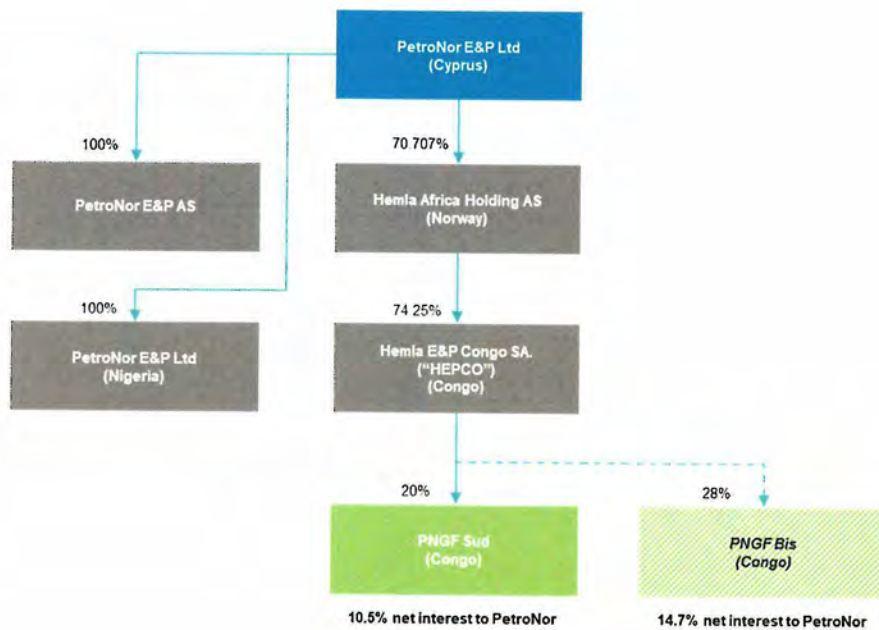


Figure 2



## CEO LETTER

---

Dear Fellow Shareholders,

2017 was a historic year for PetroNor. It witnessed the emergence of PetroNor E&P in West Africa as a serious producer with solid expansion ambitions in the region.

In 2016, NOR Energy and Petromal started talks about a potential partnership in West Africa. The talks resulted in the first of its kind collaboration and partnership between Norwegian and UAE based E&P companies. This strong and unique partnership gave PetroNor E&P the strength, access and resources needed to participate in multiple bids in West Africa.

Our first successful bid was for PNGF Sud in Congo after ENI and Total decided to exit the license. Our award was for 20% of the license, which is operated by Perenco owning 40% of the lease. The lease award is for 20 years plus an option for 5 years extension.

Working and collaborating with Perenco resulted in significant achievements in increasing production while reducing cost. The field production increased from about 15,000 bopd to about 20,000 bopd. This increase in production was achieved while reducing the OPEX to 13 USD per barrel and the breakeven cost to 20-25 USD per barrel.

PetroNor maintained focus on West Africa and planned to capitalize on the Congo success and leverage our production to enhance shareholder value. PetroNor achieved a stable and very cost effective off-take agreement since production start-up, initially with TOTSAs (Total Oil Trading) and currently with ENI.

For 2018, PetroNor has initiated discussions with multiple potential partners and identified excellent opportunities that will potentially further enhance shareholders value.

One major opportunity worth mentioning in this report is the potential farm in deal in a producing asset in Nigeria which would give us access to vast gas resource to be developed jointly with one of the most stable operators in Nigeria.

Our near term mission is to enhance our financing structure and avail more efficient financing for future opportunities. This will be key for our ambitious growth in the region.

On behalf of the management team, I would like to thank the shareholders for their trust and commitment.



Knut Søvold  
CEO, PetroNor E&P



## GROUP OPERATIONS REPORT

PetroNor E&P has producing assets in West Africa, namely the PNGF Sud group of licenses in the Republic of Congo, and the right to enter into good faith negotiations alongside its partners in PNGF Sud for the license terms of the neighbouring PNGF Bis license.

### PNGF SUD

PNGF Sud comprises 3 production sharing contracts (in French “Contrat de Partage de Production” or “CPP”): Tchibouela II, Tchendo II and Tchibeli-Litanzi II. The licenses cover five oil fields: Tchibouela Main, Tchibouela East, Tchendo, Tchibeli and Litanzi, which have been developed as an integrated group named PNGF Sud. The licenses are located approximately 25 km off the coast of Pointe-Noire in water depths of 80-100 metres.

PetroNor, through Hemla E&P Congo, participated in the 2016 tender process with the Congo Ministry of Hydrocarbons for participation in the PNGF Sud licence. With effect from 1 of January 2017, HEPCO was awarded a 20% working interest in the PNGF Sud (net 10.5% to PetroNor). The National Assembly / Senate formally approved the license contracts on 24 May 2017 and subsequently made public 25 May 2017.

Initially discovered in 1979, PNGF Sud commenced production in 1987 and produced approx. 17,700 bopd gross from four oil fields, Tchibouela, Tchendo, Tchibeli and Litanzi in 2017. Following the entry of the new licence group in 2017, significant operational improvements have been made, increasing gross production from c. 15,000 bopd in January 2017 to today's level of approx. 21,600 bopd (post reporting period note; 2018). Through further work-overs, surface and process improvements and infill drilling, gross production from PNGF Sud is expected to continue to grow in the coming years.

The PNGF Sud fields are developed with seven wellhead platforms and currently produce from more than 50 active production wells, with oil exported via the onshore Djeno terminal (Tchibouela, Tchendo and Tchibeli) and the Nkossa FPSO (Litanzi). With its long production history, substantial well count and extensive infrastructure, PNGF Sud offers well diversified

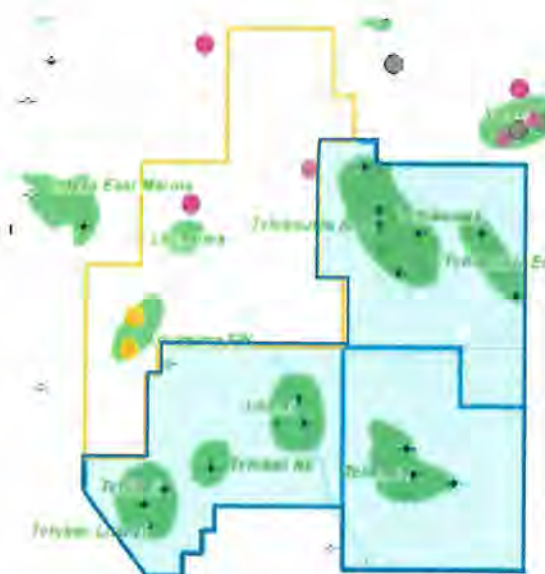


Figure 3 – PNGF Sud (blue border)

and low risk production and reserves with low break-even cost.

In 2018, AGR Petroleum Services (“AGR”) prepared a Competent Person’s Report (“CPR”) (dated 30 October 2018 with volumes evaluated as of 31 December 2017) according to which PNGF Sud is estimated to hold net 2P reserves of 9.32 MMbbl and 2C contingent resources of 3.38 MMbbl.

During 2017, the gross production was 6.46 MMbbl of oil and 3.05 bcf of gas, corresponding to a net to PetroNor of 0.74 MMboe.

### PNGF BIS

PNGF Bis is located to the North-West of PNGF Sud and comprises 2 fields: Loussima SW and Loussima.

Through an umbrella agreement, the license partners of PNGF Sud have the right to negotiate, in good faith, the license terms to enter into a PSC for PNGF Bis. Subject to successful completion of negotiations, PetroNor is expected to hold a 14.7% indirect interest.

Three exploration wells have been drilled on the licence area. A discovery in pre-salt Vandji Fm was made in well LUSM-1 on Loussima in 1985.

Loussima SW was discovered by well LUSOM-1 in 1987 with oil in Vandji Fm.

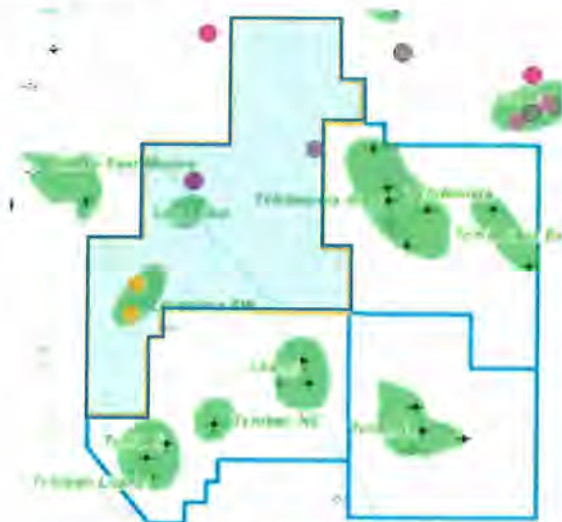


Figure 4 – PNGF Bis (orange border)

A second well, SUEM-2, was drilled on Loussima SW in 1991 to appraise the Vandji discovery. Hydrocarbon shows were detected in one of the wells in the Albian post-salt Sendji Fm, (analogue to Tchibeli / Litanzi reservoirs in PNGF Sud). The Sendji interval was not production tested. The depth to the Vandji reservoir is 3,250 mTV DSS, Sendji around 1,940 mVDSS and the water depth in the area is 110 m. DSTs on the Loussima SW

LUSOM-1 well produced 4,700 bopd and the SUEM-2 well yielded 1,150 bopd.

The CPR report prepared by AGR estimates that PNGF Bis holds gross 2C resources of approx. 28.9 MMbbl, corresponding to a net 2C resource of 4.25 MMbbl.

#### **FUTURE EXPANSION**

The Company's vision is to be a full-cycle, Africa-focused E&P company focusing on producing assets with upside and development of stranded assets, combined with targeted high impact exploration. The Company aims to steadily build and increase its reserve base and production while using free cash flow to pursue defined exploration targets in selected and highly prospective basins with a view to delivering significant value to its shareholders from high impact wells.

In addition to entering PNGF Bis, pending successful negotiations of the license terms, PetroNor is looking at expanding its operations in West Africa within 2019. It is its intention to acquire one or more assets in Nigeria within the next 2 years. The target assets are proven and producing licenses with development and IOR potential. PetroNor is also looking at incorporating gas projects, particularly flared gas projects to LNG or power at a later stage.



## ANNUAL STATEMENT OF RESERVES 2017

### INTRODUCTION

PetroNor's classification of reserves and resources complies with the guidelines established by the Oslo Stock Exchange and are based on the definitions set by the Petroleum Resources Management System (PRMS-2007), sponsored by the Society of Petroleum Engineers / World Petroleum Council / American Association of Petroleum Geologists / Society of Petroleum Evaluation Engineers (SPE/PRMS) from 2007 and 2011.

Reserves are the volume of hydrocarbons that are expected to be produced from known accumulations:

- On Production;
- Approved for Development;
- Justified for Development.

Reserves are also classified according to the associated risks and probability that the reserves will be produced.

**1P** – Proved reserves represent volumes that will be recovered with 90% probability.

**2P** – Proved + Probable represent volumes that will be recovered with 50% probability.

**3P** – Proved + Probable + Possible volumes that will be recovered with 10% probability.

Contingent Resources are the volumes of hydrocarbons expected to be produced from known accumulations:

- In planning phase;
- Where development is likely;
- Where development is unlikely with present basic assumptions;
- Under evaluation.

Contingent Resources are reported as **1C**, **2C**, and **3C**, reflecting similar probabilities as reserves.

### DISCLAIMER

The information provided in this report reflects reservoir assessments, which in general must be

recognized as subjective processes of estimating hydrocarbon volumes that cannot be measured in an exact way.

It should also be recognized that results of recent and future drilling, testing, production, and new technology applications may justify revisions that could be material.

Certain assumptions on the future beyond PetroNor's control have been made. These include assumptions made regarding market variations affecting both product prices and investment levels. As a result, actual developments may deviate materially from what is stated in this report.

The estimates in this report are based on third party assessments prepared by AGR Petroleum Services AS in October 2018 for PNGF Sud and PNGF Bis. In addition, an assessment of the Proven Developed Producing (PDP) Reserves from each of the four fields prepared by Netherland Sewell and Associated Inc ("NSAI") in February 2018, is available to PetroNor.

### PETRONOR ASSETS PORTFOLIO

As of 1 January 2017, HEPCO holds a 20% working interest in the three licenses Tchibouela II, Tchendo II and Tchibeli-Litanzi II (jointly the PNGF Sud licence). Through PetroNor's ownership of 52,5% of HEPCO, the 20% interest held by HEPCO corresponds to a net 10.5% interest to PetroNor (see Figure 2 explaining the ownership structure). Furthermore, the licence partnership has, through an umbrella agreement with the Ministry of Hydrocarbons, the right to negotiate, in good faith, the licence terms of the adjacent PNGF Bis licence, where Perenco is intended to be Operator. The umbrella agreement assigns HEPCO a 28% share in PNGF Bis, yielding an indirect 14.7% interest to PetroNor.

**PNGF Sud: offshore Republic of Congo (Brazzaville), Operator Perenco, PetroNor 10.5%.**

PNGF Sud is a development and exploitation license covering an area containing several oil fields: Tchibouela, Tchibouela East, Tchendo, Tchibeli and Litanzi fields. The interest in PNGF Sud is held directly and with a 20% share by Hemla E&P Congo, constituting an indirect 10.5% share in the PNGF Sud license for the Company. The license ownership has been effective since 1 January 2017 with expiry date after 20 years plus a 5-year extension period. Since granting of the license, Perenco with partner support, has been committed to strict HSE compliance while growing production, improving maintenance routines and field integrity in a stepwise and prudent manner.

In October 2018 AGR performed a full Competent Persons Report covering the Reserves (1P, 2P and 3P) and Resources (1C, 2C and 3C) in both PNGF Sud and PNGF Bis. The figures included in this Annual Statement of Resources (ASR) are evaluated as of 31 December 2017.

Gross production during 2017 was 6.46 MMbbl of oil and 3.05 bcf of gas. This corresponds to average 17,700 bopd and 8.4 mmscfd of gas.

As per the PRMS/SPE guidelines, gas is included in the overall reserves in the AGR CPR as oil equivalents since the gas is being used centrally in the field complex as fuel for power generating turbines which is subsequently transmitted to the individual field platforms via electrical power cables.

This PetroNor ASR uses as the basis the Reserves and Resources from the 2018 October AGR CPR. As the only product sold is oil, PetroNor will in the text below when referring to Reserves and Resources mainly refer to oil and term these with the unit MMbbl.

As of 31 December 2017, AGR evaluated that gross 1P Proved Reserves yield 62.47 MMbbl in all the PNGF Sud fields in the Cenomanien and Turonian reservoirs. Gross 2P Proved plus Probable Reserves at PNGF Sud amounted to 88.75 MMbbl in the same reservoirs. Gross 3P Proved plus

Probable plus Possible Reserves at PNGF Sud amounted to 107.44 MMbbl.

Gross 1C Resources yield 17.13 MMbbl in all the PNGF Sud fields in the Cenomanien and Turonian reservoirs. Gross 2C Resources at PNGF Sud amounted to 32.18 MMbbl in the same reservoirs. Gross 3C Resources at PNGF Sud amounted to 54.94 MMbbl.

These evaluations yield 1P Proved Reserves net to PetroNor of 6.56 MMbbl, 2P Proved plus Probable Reserves net to PetroNor of 9.32 MMbbl and 3P Proved plus Probable plus Possible Reserves net to PetroNor of 11.28 MMbbl. Additional potentially recoverable resources net to PetroNor are approximately 1.8 MMbbl 1C, 3.4 MMbbl 2C and 5.8 MMbbl 3C.

These Reserves and Contingent Resources are PetroNor's net volumes.

**PNGF Bis: offshore Republic of Congo (Brazzaville), Operator Perenco, PetroNor 14.7%.**

The PNGF Bis license neighbours the PNGF Sud license and contains two discoveries, Loussima and Loussima SW. The two discoveries are proven by three wells including DST's drilled from 1985-1991. The primary potential is identified in the pre-salt Vanji formation with promising DST rates, but the exploration and appraisal wells also include an oil column in the post-salt Senji fm (not tested). A long-term test production period with a rented jack-up with a purchase option and an 11 km pipeline tie-back to one of the existing Tchibouela wellhead platforms is a likely scenario. This allows cost recovery of the investments during the test production and allows upscaling the production levels with additional producers as resources are matured to reserves.

Gross 1C Contingent Resources yield 3.29 MMbbl in the Loussima SW Vanji and Senji fm. Gross 2C at PNGF Bis Loussima SW amounts to 4.25 MMbbl in the same reservoirs. Gross 3C amounts to 5.26 MMbbl.

## MANAGEMENT DISCUSSION AND ANALYSIS

PetroNor uses the services of AGR Petroleum Services for 3<sup>rd</sup> party verifications of its reserves

and resources. All evaluations are based on standard industry practice and methodology for production decline analysis and reservoir modelling based on geological and geophysical analysis. The following discussions lead up to the year-end 2017 ASR.

**PNGF Sud:** During 2017, production levels have grown from the initial c. 15,000 bopd when Perenco and partners took over. This has materialized through revitalizing existing producers via replacements or upsizing of Electrical Submersible Pumps (ESP's), acidizing, clean up or reperforating wells or converting wells from the Cenomanian to the Turonian (less depleted) formations. Significant surface debottlenecking is also taking place to improve and enhance the production equipment and strengthening uptime while maintaining a strict HSE focus. Production levels during 2017 are approximately 17,700 bopd. Significant infill drilling potential has been identified in all fields. Resources identified as infill potential are classified as contingent resources as these are most likely not decided until the workover potential has been exhausted. These workovers are expected to continue in all fields throughout 2018.

A comparison of the AGR Proven (1P) reserves with the NSAI Proven Developed Producing (PDP) (1P Developed Producing) reserves shows NSAI PDP\* reserves 15% less than AGR 1P.

\*AGR – AGR Petroleum Services, 30 October 2018 (70 USD/bbl); NSAI – Netherland Sewell and Associates Inc., 28 February 2018 (54 USD/bbl).

The difference may be caused by the lack of emphasis on the current workover programme and/or different evaluation methods and oil price assumptions. By way of detail, the AGR CPR is significantly more comprehensive in terms of evaluation performed and reported.

#### 2017 - Gross Proven Reserves (1P and PDP)

	AGR	NSAI	Difference
PNGF Sud	1P	PDP	%
	(MMbbl)	(MMbbl)	
Tchibouela	41.13	28.86	30%
Tchendo	10.63	10.96	-3%
Tchibeli	8.44	8.77	-4%
Litanzi	2.27	4.28	-88%
<b>Total</b>	<b>62.47</b>	<b>52.87</b>	<b>15%</b>

Oil only reserves per 31.12.2017

#### 2017 - Net Proven Reserves (1P and PDP)

	AGR	NSAI	Difference
PNGF Sud	1P	PDP	%
(10.50%)	(MMbbl)	(MMbbl)	
Tchibouela	4.32	3.03	30%
Tchendo	1.12	1.15	-3%
Tchibeli	0.89	0.92	-4%
Litanzi	0.24	0.45	-88%
<b>Total</b>	<b>6.56</b>	<b>5.55</b>	<b>15%</b>

Net to PetroNor (10.5%)

**PNGF Bis:** Once investment decisions are made on the Loussima SW project these reserves may become reserves approved for development. A thorough mapping of the STOOIP in Loussima SW has been performed by the Operator in 2018. This work has been verified by AGR in the mentioned 2018 CPR.

Given a successful Loussima SW, a similar development potential is likely for the Loussima Discovery.

#### 2017 – 2P RESERVES (MMbbl)

Balance (gross AGR, PNGF Sud – Dec 31, 2016)	95.21
Production 2017, PNGF Sud	(6.46)
Balance 31.12.2017 - 2P gross, PNGF Sud	88.75
Balance 31.12.2017 - 2P net, PNGF Sud	9.32

PetroNor's total 1P reserves at end of 2017 amount to 6.56 MMbbl according to the AGR assessment and 5.55 MMbbl according NSAI.

PetroNor's 2P reserves amount to 9.32 MMbbl and its 3P reserves amount to 11.28 MMbbl.

This reflects the October 2018 reserve report for the PNGF Sud field, conducted by AGR Petroleum Services AS and production since the field start-up.

PetroNor's Contingent Resource base includes discoveries of varying degrees of maturity towards development decisions. By end of 2017, PetroNor's assets contain a total 2C volume of approximately 7.6 MMbbl.



10 June 2019  
Knut Søvold  
CEO

**2P and 2C Reserves and Resources (MMbbl)**  
**Status**

Balance 31.12.2017 - 2P/2C gross, PNGF Sud	120.93
Balance 31.12.2017 - 2P/2C net, PNGF Sud	12.70
Balance 31.12.2017 - 2P/2C gross, Sud+Bis	149.83
Balance 31.12.2017 - 2P/2C net, Sud+Bis	16.95

**ASSUMPTIONS**

The commerciality and economic tests for the PNGF Sud and Bis reserves volumes were based on an oil and condensate price of 70 USD/bbl; the reserves and resources are not very sensitive to this parameter as OPEX levels are at 13 USD/bbl.



Reserves and resources as per 31.12.2017 (AGF CFR dated 30.10.2018)

	Gross reserves												Gross Contingent Resources												Total Reserves and Resources											
	1P				2P				3P				1C			2C			3C			1P/1C			2P/2C			3P/3C								
	Oil	Gas	Boe	Boe	Oil	Gas	Boe	Boe	Oil	Gas	Boe	Boe	Oil	Gas	Boe	Boe	Oil	Gas	Boe	Boe	Oil	Gas	Boe	Boe	Oil	Gas	Boe	Boe	Oil	Gas	Boe	Boe				
PNGF Sud	41.13	16.74	44.13	52.49	21.42	56.30	62.83	67.39	6.20	2.50	5.65	12.00	4.9	12.87	10.70	8.40	12.30	47.33	19.28	30.76	64.49	26.32	69.18	83.33	34.03	73.09	83.33	34.03	73.09	83.33	34.03	73.09				
Tchibouela	10.63	3.74	11.25	20.84	7.29	22.14	25.08	5.78	5.60	2.09	5.86	10.80	3.8	11.68	17.64	6.24	18.93	10.33	3.74	37.19	31.64	11.09	33.62	49.99	15.07	45.18	49.99	15.07	45.18	49.99	15.07	45.18				
Tchibelli	8.44	2.81	8.66	11.76	3.23	12.34	14.56	4.00	3.95	1.08	4.14	6.74	1.9	7.08	11.00	3.10	11.95	12.38	3.60	13.00	18.50	5.13	19.41	25.96	7.10	23.27	25.96	7.10	23.27	25.96	7.10	23.27				
Litanzi	3.27	1.58	2.54	3.66	2.45	4.10	4.87	3.34	3.10	0.83	3.59	2.64	1.8	2.96	5.00	1.40	3.61	3.95	2.37	3.07	6.30	4.25	7.06	9.87	6.73	11.27	9.87	6.73	11.27	9.87	6.73	11.27				
Total	67.27	24.52	66.60	88.75	34.39	94.87	107.44	114.87	17.13	6.43	18.28	32.18	12.40	34.39	54.94	21.14	58.70	79.62	30.77	65.08	120.93	46.79	129.26	162.38	62.88	174.58	162.38	62.88	174.58	162.38	62.88	174.58				
PNGF Bie Loussima (Bis)																																				
Total	67.27	24.52	66.60	88.75	34.39	94.87	107.44	114.87	17.13	6.43	18.28	32.18	12.40	34.39	54.94	21.14	58.70	79.62	30.77	65.08	120.93	46.79	129.26	162.38	62.88	174.58	162.38	62.88	174.58	162.38	62.88	174.58				

Net to Petronor - Reserves and resources as per 31.12.2017 (AGF CFR dated 30.10.2018 at the current Petronor indirect equity interest)

	Net Petronor reserves												Net Petronor Contingent Resources												Total net Petronor Reserves and Resources											
	1P				2P				3P				1C			2C			3C			1P/1C			2P/2C			3P/3C								
	Oil	Gas	Boe	Boe	Oil	Gas	Boe	Boe	Oil	Gas	Boe	Boe	Oil	Gas	Boe	Boe	Oil	Gas	Boe	Boe	Oil	Gas	Boe	Boe	Oil	Gas	Boe	Boe	Oil	Gas	Boe	Boe				
PNGF Sud	4.32	1.76	4.63	5.51	2.25	5.91	6.60	7.09	0.65	0.26	0.70	1.26	0.51	1.35	2.17	0.28	2.33	4.97	2.07	5.33	6.77	2.76	7.26	8.77	3.57	9.47	8.77	3.57	9.47	8.77	3.57	9.47				
Tchibouela	1.17	0.39	1.19	2.19	0.77	2.32	2.63	0.92	0.59	0.21	0.63	1.13	0.40	1.21	1.87	0.66	1.99	1.70	0.60	1.81	3.32	1.16	3.53	4.51	1.58	4.79	4.51	1.58	4.79	4.51	1.58	4.79				
Tchibelli	0.89	0.24	0.91	1.23	0.34	1.30	1.55	0.42	0.41	0.11	0.43	0.71	0.20	0.74	1.20	0.33	1.25	1.40	0.36	1.50	2.86	0.94	2.04	2.73	0.79	3.06	2.73	0.79	3.06	2.73	0.79	3.06				
Litanzi	0.24	0.16	0.27	0.38	0.26	0.43	0.52	0.35	0.34	0.09	0.16	0.28	0.19	0.31	0.53	0.16	0.56	0.48	0.15	0.53	0.66	0.45	0.74	1.08	0.73	1.37	1.08	0.73	1.37	1.08	0.73	1.37				
Total	6.36	2.56	7.01	9.32	3.61	9.96	11.28	12.08	3.03	0.68	1.92	3.38	1.30	3.61	5.37	2.23	6.16	8.36	3.23	8.93	12.70	4.91	13.57	17.05	6.00	19.73	17.05	6.00	19.73	17.05	6.00	19.73				
PNGF Bie Loussima (Bis)																																				
Total	6.36	2.56	7.01	9.32	3.61	9.96	11.28	12.08	3.03	0.68	1.92	3.38	1.30	3.61	5.37	2.23	6.16	8.36	3.23	8.93	12.70	4.91	13.57	17.05	6.00	19.73	17.05	6.00	19.73	17.05	6.00	19.73				

Oil equivalents: 5.815 mscf/boe

Figure 5 – Reserves and resources 2017



## MANAGEMENT REPORT 2017

### OPERATIONS

#### PNGF SUD

---

PNGF Sud fields are located approximately 25 km off the coast of Pointe-Noire in water depths of 80-100 metres. PNGF Sud comprises 3 operating licenses, Tchibouela II, Tchendo II and Tcibeli-Litanzi II, covering five oil fields: Tchibouela Main, Tchibouela East, Tchendo, Tchibeli and Litanzi.

PetroNor, through Hemla E&P Congo, participated in the 2016 tender process with the Congo Ministry of Hydrocarbon for participation in the PNGF Sud licence. As of 1 of January 2017, HEPCO was awarded a 20% working interest in the PNGF Sud licences (net 10.5% to PetroNor).

Initially discovered in 1979, PNGF Sud commenced production in 1987 and was producing approx. 17,700 bopd gross from four oil fields, Tchibouela, Tchendo, Tchibeli and Litanzi in 2017. Following the entry of the new licence group in 2017, significant operational improvements have been made, increasing gross production from c. 15,000 bopd in January 2017 to today's level of approx. 21,600 bopd (post reporting period note; 2018). Through further work-overs, surface and process improvements and infill drilling, gross production from PNGF Sud is expected to continue to grow in the coming years.

The PNGF Sud fields are developed with seven wellhead platforms and currently produce from more than 50 active production wells, with oil exported via the onshore Djeno terminal (Tchibouela, Tchendo and Tchibeli) and the Nkossa FPSO (Litanzi). With its long production history, substantial well count and extensive infrastructure, PNGF Sud offers well diversified and low risk production and reserves with low break-even cost.

In 2018, AGR Petroleum prepared a Competent Person's Report (the estimate is dated 30 October 2018 with volumes evaluated as of 31 of December 2017) according to which PNGF Sud is estimated

to hold net 2P reserves of 9.32 MMbbl and 2C contingent resources of 3.38 MMbbl.

During 2017, the gross production was 6.46 MMbbl of oil and 3.05 bcf of gas, resulting in a net to PetroNor of 0.74 MMboe.

#### PNGF BIS

---

PNGF Bis is located to the North-West of PNGF Sud and comprises of 2 fields: Loussima SW and Loussima.

Through an umbrella agreement, the license partners of PNGF Sud have the right to negotiate, in good faith, the license terms to enter into a PSC for PNGF Bis. Subject to successful completion of negotiations, PetroNor is expected to hold a 14.7% indirect interest.

Three exploration wells have been drilled on the licence area. A discovery in pre-salt Vandji Fm was made in well LUSM-1 on Loussima in 1985. Loussima SW was discovered by well LUSOM-1 in 1987 with oil in Vandji Fm.

A second well, SUEM-2, was drilled on Loussima SW in 1991 to appraise the Vandji discovery. Hydrocarbon shows were detected in one of the wells in the Albian post-salt Sendji Fm, (analogue to Tchibeli / Litanzi reservoirs in PNGF Sud). The Sendji interval was not production tested. The depth to the Vandji reservoir is 3,250 mTVDSS, to Sendji around 1,940 mVDSS and the water depth in the area is 110 m. Tests on the Loussima SW LUSOM-1 well produced 4,700 bopd and the SUEM-2 well yielded 1,150 bopd.

The CPR report prepared by AGR estimates that PNGF Bis holds gross 2C resources of approx. 28.9 MMbbl.

### THE ACCOUNTS

The Board of Directors (the Board) confirms that the annual financial statements have been prepared pursuant to the going concern assumption, and that this assumption was realistic as at the balance sheet date. The going

concern assumption is based upon the financial position of the Company and the development plans currently in place. In the Board of Directors' view, the annual accounts give a true and fair view of the group's assets and liabilities, financial position and results. PetroNor E&P Ltd is the parent company of the PetroNor Group. Its financial statements have been prepared on the assumption that PetroNor will continue as a going concern.

The Company had USD 8.1 million in cash and bank balances as of 31 December 2017.

PetroNor E&P Ltd prepares its financial statements in accordance with the International Financial Reporting Standards (IFRS), as adopted by the European Union and the requirements of the Cyprus Companies Law, Cap. 113. The consolidated accounts are presented in US dollars.

## FINANCIAL PERFORMANCE AND ACTIVITIES

<b>Condensed Consolidated Income Statement</b>	
	<i>USD Million</i>
Oil and gas revenue	68.35
Cost of sales excluding depreciation and amortisation	(27.60)
	<b>40.75</b>
General and administrative expenses	(3.43)
	<b>37.32</b>
<b>EBITDA</b>	<b>37.32</b>
Depreciation and amortization	(2.51)
	<b>34.81</b>
<b>EBIT</b>	<b>34.81</b>
Net financial items	(1.03)
<b>Profit before income tax</b>	<b>33.77</b>
Income tax	(22.62)
<b>Net Profit</b>	<b>11.15</b>
<b>Attributable to:</b>	
Equity holders of the parent	5.85
NCI	5.30
	<b>11.15</b>

Despite being the first year the Company reported a net profit of USD 11.15 Million out of which USD 5.85 Million is attributable to the equity holders of the parent and the rest is attributable to other non-controlling interests.

Oil & gas revenue in the year was (net of royalties & taxes) USD 35 Million arising from sale of 0.63 Million barrels of crude oil at an average price of USD 56.05 per barrel. This is expected to increase in the future as the production levels are increasing in the PNGF SUD.

EBITDA margin of 54,6%, is also expected to increase in the future because of cost controlling measures implemented by the operator and the Group. 2017 was the first year of operations hence higher costs were incurred but these will be normalized in the coming years.

## Condensed Consolidated Statement of Financial Position

	<i>USD Million</i>
<b>ASSETS</b>	
Non-current assets	17.31
Current assets	17.48
<b>Total assets</b>	<b>34.79</b>
<b>EQUITY AND LIABILITIES</b>	
Equity - Parents	5.97
Equity - NCI	5.71
<b>Total Equity</b>	<b>11.68</b>
Non-current liabilities	12.67
Current liabilities	10.44
<b>Total liabilities</b>	<b>23.11</b>
<b>Total equity and liabilities</b>	<b>34.79</b>

Non-current assets of USD 17 Million, include Tender costs, entry bonus and signature bonus paid for acquiring the share in PNGF SUD.

<b>Condensed Consolidated Statement of Cash Flows</b>	
	<i>USD Million</i>
Operating cash flows	14.44
Working capital changes	1.03
<b>Cash flows from operations</b>	<b>15.47</b>
<b>Cash flows from investing activities</b>	<b>(7.52)</b>
<b>Cash flows from financing activities</b>	<b>0.12</b>
<b>Net cash generated during the year</b>	<b>8.07</b>

#### **ALLOCATION OF PROFITS AND LOSSES**

<b>Parent Company Financial Information</b>	
	<i>USD '000</i>
Oil and gas revenue	-
Cost of sales	-
<b>Gross profit</b>	<b>-</b>
General and administrative expenses	(4.65)
<b>EBITDA</b>	<b>(4.65)</b>
Depreciation and amortization	-
<b>EBIT</b>	<b>(4.65)</b>
Net financial items	-
<b>Profit before taxes</b>	<b>(4.65)</b>
Income tax	-
<b>Net Profit</b>	<b>(4.65)</b>

#### **FUNDING**

The shareholders secured a loan of USD 10 million to cover the farm-in fees and start-up costs. This loan facility was repaid during 2017. In 2018, the Group secured a short term debt facility of USD 10 million from Rasmala (Dubai based investor group) with a two year term.

#### **RISK FACTORS**

##### **Operational Risk Factors**

The development of oil and gas fields in which the Company is involved is associated with technical risk, alignment in consortiums with regards to development plans, and on obtaining necessary licenses and approvals from the authorities. Disruptions of operations might lead to cost overruns and production shortfall, or delays

compared to the schedules laid out by the operator of the fields. As a non-operator, the Company has limited influence on operational risks related to exploration and development of the licenses and fields in which it has interests.

The PNGF Sud licenses were developed since 1987 and thus significant caution has to be taken by the Operator to ensure that the old facilities are properly maintained.

The development of the oil fields, in which the Company has an ownership, is associated with significant technical risk and uncertainty with regards to timing of additional production from new development activities. The PNGF Bis license is still under negotiations and the contractor group may not reach an agreement with the government.

The Group's ability to successfully bid on and acquire additional property rights, to discover reserves, to participate in drilling opportunities and to identify and enter into commercial arrangements with third parties will be dependent upon developing and maintaining close working relationships with industry partners, joint operators and authorities, as well as its ability to select and evaluate suitable properties, and complete transactions in a highly competitive environment.

##### **Financial risk factors**

The overall risk management program seeks to minimize the potential adverse effects of unpredictable fluctuations in financial and commodity markets on financial performance, i.e., risks associated with currency exposures, debt servicing and oil and gas prices. Financial instruments such as derivatives, forward contracts and currency swaps are continuously being evaluated for the hedging of such risk exposures.

Due to the international nature of its operations, the Group is exposed to risk arising from currency exposure, primarily with respect to the Norwegian Kroner (NOK), the US Dollar (USD), and, to a lesser extent, the Euro (EUR).

The Group currently has a debt facility with Rasmala and if the PetroNor Group wishes to target new projects, it needs to increase its debt facilities. Should additional funding be required in the future for additional capital expenditure for new development phases or working capital requirements, the Group has various alternatives available which it can explore to fulfil such additional requirements. The options include, amongst others, debt financing, off-take prepayment structures, and the issuance of shares.

## **ORGANISATION AND HEALTH, SAFETY AND ENVIRONMENT (HSE)**

The management of the Group is led by CEO Knut Søvold. Mr. Søvold has considerable experience from various positions in the international oil and gas industry both from a technical and managerial perspective. He is supported by Business Development Manager, Gerhard Ludvigsen, and Executive Chairman, Eyas Alhomouz.

In 2017, the Group has been employing 16 individuals (including part-time employees and consultants), most of which were based in Pointe-Noire. Further, a number of consultants and services providers were engaged on a need by need basis.

The Group emphasizes the importance of maintaining a good working environment in order to achieve Group goals and objectives. The objective is to create a constructive working environment characterized by a spirit where employees' ideas and initiatives are welcomed, founded on mutual trust between employees, management and the Board of Directors.

Health, Safety and Environment (HSE) policies are essential for PetroNor with the goal to avoid accidents and incidents and minimize the impact of its activities on the environment. PetroNor performs all its activities with focus on and respect for people and the environment. The Board believes this is a key condition for creating value in a very demanding business. The Group's objective for health, environment, safety and quality (HSEQ) is zero accidents and zero unwanted incidents in all activities. The Group

strives towards performing all its activities with no harm to people or the environment. PetroNor experienced no accidents, injuries, incidents or any environmental claims during the year.

Time lost due to employee illness or accidents was negligible. Employee safety is of the highest priority, and the Group is continuously working towards identifying and employing administrative and technical solutions that ensure a safe and efficient work-place.

The Group is in process of establishing a set of operational guidelines building on its principles of Corporate Governance, covering critical operational aspects ranging from ethical issues and practical travel advice to delegation of authority matrices.

The oil and gas assets located in West Africa imply frequent travel, and the Group seeks to ensure adequate safety levels for management and employees travelling.

As a non-operator, PetroNor is dependent on the efforts of the operators with respect to achieving physical results in the field. However, the Group has chosen to take an active role in all license committees with the conviction that high safety standards are the best means to achieve successful operations. Through this involvement, the Group can influence the choice of technical solutions, vendors and quality of applied procedures and practices.

The Group's operations have been conducted by the operators on behalf of the licensees, at acceptable HSE standards and the Operator of PNGF Sud is reporting regularly on all key HSE indicators. No accidents that resulted in loss of human lives or serious damage to people or property have been reported.

To the best of the Group's knowledge, all operations have been conducted within the limits set by approved environmental regulatory authorities.

## **CORPORATE GOVERNANCE**

The main objective for PetroNor's Corporate Governance is to develop a strong, sustainable,



competitive and a successful E&P group acting in the best interest of all the stakeholders, within the laws and regulations of the countries where it operates. The Board and management aim for a controlled and profitable development and long-term creation of growth through well-founded governance principles and risk management.

PetroNor acknowledges that successful value-added business is profoundly dependent upon transparency and internal and external confidence and trust. PetroNor believes that this is achieved by building a solid reputation based on our financial performance, our values and by fulfilling our commitments. Thus, good corporate governance practices combined with PetroNor's Code of Conduct is an important tool in assisting the Board to ensure that we properly discharge our duty.

The composition of the Board ensures that the Board represents the common interests of all shareholders and meets the Group's need for expertise, experience, capacity and diversity. The members of the Board represent a range of experience including oil and gas, energy, banking and investment. The composition of the Board ensures that it can operate independently of any special interests. Members of the Board are elected for a period of two years. Recruitment of members of the Board will be phased so that the entire Board is not replaced at the same time. The Chairman of the Board of Directors is elected by the General Meeting.

The Board may be given a power of attorney by the General Meeting to issue new shares for specific purposes. Any decision to deviate from the principle of equal treatment by waiving the pre-emption rights of existing shareholders to subscribe for shares in the event of an increase in share capital will be made only if it is in the common interest of the shareholders and the Group.

The Group has not granted any loans or guarantees to anyone in the management or any of the Directors.

The Board acknowledges the Norwegian Code of Practice for Corporate Governance and the

principle of comply or explain. The Group has implemented a policy for Ethical Code of Conduct and works diligently to comply with these guidelines. The full policy is enclosed in this annual report (see section Ethical Code of Conduct).

## **DISCRIMINATION AND EQUAL EMPLOYMENT OPPORTUNITIES**

PetroNor is an equal opportunity employer, with an equality concept integrated in its human resources policies. A diversified working environment is embraced, and the Group's personnel policies promote equal opportunities and rights and prevent discrimination based on gender, ethnicity, colour, language, religion or belief. All employees are governed by PetroNor's Code of Conduct, to ensure uniformity in behaviour across a workforce representing a multitude of nationalities.

PetroNor is a knowledge-based group in which a majority of the workforce has earned college or university level educations, or has obtained industry-recognized skills and qualifications specific to their job requirements. Employees are remunerated exclusively based upon skill level, performance and position.

75% of the employees were men and 25% women at the end of 2017.

## **SHARE CAPITAL**

### **Authorised Capital**

Under its Memorandum the Company fixed its share capital at 100.000 ordinary shares of nominal value of EUR1 (USD 1.20) each.

### **Issued Capital**

Upon incorporation on 3rd April 2017 the Company issued to the subscribers of its Memorandum of Association 100.000 ordinary shares of EUR1 (USD 1.20) each at par.

## **DIRECTORS AND SHAREHOLDERS**

The Company has six Directors at the Board. The Directors have various backgrounds and experience, offering the Group and the Company

valuable perspectives on industrial, operational and financial issues.

#### EVENTS SUBSEQUENT TO REPORTING DATE AND OUTLOOK

On 21 March 2018, post period end, the Company had officially changed its registered name from PetroHemla Ltd to its current name, PetroNor E&P Ltd.

On the operations side, the production in PetroNor's assets has increased due to the improvements implemented by the Operator from around 15,000 bopd at the beginning of 2017 to an average of approx. 20,220 bopd in 2018.

Further, negotiations for entering PNGF Bis are ongoing. From the PNGF Sud contractor group, only Perenco and HEPCO have opted to enter PNGF Bis alongside SNPC. Following successful negotiations of the terms of the PSC, the Company intends for HEPCO to enter into the license.

PetroNor looks forward to continued growth, where it can build upon its current operations and experienced team and capitalise on the strength

of its shareholders and respective networks to expand its operations in West Africa.

Therefore, during 2019 PetroNor decided to proceed with a transaction with Oslo Stock Exchange listed, London-based, African Petroleum Corporation Ltd, which will result in the enlarged company, to be renamed PetroNor E&P Limited, being listed on the Oslo Axess. African Petroleum Corporation Ltd is also present in Africa, thus the Company believes there are strong synergies to be achieved for both through the transaction.

The Board wishes to thank the staff, consultants, services providers and shareholders for their continued commitment to the Group.

#### INDEPENDENT AUDITORS

The independent auditors, Ernst & Young Cyprus Limited, were appointed by the Company as first auditors and have expressed their willingness to continue in office and a resolution giving authority to the Board of Directors to fix their remuneration will be proposed at the Annual General Meeting.

10 June 2019  
The Board of Directors  
PetroNor E&P Ltd

  
Eyas Alhomouz  
Chairman of the Board

## **BOARD OF DIRECTORS AND SENIOR MANAGEMENT**

### **Eyas Alhomouz (Chairman of the Board of Directors)**

Mr. Alhomouz has a strong experience from the oil and gas sector covering the US, North Africa, and the GCC. He began his career with Schlumberger Oilfield Service as a wireline engineer in Midland, Texas. From there he went on to work for Cromwell Energy in Denver, Colorado, in the role of international business development manager. Then, as a COO and Financial Director of Prism Seismic, he oversaw the growth of the Colorado based consulting and oil and gas software development firm and later the acquisition of the company by Sigma Cubed where, post-acquisition of Prism Seismic, he went on to serve as a director of business development, Middle East. Mr. Alhomouz's career then took him to Qatar as a General Manager of Jaidah Energy, an Omani-Qatari owned company servicing the oil and gas sector in Qatar. Mr. Alhomouz graduated from Brigham Young University in Provo, UT with a degree in Chemical Engineering and from the Colorado School of Mines, in Golden, CO with a master's degree in Mineral and Energy Economics.

### **Knut Søvold (Director and Chief Executive Officer)**

Mr. Søvold has 30 years of experience in the oil and gas industry, from both executive management and technical levels. His extensive experience covers fields and licences in the North Sea, North and West Africa, Middle East, Far East and FSU, as well as management and administration through establishing and operating companies in Norway, UK, Kazakhstan and West Africa. Mr. Søvold was in the management team of the Snorre Field in the North Sea, with a production of 200,000 bopd. Mr. Søvold has been working with West African assets since 2000 and in Nigeria since 2008. Furthermore, he has also been working with gas to LNG, including novel solutions such as FLNG, gas to power, as well as LNG-regasification. Mr. Søvold holds a MSc in Petroleum from The Institute of Technology in Trondheim (NTH), Norway.

### **Gerhard Ludvigsen (Director and Business Development Manager)**

Mr. Ludvigsen is the founder of several companies in Norway and internationally within the oil and gas industry, as well as holding several board positions in start-up companies and being an advisor for a major securities house in Norway. Founded Hemla with AGR as co-founder with focus on oil and gas development, co-founded D&H Solution AS with Daewoo Shipbuilding & Marine Engineering of South Korea for gas and LNG development with major international oil companies in Middle East and Africa. Mr. Ludvigsen has also been a director and major shareholder of FileFlow, developed by Fast Search & Transfer. He has recently established PetroNor E&P with Petromal which holds oil production in West Africa with focus on IOR development. He serves on the board of the charity foundation Power to Educate which supports education in emerging countries.

### **Hawary Marshad (Director)**

Mr. Marshad graduated from the University of Houston in 1990 with his BBA, majoring in finance. He began his career in auditing at a public accounting firm in Dubai and earned his CPA in 1994. He worked at Ernst & Young for 11 years moving up to Executive Director the last three years there. Main areas of focus were audit, accounting, valuation and due diligence, consulting and internal audit services. From there, he moved into the industry and became the Head of Finance for a Saudi FMGC conglomerate, where he was a key member of senior management, including the acting COO for the last 18 months that he was there. After six years in Saudi, he moved back to Dubai and joined Zabeel Investment as the Group CFO. The company had significant investments in Real Estate, Private Equity and Capital Markets. He led the financial restructuring of the group and oversaw the completion of several key projects during a very turbulent time. After the restructuring of Zabeel, Hawary joined Deyaar, a fully integrated real estate development and management company, as the CFO, where he initiated a strategic five-year plan for the Company, with a focus on



diversification to counter the cyclical nature of real estate. After Deyaar, he migrated to Canada for a couple of years, where he setup a consultancy company providing finance and accounting services and sourcing of investment opportunities. Mr. Marshad joined EIC in February 2018 as the CFO. Under his current role, he leads the finance, accounting and treasury role, while working closely with the senior management of the group to provide support.

#### **Andri Georghiou (Director)**

Mrs. Georghiou has 40 years of experience from the banking and financial services sector. Through her long career with the Cyprus Development Bank Group (CDB), Mrs. Georghiou has worked with bank general management, as well as with the whole spectrum of both banking front line and infrastructure operations and functions. Mrs. Georghiou has held various managerial posts with the Cyprus Development from Head of Banking and Treasury Operations to Deputy Chief Executive Officer and Chief Financial Officer. Furthermore, Mrs. Georghiou has also served on the boards of companies of the Cyprus Development Bank Group: Executive Member of the Management Body of the Cyprus Development Bank Plc, Chairman of the Supervisory Board of JSC Investment Bank of Kuban (CDB Russia), Executive Member of the Board of Directors of Global Capital Securities and Financial Services Ltd (KEPEY) and Non-Executive Director of other companies of the CDB Group.

#### **Nicos Kouyialis (Director)**

Mr. Kouyialis graduated from the North Carolina State University (Raleigh, N.C., USA) with a Master of Science degree in Electrical Engineering. Since then he has lectured at the North Carolina State University and worked at Alcatel Network Systems (USA) as Systems Engineer before moving on to Siemens Medical Cyprus as a Medical Engineer. Mr. Kouyialis has worked as Manager of the Maintenance and Operation Department of the Nicosia District of the Electricity Authority of Cyprus before becoming the Minister of Agriculture, Rural Development and Environment of Cyprus. In addition to implementing and managing the Ministry's legislative strategies, Mr. Kouyialis has also represented Cyprus at the European Union; he was member of the negotiation team of EU Council for the Paris Agreement signing the Paris Agreement for Climate Change on behalf of the Republic of Cyprus. Furthermore, he has also been involved in a number of energy-related endeavours, including forming Cyprus' National Strategy for renewable energy source penetration, as well as licensing drilling and exploration activity for hydrocarbons in the Exclusive Economic Zone of Cyprus with Total, Eni, Exxon Mobil, Kogas, Noble, etc.

## Independent Auditor's Report

### To the Members of PetroNor E&P Ltd

### Report on the Audit of the Consolidated Financial Statements

#### Opinion

We have audited the consolidated financial statements of PetroNor E&P Ltd (the "Company") and its subsidiaries (the "Group"), which comprise the consolidated statement of financial position as at 31 December 2017, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2017, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union and the requirements of the Cyprus Companies Law, Cap. 113.

#### Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the "Auditor's Responsibilities for the Audit of the Consolidated Financial Statements" section of our report. We are independent of the Group in accordance with the "International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants" (IESBA Code) together with the ethical requirements that are relevant to our audit of the consolidated financial statements in Cyprus, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

#### Other information

The Board of Directors is responsible for the other information. The other information comprises the information included in the Group at a glance Statement, the CEO letter, the Group Operations Report, the Annual Statement of Reserves, the Management Report, the Board of Directors section, the Statement of Directors' Responsibility, the Corporate Social Responsibility / Ethical Code of Conduct and the Glossary and Definitions section but does not include the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

#### Responsibilities of the Board of Directors for the Consolidated Financial Statements

The Board of Directors is responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with International Financial Reporting Standards as adopted by the European Union and the requirements of the Cyprus Companies Law, Cap. 113, and for such internal control as the Board of Directors determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.



In preparing the consolidated financial statements, the Board of Directors is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Board of Directors either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

The Board of Directors is responsible for overseeing the Group's financial reporting process.

### **Auditor's Responsibilities for the Audit of the Consolidated Financial Statements**

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Board of Directors.
- Conclude on the appropriateness of the Board of Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves a true and fair view.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the Board of Directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

### **Report on Other Legal Requirements**

Pursuant to the additional requirements of the Auditors Law of 2017, we report the following:

- In our opinion, the Management Report has been prepared in accordance with the requirements of the Cyprus Companies Law, Cap 113, and the information given is consistent with the financial statements.
- In our opinion, and in the light of the knowledge and understanding of the Company and its environment obtained in the course of the audit, we have not identified material misstatements in the Management Report.



Building a better  
working world

### **Other Matter**

This report, including the opinion, has been prepared for and only for the Group's members as a body in accordance with Section 69 of the Auditors Law of 2017 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whose knowledge this report may come to.

Stavros Pantzaris

Certified Public Accountant and Registered Auditor  
for and on behalf of

**Ernst & Young Cyprus Limited**

**Certified Public Accountants and Registered Auditors**

Nicosia, 10 June 2019

## CONSOLIDATED FINANCIAL STATEMENTS

### CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2017

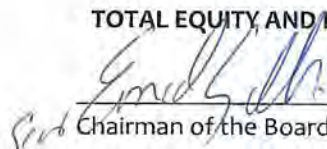
	Notes	2017 USD'000
Revenue	3	68,351
Cost of sales	4	(30,113)
<b>GROSS PROFIT</b>		<b>38,238</b>
General and administrative expenses	5	(3,428)
<b>OPERATING PROFIT</b>		<b>34,810</b>
Finance costs	6	(878)
Foreign exchange loss		(157)
<b>PROFIT BEFORE INCOME TAX</b>		<b>33,775</b>
Income tax expense	7	(22,621)
<b>NET PROFIT AND TOTAL COMPREHENSIVE INCOME FOR THE YEAR</b>		<b>11,154</b>
<i>Attributable to:</i>		
Equity holders of the parent		5,850
Non-controlling interest		5,304
		<b>11,154</b>

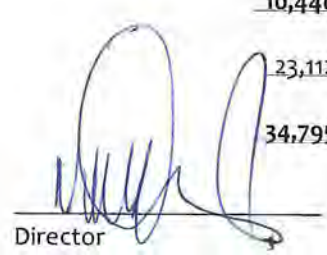
The attached notes 1 to 22 form part of these consolidated financial statements.

**CONSOLIDATED STATEMENT OF FINANCIAL POSITION**

At 31 December 2017

	Notes	2017 USD'000
<b>ASSETS</b>		
<b>Non-current assets</b>		
<b>Intangible assets</b>		
License	8	6,451
Goodwill	9	<u>9</u>
		<u>6,460</u>
<b>Tangible assets</b>		
Production assets and equipment	10	<u>10,854</u>
		<u>10,854</u>
<b>Total non-current assets</b>		<u>17,314</u>
<b>Current assets</b>		
Inventory	11	2,369
Accounts receivable, deposits and prepayments	12	7,043
Cash and bank balances	13	<u>8,069</u>
<b>Total current assets</b>		<u>17,481</u>
<b>TOTAL ASSETS</b>		<u>34,795</u>
<b>EQUITY AND LIABILITIES</b>		
<b>Equity</b>		
Share capital	14	120
Retained earnings		<u>5,850</u>
		<u>5,970</u>
Non-controlling interest		<u>5,713</u>
<b>Total equity</b>		<u>11,683</u>
<b>Non-current liability</b>		
Decommissioning liability	15	<u>12,672</u>
<b>Total non-current liabilities</b>		<u>12,672</u>
<b>Current liabilities</b>		
Accounts payable and accrued liabilities	16	<u>10,440</u>
<b>Total current liabilities</b>		<u>10,440</u>
<b>Total liabilities</b>		<u>23,112</u>
<b>TOTAL EQUITY AND LIABILITIES</b>		<u>34,795</u>

  
Chairman of the Board

  
Director

The attached notes 1 to 22 form part of these consolidated financial statements.



## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2017

	Attributable to the equity holders of parent				Total equity USD'000
	Share capital USD'000	Retained earnings USD'000	Total USD'000	Non-controlling interest USD'000	
Balance at 1 January 2017	-	-	-	-	-
Share capital	120	-	120	-	120
Acquisition of a subsidiary	-	-	-	409	409
Total comprehensive income for the year	-	5,850	5,850	5,304	11,154
<b>Balance at 31 December 2017</b>	<b>120</b>	<b>5,850</b>	<b>5,970</b>	<b>5,713</b>	<b>11,683</b>

Companies which do not distribute 70% of their profits after tax, as defined by the relevant tax law, within two years after the end of the relevant tax year, will be deemed to have distributed as dividends 70% of these profits. Special contribution for defence at 17% will be payable on such deemed dividends to the extent that the ultimate shareholders are both Cyprus tax resident and Cyprus domiciled. The amount of deemed distribution is reduced by any actual dividends paid out of the profits of the relevant year at any time. This special contribution for defence is payable by the Company for the account of the shareholders.

The attached notes 1 to 22 form part of these consolidated financial statements.

**CONSOLIDATED STATEMENT OF CASH FLOWS**

Year ended 31 December 2017

	Notes	2017 USD'000
<b>OPERATING ACTIVITIES</b>		
Profit before tax for the year		33,775
Adjustments for:		
Depreciation and amortization	8 & 10	2,511
Unwinding of discount on decommissioning liability	6	773
		37,059
Working capital adjustments:		
Inventories		(2,369)
Accounts receivable, deposits and prepayments		(6,923)
Accounts payable and accrued liabilities		10,440
		38,207
Tax paid	7	(22,621)
<b>NET CASH FLOWS FROM OPERATING ACTIVITIES</b>		<b>15,586</b>
<b>INVESTING ACTIVITIES</b>		
Investment in production & other assets		(7,917)
Acquisition of subsidiary, recognized goodwill		(9)
Proceeds from sale of non-controlling interest		409
<b>NET CASH FLOWS FROM INVESTING ACTIVITIES</b>		<b>(7,517)</b>
<b>CHANGE IN CASH AND CASH EQUIVALENTS</b>		<b>8,069</b>
Cash and cash equivalents at 1 January		-
<b>CASH AND CASH EQUIVALENTS AT 31 DECEMBER</b>		<b>8,069</b>

The attached notes 1 to 22 form part of these consolidated financial statements.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2017

### 1 COROPORATE INFORMATION

The consolidated financial statements of the Group, which comprise PetroNor E&P Ltd (PetroNor, as the parent) and all its subsidiaries (the Group), for the year ended 31 December 2017, were authorised for issue in accordance with a resolution of the directors on 10 June 2019. PetroNor was incorporated on 3<sup>rd</sup> April 2017 as a private company limited by shares registered in the Republic of Cyprus under registration number HE 367916. PetroNor has its registered address at Arch. Makariou III, 42E Matina Court, 3<sup>rd</sup> floor, Office 303, 1065 Nicosia, Cyprus.

The principal activities of the Group are exploration and production of crude oil. Information on the Group's parent and other related party relationships is presented in Note 18.3.

On 21 March 2018, the Company changed its name from PetroHemla Ltd to PetroNor E&P Ltd.

### 2 BASIS OF PREPARATION AND OTHER SIGNIFICANT ACCOUNTING POLICIES

This section provides additional information about the overall basis of preparation that the directors consider is useful to be relevant in understanding these financial statements.

#### 2.1 BASIS OF PREPARATION

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union and the requirements of the Cyprus Companies Law, Cap. 113.

The consolidated financial statements have been prepared on a historical cost basis. The consolidated financial statements are presented in US dollars, and all values are rounded to the nearest thousand (USD 000), except where otherwise indicated.

#### 2.2 BASIS OF CONSOLIDATION

The consolidated financial statements comprise the financial statements of the Company and its following subsidiaries as at 31 December 2017.

<i>Name of company</i>	<i>Activities</i>	<i>Country of incorporation</i>	<i>Percentage holding</i>
Hemla Africa Holding AS	The company's business is to invest in companies and entities that are involved in the oil and gas industry nationally and internationally, as well as investment activities and other related activities, including project management.	Norway	70.707%
Hemla E&P Congo SA ("HEPCO")	Congolese subsidiary, holding the rights to the assets in Congo. HEPCO is active in the oil and gas industry as an E&P company.	Republic of Congo	52.500%

Hemla E&P Congo SA (“HEPCO”) is owned 74.25% by Hemla Africa Holding AS and hence effectively owned 52.50% by the Company.

The PetroNor E&P Group has elected to use the pooling of interest method as if ownership interests in subsidiaries had occurred at the beginning of the earliest period presented (1 January 2017), reflecting in substance the date of the commencement of the Group’s operations.

Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.

When the Group has less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- The contractual arrangement with the other vote holders of the investee;
- Rights arising from other contractual arrangements; and
- The Group’s voting rights and potential voting rights

The relevant activities are those which significantly affect the subsidiary’s returns. The ability to approve the operating and capital budget of a subsidiary and the ability to appoint key management personnel are decisions that demonstrate that the Group has the existing rights to direct the relevant activities of a subsidiary.

The Group re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control.

Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in the statement of comprehensive income from the date the Group gains control until the date the Group ceases to control the subsidiary.

Profit or loss and each component of other comprehensive income (OCI), where applicable, are attributed to the equity holders of the parent of the Group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group’s accounting policies. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction. If the Group loses control over a subsidiary, it:

- derecognises the assets (including goodwill) and liabilities of the subsidiary;
- derecognises the carrying amount of any non-controlling interest;
- derecognises the cumulative translation differences, recorded in equity;
- recognises the fair value of the consideration received;
- recognises the fair value of any investment retained;
- recognises any surplus or deficit in profit or loss; and
- reclassifies the parent’s share of components previously recognised in other comprehensive income to profit or loss or retained earnings, as appropriate, as would be required if the Group had directly disposed of the related assets or liabilities.

## 2.3 SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

### 2.3.1 ESTIMATES AND ASSUMPTIONS

The preparation of the financial statements in conformity with IFRS as adopted by the EU requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities and contingent liabilities at the date of the consolidated financial statements and reported amounts of revenues and expenses during the reporting period. Estimates and assumptions are continuously evaluated and are based on management's experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. However, actual outcomes can differ from these estimates.

In particular, significant areas of estimation uncertainty considered by management in preparing the consolidated financial statements are as follows:

#### *Hydrocarbon reserve and resource estimates*

Hydrocarbon reserves are estimates of the amount of hydrocarbons that can be economically and legally extracted from the Group's oil and gas properties. The Group estimates its commercial reserves and resources based on information compiled by appropriately qualified persons relating to the geological and technical data on the size, depth, shape and grade of the hydrocarbon body and suitable production techniques and recovery rates. Commercial reserves are determined using estimates of oil and gas in place, recovery factors and future commodity prices, the latter having an impact on the total amount of recoverable reserves and the proportion of the gross reserves which are attributable to the host government under the terms of the Production-Sharing Agreements. Future development costs are estimated using assumptions as to the number of wells required to produce the commercial reserves, the cost of such wells and associated production facilities, and other capital costs.

#### *Income taxes*

The Group operates in several tax jurisdictions, and consequently, its income is subject to various rates and rules of taxation. As a result, the Company's effective tax rate may vary significantly from the Cyprus statutory tax rate depending upon the profitability of operations in the different jurisdictions.

The Group recognises the net future tax benefit related to deferred income tax assets to the extent that it is probable that the deductible temporary differences will reverse in the foreseeable future. Assessing the recoverability of deferred income tax assets requires the Group to make significant estimates related to expectations of future taxable income. Estimates of future taxable income are based on forecast cash flows from operations and the application of existing tax laws in each jurisdiction, to the extent that future cash flows and taxable income differ significantly from estimates. The ability of the Group to realise the net deferred tax assets recorded at the date of the statement of financial position could be impacted.

Additionally future changes in tax laws in the jurisdictions in which the Group operates could limit the ability of the Group to obtain tax deductions in future periods.

### 2.3.2 JUDGEMENTS

In the process of applying the Group's accounting policies, the directors have made the following judgments, apart from those involving estimates, which have the most significant effect on the amounts recognised in the consolidated financial statements:

#### *Impairment indicators*

The Group assesses each cash-generating unit annually to determine whether an indication of impairment exists. When an indication of impairment exists, a formal estimate of the recoverable amount is made. The recoverable amounts of cash-generating units and individual assets have been determined based on the



higher of value-in-use calculations and fair values less costs to sell, or if relevant, a combination of these two models. These calculations require the use of estimates and assumptions. It is reasonably possible that the oil price assumption may change which may then impact the estimated life of the field and may then require a material adjustment to the carrying value of tangible assets. The Group monitors internal and external indicators of impairment relating to its tangible and intangible assets.

#### *Technical risk in development of oil and gas fields*

The development of the oil and gas fields, in which the Group has an ownership, is associated with significant technical risk and uncertainty with regards to timing of additional production from new development activities. Risks include, but are not limited to, cost overruns, production disruptions as well as delays compared to initial plans laid out by the operator. Some of the most important risk factors are related to the determination of reserves, the recoverability of reserves, and the planning of a cost efficient and suitable production method. There are also technical risks present in the production phase that may cause cost overruns, failed investment and destruction of wells and reservoirs. Judgements have been made after taking into account information available to management and factors in unknown uncertainties as of the date of the balance sheet.

#### *Asset retirement obligations*

Asset retirement costs will be incurred by the Group at the end of the operating life of some of the Group's facilities and properties. The Group assesses its retirement obligation at each reporting date. The ultimate asset retirement costs are uncertain and cost estimates can vary in response to many factors, including changes to relevant legal requirements, the emergence of new restoration techniques or experience at other production sites. The expected timing, extent and amount of expenditure can also change, for example in response to changes in reserves or changes in laws and regulations or their interpretation. Therefore, significant estimates and assumptions are made in determining the provision for asset retirement obligation. As a result, there could be significant adjustments to the provisions established which would affect future financial results. The provision at reporting date represents management's best estimate of the present value of the future asset retirement costs required.

#### *Contingencies*

By their nature, contingencies will only be resolved when one or more future events occur or fail to occur. The assessment of contingencies inherently involves the exercise of significant judgment and estimates of the outcome of future events.

## **2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

### **INTERESTS IN JOINT ARRANGEMENTS**

A joint arrangement is an arrangement over which two or more parties have joint control. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities (being those that significantly affect the returns of the arrangement) require unanimous consent of the parties sharing control.

#### *Joint operations*

A joint operation is a type of joint arrangement whereby the parties that have joint control of the arrangement have rights to the assets and obligations for the liabilities, relating to the arrangement. In relation to its interests in joint operations, the Group recognises its:

- Assets, including its share of any assets held jointly
- Liabilities, including its share of any liabilities incurred jointly
- Revenue from the sale of its share of the output arising from the joint operation
- Expenses, including its share of any expenses incurred jointly.



## FOREIGN CURRENCIES

The consolidated financial statements are presented in US dollars, which is also the Group's presentation currency. The functional currency of the Company is Euros and that of its subsidiaries are as follows:

- Hemla Africa Holding AS Norwegian Krone (NOK)
- Hemla E&P Congo S.A United States Dollars (USD)

### *Translation of foreign entities*

The functional currency for each of the Company's subsidiaries and jointly-controlled operations is the currency of the primary economic environment in which it operates. Operations with foreign functional currencies are translated into US dollars in the following manner:

- Monetary and non-monetary assets and liabilities are translated at the rate of exchange in effect at the statement of financial position date;
- Revenue and expense items (including depletion, depreciation, and amortization) are translated at average rates of exchange prevailing during the year (as this is considered a reasonable approximation to actual rates); and
- Exchange gains and losses that result from the translation are recognized and disclosed as a cumulative translation adjustment in other comprehensive income/loss.

### *Translation of other foreign currency transactions and balances*

Foreign currencies are translated into the functional currency as follows:

- Monetary assets and liabilities are translated at current rates of exchange;
- Non-monetary items are translated at historical exchange rates;
- Revenue and expense items are translated at the average rates of exchange; and
- Gains or losses resulting from these translation adjustments are recognized within net income (loss) in the consolidated statement of comprehensive income (loss).

## BUSINESS COMBINATIONS AND GOODWILL

In order to consider an acquisition as a business combination, the acquired asset or groups of assets must constitute a business (an integrated set of operations and assets conducted and managed for the purpose of providing a return to the investors). The combination consists of inputs and processes applied to these inputs that have the ability to create output. Acquired businesses are included in the financial statements from the transaction date. The transaction date is defined as the date on which the company achieves control over the financial and operating assets. This date may differ from the actual date on which the assets are transferred. Comparative figures are not adjusted for acquired, sold or liquidated businesses. On acquisition of a licence that involves the right to explore for and produce petroleum resources, it is considered in each case whether the acquisition should be treated as a business combination or an asset purchase. Generally, purchases of licences in a development or production phase will be regarded as a business combination. Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, measured at acquisition date fair value and the amount of any non-controlling interest (NCI) in the acquiree. For each business combination, the Group elects whether to measure NCI in the acquiree at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition related costs are expensed as incurred and included in administrative expenses.

When the Group acquires a business, it assesses the assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree. Those acquired petroleum reserves and resources that can be reliably measured are recognised separately in the assessment of fair values on acquisition. Other potential reserves, resources and rights, for

which fair values cannot be reliably measured, are not recognised separately, but instead are subsumed in goodwill.

Any contingent consideration to be transferred by the acquirer will be recognised at fair value at the acquisition date. Contingent consideration classified as an asset or liability that is a financial instrument and within the scope of IAS 39 Financial Instruments: Recognition and Measurement is measured at fair value, with changes in fair value recognised either in the statement of profit or loss or as a change to other comprehensive income. If the contingent consideration is not within the scope of IAS 39, it is measured in accordance with the appropriate IFRS. Contingent consideration that is classified as equity is not re-measured, and subsequent settlement is accounted for within equity.

Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred and the amount recognised for NCI over the fair value of the identifiable net assets acquired and liabilities assumed. If the fair value of the identifiable net assets acquired is in excess of the aggregate consideration transferred (bargain purchase), before recognising a gain, the Group reassesses whether it has correctly identified all of the assets acquired and all of the liabilities assumed and reviews the procedures used to measure the amounts to be recognised at the acquisition date. If the reassessment still results in an excess of the fair value of net assets acquired over the aggregate consideration transferred, then the gain is recognised in the statement of profit or loss and other comprehensive income.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash generating units (CGUs) that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

Where goodwill forms part of a CGU and part of the operation in that unit is disposed of, the goodwill associated with the disposed operation is included in the carrying amount of the operation when determining the gain or loss on disposal.

Goodwill disposed of in these circumstances is measured based on the relative values of the disposed operation and the portion of the CGU retained.

## **LICENSE INTERESTS, AND FIELD INVESTMENTS, AND DEPRECIATION**

### *Oil & gas production assets*

Development and production assets are accumulated on a cash-generating unit basis and represent the cost of developing the commercial reserves discovered and bringing them into production together with E&E expenditures incurred in finding commercial reserves transferred from intangible E&E assets as outlined in accounting policy above.

The cost of development and production assets also includes the cost of acquisitions and purchases of such assets, directly attributable overheads and the cost of recognising provisions for future restoration and decommissioning.

Where major and identifiable parts of the production assets have different useful lives, they are accounted for as separate items of property, plant and equipment. Costs of minor repairs and maintenance are expensed as incurred.

### *Depreciation/amortisation*

Oil and gas properties and intangible assets are depreciated or amortised using the unit-of-production method. Unit-of-production rates are based on proved reserves, which are oil, gas and other mineral reserves estimated to be recovered from existing facilities using current operating methods. Oil and gas volumes are considered

produced once they have been measured through meters at custody transfer or sales transaction points at the outlet valve on the field storage tank.

Field infrastructure exceeding beyond the life of the field is depreciated over the useful life of the infrastructure using a straight line method.

## **FINANCIAL ASSETS**

### *Initial recognition and measurement*

Financial assets are classified, at initial recognition, as financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, restricted cash, available-for-sale (AFS) financial assets, or derivatives designated as hedging instruments in an effective hedge, as appropriate. All financial assets are recognised initially at fair value plus, in the case of financial assets not recorded at fair value through profit or loss, transaction costs that are attributable to the acquisition of the financial asset.

Purchases or sales of financial assets that require delivery of assets in a timeframe established by regulation or convention in the market place (regular way trades) are recognised on the trade date, i.e., the date at which the Group commits to purchase or sell the asset.

The Group's financial assets include cash and cash equivalents and certain trade and other receivables.

### *Subsequent measurement*

For purposes of subsequent measurement financial assets are classified into four categories:

- Financial assets at fair value through profit or loss
- Trade and other receivables
- Held-to-maturity investments – the Group has no held-to-maturity investments
- AFS financial investments – the Group has no AFS financial assets

### *Financial assets at fair value through profit or loss*

Financial assets at fair value through profit or loss include financial assets held for trading and financial assets designated upon initial recognition at fair value through profit or loss. Financial assets are classified as held for trading if they are acquired for the purpose of selling or repurchasing in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments, as defined by IAS 39. Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with net changes in fair value presented as finance costs (negative changes in fair value) or finance revenue (positive net changes in fair value) in the statement of comprehensive income. The Group has not designated any financial assets at fair value through profit or loss.

Derivatives embedded in host contracts are accounted for as separate derivatives and recorded at fair value if their economic characteristics and risks are not closely related to those of the host contracts and the host contracts are not held for trading or designated at fair value through profit or loss. These embedded derivatives are measured at fair value, with changes in fair value recognised in the statement of profit or loss and other comprehensive income. Reassessment occurs only if there is a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required or there is a reclassification of a financial asset out of the fair value through profit or loss category. The Group has no embedded derivatives as of December 31, 2017.

### *Trade and other receivables*

This category is most relevant to the Group. Trade and other receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such financial assets are subsequently measured at amortised cost using the effective interest rate method, less

impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in finance income in the statement of profit or loss and other comprehensive income. The losses arising from impairment are recognised in the statement of profit or loss and other comprehensive income in finance costs for loans and in cost of sales or other operating expenses for receivables.

#### *Cash and cash equivalents*

Cash and cash equivalents includes cash at hand, and deposits held on call with banks. Cash balances in current accounts, short-term deposits and placement with maturity of six months or less in highly liquid investments are classified as cash and cash equivalents.

#### *Impairment of financial assets*

The Group assesses at each reporting date whether a financial asset or group of financial assets are impaired. Details of impairment principles for financial assets is included in note 2.4 (Impairments of non-oil and gas interests).

### **FINANCIAL LIABILITIES**

#### *Initial recognition and measurement*

Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss, loans and borrowings, payables, or as derivatives designated as hedging instruments in an effective hedge, as appropriate.

All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings and payables, net of directly attributable transaction costs.

The Group's financial liabilities include trade and other payables.

#### *Subsequent measurement*

The measurement of financial liabilities depends on their classification, as described below:

#### *Trade payables*

Trade payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

### **PROVISIONS**

#### *General*

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Where the Group expects some or all of the provision to be reimbursed, for example under an insurance contract, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is recognised through profit and loss net of any reimbursement. If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognised as interest expense. The present obligation under onerous contracts is recognised as a provision.

### **ASSET RETIREMENT OBLIGATION**

An asset retirement liability is recognised when the Group has a present legal or constructive obligation as a result of past events, and it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount of obligation can be made. A corresponding amount equivalent to the



obligation is also recognised as part of the cost of the related production plant and equipment. The amount recognised in the estimated cost of asset retirement, discounted to its present value. Changes in the estimated timing of asset retirement or asset retirement cost estimates are dealt with prospectively by recording an adjustment to the provision, and a corresponding adjustment to production plant and equipment. The unwinding of the discount on the asset retirement provision is included as a finance cost.

## **INCOME TAXES**

The income tax expense or benefit for the period consists of two components: current and deferred tax.

The current income tax payable or recoverable is calculated using the tax rates and legislation that have been enacted or substantively enacted at year-end in each of the jurisdictions and includes any adjustments for taxes payable or recovery in respect of prior periods.

Deferred tax assets and liabilities are determined using the balance sheet liability method based on temporary differences between the carrying value of assets and liabilities for financial reporting purposes and their tax bases. In calculating the deferred tax assets and liabilities, the tax rates used are those that have been enacted or substantively enacted by year-end in each of the jurisdictions and that are expected to apply when the assets are recovered or the liabilities are settled.

### *Production-sharing arrangements*

According to the production-sharing arrangement (PSA) in certain licenses, the share of the profit oil to which the Government is entitled in any calendar year in accordance with the PSA is deemed to include a portion representing the corporate income tax imposed upon and due by the Group. This amount will be paid directly by the government on behalf of the Group to the appropriate tax authorities.

### *The income tax expense*

The current income tax is calculated using the PSA, paid in barrels and booked as expenses and revenue.

### *Sales tax*

Revenues, expenses and assets are recognised net of the amount of sales tax except:

Where the sales tax incurred on a purchase of assets or services is not recoverable from the taxation authority, in which case, the sales tax is recognised as part of the cost of acquisition of the asset or as part of the expense item as applicable.

Receivables and payables that are stated with the amount of sales tax included.

The net amount of sales tax recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the statement of financial position.

## **LEASES**

The determination of whether an arrangement is, or contains, a lease is based on the substance of the arrangement at inception date: whether fulfilment of the arrangement is dependent on the use of a specific asset or assets or the arrangement conveys a right to use the asset.

### *Group as a lessee*

Finance leases, which transfer to the Group substantially all the risks and benefits incidental to ownership of the leased item, are capitalized at the inception of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are reflected in the income statement.

Capitalized leased assets are depreciated over the shorter of the estimated useful life of the asset and the lease term, if there is no reasonable certainty that the Group will obtain ownership by the end of the lease term.

Operating lease payments are recognized as an expense in the income statement on a straight line basis over the lease term.

## **INVENTORY**

The crude oil inventory and the material and supplies inventory are valued at the lower of cost and net realizable value. Cost is determined using the weighted average method. Net realizable value is the estimated selling price, less applicable selling expenses. The cost of inventory includes all costs related to bringing the inventory to its current condition, including processing costs, labour costs, supplies, direct and allocated indirect operating overhead and depreciation expense, where applicable, including allocation of fixed and variable costs to inventory.

## **REVENUE RECOGNITION**

### *Revenue from petroleum products*

Revenue from the sale of petroleum products is recognized as income using the “sales method“. Under this method, revenue is presented gross of royalties and tax oil.

## **PROPERTY PLANT AND EQUIPMENT**

Property, plant and equipment not associated with exploration and production activities are carried at cost less accumulated depreciation. These assets are also evaluated for impairment. Depreciation of other assets is calculated on a straight line basis as follows:

Computer equipment	20 – 33.33%
Furniture, fixtures & fittings	10 – 33.33%
Motor vehicles	20%

## **IMPAIRMENTS OF NON-OIL AND GAS INTERESTS**

### *Non-financial assets*

Assets that are subject to amortisation or depreciation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Goodwill is assessed for impairment on an annual basis. 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. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows (cash-generating units). Nonfinancial assets that were previously impaired are reviewed for possible reversal of the impairment at each reporting date.

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 a reversal is recognised in the income statement. 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.

### *Financial assets*

Assets carried at amortised cost If there is objective evidence that an impairment loss on assets carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the assets' carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). The carrying amount of the asset is reduced through use of an allowance account. The amount of the loss shall be recognised in the income statement.



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, the previously recognised impairment loss is reversed, to the extent that the carrying value of the asset does not exceed its amortised cost at the reversal date, any subsequent reversal of an impairment loss is recognised in the income statement.

In relation to trade receivables, a provision for impairment is made when there is objective evidence (such as the probability of insolvency or significant financial difficulties of the debtor) that the Group will not be able to collect all of the amounts due under the original terms of the invoice. The carrying amount of the receivable is reduced through use of an allowance account. Impaired debts are derecognised when they are assessed as uncollectible.

#### **CURRENT VERSUS NON-CURRENT CLASSIFICATION**

The Group presents assets and liabilities in the statement of financial position based on current/non-current classification. An asset is current when it is either:

- Expected to be realised or intended to be sold or consumed in the normal operating cycle;
- Held primarily for the purpose of trading;
- Expected to be realised within 12 months after the reporting period;
- Cash or cash equivalent unless restricted from being exchanged or used to settle a liability for at least 12 months after the reporting period.

All other assets are classified as non-current.

A liability is current when either:

- It is expected to be settled in the normal operating cycle
- It is held primarily for the purpose of trading
- It is due to be settled within 12 months after the reporting period
- There is no unconditional right to defer the settlement of the liability for at least 12 months after the reporting period

The Group classifies all other liabilities as non-current.

Deferred tax assets and liabilities are classified as non-current assets and liabilities.

## **2.5 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES**

### **New and amended standards and interpretations**

The Group applied for the first time certain standards and amendments, which are effective for annual periods beginning on or after 1 January 2017. Although these new standards and amendments are applied for the first time in 2017, the application of these new standards and amendments, did not have a material impact on the annual financial statements of the Group. The nature and the impact of each new standard or amendment is described below:

- Amendments to IAS 7 Statement of Cash Flows: Disclosure Initiative
- Amendments to IAS 12 Income Taxes: Recognition of Deferred Tax Assets for Unrealised Losses

Annual Improvements 2014-2016 cycle:

- Amendments to IFRS 12 Disclosures of Interests in Other Entities: Clarification of the scope of disclosure requirements in IFRS 12

Adoption of the above amended IFRS and improvements to IFRS did not have any significant impact on the Group.

## 2.6 STANDARDS ISSUED BUT NOT YET EFFECTIVE

The standards and interpretations that are issued, but not yet effective, up to the date of issuance of the Group's financial statements are disclosed below. The Group intends to adopt these standards, if applicable, when they become effective.

- IFRS 2 Classification and Measurement of Share-based Payment Transactions — Amendments to IFRS 2
- Amendments to IFRS 4: Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts
- IFRS 9 Financial Instruments
- Amendments to IFRS 10 and IAS 28: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture
- IFRS 15 Revenue from Contracts with Customers
- IFRS 16 Leases
- IFRS 17 Insurance Contracts
- Amendments to IAS 40: Transfers of Investment Property
- IFRS 22 Foreign Currency Transactions and Advance Consideration
- IFRIC 23 Uncertainty over Income Tax Treatments.

### *Annual Improvements 2014-2016 Cycle*

- IFRS 1 First-time adoption of International Financial Reporting Standards – Deletion of short-term exemptions for first time adopters
- IAS 28 Investments in Associates and Joint Ventures – Clarification that measuring investees at fair value through profit or loss is an investment-by-investment choice
- IFRS 3 Business Combinations - Previously held interests in a joint operation
- IFRS 11 Joint Arrangements - Previously held interests in a joint operation
- IAS 12 Income Taxes - Income tax consequences of payments on financial instruments classified as equity
- IAS 23 Borrowing Costs - Borrowing costs eligible for capitalization

Management intends to adopt these standards and amendments, if applicable, when they become effective. Management has performed initial assessment of the impact of IFRS 9 and IFRS 15 on its financial statements. Management believes that the initial application of these standards will not have a significant impact on the financial statements.

### 3. REVENUE

	Notes	2017 USD'000
Revenue, net of tax and royalties		35,316
Assignment of tax oil	7	22,621
Assignment of royalties	4	10,414
		68,351

Details of the lifting made during the year:

Date	Description	Quantity (BBL)	Price per BBL	Amount USD'000
30.06.2017	Interim Period Sales	290,094	50.25	14,576
28.11.2017	Djeno Blend	300,000	60.74	18,222
28.11.2017	Nkossa Blend	40,000	62.97	2,518
<b>Total</b>		<b>630,094</b>	<b>56.05</b>	<b>35,316</b>

### 4. COST OF SALES

	Notes	2017 USD'000
Operating expenses		29,458
Depreciation and amortization of oil and gas properties	8 & 10	2,511
Closing oil inventory	11	(1,856)
		30,113

### 5. GENERAL AND ADMINISTRATIVE EXPENSES

Personnel expenses	944
Travelling expenses	800
Business development expenses	585
Legal and professional expenses	206
Office rent	157
Other expenses	736
	3,428

#### 5a. PERSONNEL EXPENSES

Salaries	731
Other compensation	213
	944

The Company didn't have any staff employed during the year, while average number of staff employed in Hemla E&P Congo was 9.

#### 5b. MANAGEMENT REMUNERATION

Executive management consisted of the Chief Executive Officer (CEO). Executive management was not paid any remuneration during the year.

#### 5c. BOARD OF DIRECTORS REMUNERATION

The remuneration of the members of the Board is determined on a yearly basis by the Company at its annual general meeting. The directors may also be reimbursed for, inter alia, travelling, hotel and other expenses

incurred by them in attending meetings of the directors or in connection with the business of the Company. A director who has been given a special assignment, besides his/her normal duties as a director of the Board, in relation to the business of the Company may be paid such extra remuneration as the directors may determine.

There was no remuneration paid or accrued for the members of the Board for the year ended 31 December 2017.

#### 5d. AUDITORS' REMUNERATION

Fees, excluding VAT, to the auditors are included in general and administrative expenses and are shown below:

	2017 USD'000
<b>Ernst &amp; Young</b>	
Annual audit	28
<b>Echas Revisjon AS</b>	
Annual audit	3
	<u>31</u>

#### 6. FINANCE COST

	Notes	2017 USD'000
Unwinding of discount on decommissioning liability	15	773
Interest expense		<u>105</u>
		<u>878</u>

#### 7. INCOME TAX

Income tax expense for the year ended 31 December 2017 was USD 22.62 million. It was paid in shape of Oil at source (Note 3).

#### 8. LICENSES

USD'000	Total
<b>2017</b>	
Cost	
At 1 January 2017	-
Additions	<u>7,382</u>
At 31 December 2017	<u>7,382</u>
Amortization	
At 1 January 2017	-
Charge for the year	<u>931</u>
At 31 December 2017	<u>931</u>
Net carrying amount	
At 31 December 2017	<u>6,451</u>

The Group acquired interest in three development and production permits (Tchendo: 20%; Tchibouela: 20% and Tchibeli-Litanzi: 20%) which will respectively end in December 2037 for each of them with possible

extension for 5 years. All these three licenses are called or named collectively "PNGF Sud". The Group paid the following amounts to acquire the interest in these licenses:

	<i>USD'000</i>
Signature bonus	5,882
Entry bonus	1,200
Tender costs	300
	<b>7,382</b>

## 9. ACQUISITION OF SUBSIDIARY

Upon establishment, the Company acquired 70.707% the share capital of Hemla Africa Holding AS (HAH AS). HAH AS' business is to invest in companies and entities that are involved in the oil and gas industry nationally and internationally, as well as investment activities and other related activities, including project management. It operates under organization number 999 077 013 in Norway issued 31 October 2012.

### Assets acquired and liabilities assumed

The fair value of the identifiable assets and liabilities of HAH AS as at the dated of acquisition were as follows:

	<i>Fair Value recognised on acquisition USD'000</i>
<b>Assets</b>	
Bank	5
<b>Total assets</b>	5
<b>Liabilities</b>	
Accounts payable and accrued expenses	15
<b>Total liabilities</b>	15
<b>Net assets acquired</b>	<b>(10)</b>
70.707% shares acquired by the Company	(7)
Goodwill on acquisition	9
<b>Total acquisition costs</b>	<b>3</b>

The acquisition costs are settled through intercompany accounts.

At each reporting date, the Group determines whether there is objective evidence that the goodwill recognized is impaired. If there is such evidence, the Group calculates the amount of impairment then recognises the loss as 'impairment losses' in the statement of profit or loss and other comprehensive income.

## 10. PRODUCTION ASSETS AND EQUIPMENT

USD'000	Production assets and equipment	Motor vehicles	Total
<b>2017</b>			
Cost			
At 1 January 2017	-	-	-
Additions	12,425	9	12,434
At 31 December 2017	12,425	9	12,434
Depreciation			
At 1 January 2017	-	-	-
Charge for the year	1,571	9	1,580
At 31 December 2017	1,571	9	1,580
Net carrying amount			
At 31 December 2017	10,854	-	10,854

Production assets and equipment includes the following:

	USD'000
Asset retirement obligation (Note 15)	11,899
Oil & Gas CAPEX	526
	12,425

## 11. INVENTORIES

	2017 USD'000
Crude oil inventory	1,856
Materials and supplies	513
	2,369

The crude oil inventory and the material and supplies inventory are valued at the lower of cost and net realizable value. Cost is determined using the weighted average method. Net realizable value is the estimated selling price, less applicable selling expenses. The cost of inventory includes all costs related to bringing the inventory to its current condition, including processing costs, labour costs, supplies, direct and allocated indirect operating overhead and depreciation expense, where applicable, including allocation of fixed and variable costs to inventory.

## 12. ACCOUNTS RECEIVABLE, DEPOSITS AND PREPAYMENTS

	2017 USD'000
Due from related parties (Note 18)	6,162
Deposits	31
Prepayments	17
Other receivables	833
	7,043



**13. CASH AND BANK BALANCES**

	2017 USD'000
Cash in bank	7,978
Petty cash	91
Other cash and cash equivalents	-
Cash and cash equivalents at 31 December	<b>8,069</b>

**14. SHARE CAPITAL**

Authorised and issued 100,000 shares of EUR 1.00 each (USD 1.20 each)	120
--	-----

**15. ASSET RETIREMENT OBLIGATION**

In accordance with the agreements and legislation, the wellheads, production assets, pipelines and other installations may have to be dismantled and removed from oil and natural gas fields when the production ceases. The exact timing of the obligations is uncertain and depend on the rate the reserves of the field are depleted. However, based on the existing production profile of the PNGF SUD field and the size of the reserves, it is expected that expenditure on retirement is likely to be after more than ten years. The current bases for the provision are a discount rate of 6.5% and an inflation rate of 1.6%. The ARO study was done internally by the operator Perenco and was presented to ARO Committee. The partners approved the study on November 13, 2018.

The following table presents a reconciliation of the beginning and ending aggregate amounts of the obligations associated with the retirement of oil and natural gas properties:

	2017 USD'000
Balance, beginning of year	-
Arising during the year (Note 10)	11,899
Unwinding of discount on decommissioning (Note 6)	773
	<b>12,672</b>

**16. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES**

	2017 USD'000
Trade payable	4,412
Due to related parties (Note 18)	2,518
Taxes and state payables	3,398
Other payables and accrued liabilities	112
	<b>10,440</b>

Taxes & state payables includes USD 2.9 Million payable for the signing bonus for the acquisition of the interest in the license.

## 17. CONTINGENCIES AND COMMITMENTS

As at 31 December 2017, the Company has no financial contingent liabilities and commitments except those recognized in the normal course of business.

## 18. RELATED PARTY TRANSACTIONS

### 18.1 SUBSIDIARIES

Subsidiary	Place of incorporation	Ownership
Hemla Africa Holding AS	Norway	70.707% (direct)
Hemla E&P Congo S.A.	Republic of Congo	52.50% (indirect)

### 18.2 SHAREHOLDERS

Shareholder	Place of incorporation	Ownership
Nor Energy AS	Norway	50%
Petromal – Sole Proprietorship LLC	UAE	50%

### 18.3 RELATED PARTY TRANSACTIONS

Related parties represent major shareholders, directors and key management personnel of the Group, and entities controlled, jointly controlled or significantly influenced by such parties. Pricing policies and terms of these transactions are approved by the Group's management.

Transactions with related parties included in the consolidated statement of comprehensive income are as follows:

	2017 USD'000
<i>Cost of sales:</i>	
Nor Energy AS	2,272
Petromal – Sole Proprietorship LLC	1,600
	3,872

Balances due from and due to related parties disclosed in the consolidated statement of financial position consist of the following balances:

	2017 USD'000
<i>Due from related parties:</i>	
Hemla Africa Holding Ltd.	5,700
Petromal – Sole Proprietorship LLC	402
Nor Energy AS	60
	6,162
<i>Due to related parties:</i>	
Petromal – Sole Proprietorship LLC	1,385
Nor Energy AS	1,133
	2,518

Amounts due from and due to related parties are related to expenses incurred on behalf of the Group and vice versa except for amount due from Hemla Africa Holding Ltd, which is arising out of a loan provided to that company.

Amounts due from / to related parties included in the consolidated statement of financial position are interest free and have no fixed repayment terms.

### Compensation of key management personnel

The remuneration of directors and other members of key management during the year was as follows:

	2017 USD'000
Directors' remuneration	384
Key management personnel	623
Number of key management personnel	4

The compensations stated above are for one of the subsidiaries in the Group. The Parent Company does not have any compensation to key management personnel.

### 19. RESERVES

The Group has adopted a policy of regional reserve reporting using external third party companies to audit its work and certify reserves and resources. Reserve and contingent resource estimates comply with the definitions set by the Petroleum Resources Management System ("PRMS") issued by the Society of Petroleum Engineers ("SPE"), the American Association of Petroleum Geologists ("AAPG"), the World Petroleum Council ("WPC") and the Society of Petroleum Evaluation Engineers ("SPEE") in March 2007. The Group uses the services of AGR Petroleum Services AS for 3<sup>rd</sup> party verifications of its reserves.

The following is a summary of key results from the reserve reports (net of the Group's share):

Asset	1P reserves (MMBOE)	2P reserves (MMBOE)	3P reserves (MMBOE)
PNGF SUD	7.01	9.96	12.06

#### Definitions:

##### 1P) Proved Reserves

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.

##### 2P) Proved plus Probable Reserves

Probable Reserves are 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.

##### 3P) Proved plus Probable plus Possible Reserves

Possible Reserves are those additional reserves which analysis of geoscience and engineering data indicate are less likely to be recovered than Probable Reserves.

## 20. RISK MANAGEMENT

The Group's principal financial liabilities comprise of accounts payables and amounts due to related parties. The main purpose of these financial instruments is to manage short-term cash flow and raise finance for the Group's capital expenditure program. The Group has various financial assets such as accounts receivable and cash.

It is, and has been throughout the year ended 31 December 2017, the Group's policy that no speculative trading in derivatives shall be undertaken.

The main risks that could adversely affect the Group's financial assets, liabilities or future cash flows are credit risk, liquidity risk, interest rate risk and foreign currency risk. The management reviews and agrees policies for managing each of these risks which are summarized below.

The following discussion also includes a sensitivity analysis that is intended to illustrate the sensitivity to changes in the market variables on the Group's financial instruments and show the impact on profit or loss and shareholders' equity, where applicable. Financial instruments affected by market risk include, accounts receivables, accounts payable and accrued liabilities.

### Credit risk

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss.

The Group seeks to limit its credit risk with respect to banks by only dealing with reputable banks and with respect to customers by setting credit limits for individual customers and monitoring outstanding receivables. However, management is confident that this concentration of credit risk will not result in any loss to the Group due to the strong business relationship with and good reputation of the customers.

With respect to credit risk arising from the other financial assets of the Group, including cash and cash equivalents, the Group's exposure to credit risk arises from default of the counterparty, with a maximum exposure equal to the carrying amount of these instruments.

### Liquidity risk

The Group seeks to limit its liquidity risk by ensuring financial support is available from the shareholders. The Group's term of sales require amounts to be paid within 45-60 days of the date of approval of progress billings. Trade payables are normally settled within 90 to 120 days of the date of receipt of invoice.

The table below summarises the maturity profile of the Group's financial liabilities 31 December 2017 based on contractual undiscounted payments.

USD'000	On demand	Less than 1 month	Between 1 and 3 months	Between 3 months and 1 year	More than 1 year	Total
<b>31 December 2017</b>						
Trade accounts payable (note 16)	-	4,412	-	-	-	4,412
Amounts due to related parties (note 16)	-	-	2,518	-	-	2,518
	-	4,412	2,518	-	-	6,930

The Group had USD 8.07 million in cash and bank balances as of 31 December 2017. Should additional funding be required in the future for additional capital expenditure for new development phases or working capital

requirements, the Group has various alternatives available which it can explore to fulfil such additional requirements. The options include, amongst others, debt financing and offtake prepayment structures. As a result, the financial statements have been prepared under the assumption of going concern and realization of assets and settlement of debt in normal operations.

#### Interest rate risk

The Group is exposed to interest rate risk on its interest bearing assets and liabilities and seeks to limit this risk by obtaining favourable interest rates.

#### Currency risk

The Group operates internationally and is exposed to risk arising from various currency exposures, primarily with respect to the Norwegian Kroner (NOK) and the Euro (EUR). From a financial statements perspective, the subsidiary in Norway has a NOK functional currency and is exposed to fluctuations for presentation purposes in these financial statements. The volatility in NOK has resulted in a translation loss of USD 17 thousand as of 31 December 2017.

The Group has transactional currency exposures. Such exposure arises from sales or purchases in currencies other than the respective functional currency.

The Group reports its consolidated results in USD, any change in exchange rates between its operating subsidiaries' functional currencies and the USD affects its consolidated income statement and balance sheet when the results of those operating subsidiaries are translated into USD for reporting purposes.

Group companies are required to manage their foreign exchange risk against their functional currency.

A 20% strengthening or weakening of the USD against the following currencies at 31 December 2017 would have increased / (decreased) equity and profit or loss by the amounts shown below.

The Group's assessment of what a reasonable potential change in foreign currencies that it is currently exposed to have been changed as a result of the changes observed in the world financial markets. This hypothetical analysis assumes that all other variables, including interest rates and commodity prices, remain constant.

USD'000	+20%	-20%
<b>USD vs NOK</b>		
Cash	1	(1)
Receivables	140	(140)
Payables	(507)	507
	(364)	364
<b>USD vs EUR</b>		
Cash	-	-
Receivables	-	-
Payables	(2)	2
	(2)	2

#### Capital Risk

The primary objective of the Group's capital management is to continuously evaluate measures to strengthen its financial basis and to ensure that the Group is fully funded for its activities. The Group manages



its capital structure and makes adjustments to it in light of changes in economic conditions. In order to maintain or change the capital structure, the Group may adjust the amount of dividend payments to shareholders, return capital to shareholders or issue new shares. The Group has no debt arrangements in place and has the flexibility to source conventional debt capital from the markets.

The Group is continuously evaluating the capital structure with the aim of having an optimal mix of equity and debt capital to reduce the Group's cost of capital and looking at avenues to procure that in the forthcoming year.

## **21. FINANCIAL INSTRUMENTS**

Financial instruments comprise financial assets and financial liabilities.

Financial assets consist of bank balances and cash, amounts due from related parties and trade and some other receivables. Financial liabilities consist of amounts due to related parties, trade account payables and some other liabilities.

The fair values of the Group's financial instruments are not materially different from their carrying amounts at the reporting date largely due to the short term maturities of these instruments.

## **22. EVENTS SUBSEQUENT TO REPORTING DATE**

On 21 March 2018, the Company had officially changed its registered name from PetroHemla Ltd to its current name, PetroNor E&P Ltd.

On the operations side, the production in PetroNor's assets has increased due to the improvements implemented by the Operator from around 15,000 bopd at the beginning of 2017 to an average of approx. 20,220 bopd in 2018.

Further, negotiations for entering PNGF Bis are ongoing. From the PNGF Sud contractor group, only Perenco and HEPCO have opted to enter PNGF Bis alongside SNPC. Following successful negotiations of the terms of the PSC, the Company intends for HEPCO to enter into the license.

PetroNor looks forward to continued growth, where it can build upon its current operations and experienced team and capitalise on the strength of its shareholders and respective networks to expand its operations in West Africa.

Therefore, during 2019 PetroNor decided to proceed with a transaction with Oslo Stock Exchange listed, London-based, African Petroleum Corporation Ltd, which will result in the enlarged company, to be renamed PetroNor E&P Limited, being listed on the Oslo Axess. African Petroleum Corporation Ltd is also present in Africa, thus the Company believes there are strong synergies to be achieved for both through the transaction.

There were no other material events after the reporting period, which have a bearing on the understanding of the financial statements.



## STATEMENT OF DIRECTORS' RESPONSIBILITY

Pursuant to the Norwegian Securities Trading Act section 5-5 with pertaining regulations we hereby confirm that, to the best of our knowledge, the Company's financial statements for 2017 have been prepared in accordance with IFRS, as adopted by the EU and the requirements of the Cyprus Companies Law, Cap. 113, and in accordance with the requirements for additional information provided for by the Norwegian Accounting Act. The information presented in the financial statements gives a true and fair picture of the Company's liabilities, financial position and results viewed in their entirety.

To the best of our knowledge, the Management Report gives a true and fair picture of the development, performance and financial position of the Company, and includes a description of the principal risk and uncertainty factors facing the company.

10 June 2019  
The Board of Directors  
PetroNor E&P Ltd



Eyas Alhomouz  
Chairman of the Board



Knut Søvd  
CEO & Director



Gerhard Ludvigsen  
Director



Hawary Marshad  
Director



Andri Georghiou  
Director



Nicos Kouyialis  
Director

## **CORPORATE SOCIAL RESPONSIBILITY / ETHICAL CODE OF CONDUCT**

---

The Group has a strong focus on CSR as well as an ethical code of conduct. The Group founders have established a separate CSR project, Power To Educate, and is supporting the CSR projects in the subsidiary in the Republic of Congo as well as the projects organized by the Operator in the PNGF Sud license group. The Group is planning to register with the Extractive Industries Transparency Initiative, ETIT this year.

## GLOSSARY AND DEFINITIONS

---

Bbl	One barrel of oil, equal to 42 US gallons or 159 liters
Bcf	Billion cubic feet
bopd	Barrels of oil per day
CPP	Production sharing contract, “Contrat de Partage de Production” in French
CPR	Competent Persons’ Report
Group or PetroNor Group	PetroNor E&P Ltd and its subsidiaries
IOR	Improved oil recovery
MMbbl	Million barrels of oil
MMBOE	Million barrels of oil equivalents
Mmscfd	Million standard cubic feet per day
PDP	Proven Developed Producing (reserves)
PSC	Production sharing contract
SNPC	Societe National des Petrole du Congo



## ÅRSREGNSKAPET FOR REGNSKAPSÅRET 2016 - GENERELL INFORMASJON

### Enheten

Organisasjonsnummer: 999 077 013  
Organisasjonsform: Aksjeselskap  
Foretaksnavn: HEMLA AFRICA HOLDING AS  
Forretningsadresse: Frøyas gate 13  
0273 OSLO

### Regnskapsår

Årsregnskapets periode: 01.01.2016 - 31.12.2016

### Konsern

Morselskap i konsern: Nei

### Regnskapsregler

Regler for små foretak benyttet: Ja  
Benyttet ved utarbeidelsen av årsregnskapet til selskapet: Regnskapslovens alminnelige regler

### Årsregnskapet fastsatt av kompetent organ

Bekreftet av representant for selskapet: Knut Søvold  
Dato for fastsettelse av årsregnskapet: 30.06.2017

### Grunnlag for avgivelse

År 2016: Årsregnskapet er elektronisk innlevert  
År 2015: Tall er hentet fra elektronisk innlevert årsregnskap fra 2016

*Det er ikke krav til at årsregnskapet m.v. som sendes til Regnskapsregisteret er undertegnet. Kontrollen på at dette er utført ligger hos revisor/enhetens øverste organ. Sikkerheten ivaretas ved at innsender har rolle/rettighet for innsending av årsregnskapet via Altinn, og ved at det bekreftes at årsregnskapet er fastsatt av kompetent organ.*

Brønnøysundregistrene, 28.08.2019



## Resultatregnskap

Beløp i: NOK	Note	2016	2015
<b>RESULTATREGNSKAP</b>			
<b>Kostnader</b>			
Lønnskostnad	1		
Annen driftskostnad	1	9 750	12 784
<b>Sum kostnader</b>		<b>9 750</b>	<b>12 784</b>
<b>Driftsresultat</b>		<b>-9 750</b>	<b>-12 784</b>
<b>Finansinntekter og finanskostnader</b>			
Annen renteinntekt		37	46
<b>Sum finansinntekter</b>		<b>37</b>	<b>46</b>
Annen finanskostnad			8 000 000
<b>Sum finanskostnader</b>			<b>8 000 000</b>
<b>Netto finans</b>		<b>37</b>	<b>-7 999 954</b>
<b>Ordinært resultat før skattekostnad</b>		<b>-9 713</b>	<b>-8 012 738</b>
Skattekostnad på ordinært resultat	5	0	0
<b>Ordinært resultat etter skattekostnad</b>		<b>-9 713</b>	<b>-8 012 738</b>
<b>Årsresultat</b>	3	<b>-9 713</b>	<b>-8 012 738</b>
<b>Årsresultat etter minoritetsinteresser</b>		<b>-9 713</b>	<b>-8 012 738</b>
<b>Totalresultat</b>		<b>-9 713</b>	<b>-8 012 738</b>
<b>Overføringer og disponeringer</b>			
Udekket tap		-9 713	-8 012 738
<b>Sum overføringer og disponeringer</b>	3	<b>-9 713</b>	<b>-8 012 738</b>



## Balanse

Beløp i: NOK	Note	2016	2015
<b>BALANSE - EIENDELER</b>			
<b>Anleggsmidler</b>			
<b>Immaterielle eiendeler</b>			
Utsatt skattefordel	5		
<b>Sum anleggsmidler</b>		<b>0</b>	<b>0</b>
<b>Omløpsmidler</b>			
<b>Varer</b>			
<b>Bankinnskudd, kontanter og lignende</b>			
Bankinnskudd, kontanter og lignende		37 110	37 073
<b>Sum bankinnskudd, kontanter og lignende</b>		<b>37 110</b>	<b>37 073</b>
<b>Sum omløpsmidler</b>		<b>37 110</b>	<b>37 073</b>
<b>SUM EIENDELER</b>		<b>37 110</b>	<b>37 073</b>
<b>BALANSE - EGENKAPITAL OG GJELD</b>			
<b>Egenkapital</b>			
<b>Innskutt egenkapital</b>			
Selskapskapital	2	30 000	30 000
Annen innskutt egenkapital		-14 500	-14 500
<b>Sum innskutt egenkapital</b>		<b>15 500</b>	<b>15 500</b>
<b>Opptjent egenkapital</b>			
Udekket tap		93 405	8 151 692
<b>Sum opptjent egenkapital</b>		<b>-93 405</b>	<b>-8 151 692</b>
<b>Sum egenkapital</b>	3	<b>-77 905</b>	<b>-8 136 192</b>
<b>Gjeld</b>			
<b>Langsiktig gjeld</b>			
Utsatt skatt	5		





## Balanse

<b>Beløp i: NOK</b>	<b>Note</b>	<b>2016</b>	<b>2015</b>
<b>Annen langsiktig gjeld</b>			
Øvrig langsiktig gjeld	4		8 000 000
<b>Sum annen langsiktig gjeld</b>			<b>8 000 000</b>
<b>Sum langsiktig gjeld</b>		<b>0</b>	<b>8 000 000</b>
<b>Kortsiktig gjeld</b>			
Annen kortsiktig gjeld	6	115 015	173 265
<b>Sum kortsiktig gjeld</b>		<b>115 015</b>	<b>173 265</b>
<b>Sum gjeld</b>		<b>115 015</b>	<b>8 173 265</b>
<b>SUM EGENKAPITAL OG GJELD</b>		<b>37 110</b>	<b>37 073</b>



Årsberetning 2016  
Hemla Africa Holding AS – 999 077 013

**VIRKSOMHETENS ART**

Hemla Africa Holding AS (HAH) er et investeringselskap som investerer i aksjer og eiendom og olje. Selskapet har hovedkontor i Oslo.

**STRUKTURELLE ENDRINGER**

HAH ble opprettet høsten 2012. Det er ved utgangen av 2016 ingen ansatte i selskapet.

**RETTVISENDE BILDE**

Selskapet er et eierselskap og har ikke noe direkte omsetning. Egenkapitalen er negativ men finansiert med lån fra eiere og således ikke kritisk for videre drift.

**FORTSATT DRIFT**

I samsvar med regnskapsloven §3-3 bekreftes det at forutsetning om fortsatt drift er lagt til grunn ved avleggelsen av årsregnskapet. Selskapets egenkapital er tapt, men dette er finansiert med lån fra eier og vil om nødvendig bli konvertert til egenkapital.

**ARBEIDSMILJØ, LIKESTILLING OG YTRE MILJØ**

Det er per i dag ingen ansatte i selskapet. Arbeidsmiljøet er godt. Selskapets drift er av en slik karakter at det ikke forurensar det ytre miljø.

**FRAMTIDIG UTVIKLING**

Det forventes at 2017 vil være et år med liten direkte aktivitet og følgelig at finansieringen av selskapet er tilstrekkelig.

Oslo 30. juni 2017

.....  
Knut Søvold  
Styreleder

.....  
Gerhard Ludvigsen  
Styremedlem



## Resultatregnskap

### Hemla Africa Holding AS

	Note	2016	2015
<b>Driftsinntekter og driftskostnader</b>			
Annen driftskostnad	1	9 750	12 784
Sum driftskostnader		9 750	12 784
Driftsresultat		-9 750	-12 784
<b>Finansinntekter og finanskostnader</b>			
Annen renteinntekt		37	46
Annen finanskostnad		0	8 000 000
Resultat av finansposter		37	-7 999 954
Ordinært resultat før skattekostnad		-9 713	-8 012 738
Skattekostnad på ordinært resultat	5	0	0
Ordinært resultat		-9 713	-8 012 738
Årsresultat	3	-9 713	-8 012 738
<b>Overføringer</b>			
Overført til udekket tap		9 713	8 012 738
Sum overføringer	3	-9 713	-8 012 738



**Balanse**

**Hemla Africa Holding AS**

<b>Eiendeler</b>	<b>Note</b>	<b>2016</b>	<b>2015</b>
<b>Anleggsmidler</b>			
<b>Omløpsmidler</b>			
Bankinnskudd, kontanter o.l.		37 110	37 073
Sum omløpsmidler		37 110	37 073
Sum eiendeler		37 110	37 073



**Balanse**

**Hemla Africa Holding AS**

<b>Egenkapital og gjeld</b>	<b>Note</b>	<b>2016</b>	<b>2015</b>
<b>Innskutt egenkapital</b>			
Aksjekapital	2	30 000	30 000
Annen innskutt egenkapital		-14 500	-14 500
Sum innskutt egenkapital		15 500	15 500
<b>Opptjent egenkapital</b>			
Udekket tap		-93 405	-8 151 692
Sum opptjent egenkapital		-93 405	-8 151 692
Sum egenkapital	3	-77 905	-8 136 192
<b>Gjeld</b>			
<b>Annen langsiktig gjeld</b>			
Øvrig langsiktig gjeld	4	0	8 000 000
Sum annen langsiktig gjeld		0	8 000 000
<b>Kortsiktig gjeld</b>			
Annen kortsiktig gjeld	6	115 015	173 265
Sum kortsiktig gjeld		115 015	173 265
Sum gjeld		115 015	8 173 265
Sum egenkapital og gjeld		37 110	37 073

Oslo, 28.06.2017

\_\_\_\_\_  
Knut Søvold  
styreleder

\_\_\_\_\_  
Gerhard Ludvigsen  
styremedlem



## Hemla Africa Holding AS

### Noter til årsregnskap 2016

#### Regnskapsprinsipper

##### Generelt

Regnskapet er utarbeidet i overensstemmelse med regnskapsloven og god regnskapsskikk. Regnskapet bygger på historisk kost prinsippet. Regnskapet er satt opp basert på fortsatt drift.

##### Salgsinntekter

Inntektsføring ved salg av varer skjer på leveringstidspunktet. Tjenester inntektsføres i takt med utførelsen.

##### Klassifisering

Eiendeler knyttet til varekretsløpet klassifiseres som omløpsmidler. Samme regel gjelder for kortsiktig gjeld. Fordringer og gjeld som ikke knytter seg til varekretsløpet, klassifiseres som omløpsmidler/kortsiktig gjeld dersom de forfaller innen ett år. Øvrige eiendeler klassifiseres som anleggsmidler, og øvrig gjeld klassifiseres som langsiktig.

#### Vurderingsregler

**Kundefordringer** er vurdert til pålydende, nedskrevet med forventet tap på fordringer.

**Øvrige omløpsmidler** vurderes til det laveste av anskaffelseskost og virkelig verdi.

**Varige driftsmidler** aktiveres og avskrives dersom de har levetid over 3 år og har en kostpris som overstiger kr 15.000. Varige driftsmidler vurderes til historisk kost med fradrag for bedriftsøkonomiske avskrivninger. Avskrivninger baseres på en vurdering av driftsmidlenes økonomiske og tekniske levetid. Selskapet benytter lineære avskrivninger for avskrivning av varige driftsmidler. Avskrivningssatsene er gjengitt i note.

##### Pensjonsforpliktelser

Selskapet har forsikret pensjonsforpliktelsen sin og i samsvar med Regnskapsloven §5-10 er pensjonsforpliktelsen ikke balanseført.

**Utsatt skatt/Utsatt skattefordel** føres opp i balansen på grunnlag av forskjeller mellom regnskapsmessige og skattemessige verdier i henhold til norsk regnskapsstandard for skatt. Selskapet balansefører ikke utsatt skattefordel.

**Betalbar skatt** beregnes på grunnlag av årets skattemessige resultat.

#### Note 1 Ansatte, godtgjørelse mv

Det er ikke utbetalt lønn eller godtgjørelse til daglig leder eller styret i året.

Selskapet har ingen ansatte, og er derfor ikke pliktig til å ha lovpålagt OTP avtale.

Det er kostnadsført kr. 9 750 i honorar til revisor i 2016.





## Hemla Africa Holding AS

### Noter til årsregnskap 2016

#### Note 2 Antall aksjer, aksjeeiere

Selskapets aksjekapital på kr. 30 000 består av 30 000 aksjer pålydende kr. 1.

Selskapets aksjonærer er	Eierandel
Nor Energy AS	100 %

#### Note 3 Egenkapital

	Aksje- kapital	Annen innskutt egenkapital	Udekket tap	Sum
Pr. 1.1	30 000	-14 500	-8 151 692	-8 136 192
Tilbakeført betinget gjeld			8 000 000	8 000 000
Gjeldsettergivelse			68 000	68 000
Årets resultat			-9 713	-9 713
Pr. 31.12	<u>30 000</u>	<u>-14 500</u>	<u>-93 405</u>	<u>-77 905</u>

#### Note 4 Langsiktig gjeld

Langsiktige gjeld på kr. 8 000 000 er lån fra nærstående for finansiering av aksjekjøp. Lånet var betinget og betingelsene er falt bort i 2016. Lånet er tilbakeført mot udekket tap.

#### Note 5 Skattekostnad

Årets skattekostnad består av:

	2016
Betalbar skatt	0
Endring utsatt skatt	0
Sum skattekostnad	<u>0</u>

Utsatt skatt/ utsatt skattefordel

	31.12.16	31.12.15	Endring
Midlertidige forskjeller knyttet til			
Fordringer	0	0	0
Skattemessig fremførbart underskudd	<u>-107 640</u>	<u>-165 927</u>	<u>58 287</u>
Netto grunnlag	<u>-107 640</u>	<u>-165 927</u>	<u>58 287</u>
Utsatt skatt (- utsatt skattefordel) 24% / 25%	<u>-25 834</u>	<u>-41 482</u>	<u>15 648</u>

Alle midlertidige forskjeller kan utlignes og dette er gjennomført i bergningen av utsatt skatt. Utsatt skattefordel er ikke oppført i balansen som eiendel.

#### Note 6 Mellomværende med aksjonærer

Selskapet har lån fra nærstående med kr. 115 015. Det betales ikke renter på lånene.



## ECHAS REVISJON AS

STATSAUTORISERT REVISOR  
ERIK CHRISTOFFERSEN

RÅDMANN HALMRASTS VEI 7  
POSTBOKS 547, 1302 SANDVIKA  
TLF.: 67 80 90 80  
FAX: 67 80 90 81  
ORG.NR.: 980 906 965  
E-POST: ERIK.CHRISTOFFERSEN@ECHAS.NO  
BANKGIRO: 9235.17.10073

Til generalforsamlingen i Hemla Africa Holding AS

### UAVHENGIG REVISORS BERETNING Uttalelse om revisjonen av årsregnskapet

#### *Konklusjon*

Vi har revidert Hemla Africa Holding AS' årsregnskap som viser et underskudd på kr 9 713. Årsregnskapet består av balanse per 31. desember 2016, resultatregnskap for regnskapsåret avsluttet per denne datoen og noter til årsregnskapet, herunder et sammendrag av viktige regnskapsprinsipper.

Etter vår mening er det medfølgende årsregnskapet avgitt i samsvar med lov og forskrifter og gir et rettviseende bilde av selskapets finansielle stilling per 31. desember 2016, og av dets resultater for regnskapsåret avsluttet per denne datoen i samsvar med regnskapslovens regler og god regnskapsskikk i Norge.

#### *Grunnlag for konklusjonen*

Vi har gjennomført revisjonen i samsvar med lov, forskrift og god revisjonsskikk i Norge, herunder de internasjonale revisjonsstandardene (ISA-ene). Våre oppgaver og plikter i henhold til disse standardene er beskrevet i *Revisors oppgaver og plikter ved revisjon av årsregnskapet*. Vi er uavhengige av selskapets slik det kreves i lov og forskrift, og har overholdt våre øvrige etiske forpliktelser i samsvar med disse kravene. Etter vår oppfatning er innhentet revisjonsbevis tilstrekkelig og hensiktsmessig som grunnlag for vår konklusjon.

#### *Styrets ansvar for årsregnskapet*

Styret (ledelsen) er ansvarlig for å utarbeide årsregnskapet i samsvar med lov og forskrifter, herunder for at det gir et rettviseende bilde i samsvar med regnskapslovens regler og god regnskapsskikk i Norge. Ledelsen er også ansvarlig for slik intern kontroll som den finner nødvendig for å kunne utarbeide et årsregnskap som ikke inneholder vesentlig feilinformasjon, verken som følge av misligheter eller utilsiktede feil.

Ved utarbeidelsen av årsregnskapet må ledelsen ta standpunkt til selskapets evne til fortsatt drift og opplyse om forhold av betydning for fortsatt drift. Forutsetningen om fortsatt drift skal legges til grunn for årsregnskapet så lenge det ikke er sannsynlig at virksomheten vil bli avvirket.

#### *Revisors oppgaver og plikter ved revisjonen av årsregnskapet*

Vårt mål er å oppnå betryggende sikkerhet for at årsregnskapet som helhet ikke inneholder vesentlig feilinformasjon, verken som følge av misligheter eller utilsiktede feil, og å avgi en



## ECHAS REVISJON AS

revisjonsberetning som inneholder vår konklusjon. Betyggende sikkerhet er en høy grad av sikkerhet, men ingen garanti for at en revisjon utført i samsvar med lov, forskrift og god revisjonsskikk i Norge, herunder ISA-ene, alltid vil avdekke vesentlig feilinformasjon som eksisterer. Feilinformasjon kan oppstå som følge av misligheter eller utilsiktede feil. Feilinformasjon blir vurdert som vesentlig dersom den enkeltvis eller samlet med rimelighet kan forventes å påvirke økonomiske beslutninger som brukerne foretar basert på årsregnskapet.

For videre beskrivelse av revisors oppgaver og plikter vises det til <https://revisorforeningen.no/revisjonsberetninger>

### **Uttalelse om øvrige lovmessige krav**

#### *Konklusjon om årsberetningen*

Basert på vår revisjon av årsregnskapet som beskrevet ovenfor, mener vi at opplysningene i årsberetningen om årsregnskapet og forutsetningen om fortsatt drift er konsistente med årsregnskapet og i samsvar med lov og forskrifter.

#### *Konklusjon om registrering og dokumentasjon*

Basert på vår revisjon av årsregnskapet som beskrevet ovenfor, og kontrollhandlinger vi har funnet nødvendig i henhold til internasjonal standard for attestasjonsoppdrag (ISAE) 3000 «Attestasjonsoppdrag som ikke er revisjon eller forenklet revisorkontroll av historisk finansiell informasjon», mener vi at ledelsen har oppfylt sin plikt til å sørge for ordentlig og oversiktlig registrering og dokumentasjon av selskapets regnskapsopplysninger i samsvar med lov og god bokføringskikk i Norge.

Sandvika, 30. juni 2017

Echas Revisjon AS

Erik Christoffersen  
Statsautorisert revisor

**APPENDIX B:**

**INDEPENDENT PRACTITIONER'S ASSURANCE REPORT ON THE PROCESS  
TO COMPILE PRO FORMA FINANCIAL INFORMATION**

## INDEPENDENT PRACTITIONER'S ASSURANCE REPORT ON THE PROCESS TO COMPILE PRO FORMA FINANCIAL INFORMATION

Board of Directors

We have completed our assurance engagement to report on the process applied by African Petroleum Corporation Limited (the company) to compile the pro forma financial information, consisting of the pro forma statement of financial position at 31 December 2018, the pro forma statement of comprehensive income for the period ended 31 December 2018 as set out on pages [76-82] of the information memorandum issued by the company. The applicable criteria in accordance with which this process has been applied are specified in the EU Prospectus Regulation (2017/1129) section 1 (5) (e), as further detailed in Annex III of ESMA 31-62-1207<sup>1</sup> described in Note 9.1.

The pro forma financial information has been compiled by management to illustrate the impact of the transaction set out in Note 9.1 on the company's financial position as at 31 December 2018 and its financial performance for the period then ended. As part of this process, information about the **company's financial** position and financial performance has been extracted from the **company's** financial statements for the period ended 31 December 2018, on which an audit has been published. Because of its nature, the pro forma financial information does not represent the company's actual financial position and financial performance.

### **Management's Responsibility for the Pro Forma Financial Information**

Management of the company is responsible for applying the process to compile the pro forma financial information in accordance with the applicable criteria specified in the EU Prospectus Regulation (2017/1129) section 1 (5) (e), as further detailed in Annex III of ESMA 31-62-1207 described in Note 9.1.

### **Practitioner's Responsibilities**

Our responsibility is to express an opinion, as required by the EU Prospectus Regulation (2017/1129) section 1 (5) (e), as further detailed in Annex III of ESMA 31-62-1207<sup>2</sup>, about whether the process to compile the pro forma financial information has been applied by management in accordance with the applicable criteria. We are not responsible for updating or reissuing any reports or opinions on any financial information used in compiling the pro forma financial information. In addition, we have not performed an audit or review of the pro forma financial information and, accordingly, we do not express an opinion on the pro forma financial information.

We conducted our engagement in accordance with International Standard on Assurance Engagements (ISAE) 3420, *Assurance Reports on the Process to Compile Pro Forma Financial Information Included in a Prospectus*, issued by the International Auditing and Assurance Standards Board. This standard requires that we comply with ethical requirements and plan and perform our procedures to obtain reasonable assurance about whether the responsible party has applied the process to compile the pro forma financial information in accordance with the applicable criteria.

---

<sup>1</sup> ESMA; Final Report Technical advice on Minimum Information Content for Prospectus Exemption

<sup>2</sup> ESMA; Final Report Technical advice on Minimum Information Content for Prospectus Exemption

Our procedures included:

- Making inquiries of management regarding the process management has applied to compile the pro forma financial information;
- Evaluating whether management has used an appropriate source of the unadjusted financial information in compiling the pro forma financial information;
- Checking whether management has appropriately extracted the unadjusted financial information from the source documents;
- Evaluating whether management has compiled the pro forma financial information on a basis consistent with the **company's** financial reporting framework and its accounting policies under that framework and where there is a departure adequately disclosed this in the pro forma basis of preparation;
- Considering management's evidence supporting the pro forma adjustments and verifying these back to that supporting evidence;
- Determining whether the calculations within the pro forma financial information are arithmetically accurate; and
- Evaluating the overall presentation and disclosure of the pro forma financial information and related explanatory notes.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

#### Opinion

In our opinion, the process to compile the pro forma financial information has, in all material respects, been applied in accordance with the applicable criteria and the pro forma financial information has been properly compiled on the basis stated.

BDO Audit (WA) Pty Ltd

BDO  


Phillip Murdoch

Director

Perth, 8 August 2019



**APPENDIX C:**

**CONSTITUTION OF AFRICAN PETROLEUM CORPORATION LIMITED**

**CORPORATIONS ACT 2001**

**CONSTITUTION**

**of**

**AFRICAN PETROLEUM CORPORATION  
LIMITED**

**ACN 125 419 730**

(adopted on 2 April 2014)

---

# CONTENTS

---

<b>1.</b>	<b>INTERPRETATION .....</b>	<b>1</b>
1.1	Definitions .....	1
1.2	Corporations Act Definitions .....	4
1.3	Status of Constitution .....	4
1.4	Headings.....	4
1.5	Displacement of Replaceable Rules .....	4
<b>2.</b>	<b>SHARE CAPITAL AND VARIATION OF RIGHTS.....</b>	<b>4</b>
2.1	Rights Attaching to Shares .....	4
2.2	Issue of Shares .....	5
2.3	Share Options.....	5
2.4	Classes of Shares.....	5
2.5	Preference Shares .....	5
2.6	Recognition of Trusts.....	6
2.7	Unregistered Interests .....	6
2.8	Share Certificates and Share Option Certificates.....	6
2.9	Section 1071H of the Corporations Act .....	7
2.10	Commissions.....	7
2.11	Restricted Securities .....	7
2.12	Non-Issue or Cancellation of Certificate .....	7
2.13	No Prohibition on Foreign Ownership .....	8
2.14	Payment of Interest out of Capital.....	8
<b>3.</b>	<b>MINIMUM SHAREHOLDING .....</b>	<b>8</b>
3.1	Effect of this Clause.....	8
3.2	Definitions .....	8
3.3	Minimum Shareholding .....	9
3.4	Sale of Listed Securities of Minority Member.....	9
3.5	Acceptance of Offer.....	9
3.6	Appointment of Attorney .....	9
3.7	Transfer.....	9
3.8	Proceeds of Sale.....	10
3.9	Receipt of Proceeds .....	10
3.10	Registration of Purchaser.....	10
3.11	Remedies Limited .....	10
3.12	Cost of Sale of Listed Securities.....	11
3.13	Exemption from Clause 3.....	11
3.14	Notice to Exempt.....	11
3.15	Election to Exempt.....	11
3.16	Takeover Offer or Announcement.....	12
3.17	Use by Company of Clause 3 .....	12
<b>4.</b>	<b>UNCERTIFICATED HOLDINGS AND ELECTRONIC TRANSFERS .....</b>	<b>12</b>
4.1	Electronic or Computerised Holding.....	12
4.2	Statement of Holdings .....	12
4.3	Share Certificates .....	12
4.4	Listing Rules.....	12

<b>5.</b>	<b>LIEN.....</b>	<b>12</b>
5.1	Lien for Members Debts.....	12
5.2	Generally .....	13
5.3	Exemption.....	14
5.4	Dividends .....	14
5.5	Sale of Shares .....	14
5.6	Restrictions on Sale .....	14
5.7	Person Authorised to Sign Transfers .....	14
5.8	Proceeds of Sale.....	14
5.9	Protection of Lien under ASTC Settlement Rules .....	15
5.10	Further Powers re Forfeited Shares and Liens.....	15
<b>6.</b>	<b>CALLS ON SHARES.....</b>	<b>15</b>
6.1	Calls .....	15
6.2	Payment of Calls.....	15
6.3	Quoted Shares .....	15
6.4	Unquoted Shares .....	16
6.5	Joint Liability .....	16
6.6	Deemed Calls .....	16
6.7	Payments in Advance of Calls.....	16
6.8	Outstanding Moneys.....	17
6.9	Revocation or Postponement.....	17
6.10	Compliance with Listing Rules and Corporations Act .....	17
<b>7.</b>	<b>FORFEITURE OF SHARES .....</b>	<b>17</b>
7.1	Failure to Pay Call.....	17
7.2	Forfeiture .....	17
7.3	Sale of Forfeited Shares .....	18
7.4	Continuing Liability .....	18
7.5	Officer's Statement Prima Facie Evidence .....	18
7.6	Procedures .....	18
7.7	Listing Rules and ASTC Settlement Rules.....	18
<b>8.</b>	<b>TRANSFER OF SHARES.....</b>	<b>19</b>
8.1	Form of Transfer.....	19
8.2	CHESS Transfers .....	19
8.3	Participation in CHESS .....	19
8.4	Registration Procedure .....	19
8.5	Power to Refuse to Register .....	20
8.6	Retention of Transfers by Company.....	20
8.7	Powers of Attorney .....	20
8.8	Other Securities.....	20
8.9	Branch Register .....	21
8.10	Compliance with ASTC Settlement Rules.....	21
8.11	Issuer Sponsored Subregister .....	21
8.12	Transferor Holds Shares until Registration of Transfer.....	21
<b>9.</b>	<b>TRANSMISSION OF SHARES .....</b>	<b>21</b>
9.1	Death of Shareholder Leaving a Will .....	21
9.2	Death or Bankruptcy of Shareholder.....	21
9.3	Registration by Transmission or to Beneficiary.....	22
9.4	Limitations to Apply .....	22

9.5	Death of a Joint Holder .....	22
9.6	Joint Personal Representatives .....	22
9.7	ASTC Transfer and VPS Transfer .....	<b>Error! Bookmark not defined.</b>
9.8	Joint Holders .....	23
<b>10.</b>	<b>CHANGES TO CAPITAL STRUCTURE.....</b>	<b>23</b>
10.1	Alterations to Capital .....	23
10.2	Reduction of Capital .....	23
10.3	Buy-Backs.....	23
<b>11.</b>	<b>GENERAL MEETINGS.....</b>	<b>24</b>
11.1	Convening of General Meetings of Shareholders .....	24
11.2	Postponement of a General Meeting of Shareholders.....	24
11.3	Cancellation of a General Meeting of Shareholders.....	24
11.4	Convening of General Meetings of Shareholders by a Director .....	24
11.5	Notice.....	25
11.6	Business at General Meeting.....	25
11.7	Notice to Home Branch.....	25
11.8	Annual General Meeting.....	26
<b>12.</b>	<b>PROCEEDINGS AT GENERAL MEETINGS.....</b>	<b>26</b>
12.1	Quorum.....	26
12.2	Persons Entitled to Attend a General Meeting.....	26
12.3	Refusal of Admission to Meetings .....	26
12.4	Chairman.....	27
12.5	Vacating Chair .....	27
12.6	Disputes Concerning Procedure .....	27
12.7	General Conduct .....	27
12.8	Casting Vote .....	27
12.9	Adjournment .....	27
12.10	Notice of Resumption of Adjourned Meeting .....	28
12.11	Voting Rights .....	28
12.12	Voting - Show of Hands .....	28
12.13	Results of Voting.....	28
12.14	Poll .....	29
12.15	Manner of Taking Poll.....	29
12.16	Meeting May Continue .....	29
12.17	Voting by Joint Holders.....	29
12.18	Shareholder under Disability .....	29
12.19	Payment of Calls.....	29
12.20	Objection to Voting .....	30
12.21	Proxies .....	30
12.22	Electronic Appointment of Proxy .....	31
12.23	Proxy Votes.....	31
12.24	Representatives of Corporate Shareholders.....	31
<b>13.</b>	<b>THE DIRECTORS.....</b>	<b>31</b>
13.1	Number of Directors .....	31
13.2	Rotation of Directors .....	32
13.3	Election of Directors .....	32
13.4	Additional Directors.....	32
13.5	Removal of Director .....	33

13.6	Vacation of Office .....	33
13.7	Remuneration .....	33
13.8	Initial Fees to Directors .....	34
13.9	Expenses .....	34
13.10	No Share Qualification.....	34
<b>14.</b>	<b>POWERS AND DUTIES OF DIRECTORS.....</b>	<b>34</b>
14.1	Management of the Company .....	34
14.2	Borrowings .....	34
14.3	Attorneys.....	35
14.4	Cheques, etc. ....	35
14.5	Retirement Benefits for Directors .....	35
14.6	Securities to Directors or Shareholders.....	36
<b>15.</b>	<b>PROCEEDINGS OF DIRECTORS.....</b>	<b>36</b>
15.1	Convening a Meeting.....	36
15.2	Procedure at Meetings.....	36
15.3	Quorum.....	36
15.4	Secretary May Attend and Be Heard.....	36
15.5	Majority Decisions .....	37
15.6	Casting Votes.....	37
15.7	Alternate Directors .....	37
15.8	Continuing Directors May Act .....	37
15.9	Chairman.....	38
15.10	Committees.....	38
15.11	Written Resolutions.....	38
15.12	Defective Appointment.....	38
15.13	Directors May Hold Other Offices.....	39
15.14	Directors May Hold Shares, etc.....	39
15.15	Directors Not Accountable for Benefits.....	39
15.16	Disclosure of Interests in Related Matters .....	39
15.17	Disclosure of Shareholding .....	40
15.18	Related Body Corporate Contracts.....	40
15.19	Voting, Affixation of Seal .....	40
15.20	Home Branch to be Advised .....	40
<b>16.</b>	<b>MEETING BY INSTANTANEOUS COMMUNICATION DEVICE.....</b>	<b>40</b>
16.1	Meetings to be Effectual .....	41
16.2	Procedure at Meetings.....	41
16.3	Minutes.....	41
16.4	Definition.....	42
<b>17.</b>	<b>MANAGING AND EXECUTIVE DIRECTORS.....</b>	<b>42</b>
17.1	Appointment.....	42
17.2	Remuneration .....	42
17.3	Powers.....	42
17.4	Rotation .....	42
17.5	Secretary.....	42
<b>18.</b>	<b>SEALS.....</b>	<b>43</b>
18.1	Common Seal .....	43
18.2	Execution of Documents Without a Seal.....	43
18.3	Share Seal.....	43



<b>19.</b>	<b>ACCOUNTS, AUDIT AND RECORDS .....</b>	<b>44</b>
19.1	Accounting records to be kept .....	44
19.2	Audit .....	44
19.3	Inspection .....	44
<b>20.</b>	<b>MINUTES.....</b>	<b>44</b>
20.1	Minutes to be Kept .....	44
20.2	Signature of Minutes.....	45
20.3	Requirements of the Corporations Act.....	45
<b>21.</b>	<b>DIVIDENDS AND RESERVES .....</b>	<b>45</b>
21.1	Dividends .....	45
.	45	
21.2	Interim Dividend.....	45
21.3	No Interest .....	45
21.4	Reserves .....	45
21.5	Alternative Method of Payment of Dividend .....	45
21.6	Payment of Dividends.....	46
21.7	Unclaimed Dividends .....	47
21.8	Breach of Restriction Agreement .....	47
<b>22.</b>	<b>CAPITALISATION OF PROFITS .....</b>	<b>47</b>
22.1	Capitalisation .....	47
22.2	Application of Capitalised Amounts.....	47
22.3	Procedures .....	47
<b>23.</b>	<b>BONUS SHARE PLAN.....</b>	<b>48</b>
23.1	Authorisation of Bonus Share Plan .....	48
23.2	Amendment and Revocation .....	48
<b>24.</b>	<b>DIVIDEND REINVESTMENT PLAN.....</b>	<b>48</b>
24.1	Authorisation of Dividend Reinvestment Plan .....	48
24.2	Amendment and Revocation .....	49
<b>25.</b>	<b>NOTICES .....</b>	<b>49</b>
25.1	Service.....	49
25.2	Deemed receipt of Notice.....	49
25.3	Notice to Joint Holders.....	50
25.4	Notices to Personal Representatives and Others .....	50
25.5	Persons Entitled to Notice .....	50
25.6	Change of Address .....	50
25.7	Incorrect Address .....	50
<b>26.</b>	<b>WINDING UP .....</b>	<b>51</b>
26.1	Distribution in Kind.....	51
26.2	Trust for Shareholders .....	51
26.3	Distribution in Proportion to Shares Held.....	51
26.4	Order for winding up .....	51
<b>27.</b>	<b>INDEMNITIES AND INSURANCE .....</b>	<b>51</b>
27.1	Liability to Third Parties .....	52
27.2	Defending Proceedings.....	52

27.3	Insurance .....	53
27.4	Disclosure .....	53
27.5	Definition .....	53
<b>28.</b>	<b>DIRECTORS ACCESS TO INFORMATION.....</b>	<b>53</b>
<b>29.</b>	<b>OVERSEAS SHAREHOLDERS.....</b>	<b>54</b>
<b>30.</b>	<b>LOCAL MANAGEMENT.....</b>	<b>54</b>
30.1	Local Management .....	54
30.2	Local Boards or Agencies.....	54
30.3	Appointment of Attorneys.....	54
30.4	Authority of Attorneys .....	55
<b>31.</b>	<b>DISCOVERY .....</b>	<b>55</b>
<b>32.</b>	<b>SALE OF THE COMPANY'S MAIN UNDERTAKING.....</b>	<b>55</b>
<b>33.</b>	<b>COMPLIANCE (OR INCONSISTENCY) WITH THE LISTING RULES.....</b>	<b>55</b>
<b>34.</b>	<b>CONSISTENCY WITH CHAPTER 2E OF THE CORPORATIONS ACT .....</b>	<b>56</b>
34.1	Requirements of Chapter 2E.....	56
34.2	Definitions .....	56
<b>35.</b>	<b>INADVERTENT OMISSIONS .....</b>	<b>56</b>
<b>36.</b>	<b>PARTIAL TAKEOVER PLEBISCITES .....</b>	<b>57</b>
36.1	Resolution to Approve Proportional Off-Market Bid .....	57
36.2	Meetings .....	57
36.3	Notice of Prescribed Resolution.....	58
36.4	Takeover Resolution Deemed Passed .....	58
36.5	Takeover Resolution Rejected .....	58
36.6	Renewal.....	59
36.7	Relationship to Generally Applicable Takeover Rules	<b>Error! Bookmark not defined.</b>
<b>37.</b>	<b>TRANSITIONAL.....</b>	<b>59</b>
37.1	Provisions Relating to Official Quotation of Securities .....	59
37.2	Severance .....	59

**CORPORATIONS ACT**  
**CONSTITUTION**  
**of**  
**AFRICAN PETROLEUM CORPORATION LIMITED**  
**ACN 125 419 730**

---

**1. INTERPRETATION**

**1.1 Definitions**

In this Constitution:

**Alternate Director** means a person appointed as an alternate director under clause 15.7.

**ASIC** means Australian Securities and Investments Commission.

**ASTC Settlement Rules** mean the settlement rules of Australian Settlement and Transfer Corporation Pty Ltd.

**Auditor** means the Company's auditor.

**Bonus Share Plan** means a plan implemented under clause 23.

**Business Day** means a day other than a Saturday, a Sunday, New Year's Day, Australia Day, Good Friday, Easter Monday, Anzac Day, Christmas Day, Boxing Day and any other day declared and published to be a day which is not a business day by a Recognised Stock Exchange.

**CHES Approved Securities** means securities of the Company for which CHES approval has been given in accordance with the ASTC Settlement Rules, or such amended definition as may be prescribed by the Listing Rules from time to time.

**CSD means** a central securities depository

**CSD Approved Securities** means CHES Approved Securities and other securities of the Company for which CSD approval has been given in accordance with applicable Settlement Rules, or such amended definition as may be prescribed by the Listing Rules or other applicable regulations pertaining to such CSD from time to time.

**CSD System** means (i) the Clearing House Electronic Subregister System operated by Australian Settlement and Transfer Corporation Pty Ltd or (ii) such other securities clearing house as is approved pursuant to the Corporations Act and/or relevant legislation pertaining to such CSD and to which the Listing Rules apply.

**CSD Transfer** means a transfer of quoted securities or quoted rights effected in:

- (a) accordance with the Settlement Rules; or
- (b) substantial accordance with the Settlement Rules and determined by the Australian Settlement and Transfer Corporation or any other applicable corporation under and in accordance with applicable Settlement Rules to be an effective transfer.

**Company** means African Petroleum Corporation Limited (ACN 125 419 730) or as it is from time to time named in accordance with the Corporations Act of this jurisdiction.

**Constitution** means this constitution as altered or amended from time to time.

**Corporations Act** means the *Corporations Act* 2001 (Cth).

**Corporations Regulations** means the *Corporations Regulations* 2001 (Cth).

**Director** means a person appointed to the position of a director of the Company and where appropriate, includes an Alternate Director.

**Directors** means all or some of the Directors acting as a board.

**Dividend Reinvestment Plan** means a plan implemented under clause 24.

**Home Branch** means the state branch of a Recognised Stock Exchange designated as such in relation to the Company by such Recognised Stock Exchange, and any reference to a Home Branch shall only apply to the extent applicable to such Recognised Stock Exchange.

**Listed Securities** means any Shares, Share Options, stock, debentures, debenture stock or other securities for the time being issued by the Company and officially quoted by a Recognised Stock Exchange on its stock market.

**Listing Rules** means the listing rules of a Recognised Stock Exchange and any other rules, including but not limited to continuing obligations, of a Recognised Stock Exchange which are applicable while the Company is admitted to the official list of a Recognised Stock Exchange, each as amended or replaced from time to time, except to the extent of any express written waiver by the relevant Recognised Stock Exchange.

**Loan Securities** includes:

- (a) unsecured notes or unsecured deposit notes;
- (b) mortgage debentures or mortgage debenture stock;

- (c) debentures or debenture stock; and
- (d) for the purposes of the Listing Rules, convertible loan securities.

**Office** means the registered office of the Company.

**Officer** means any Director or Secretary of the Company or such other person within the meaning of that term as defined by the Corporations Act.

**Prescribed Rate** means the rate of 18% per annum or such other rate as may from time to time be fixed by the Directors.

**Recognised Stock Exchange** means a recognised stock exchange or relevant financial market, the official list upon which the Company's securities may be quoted from time to time.

**Registered Office** means the registered office of the Company in the State.

**Register of Shareholders** means the register of Shareholders kept by the Company in accordance with Section 169 of the Corporations Act (including any branch register and any computerised or electronic subregister established and administered under the Settlement Rules).

**Related Body Corporate** means a corporation which by virtue of the provisions of Section 50 of the Corporations Act is deemed to be related to the relevant corporation and **related** has a corresponding meaning.

**Representative** means a person authorised to act as a representative of a corporation under clause 12.24.

**Restricted Securities** has the meaning ascribed to it by the Listing Rules to the extent applicable.

**Seal** means the common seal of the Company and includes any official seal and, where the context so admits, the Share Seal of the Company.

**Secretary** means any person appointed to perform the duties of a secretary of the Company.

**Settlement Rules** mean the ASTC Settlement Rules or any other settlement rules applicable to the Company as a consequence of a Listing on a Recognized Stock Exchange

**Share** means a share in the capital of the Company.

**Shareholder** means a person or company registered in the Register of Shareholders as the holder of one or more Shares and includes any person or company who is a member of the Company in accordance with or for the

purposes of the Corporations Act.

**Shareholding Account** means an entry in the Register of Shareholders in respect of a Shareholder for the purpose of providing a separate identification of some or all of the ordinary Shares registered from time to time in the name of that Shareholder and **Securities Account** has an equivalent meaning in relation to Listed Securities of all kinds, including ordinary Shares.

**Share Option** means an option to require the Company to issue a Share.

**Share Seal** means the duplicate common seal referred to in clause 18.3.

**State** means Western Australia.

## **1.2 Corporations Act Definitions**

Any word or expression defined in or for the purposes of the Corporations Act shall, unless otherwise defined in clause 1.1 or the context otherwise requires, have the same meaning when used in this Constitution, and the rules of interpretation specified in or otherwise applicable to the Corporations Act shall, unless the context otherwise requires, apply in the interpretation of this Constitution.

## **1.3 Status of Constitution**

This Constitution is adopted by the Company in substitution for any former memorandum and articles of association or other consistent documents of the Company. To the extent permitted by law, the replaceable rules provided for in the Corporations Act do not apply to the Company.

## **1.4 Headings**

Headings are inserted in this Constitution for convenience only, and shall not affect the interpretation of this Constitution.

## **1.5 Displacement of Replaceable Rules**

The provisions of the Corporations Act that apply to public companies as replaceable rules are displaced completely by this Constitution in relation to the Company.

---

## **2. SHARE CAPITAL AND VARIATION OF RIGHTS**

### **2.1 Rights Attaching to Shares**

Subject to this Constitution and to the terms of issue of Shares, all Shares attract the right to receive notice of and to attend and vote at all general meetings of



the Company, the right to receive dividends, in a winding up or a reduction of capital, the right to participate equally in the distribution of the assets of the Company (both capital and surplus), subject to any amounts unpaid on the Share and, in the case of a reduction, to the terms of the reduction.

## **2.2 Issue of Shares**

Without prejudice to any special rights previously conferred on the holders of any existing Shares or class of Shares, unissued Shares shall be under the control of the Directors and, subject to the Corporations Act, the Listing Rules and this Constitution, the Directors may at any time issue such number of Shares either as ordinary Shares or Shares of a named class or classes (being either an existing class or a new class) at the issue price that the Directors determine and with such preferred, deferred, or other special rights or such restrictions, whether with regard to dividend, voting, return of capital or otherwise, as the Directors shall, in their absolute discretion, determine.

## **2.3 Share Options**

Subject to the Listing Rules, the Directors may at any time and from time to time issue Share Options on such terms and conditions as the Directors shall, in their absolute discretion, determine.

## **2.4 Classes of Shares**

If at any time the share capital of the Company is divided into different classes of Shares, the rights attached to any class (unless otherwise provided by the terms of issue of the Shares of that class) may be varied, whether or not the Company is being wound up, with the consent in writing of the holders of three quarters of the issued Shares of that class, or if authorised by a special resolution passed at a separate meeting of the holders of the Shares of the class. Any variation of rights under this clause 2.4 shall be subject to Part 2F.2 of Chapter 2F of the Corporations Act. The provisions of this Constitution relating to general meetings shall apply so far as they are capable of application and with necessary alterations to every such separate meeting except that a quorum is constituted by two persons who together hold or represent by proxy not less than one-third of the issued Shares of the class.

## **2.5 Preference Shares**

Subject to the Listing Rules and the Corporations Act, the Company may issue preference Shares:

- (a) that are liable to be redeemed whether at the option of the Company or otherwise; and
- (b) including, without limitation preference shares of the kind described in

clause 2.5(a) in accordance with the terms of Schedule 1.

## **2.6 Recognition of Trusts**

Except as permitted or required by the Corporations Act, the Company shall not recognise a person as holding a Share or Share Option upon any trust.

## **2.7 Unregistered Interests**

The Company is not bound by or compelled in any way to recognise any equitable, contingent, future or partial right or interest in any Share or Share Option (whether or not it has notice of the interest or right concerned) unless otherwise provided by this Constitution or by law, except an absolute right of ownership in the registered holder of the Share or Share Option.

## **2.8 Share Certificates and Share Option Certificates**

Subject to the Settlement Rules (if applicable), clause 4 and the Listing Rules, a person whose name is entered as a Shareholder in the Register of Shareholders is entitled without payment to receive a Share certificate or notice (as the case may be) in respect of the Share under the Seal in accordance with the Corporations Act but, in respect of a Share or Shares held jointly by several persons, the Company is not bound to issue more than one certificate or notice. Delivery of a certificate or notice for a Share to one of several joint Shareholders is sufficient delivery to all such holders. In addition:

- (a) Share certificates or notices in respect of Shares shall only be issued in accordance with the Listing Rules;
- (b) subject to this Constitution, the Company shall dispatch all appropriate Share certificates within 5 Business Days of the issue of any of its Shares and within 5 Business Days after the date upon which a transfer of any of its Shares is lodged with the Company;
- (c) where a Share certificate is lost, worn out or destroyed, the Company shall issue a duplicate certificate in accordance with the requirements of Section 1070D of the Corporations Act and the Listing Rules; and
- (d) the above provisions of this clause 2.8 shall, with necessary alterations, apply to Share Options.

If securities of the Company are CDS Approved Securities and held in uncertificated mode, then the preceding provisions of this clause 2.8 do not apply to those Securities and the Company shall allot such CDS Approved Securities and enter those CDS Approved Securities into the Shareholder's uncertificated holding in accordance with the Listing Rules and the Settlement Rules.

## **2.9 Section 1071H of the Corporations Act**

Clause 2.8 shall not apply if and to the extent that, on an application by or on behalf of the Company, the ASIC has made a declaration under Section 1071H(5) of the Corporations Act published in the Commonwealth of Australia Gazette that the Company is a person in relation to whom Section 1071H of the Corporations Act does not apply.

## **2.10 Commissions**

The Company may, subject to the Listing Rules, exercise the powers of paying commission conferred by Section 258C of the Corporations Act if the percentage or the amount of the commission paid or agreed to be paid is disclosed. Such commission may be satisfied by the payment of cash or the allotment of fully or partly paid Shares or partly in the one way and partly in the other. The Company may also on any issue of Shares pay such brokerage as may be lawful.

## **2.11 Restricted Securities**

The Company shall comply in all respects with the requirements of the Listing Rules with respect to any Restricted Securities. Without limiting the generality of the above:

- (a) Restricted Securities cannot be disposed of during the escrow period except as permitted by the Listing Rules or a Recognised Stock Exchange;
- (b) the Company will refuse to acknowledge a disposal (including registering a transfer), assignment or transfer of Restricted Securities during the escrow period except as permitted by the Listing Rules or a Recognised Stock Exchange; and
- (c) during a breach of the Listing Rules relating to Restricted Securities or a breach of a restriction agreement the holder of the Restricted Securities is not entitled to any dividend or distribution, or voting rights, in respect of the Restricted Securities.

## **2.12 Non-Issue or Cancellation of Certificate**

Notwithstanding any other provision of this Constitution, the Company need not issue a certificate, and may cancel any certificate without issuing a certificate in substitution, in respect of any Shares or Share Options of the Company in any circumstances where the non-issue or cancellation of that certificate is permitted by the Corporations Act, the Listing Rules or the any applicable Settlement Rules.

### **2.13 No Prohibition on Foreign Ownership**

Nothing in this Constitution shall have the effect of limiting or restricting the ownership of any securities of the Company by foreign persons except where such limits or restrictions are prescribed by Australian law.

### **2.14 Payment of Interest out of Capital**

Where any Shares are issued for the purpose of raising money to defray the expenses of the construction of any works or buildings or the provision of any plant which can not be made profitable for a lengthened period the Company may pay interest on so much of such share capital as is paid up for the period and may charge this interest to capital as part of the cost of construction of the works, buildings or plant.

---

## **3. MINIMUM SHAREHOLDING**

### **3.1 Effect of this Clause**

The provisions of this clause have effect notwithstanding any other provision of this Constitution, except clause 33.

### **3.2 Definitions**

In this clause:

**Authorised Price** means the price per share of the Listed Securities equal to the simple average of the last sale prices of the Listed Securities quoted on a Recognised Stock Exchange for each of the ten trading days immediately preceding the date of any offer received by the Company pursuant to clause 3.5.

**Date of Adoption** means the date upon which this clause is inserted in this Constitution by special resolution of the members of the Company.

**Date of Effect** means the date immediately following the date of expiry contained in the **second** notice by the Company to Minority Members in accordance with clause 3.15.

**Minimum Shareholding** means a number of shares equal to a "marketable parcel" of Listed Securities within the meaning of the Listing Rules.

**Minority Member** means a member holding less than the Minimum Shareholding on or at any time after the Date of Adoption.

**Purchaser** means the person or persons (including one or more members) whose offer or offers to purchase Listed Securities is or are accepted by the Company.

### **3.3 Minimum Shareholding**

Subject to clauses 3.13 to 3.15 (inclusive), on and from the Date of Effect, the shareholding of a member which is less than the Minimum Shareholding may be sold by the Company pursuant to the provisions of this clause 3.

### **3.4 Sale of Listed Securities of Minority Member**

Subject to clauses 3.13 to 3.15 (inclusive), on and from the Date of Effect, each Minority Member shall be deemed to have irrevocably appointed the Company as his agent:

- (a) to sell all the Listed Securities held by him at a price not less than the Authorised Price and without any cost being incurred by the Minority Member;
- (b) to deal with the proceeds of the sale of those Listed Securities in accordance with this clause; and
- (c) where the Listed Securities are CHES Approved Securities held in uncertificated form, to initiate a Holding Adjustment (as defined in the ASTC Settlement Rules) to move the securities from the CHES Holding (as defined in the ASTC Settlement Rules) of the Minority Member to an Issuer Sponsored or Certificated Holding (as defined in the ASTC Settlement Rules) for the sale of the Listed Securities.

### **3.5 Acceptance of Offer**

Where the Company receives an offer for the purchase of all the Listed Securities of a Minority Member to whom this clause applies at the date of the offer at a price not less than the Authorised Price, the Company may accept the offer on behalf of that Minority Member.

### **3.6 Appointment of Attorney**

The Company shall, by instrument in writing, appoint a person or persons to act as attorney or attorneys of each Minority Member to whom this clause applies, to execute an instrument or instruments of transfer of their Listed Securities to the Purchaser.

### **3.7 Transfer**

Where:

- (a) all the Listed Securities of each Minority Member to whom this clause applies at any time are sold to one Purchaser; or
- (b) all the Listed Securities of two or more Minority Members to whom this

clause applies at any time are sold to one Purchaser,  
the transfer may be effected by one instrument of transfer.

### **3.8 Proceeds of Sale**

The Company shall receive the aggregate proceeds of the sale of all of the Listed Securities of each Minority Member to whom this clause applies at any time and shall:

- (a) immediately cause the name of the Purchaser to be entered in the Register of Shareholders as the holder of the Listed Securities sold; and
- (b) within fourteen days of receipt of the relevant share certificate or otherwise as soon as is practicable, cause the pro rata proportions of the proceeds attributable to each Minority Member to be sent to each Minority Member by cheque mailed to his address in the Register of Shareholders (or in the case of joint holders, to the address of the holder whose name is shown first in the Register of Shareholders), this cheque to be made payable to the Minority Member (or, in the case of joint holders, to them jointly). In the case where a Minority Member's whereabouts are unknown or where a Minority Member fails to return the share certificate or certificates (where required) relating to the Listed Securities sold, the proceeds of sale shall be applied in accordance with the applicable laws dealing with unclaimed moneys.

### **3.9 Receipt of Proceeds**

The receipt by the Company of the proceeds of sale of Listed Securities of a Minority Member shall be a good discharge to the Purchaser of all liability in respect of the purchase of the Listed Securities.

### **3.10 Registration of Purchaser**

Upon entry of the name of the Purchaser in the Register of Shareholders as the holder of the Listed Securities of a Minority Member to whom this clause applies:

- (a) the Purchaser shall not be bound to see to the regularity of the actions and proceedings of the Company pursuant to this Constitution or to the application of the proceeds of sale; and
- (b) the validity of the sale shall not be impeached by any person.

### **3.11 Remedies Limited**

The remedy of any Minority Member to whom this clause applies in respect of the sale of his or her Listed Securities is expressly limited to a right of action in damages against the Company to the exclusion of any other right, remedy or

relief against any other person.

### **3.12 Cost of Sale of Listed Securities**

The Company shall bear all the costs of the sale of the Listed Securities.

### **3.13 Exemption from Clause 3**

The Company must give written notice to a Minority Member and, where the Shares are CHES Approved Securities, to the Controlling Participant (as defined in the ASTC Settlement Rules) for the holding of the Minority Member, advising of the Company's intention to sell his or her shareholding pursuant to this clause 3. Unless the Minority Member, within 6 weeks of receipt of notice from the Company in accordance with this clause 3, gives written notice to the Company that it desires its shareholding to be exempted from clause 3, then the provisions of clause 3 shall apply to this Minority Member. Where Shares are CHES Approved Securities, a written notice by the Company in terms of this clause shall comply with the ASTC Settlement Rules.

### **3.14 Notice to Exempt**

Where a Minority Member has given written notice to the Company that it desires its shareholding to be exempted from clause 3 it may, at any time, revoke or withdraw that notice. In that event the provisions of clause 3 shall apply to the Minority Member.

### **3.15 Election to Exempt**

Where a Minority Member has not given written notice to the Company within 6 weeks of receipt of notice from the Company in accordance with clause 3 that it desires its shareholding to be exempted from clause 3, then the Company shall give that Minority Member and, where the Shares are CHES Approved Securities, to the Controlling Participant (as defined in the ASTC Settlement Rules) for the holding of the Minority Member, a second written notice complying with the ASTC Settlement Rules advising that the Company intends to sell its shareholding immediately upon expiration of 5 Business Days from the date of that notice unless the Minority Member gives written notice to the Company within that time that it desires its shareholding to be exempted from clause 3, in which case clause 3 shall not apply to the Minority Member.



### **3.16 Takeover Offer or Announcement**

The Company shall not commence to sell Listed Securities comprising less than a Minimum Shareholding following the announcement of a takeover offer or takeover announcement for the Company.

### **3.17 Use by Company of Clause 3**

This clause 3 may be invoked only once in any twelve month period after its adoption or re-adoption.

---

## **4. UNCERTIFICATED HOLDINGS AND ELECTRONIC TRANSFERS**

### **4.1 Electronic or Computerised Holding**

The Directors may do anything they consider necessary or desirable and which is permitted under the Corporations Act and the Listing Rules to facilitate the participation by the Company in any CDS System and any other computerised or electronic system established or recognised by the Corporations Act or the Listing Rules for the purposes of facilitating dealings in Shares or securities.

### **4.2 Statement of Holdings**

Where the Directors have determined not to issue share certificates or to cancel existing Share certificates, a Shareholder shall have the right to receive such statements of the holdings of the Shareholder as are required to be distributed to a Shareholder under the Corporations Act or the Listing Rules.

### **4.3 Share Certificates**

If the Directors determine to issue a certificate for Shares held by a Shareholder, the provisions in relation to Share certificates contained in clause 2 shall apply.

### **4.4 Listing Rules**

The Company shall comply with the Listing Rules and the Settlement Rules in relation to the CDS System.

---

## **5. LIEN**

### **5.1 Lien for Members Debts**

The Company has a first and paramount lien on each Share (except where the Share is a Listed Security and is fully paid up) registered in a Shareholder's name in respect of all money owed to the Company by the Shareholder (including any money payable under clause 5.2 to the extent that the Company has made a payment in respect of a liability or a requirement referred to in that clause) but

not any unpaid call once the Share has been forfeited under section 254Q.

## 5.2 Generally

Whenever any law for the time being of any country, state or place imposes or purports to impose any immediate or future possible liability upon the Company to make any payments or empowers any government or taxing authority or governmental official to require the Company to make any payment in respect of any Shares held either jointly or solely by any Shareholder, or in respect of any transfer of Shares, or of any dividends, bonuses or other moneys due or payable or accruing due or which may become due or payable to such Shareholder by the Company on or in respect of any Shares or for or on account or in respect of any Shareholder, and whether in consequence of:

- (a) the death of such Shareholder;
- (b) the non-payment of any income tax or other tax by such Shareholder;
- (c) the non-payments of any estate, probate, succession, death, stamp or other duty by the executor or administrator of such Shareholder or by or out of his estate; or
- (d) any other act or thing,

the Company in every case:

- (a) shall be fully indemnified by such Shareholder or his executor or administrator from all liability;
- (b) shall have a lien upon all dividends, bonuses and other moneys payable in respect of the Shares held either jointly or solely by this Shareholder for all moneys paid by the Company in respect of the Shares or in respect of any dividend, bonus or other money or for an account or in respect of this Shareholder under or in consequence of any law, together with interest at the Prescribed Rate from date of payment to date of repayment, and may deduct or set off against any dividend, bonus or other moneys so paid or payable by the Company together with interest at the Prescribed Rate;
- (c) may recover as a debt due from this Shareholder or his or her executor or administrator, wherever constituted or situate, any moneys paid by the Company under or in consequence of any such law and interest on these moneys at the Prescribed Rate and for the period mentioned above in excess of any dividend, bonus or other money as mentioned above then due or payable by the Company to such Shareholder; and

Nothing in this clause contained shall prejudice or affect any right or remedy

which any law may confer or purport to confer on the Company, and, as between the Company and every such Shareholder, his or her executor, administrator and estate, wherever constituted or situate, any right or remedy which this law shall confer on the Company shall be enforceable by the Company.

### **5.3 Exemption**

The Directors may at any time exempt a Share wholly or in part from the provisions of this clause 5.

### **5.4 Dividends**

Whenever the Company has a lien on a Share, the lien extends to all dividends payable in respect of the Share.

### **5.5 Sale of Shares**

Subject to clause 5.6, the Company may sell, in such manner as the Directors think fit, any Shares on which the Company has a lien.

### **5.6 Restrictions on Sale**

A Share on which the Company has a lien shall not be sold unless:

- (a) the sum in respect of which the lien exists is presently payable; and
- (b) the Company has, not less than 14 days before the date of the sale, given to the registered holder for the time being of the Share or the person entitled to the Share by reason of the death or bankruptcy of the registered holder a notice in writing setting out, and demanding payment of, that part of the amount in respect of which the lien exists as is presently payable.

### **5.7 Person Authorised to Sign Transfers**

For the purpose of giving effect to a sale of a Share under clause 5.5, the Directors may authorise a person to transfer the Shares sold to the purchaser of the Shares. The Company shall register the purchaser as the holder of the Shares comprised in any such transfer and he or she is not bound to see to the application of the purchase money. The title of the purchaser to the Shares is not affected by any irregularity or invalidity in connection with the sale.

### **5.8 Proceeds of Sale**

The proceeds of a sale under clause 5.5 shall be applied by the Company in payment of that part of the amount in respect of which the lien exists as is presently payable, and the residue (if any) shall (subject to any like lien for sums

not presently payable that existed upon the Shares before the sale) be paid to the person entitled to the Shares at the date of the sale.

#### **5.9 Protection of Lien under Settlement Rules**

The Company may do all such things as may be necessary or appropriate for it to do under the applicable Settlement Rules to protect any lien, charge or other right to which it may be entitled under any law or this Constitution.

#### **5.10 Further Powers re Forfeited Shares and Liens**

Where a transfer following the sale of any Shares after forfeiture or for enforcing a lien, charge or right to which the Company is entitled under any law or under this Constitution is effected by a CSD Transfer, the Company may do all things necessary or desirable for it to do under the applicable Settlement Rules in relation to that transfer.

---

### **6. CALLS ON SHARES**

#### **6.1 Calls**

- (a) The Directors may by resolution make calls on Shareholders of partly paid Shares to satisfy the whole or part of the debt owing on those Shares provide that the dates for payment of those Shares were not fixed at the time of issue.
- (b) A call shall be deemed to have been made at the time when the resolution of the Directors authorising the call was passed.
- (c) A call may be required or permitted to be paid by instalments.
- (d) Failure to send a notice of a call to any Shareholder or the non-receipt of a notice by any Shareholder does not invalidate the call.

#### **6.2 Payment of Calls**

A Shareholder to whom notice of a call is given in accordance with this Constitution must pay to the Company the amount called in accordance with the notice.

#### **6.3 Quoted Shares**

- (a) The Directors must not make the date for payment of calls, (**Due Date**), for Shareholders who hold quoted partly paid Shares, less than 30 Business Days and no more than 40 Business Days from the date the Company dispatches notices to relevant Shareholders that a call is made.

- (b) If after a call is made, new Shareholders purchase the same class of Share subject to the call, or if the holdings of the original Shareholders on whom the call was made change, Directors must dispatch a notice informing these Shareholders that a call has been made at least 4 days before the Due Date.
- (c) The Company must enter a call payment on the Company register no more than 5 Business Days after the Due Date.

#### **6.4 Unquoted Shares**

The Directors must not make the Due Date for Shareholders who hold unquoted partly paid Shares, less than 5 Business Days from the date the Company dispatches notices to relevant Shareholders that a call is made.

#### **6.5 Joint Liability**

The joint holders of a Share are jointly and severally liable to pay all calls in respect of the Share.

#### **6.6 Deemed Calls**

Any amount that, by the terms of issue of a Share, becomes payable on allotment or at a fixed date, shall for the purposes of this Constitution be deemed to be a call duly made and payable, and, in case of non-payment, all the relevant provisions of this Constitution as to payment of interest and expenses, forfeiture or otherwise apply as if the amount had become payable by virtue of a call duly made and notified.

#### **6.7 Payments in Advance of Calls**

The Directors may accept from a Shareholder the whole or any part of the amount unpaid on a Share although no part of that amount has been called up, in which case the Directors shall nominate whether the amount so paid is to be treated as capital or a loan to the Company by the Shareholder, and:

- (a) if the amount paid is nominated to be capital, it shall be deemed as from the date of the nomination to have been applied in paying up (so far as it will extend) the unpaid balance of the total issue price of the Share, but the dividend entitlement attaching to the Share shall remain as it was prior to the payment so made until there is a call in respect of the Share under this clause 6 of an amount equal to or greater than the amount so paid; or
- (b) if the amount paid is nominated to be a loan to the Company, it shall carry interest at a rate, not exceeding the Prescribed Rate, as is agreed between the Directors and the Shareholder, shall not be repayable

unless the Directors so determine, shall not confer on the Shareholder any rights attributable to subscribed capital, and shall, unless so repaid, be applied in payment of calls on the Share as and when the calls become due.

## **6.8 Outstanding Moneys**

Any moneys payable in respect of a call made in accordance with this Constitution which remain outstanding shall from and including the day for payment until the date payment is received bear interest at the Prescribed Rate.

## **6.9 Revocation or Postponement**

The Directors may revoke or postpone a call in accordance with the Listing Rules and/ or the Corporations Act, if revocation or postponement is not prohibited by either.

## **6.10 Compliance with Listing Rules and Corporations Act**

The Company shall comply with the Listing Rules and the Corporations Act in relation to calls. All Listing Rule requirements in relation to calls are not covered in this Constitution.

---

# **7. FORFEITURE OF SHARES**

## **7.1 Failure to Pay Call**

If a Shareholder fails to pay a call or instalment of a call on the day appointed for payment of the call or instalment, the Directors may, at any time after this day during the time any part of the call or instalment remains unpaid (but subject to this clause 7.1) serve a notice on him requiring payment of so much of the call or instalment as is unpaid, together with any interest that has accrued. The notice shall name a further day being not less than 14 days after the date of notice on or before which the payment required by the notice is to be made and shall state that, in the event of non-payment at or before the time appointed, the Shares in respect of which the call was made will be liable to be forfeited.

## **7.2 Forfeiture**

If the requirements of a notice served under clause 7.1 are not complied with, any Share in respect of which a call is unpaid at the expiration of 14 days after the day for its payment may be forfeited by a resolution of the Directors to that effect. Such a forfeiture shall include all dividends declared in respect of the forfeited Shares and not actually paid before the forfeiture.

### **7.3 Sale of Forfeited Shares**

A forfeited Share may be sold or otherwise disposed of on the terms and in the manner that the Directors determine and, at any time before a sale or disposition, the forfeiture may be cancelled on the terms the Directors determine.

### **7.4 Continuing Liability**

A person whose Shares have been forfeited ceases to be a Shareholder in respect of the forfeited Shares, but remains liable to pay the Company all money that, at the date of forfeiture, was payable by him to the Company in respect of the Shares (including interest at the Prescribed Rate from the date of forfeiture on the money for the time being unpaid if the Directors decide to enforce payment of the interest), but his or her liability ceases if and when the Company receives payment in full of all the money (including interest) payable in respect of the Shares.

### **7.5 Officer's Statement Prima Facie Evidence**

A statement in writing declaring that the person making the statement is a Director or a Secretary of the Company, and that a Share in the Company has been duly forfeited on a date stated in the statement, is prima facie evidence of the facts stated in the statement as against all persons claiming to be entitled to the Share.

### **7.6 Procedures**

The Company may receive the consideration (if any) given for a forfeited Share on any sale or disposition of the Share, and may execute a transfer of the Share in favour of the person to whom the Share is sold or disposed of. Upon the execution of the transfer, the transferee shall be registered as the holder of the Share and is not bound to see to the application of any money paid as consideration. The title of the transferee to the Share is not affected by any irregularity or invalidity in connection with the forfeiture, sale or disposal of the Share.

### **7.7 Listing Rules and Settlement Rules**

The Company shall comply with the Listing Rules with respect to forfeited Shares and may do all such things as may be necessary or appropriate for it to do under the applicable Settlement Rules to protect any lien, charge or other right to which it may be entitled under any law or this Constitution.



---

## **8. TRANSFER OF SHARES**

### **8.1 Form of Transfer**

Subject to this Constitution, Shareholders may transfer any Share held by them by:

- (a) a CSD Transfer or any other method of transferring or dealing in Shares introduced by a Recognised Stock Exchange or operated in accordance with applicable Settlement Rules or Listing Rules and in any such case recognised under the Corporations Act; or
- (b) an instrument in writing in any usual or common form or in any other form that the Directors approve.

### **8.2 CSD Transfers**

- (a) The Company must comply with all obligations imposed on the Company under the Corporations Act, the Listing Rules and the applicable Settlement Rules in respect of a CSD Transfer or any other transfer of Shares.
- (b) Notwithstanding any other provision in this Constitution, the Company must not prevent, delay or interfere with the registration of an CSD Transfer or any other transfer of Shares.

### **8.3 Participation in a CSD**

The Directors may do anything they consider necessary or desirable and which is permitted under the Corporations Act, the Listing Rules and the applicable Settlement Rules to facilitate participation by the Company in any system established or recognised by the Corporations Act and the Listing Rules or the applicable Settlement Rules in respect of transfers of or dealings in marketable securities.

### **8.4 Registration Procedure**

Where an instrument of transfer referred to in clause 8.1(b) is to be used by a Shareholder to transfer Shares, the following provisions apply:

- (a) the instrument of transfer must be executed by or on behalf of both the transferor and the transferee unless it is a sufficient transfer of marketable securities within the meaning of the Corporations Act;
- (b) the instrument of transfer shall be left at the Registered Office for registration accompanied by the certificate for the Shares to be transferred (if any) and such other evidence as the Directors may

require to prove the title of the transferor and his right to transfer the shares;

- (c) a fee shall not be charged on the registration of a transfer of Shares or other securities; and
- (d) on registration of a transfer of Shares, the Company must cancel the old certificate (if any).

### **8.5 Power to Refuse to Register**

The Directors may refuse to register any transfer of Shares (other than a CSD Transfer) where:

- (a) the Listing Rules permit the Company to do so;
- (b) the Listing Rules require the Company to do so; or
- (c) the transfer is a transfer of Restricted Securities which is or might be in breach of the Listing Rules or any escrow agreement entered into by the Company in relation to such Restricted Securities pursuant to the Listing Rules.

Where the Directors refuse to register a transfer in accordance with this clause, they shall send notice of the refusal and the precise reasons for the refusal to the transferee and the lodging broker (if any) in accordance with the Listing Rules.

### **8.6 Retention of Transfers by Company**

All instruments of transfer which are registered will be retained by the Company, but any instrument of transfer which the Directors decline or refuse to register (except in the case of fraud) shall on demand be returned to the transferee.

### **8.7 Powers of Attorney**

Any power of attorney granted by a Shareholder empowering the donee to transfer Shares which may be lodged, produced or exhibited to the Company or any Officer of the Company will be taken and deemed to continue and remain in full force and effect, as between the Company and the grantor of that power, and the power of attorney may be acted on, until express notice in writing that it has been revoked or notice of the death of the grantor has been given and lodged at the Office or at the place where the Register of Shareholders is kept.

### **8.8 Other Securities**

The provisions of this clause 8 shall apply, with necessary alterations, to any other Listed Securities for the time being issued by the Company.

## **8.9 Branch Register**

The Company may cause a Register of Shareholders to be kept in any place (including without limitation, a branch register) and the Directors may from time to time make such provisions as they (subject to the Corporations Act, the Listing Rules and applicable Settlement Rules) may think fit with respect to the keeping of any such Register.

## **8.10 Compliance with Settlement Rules**

The Company shall comply with the Settlement Rules and the Listing Rules in relation to all matters covered by those rules.

## **8.11 Issuer Sponsored Subregister**

The Company may establish and maintain an issuer sponsored subregister in compliance with any relevant provisions of the Corporations Act, the Listing Rules or the Settlement Rules.

## **8.12 Transferor Holds Shares until Registration of Transfer**

A transferor of Shares remains the registered holder of the Shares transferred until a CSD Transfer has taken effect in accordance with applicable Settlement Rules or the transfer is registered in the name of the transferee and is entered in the Register of Shareholders in respect of them, whichever is the earlier.

---

## **9. TRANSMISSION OF SHARES**

### **9.1 Death of Shareholder Leaving a Will**

On the death of a Shareholder who leaves a will appointing an executor, the executor shall be entitled as from the date of death, and on behalf of the deceased Shareholder's estate, to the same dividends and other advantages and to the same rights whether in relation to meetings of the Company, or voting or otherwise, as the Shareholder would have been entitled to if he or she had not died, whether or not probate of the will has been granted. Nevertheless, if probate of the will is granted to a person or persons other than the executor first referred to in this clause 9, his or her executor's rights shall cease, and these rights shall only be exercisable by the person or persons to whom probate is granted as provided in clauses 9.2 and 9.3. The estate of a deceased Shareholder will not be released from any liability to the Company in respect of the Shares.

### **9.2 Death or Bankruptcy of Shareholder**

Subject to clause 9.1, where the registered holder of a Share dies or becomes bankrupt, his or her personal representative or the trustee of his or her estate, as

the case may be, shall be entitled upon the production of such information as is properly required by the Directors, to the same dividends and other advantages, and to the same rights (whether in relation to meetings of the Company, or to voting or otherwise), as the registered holder would have been entitled to if he or she had not died or become bankrupt.

### **9.3 Registration by Transmission or to Beneficiary**

A person becoming entitled to a Share in consequence of the death or, subject to the Bankruptcy Act 1966, the bankruptcy of a Shareholder may, upon information being produced that is properly required by the Directors, elect by written notice to the Company either to be registered himself or herself as holder of the Share or to have some other person nominated by the person registered as the transferee of the Share. If this person elects to have another person registered, he or she shall execute a transfer of the Share to that other person.

### **9.4 Limitations to Apply**

All the limitations, restrictions and provisions of this Constitution relating to the right to transfer Shares and the registration of a transfer of Shares are applicable to any notice or transfer as if the death or bankruptcy of the Shareholder had not occurred and the notice or transfer were a transfer signed by that Shareholder.

### **9.5 Death of a Joint Holder**

In the case of the death of a Shareholder who was a joint holder, the survivor or survivors shall be the only persons recognised by the Company as having any title to the deceased's interest in the Shares, but this clause 9.5 does not release the estate of a deceased joint holder from any liability in respect of a Share that had been jointly held by this person with one or more other persons.

### **9.6 Joint Personal Representatives**

Where two or more persons are jointly entitled to any Share in consequence of the death of the registered holder, they shall, for the purpose of this Constitution, be deemed to be joint holders of the Share.

### **9.7 CSD Transfer**

In the case of a CSD Transfer the provisions of this clause 9 are subject to any obligation imposed on the Company or the person entitled to the relevant Shares on the death or bankruptcy of a member by the Listing Rules, the Settlement Rules or any law.

## **9.8 Joint Holders**

If more than three persons are registered as holders of Shares in the Company in the Register of Shareholders (or a request is made to register more than three persons), then only the first three persons will be regarded as holders of Shares in the Company and all other names will be disregarded by the Company for all purposes.

---

## **10. CHANGES TO CAPITAL STRUCTURE**

### **10.1 Alterations to Capital**

Subject to the Listing Rules, the Company may, by ordinary resolution:

- (a) issue new Shares of such amount specified in the resolution;
- (b) consolidate and divide all or any of its Shares into Shares of larger amount than its existing Shares;
- (c) subject to the Listing Rules, sub-divide all or any of its Shares into Shares of smaller amount, but so that in the sub-division the proportion between the amount paid and the amount (if any) unpaid on each such Share of a smaller amount remains the same; and
- (d) cancel Shares that, at the date of the passing of the resolution, have not been taken or agreed to be taken by any person or have been forfeited and, subject to the Corporations Act, reduce the amount of its share capital by the amount of the Shares so cancelled.

### **10.2 Reduction of Capital**

Subject to the Corporations Act and the Listing Rules, the Company may reduce its share capital in any way including, but not limited to, distributing to shareholders securities of any other body corporate and, on behalf of the shareholders, consenting to each shareholder becoming a member of that body corporate and agreeing to be bound by the constitution of that body corporate.

### **10.3 Buy-Backs**

- (a) In this clause "Buy-Back Provisions" means the provisions of Part 2J.1 Division 2 of the Corporations Act.
- (b) The Company may, subject to the Corporations Act and the Listing Rules and in accordance with the Buy-Back Provisions, including relevant buy-back provisions under the rules of any Recognised Stock Exchange applicable to the Company, purchase its own Shares on such terms and

at such times as may be determined by the Directors from time to time:

- (c) The Company may give financial assistance to any person or entity for the purchase of its own Shares in accordance with the Buy-Back Provisions on such terms and at such times as may be determined by the Directors from time to time.

---

## **11. GENERAL MEETINGS**

### **11.1 Convening of General Meetings of Shareholders**

The Directors may, by a resolution passed by a majority of Directors, convene a general meeting of Shareholders in accordance with this clause 11 and the requirements of the Corporations Act.

### **11.2 Postponement of a General Meeting of Shareholders**

The Directors may, subject to the Corporations Act and the Listing Rules, postpone a meeting of Shareholders or change the place for a general meeting of shareholders by giving written notice to a Recognised Stock Exchange. If a meeting of Shareholders is postponed for one month or more, the Company must give new notice of the postponed meeting.

### **11.3 Cancellation of a General Meeting of Shareholders**

- (a) A general meeting of Shareholders convened by the Directors in accordance with clause 11.1 may be cancelled by a resolution passed by a majority of Directors.
- (b) Notice of the cancellation of a general meeting of Shareholders must be given to the Shareholders in accordance with clause 25, but notice of such cancellation must be given to each Shareholder not less than two (2) days prior to the date on which the meeting was proposed to be held.

### **11.4 Convening of General Meetings of Shareholders by a Director**

Any Director may, whenever he or she thinks fit, convene a general meeting of Shareholders, and a general meeting shall also be convened on requisition as is provided for by the Corporations Act, or in default, may be convened by such requisitions as empowered to do so by the Corporations Act. If there are no Directors for the time being, a Secretary may convene a general meeting of Shareholders for the purpose of enabling the election of Directors but for no other purpose. A general meeting may be held at two or more venues simultaneously using any technology that gives the Shareholders as a whole a reasonable opportunity to participate.

## **11.5 Notice**

A notice of a general meeting shall be given in accordance with the requirements of the Corporations Act, clause 25 and the Listing Rules, and:

- (a) must specify the place, the day and the time of the meeting;
- (b) must state the general nature of the business to be transacted at the meeting;
- (c) must include such statements about the appointment of proxies as are required by the Corporations Act;
- (d) must specify a place and fax number for the purposes of receipt of proxy appointments; and
- (e) may specify an electronic address for the purposes of receipt of proxy appointments,

and shall include any other information required to be included in the notice by the Listing Rules. The non-receipt of a notice of a general meeting by a Shareholder or the accidental omission to give this notice to a Shareholder shall not invalidate any resolution passed at the meeting.

## **11.6 Business at General Meeting**

Subject to the Corporations Act, only matters that appear in a notice of meeting shall be dealt with at a general meeting or an annual general meeting, as the case may be.

## **11.7 Notice to Home Branch**

- (a) The Company shall notify the Home Branch of any meeting at which Directors are to be elected at least 5 Business Days before the closing day for receipt of nominations for Directors, and in any other case (other than a meeting to pass a special resolution) at least 10 Business Days before the meeting is held, and in the case of a meeting convened to pass a special resolution, at least 15 Business Days before the meeting is held. All notices convening meetings shall specify the place, date and hour of the meeting, and shall set out all resolutions to be put to the meeting.
- (b) The Company shall notify the Home Branch as soon as is practicable after any general meeting in the case of special business as to whether or not the resolutions were carried and in the case of ordinary business as to which of those resolutions were not carried or were amended or were withdrawn.



## **11.8 Annual General Meeting**

An annual general meeting shall be held in accordance with the requirements of the Corporations Act.

---

## **12. PROCEEDINGS AT GENERAL MEETINGS**

### **12.1 Quorum**

No business shall be transacted at any general meeting unless a quorum is present comprising 2 Shareholders present in person, by proxy, attorney or Representative. For the purpose of determining whether a quorum is present, a person attending as a proxy, attorney or Representative, shall be deemed to be the Shareholder present in person. If a quorum is not present within 15 minutes after the time appointed for a general meeting, the meeting, if convened upon a requisition shall be dissolved, but in any other case, it shall stand adjourned to a date and place to be fixed by the Directors. If at such adjourned meeting a quorum is not present, the Shareholders present in person, by proxy, attorney or Representative shall constitute a quorum.

### **12.2 Persons Entitled to Attend a General Meeting**

The persons entitled to attend a general meeting shall be:

- (a) Shareholders, in person, by proxy, attorney or Representative;
- (b) Directors;
- (c) the Company's auditor; and
- (d) any other person or persons as the chairman may approve.

### **12.3 Refusal of Admission to Meetings**

The chairman of a general meeting may refuse admission to a person, or require a person to leave and not return to, a meeting if the person:

- (a) refuses to permit examination of any article in the person's possession;
- (b) is in possession of any:
  - (i) electronic or recording device;
  - (ii) placard or banner; or
  - (iii) other article,

which the chairman considers to be dangerous, offensive or liable to

cause disruption; or

(c) causes any disruption to the meeting.

#### **12.4 Chairman**

The person elected as the chairman of the Directors' meeting under clause 15.9 shall, if willing, preside as chairman at every general meeting. Where a general meeting is held and a chairman has not been elected under clause 15.9 or the chairman or, in his absence, the vice-chairman is not present within 15 minutes after the time appointed for holding of the meeting or is unwilling to act:

(a) the Directors present may elect a chairman of the meeting; or

(b) if no chairman is elected in accordance with subsection (a), the Shareholders present shall elect one of their number to be the acting chairman of the meeting.

#### **12.5 Vacating Chair**

At any time during a meeting and in respect of any specific item or items of business, the chairman may elect to vacate the chair in favour of another person nominated by the chairman (which person must be a Director unless no Director is present or willing to act). That person is to be taken to be the chairman and will have all the power of the chairman (other than the power to adjourn the meeting), during the consideration of that item of business or those items of business.

#### **12.6 Disputes Concerning Procedure**

If there is a dispute at a general meeting about a question of procedure, the chairman may determine the question.

#### **12.7 General Conduct**

The general conduct of each general meeting of the Company and the procedures to be adopted at the meeting will be determined by the chairman, including the procedure for the conduct of the election of Directors.

#### **12.8 Casting Vote**

In the case of an equality of votes, the chairman of the meeting will not have a second or casting vote.

#### **12.9 Adjournment**

The chairman may, with the consent of the meeting, and shall, if so directed by the meeting, adjourn the meeting from time to time and from place to place,

but no business shall be transacted on the resumption of any adjourned meeting other than the business left unfinished at the meeting from which the adjournment took place. A poll cannot be demanded on any resolution concerning the adjournment of a general meeting except by the chairman.

#### **12.10 Notice of Resumption of Adjourned Meeting**

When a meeting is adjourned for 30 days or more, notice of the resumption of the adjourned meeting shall be given in the same manner as for the original meeting, but otherwise, it is not necessary to give any notice of any adjournment or of the business to be transacted on the resumption of the adjourned meeting.

#### **12.11 Voting Rights**

Subject to any rights or restrictions for the time being attached to any class or classes of Shares, at meetings of Shareholders or classes of Shareholders:

- (a) each Shareholder entitled to vote may vote in person or by proxy, attorney or Representative;
- (b) on a show of hands, every person present who is a Shareholder or a proxy, attorney or Representative of a Shareholder has one vote; and
- (c) on a poll, every person present who is a Shareholder or a proxy, attorney or Representative of a Shareholder shall, in respect of each fully paid Share held by him, or in respect of which he is appointed a proxy, attorney or Representative, have one vote for the Share, but in respect of partly paid Shares, shall have such number of votes being equivalent to the proportion which the amount paid (not credited) is of the total amounts paid and payable in respect of those Shares (excluding amounts credited).

#### **12.12 Voting - Show of Hands**

At any general meeting a resolution put to the vote of the meeting shall be decided on a show of hands unless a poll is demanded in accordance with clause 12.14.

#### **12.13 Results of Voting**

Unless a poll is so demanded, a declaration by the chairman that a resolution has on a show of hands been carried or carried unanimously or by a particular majority, or lost, and an entry to that effect in the book containing the minutes of the proceedings of general meetings of the Company, is conclusive evidence of the fact without proof of the number or proportion of the votes recorded in favour of or against the resolution.

#### **12.14 Poll**

A poll may be demanded before or immediately upon the declaration of the result of the show of hands by:

- (a) the chairman of the general meeting;
- (b) at least 5 Shareholders present in person or by proxy, attorney or Representative having the right to vote on the resolution; or
- (c) any one or more Shareholders holding not less than 5% of the total voting rights of all Shareholders having the right to vote on the resolution.

#### **12.15 Manner of Taking Poll**

If a poll is duly demanded, it shall be taken in such manner and either at once or after an interval or adjournment or otherwise as the chairman directs, and the result of the poll shall be the resolution of the meeting at which the poll was demanded. A poll demanded on the election of a chairman or on a question of adjournment shall be taken forthwith.

#### **12.16 Meeting May Continue**

A demand for a poll shall not prevent the continuation of the meeting for the transaction of other business.

#### **12.17 Voting by Joint Holders**

In the case of joint holders of Shares, the vote of the senior who tenders a vote, whether in person or by proxy, attorney or Representative, shall be accepted to the exclusion of the votes of the other joint holders and, for this purpose, seniority shall be determined by the order in which the names stand in the Register of Shareholders.

#### **12.18 Shareholder under Disability**

If a Shareholder is of unsound mind or is a person whose person or estate is liable to be dealt with in any way under the law relating to mental health, his committee or trustee or any other person that properly has the management of his estate may exercise any rights of the Shareholder in relation to a general meeting as if the committee, trustee or other person were the Shareholder.

#### **12.19 Payment of Calls**

A Shareholder is not entitled to any vote at a general meeting unless all calls presently payable by him in respect of Shares have been paid. Nothing in this clause prevents such a Shareholder from voting at a general meeting in relation

to any other Shares held by that Shareholder provided all calls and other sums payable by him have been paid on those other Shares.

## **12.20 Objection to Voting**

An objection may be raised to the qualification of a voter only at the meeting or adjourned meeting at which the vote objected to is given or tendered. This objection shall be referred to the chairman of the meeting, whose decision shall be final. A vote not disallowed pursuant to such an objection is valid for all purposes.

## **12.21 Proxies**

An instrument appointing a proxy:

- (a) shall be in writing under the hand of the appointor or of his attorney, or, if the appointor is a corporation, executed in accordance with the Corporations Act;
- (b) shall specify the manner in which the proxy is to vote in respect of a particular resolution and, where an instrument of proxy so provides, the proxy is not entitled to vote on the resolution except as specified in the instrument;
- (c) shall be deemed to confer authority to demand or join in demanding a poll;
- (d) shall be in such form as the Directors determine and which complies with Division 6 of Part 2G.2 of the Corporations Act;
- (e) shall not be valid unless the original instrument and the power of attorney or other authority (if any) under which the instrument is signed, or a copy or facsimile which appears on its face to be an authentic copy of that proxy, power or authority, is or are deposited or sent by facsimile transmission to the Registered Office, or at such other place (being the place or being in the reasonable proximity of the place at which the meeting is to be held) as is specified for that purpose in the notice convening the meeting, duly stamped where necessary, by the time (being not less than 48 hours) prior to the commencement of the meeting (or the resumption of the meeting if the meeting is adjourned and notice is given in accordance with clause 12.10) as shall be specified in the notice convening the meeting (or the notice under clause 12.10, as the case may be); and
- (f) shall comply with the Listing Rules.

## **12.22 Electronic Appointment of Proxy**

For the purposes of clause 12.21, an appointment received at an electronic address will be taken to be signed by the appointor if:

- (a) a personal identification code allocated by the Company to the appointor has been input into the appointment; or
- (b) the appointment has been verified in another manner approved by the Directors.

## **12.23 Proxy Votes**

A vote given in accordance with the terms of an instrument of proxy is valid notwithstanding the previous death or unsoundness of mind of the principal, the revocation of the instrument (or the authority under which the instrument was executed) or the transfer of the Share in respect of which the instrument or power is given, if no intimation in writing of the death, unsoundness of mind, revocation or transfer has been received by the Company at the Registered Office before the commencement of the meeting or adjourned meeting at which the instrument is used or the power is exercised.

## **12.24 Representatives of Corporate Shareholders**

A body corporate (the **appointor**) that is a Shareholder may authorise, in accordance with Section 250D of the Corporations Act, by resolution of its Directors or other governing body, such person or persons as it may determine to act as its Representative at any general meeting of the Company or of any class of Shareholders. A person so authorised shall be entitled to exercise all the rights and privileges of the appointor as a Shareholder. When a Representative is present at a general meeting of the Company, the appointor shall be deemed to be personally present at the meeting unless the Representative is otherwise entitled to be present at the meeting. The original form of appointment of a Representative, a certified copy of the appointment, or a certificate of the body corporate evidencing the appointment of a Representative is evidence of a Representative having been appointed.

---

## **13. THE DIRECTORS**

### **13.1 Number of Directors**

The Company shall at all times have at least 3 Directors. The number of Directors shall not exceed 12. Subject to the Corporations Act, the Company may, by ordinary resolution by the general meeting, increase or reduce the number of Directors and may also determine in what rotation the increased or reduced number is to go out of office. Subject to any resolution of the Company determining the maximum and minimum numbers of Directors, the Directors may

from time to time determine the respective number of Executive and Non Executive Directors.

### **13.2 Rotation of Directors**

Subject to clause 17.4, at the Company's annual general meeting in every year, one-third of the Directors for the time being, or, if their number is not a multiple of 3, then the number nearest one-third (rounded upwards in case of doubt), shall retire from office, provided always that no Director except a Managing Director shall hold office for a period in excess of 3 years, or until the third annual general meeting following his or her appointment, whichever is the longer, without submitting himself for re-election. The Directors to retire at an annual general meeting are those who have been longest in office since their last election, but, as between persons who became Directors on the same day, those to retire shall (unless they otherwise agree among themselves) be determined by drawing lots. A retiring Director is eligible for re-election. An election of Directors shall take place each year.

### **13.3 Election of Directors**

Subject to the provisions of this Constitution, the Company may elect a person as a Director by resolution passed in general meeting. A Director elected at a general meeting is taken to have been elected with effect immediately after the end of that general meeting unless the resolution by which the Director was appointed or elected specifies a different time. No person other than a Director seeking re-election shall be eligible for election to the office of Director at any general meeting unless the person or some Shareholder intending to propose his or her nomination has, at least 30 Business Days before the meeting, left at the Registered Office a notice in writing duly signed by the nominee giving his or her consent to the nomination and signifying his or her candidature for the office or the intention of the Shareholder to propose the person. Notice of every candidature for election as a Director shall be given to each Shareholder with or as part of the notice of the meeting at which the election is to take place. The Company shall observe the requirements of Section 225 of the Corporations Act with respect to the election of Directors. If the number of nominations exceeds the vacancies available having regard to clause 13.1, the order in which the candidates shall be put up for election shall be determined by the drawing of lots supervised by the Directors and once sufficient candidates have been elected to fill up the vacancies available, the remaining candidates shall be deemed defeated without the need for votes to be taken on their election.

### **13.4 Additional Directors**

**13.5 The Directors may at any time appoint a person to be a Director, either to fill a casual vacancy or as an addition to the existing Directors, but so that the total number of Directors does not at any time exceed the maximum number specified by this Constitution. Any Director so appointed holds office only until**



**the next following general meeting and is then eligible for re-election but shall not be taken into account in determining the Directors who are to retire by rotation (if any) at that meeting. Removal of Director**

The Company may by resolution remove any Director before the expiration of his period of office, and may by resolution appoint another person in his place. The person so appointed is subject to retirement at the same time as if he had become a Director on the day on which the Director in whose place he is appointed was last elected a Director.

### **13.6 Vacation of Office**

The office of Director shall automatically become vacant if the Director:

- (a) ceases to be a Director by virtue of Section 203D or any other provision of the Corporations Act;
- (b) becomes bankrupt or makes any arrangement or composition with his creditors generally;
- (c) becomes prohibited from being a Director by reason of any order made under the Corporations Act;
- (d) becomes of unsound mind or a person whose person or estate is liable to be dealt with in any way under the law relating to mental health;
- (e) resigns his or her office by notice in writing to the Company;
- (f) is removed from office under clause 13.5; or
- (g) is absent for more than 6 months, without permission of the Directors, from meetings of the Directors held during that period.

### **13.7 Remuneration**

The Directors shall be paid out of the funds of the Company, by way of remuneration for their services as Directors. Subject to clause 13.8 below, the total aggregate fixed sum per annum to be paid to the non-executive Directors from time to time will not exceed the sum determined by the Shareholders in general meeting and the total aggregate fixed sum will be divided between the non-executive Directors as the Directors shall determine and, in default of agreement between them, then in equal shares. No non-executive Director shall be paid as part or whole of his remuneration a commission on or a percentage of profits or a commission or a percentage of operating revenue, and no executive Director shall be paid as whole or part of his remuneration a commission on or percentage of operating revenue. The remuneration of a Director shall be deemed to accrue from day to day.

### **13.8 Initial Fees to Directors**

The total aggregate fixed sum per annum to be paid to non-executive Directors in accordance with clause 13.7 shall initially be \$150,000 and may be varied by ordinary resolution of the Shareholders in General Meeting.

### **13.9 Expenses**

The Directors shall be entitled to be paid reasonable travelling, hotel and other expenses incurred by them respectively in or about the performance of their duties as Directors. If any of the Directors being willing are called upon to perform extra services or make any special exertions on behalf of the Company or its business, the Directors may remunerate this Director in accordance with such services or exertions, and this remuneration may be either in addition to or in substitution for his or her share in the remuneration provided for by clause 13.7.

### **13.10 No Share Qualification**

A Director is not required to hold any Shares.

---

## **14. POWERS AND DUTIES OF DIRECTORS**

### **14.1 Management of the Company**

Subject to the Corporations Act and the Listing Rules and to any other provision of this Constitution, the business of the Company shall be managed by the Directors, who may pay all expenses incurred in promoting and forming the Company, and may exercise all such powers of the Company as are not, by the Corporations Act or the Listing Rules or by this Constitution, required to be exercised by the Company in general meeting.

### **14.2 Borrowings**

Without limiting the generality of clause 14.1, the Directors may at any time:

- (a) exercise all powers of the Company to borrow money, to charge any property or business of the Company or all or any of its uncalled capital and to issue debentures or give any other security for a debt, liability or obligation of the Company or of any other person;
- (b) subject to Shareholder approval, sell or otherwise dispose of the whole or any part of the assets, undertakings and other properties of the Company or any that may be acquired on such terms and conditions as they may deem advisable, but:
  - (i) if the Company is listed on a Recognised Stock Exchange, the Company shall comply with the applicable Listing Rules which

relate to the sale or disposal of a company's assets, undertakings or other properties; and

(ii) on the sale or disposition of the Company's main undertaking or on the liquidation of the Company, no commission or fee shall be paid to any Director or Directors or to any liquidator of the Company unless it shall have been ratified by the Company in general meeting, with prior notification of the amount of such proposed payments having been given to all Shareholders at least 7 days prior to the meeting at which any such payment is to be considered; and

(c) take any action necessary or desirable to enable the Company to comply with the Listing Rules.

### **14.3 Attorneys**

The Directors may, by power of attorney, appoint any person or persons to be the attorney or attorneys of the Company for the purposes, with the powers, authorities and discretions (being powers, authorities and discretions vested in or exercisable by the Directors), for the period and subject to the conditions as they think fit. This power of attorney may contain provisions for the protection and convenience of persons dealing with the attorney as the Directors may determine and may also authorise the attorney to delegate all or any of the powers, authorities and discretions vested in the person.

### **14.4 Cheques, etc.**

All cheques, promissory notes, bankers drafts, bills of exchange and other negotiable instruments, and all receipts for money paid to the Company, shall be signed, drawn, accepted, endorsed or otherwise executed, as the case may be, by any two Directors or in any other manner as the Directors determine.

### **14.5 Retirement Benefits for Directors**

The Directors may at any time, subject to the Listing Rules, adopt any scheme or plan which they consider to be in the interests of the Company and which is designed to provide retiring or superannuation benefits for both present and future non-executive Directors, and they may from time to time vary this scheme or plan. Any scheme or plan may be effected by agreements entered into by the Company with individual Directors, or by the establishment of a separate trust or fund, or in any other manner the Directors consider proper. The Directors may attach any terms and conditions to any entitlement under any such scheme or plan that they think fit, including, without limitation, a minimum period of service by a Director before the accrual of any entitlement and the acceptance by the Directors of a prescribed retiring age. No scheme or plan shall operate to confer upon any Director or on any of the dependants of any

Director any benefits exceeding those contemplated in Section 200F of the Corporations Act or the Listing Rules, except with the approval of the Company in general meeting.

#### **14.6 Securities to Directors or Shareholders**

If a Director acting solely in the capacity of Director of the Company shall become personally liable for the payment of any sum primarily due by the Company, the Directors may create any mortgage, charge or security over or affecting the whole or any part of the assets of the Company by way of indemnity to secure the persons or person so becoming liable from any loss in respect of such liability.

---

### **15. PROCEEDINGS OF DIRECTORS**

#### **15.1 Convening a Meeting**

A Director may at any time, and a Secretary shall, whenever requested to do so by one or more Directors, convene a meeting of the Directors, but not less than 24 hours' notice of every such meeting shall be given to each Director either by personal telephone contact or in writing by the convenor of the meeting. The Directors may by unanimous resolution agree to shorter notice. An accidental omission to send a notice of a meeting of Directors to any Director or the non-receipt of such a notice by any Director does not invalidate the proceedings, or any resolution passed, at the meeting.

#### **15.2 Procedure at Meetings**

The Directors may meet together for the despatch of business and adjourn and, subject to this clause 15, otherwise regulate the meetings as they think fit.

#### **15.3 Quorum**

No business shall be transacted at any meeting of Directors unless a quorum is present, comprising 2 Directors present in person, or by instantaneous communication device, notwithstanding that less than 2 Directors may be permitted to vote on any particular resolution or resolutions at that meeting for any reason whatsoever. Where a quorum cannot be established for the consideration of a particular matter at a meeting of Directors, one or more of the Directors may call a general meeting of the Company to deal with the matter.

#### **15.4 Secretary May Attend and Be Heard**

The Secretary is entitled to attend any meeting of Directors and is entitled to be heard on any matter dealt with at any meeting of Directors.

### **15.5 Majority Decisions**

Questions arising at any meeting of Directors shall be decided by a majority of votes. A resolution passed by a majority of Directors shall for all purposes be deemed a determination of "the Directors". An Alternate Director has one vote for each Director for whom he or she is an alternate. If an Alternate Director is also a Director, he or she also has a vote as a Director.

### **15.6 Casting Votes**

In the case of an equality of votes, the chairman of the meeting shall have a second or casting vote, but the chairman shall have no casting vote where only 2 Directors are competent to vote on the question.

### **15.7 Alternate Directors**

A Director may appoint any person to be an alternate Director in his or her place during any period as he or she thinks fit, and the following provisions shall apply with respect to any alternate Director:

- (a) he or she is entitled to notice of meetings of the Directors and, if his or her appointor Director is not present at such a meeting, he or she is entitled to attend and vote in the place of the absent Director;
- (b) he or she may exercise any powers that his or her appointor Director may exercise, and the exercise of any such power by the alternate Director shall be deemed to be the exercise of the power by his or her appointor Director;
- (c) he or she is subject to the provisions of this Constitution which apply to Directors, except that Alternate Directors are not entitled in that capacity to any remuneration from the Company;
- (d) he or she is not required to hold any Shares;
- (e) his or her appointment may be terminated at any time by his or her appointor Director notwithstanding that the period of the appointment of the alternate Director has not expired, and the appointment shall terminate in any event if his or her appointor Director vacates office as a Director; and
- (f) the appointment, or the termination of an appointment, of an alternate Director shall be effected by a written notice signed by the Director who made the appointment given to the Company.

### **15.8 Continuing Directors May Act**

In the event of a vacancy or vacancies in the office of a Director, the remaining

Directors may act but, if the number of remaining Directors is not sufficient to constitute a quorum at a meeting of Directors, they may act only for the purposes of appointing a Director or Directors, or in order to convene a general meeting of the Company.

#### **15.9 Chairman**

The Directors shall elect from their number a chairman of their meetings and may determine the period for which he or she is to hold office. Where a Directors' meeting is held and a chairman has not been elected or is not present at the meeting within 10 minutes after the time appointed for the meeting to begin, the Directors present shall elect one of their number to be the acting chairman of the meeting. The Directors may elect a Director as deputy chairman to act as chairman in the chairman's absence.

#### **15.10 Committees**

The Directors may delegate any of their powers to a committee or committees consisting of such of their number as they think fit. The Directors may at any time revoke any such delegation of power. A committee to which any powers have been so delegated shall exercise the powers delegated in accordance with any directions of the Directors, and a power so exercised shall be deemed to have been exercised by the Directors. The members of such a committee may elect one of their number as chairman of their meetings. Questions arising at a meeting of a committee shall be determined by a majority of votes of the members present and voting. In the case of an equality of votes, the chairman shall have a casting vote.

#### **15.11 Written Resolutions**

A resolution in writing signed by all the Directors for the time being (or their respective alternate Directors), except those Directors (or their alternates) who expressly indicate their abstention in writing to the Company and those who would not be permitted, by virtue of Section 195 of the Corporations Act to vote, shall be as valid and effectual as if it had been passed at a meeting of the Directors duly convened and held. This resolution may consist of several documents in like form, each signed by one or more Directors. Copies of the documents to be signed under this clause must be sent to every Director who is entitled to vote on the resolution. The resolution is taken to have been passed when the last Director signs the relevant documents. A telex, telegram, facsimile transmission or other document produced by mechanical means and bearing the signature of the Director, printed mechanically and with his authority, shall be deemed to be a document in writing signed by the Directors.

#### **15.12 Defective Appointment**

All acts done by any meeting of the Directors or of a committee of Directors or

by any person acting as a Director are, notwithstanding that it is afterwards discovered that there was some defect in the appointment of a person to be, or to act as, a Director, or that a person so appointed was disqualified, as valid as if the person had been duly appointed and was qualified to be a Director or to be a member of the committee.

#### **15.13 Directors May Hold Other Offices**

A Director may hold any other office or place of profit in or in relation to the Company (except that of auditor) in conjunction with his or her office of Director and on any terms as to remuneration or otherwise that the Directors shall approve.

#### **15.14 Directors May Hold Shares, etc.**

A Director may be or become a shareholder in or director of or hold any other office or place of profit in or in relation to any other company promoted by the Company or in which the Company may be interested, whether as a vendor, shareholder or otherwise.

#### **15.15 Directors Not Accountable for Benefits**

No Director shall be accountable for any benefits received as the holder of any other office or place of profit in or in relation to the Company or any other company referred to in clause 15.13 or as a shareholder in or director of any such company.

#### **15.16 Disclosure of Interests in Related Matters**

As required by the Corporations Act, a Director must give the Directors notice of any material personal interest in a matter that relates to the affairs of the Company. No Director shall be disqualified by his office from contracting with the Company whether as vendor, purchaser or otherwise, nor shall any such contract or any contract or arrangement entered into by or on behalf of the Company in which any Director shall be in any way interested be avoided or prejudiced on that account, nor shall any Director be liable to account to the Company for any profit arising from any such contract or agreement by reason only of such Director holding that office or of the fiduciary relationship thereby established, but a Director who has a material interest in a matter that is being considered at a meeting of the Directors must not vote on the matter (or in relation to a proposed resolution under Section 195(2) of the Corporations Act in relation to the matter) and must not be present while the matter (or a proposed resolution of that kind) is being considered at the meeting, except where the material interest is an interest that the Director has as a Shareholder of the Company and in common with the other Shareholders of the Company or where a resolution has been passed in accordance with Section 195(2) of the Corporations Act, in which cases the Director may be present but may not vote.



Nothing in this Constitution shall be read or construed so as to place on a Director any restrictions other than those required by Section 195 of the Corporations Act or the Listing Rules.

#### **15.17 Disclosure of Shareholding**

A Director must give to the Company such information about the Shares or other securities in the Company in which the Director has a relevant interest and at the times that the Secretary requires, to enable the Company to comply with any disclosure obligations it has under the Corporations Act or the Listing Rules.

#### **15.18 Related Body Corporate Contracts**

A Director shall not be deemed to be interested or to have been at any time interested in any contract or arrangement by reason only that in a case where the contract or arrangement has been or will be made with, for the benefit of, or on behalf of a Related Body Corporate, he or she is a shareholder in that Related Body Corporate.

#### **15.19 Voting, Affixation of Seal**

A Director may in all respects act as a Director in relation to any contract or arrangement in which he or she is interested, including, without limiting the generality of the above, in relation to the use of the Company's common seal, but a Director may not vote in relation to any contract or proposed contract or arrangement in which the Director has directly or indirectly a material interest.

#### **15.20 Home Branch to be Advised**

The Directors shall advise the Home Branch without delay of any material contract involving Director's or Directors' interests. The advice shall include at least the following information:

- (a) the names of the parties to the contract;
- (b) the name or names of the Director or Directors who has or have any material interest in the contract;
- (c) particulars of the contract; and
- (d) particulars of the relevant Director's or Directors' interest or interests in that contract.

---

### **16. MEETING BY INSTANTANEOUS COMMUNICATION DEVICE**

### **16.1 Meetings to be Effectual**

A Director shall be entitled to attend a Directors' meeting by means of an instantaneous communication device rather than in person. In those circumstances, a Director shall still receive all materials and information to be made available for the purposes of the Directors' meeting.

For the purposes of this Constitution, the contemporaneous linking together by instantaneous communication device of a number of consenting Directors not less than the quorum, whether or not any one or more of the Directors is out of Australia, shall be deemed to constitute a Directors' meeting and all the provisions of this Constitution as to the Directors' meetings shall apply to such meetings held by instantaneous communication device so long as the following conditions are met:

- (a) all the directors for the time being entitled to receive notice of the Directors' meeting (including any alternate for any Director) shall be entitled to notice of a meeting by instantaneous communication device for the purposes of such meeting. Notice of any such Directors' meeting shall be given on the instantaneous communication device or in any other manner permitted by the clause;
- (b) each of the Directors taking part in the Directors' meeting by instantaneous communication device must be able to hear each of the other Directors taking part at the commencement of the Directors' meeting; and
- (c) at the commencement of the Directors' meeting each Director must acknowledge his or her presence for the purpose of a Directors' meeting of the Company to all the other Directors taking part.

A Directors' meeting held by instantaneous communication device shall be deemed to have been held at the Registered Office.

### **16.2 Procedure at Meetings**

A Director may leave a Directors' meeting held under clause 16.1 by informing the Chairman of the Directors' meeting and then disconnecting his instantaneous communication device. Unless this procedure has been followed a Director shall be conclusively presumed to have been present and to have formed part of the quorum at all times during the Directors' meeting by instantaneous communication device.

### **16.3 Minutes**

A minute of the proceedings at a meeting held under clause 16.1 shall be sufficient evidence of such proceedings and of the observance of all necessary

formalities if certified as a correct minute by the chairman or the person taking the chair at the meeting under clause 16.1.

#### **16.4 Definition**

For the purposes of this Constitution, "instantaneous communication device" shall include telephone, television or any other audio or visual device which permits instantaneous communication.

---

### **17. MANAGING AND EXECUTIVE DIRECTORS**

#### **17.1 Appointment**

The Directors may from time to time appoint one of their number to the office of managing director ("**Managing Director**") of the Company or to any other office, (except that of auditor), or employment under the Company, either for a fixed term or at will, but not for life and, subject to the terms of any agreement entered into in a particular case, may revoke any such appointment. A Director other than a Managing Director so appointed is in this Constitution referred to as an executive director ("**Executive Director**"). The appointment of a Managing Director or Executive Director so appointed automatically terminates if he ceases for any reason to be a Director.

#### **17.2 Remuneration**

Subject to clause 13.7, a Managing Director or Executive Director shall, subject to the terms of any agreement entered into in a particular case, receive remuneration (whether by way of salary, commission or participation in profits, or partly in one way and partly in another) as the Directors may determine.

#### **17.3 Powers**

The Directors may, upon such terms and conditions and with such restrictions as they think fit, confer upon a Managing Director or Executive Director any of the powers exercisable by them. Any powers so conferred may be concurrent with, or be to the exclusion of, the powers of the Directors. The Directors may at any time withdraw or vary any of the powers so conferred on a Managing Director.

#### **17.4 Rotation**

A Managing Director shall not retire by rotation in accordance with clause 13.2, but Executive Directors shall.

#### **17.5 Secretary**

A Secretary of the Company shall hold office on such terms and conditions, as to remuneration and otherwise, as the Directors determine. There must be at least

one Secretary of the Company at all times.

---

## **18. SEALS**

### **18.1 Common Seal**

Subject to the Corporations Act, the Company may have a Seal. The Directors shall provide for the safe custody of the Seal. The Seal shall only be used by the authority of the Directors, or of a committee of the Directors authorised by the Directors to authorise the use of the Seal. Every document to which the Seal is affixed shall be signed by a Director and countersigned by another Director, (who may be an alternate Director) a Secretary or another person appointed by the Directors to countersign that document or a class of documents in which that document is included.

### **18.2 Execution of Documents Without a Seal**

The Company may execute a document without using the Seal if the document is signed by:

- (a) two Directors; or
- (b) a Director and a Secretary.

### **18.3 Share Seal**

Subject to the Corporations Act, the Company may have a duplicate Seal, known as the Share Seal, which shall be a facsimile of the Seal with the addition on its face of the words "**Share Seal**", and the following provisions shall apply to its use:

- (a) any certificate for Shares may be issued under the Share Seal and if so issued shall be deemed to be sealed with the Seal;
- (b) subject to the following provisions of this clause 18.3, the signatures required by clause 18.1 on a document to which the Seal is affixed may be imposed by some mechanical means;
- (c) subject to the following provisions of this clause 18.3, the Directors may determine the manner in which the Share Seal shall be affixed to any document and by whom a document to which the Share Seal is affixed shall be signed, and whether any signature so required on such a document must be actually written on the document or whether it may be imposed by some mechanical means;
- (d) the only documents on which the Share Seal may be used shall be Share or stock unit certificates, debentures or certificates of debenture

stock, secured or unsecured notes, option certificates and any certificates or other documents evidencing any Share Options or rights to take up any Shares in or debenture stock or debentures or notes of the Company; and

- (e) signatures shall not be imposed by mechanical means nor (except when the requirements of clause 18.1 as to signatures are complied with) shall the Share Seal be used on any certificate or other document mentioned in clause 18.3(d) unless the certificate or other document has first been approved for sealing or signature (as the case may be) by the Board or other authorised person or persons.

---

## **19. ACCOUNTS, AUDIT AND RECORDS**

### **19.1 Accounting records to be kept**

The Directors shall cause proper accounting and other records to be kept by the Company and shall distribute copies of the Company's accounts and reports as required by the Corporations Act and the Listing Rules.

### **19.2 Audit**

The Company shall comply with the requirements of the Corporations Act and the Listing Rules as to the audit of accounts, registers and records.

### **19.3 Inspection**

The Directors shall determine whether and to what extent, and at what time and places and under what conditions, the accounting records and other documents of the Company or any of them will be open to the inspection of Shareholders other than Directors. A Shareholder other than a Director shall not be entitled to inspect any document of the Company except as provided by law or authorised by the Directors or by the Company in general meeting.

---

## **20. MINUTES**

### **20.1 Minutes to be Kept**

The Directors shall cause to be kept, in accordance with Section 1306 of the Corporations Act, minutes of:

- (a) all proceedings of general meetings and Directors meetings; and
- (b) all appointments of Officers and persons ceasing to be Officers.

## **20.2 Signature of Minutes**

All minutes shall be signed by the chairman of the meeting at which the proceedings took place or by the chairman of the next succeeding meeting.

## **20.3 Requirements of the Corporations Act**

The Company and the Officers shall comply with the requirements of Part 2G.3 of Chapter 2G of the Corporations Act.

---

## **21. DIVIDENDS AND RESERVES**

### **21.1 Dividends**

Subject to and in accordance with the Corporations Act, the Listing Rules, the rights of any preference Shareholders and to the rights of the holders of any shares created or raised under any special arrangement as to dividend, the Directors may from time to time declare a dividend to be paid to the Shareholders entitled to the dividend. Subject to the rights of any preference Shareholders and to the rights of the holders of any shares created or raised under any special arrangement as to dividend, the dividend as declared shall be payable on all Shares according to the proportion that the amount paid (not credited) is of the total amounts paid and payable (excluding amounts credited) in respect of such Shares.

### **21.2 Interim Dividend**

The Directors may from time to time pay to the Shareholders any interim dividends that they may determine.

### **21.3 No Interest**

No dividend shall carry interest as against the Company.

### **21.4 Reserves**

The Directors may set aside out of the profits of the Company any amounts that they may determine as reserves, to be applied at the discretion of the Directors, for any purpose for which the profits of the Company may be properly applied. Pending any application of the reserves, the Directors may invest or use the reserves in the business of the Company or in other investments as they think fit.

### **21.5 Alternative Method of Payment of Dividend**

When declaring any dividend and subject at all times to the Corporations Act and the Listing Rules, the Directors may:

- (a) direct payment of the dividend to be made wholly or in part by the distribution of specific assets or documents of title (including, without limitation, paid-up Shares, debentures or debenture stock of this or any other company, gold, gold or mint certificates or receipts and like documents) or in any one of more of these ways, and where any difficulty arises with regard to the distribution the Directors may settle it as they think expedient and in particular may issue fractional certificates and may fix the value for distribution of specific assets or any part of them and may determine that cash payments shall be made to any Shareholders upon the basis of the value so fixed in order to adjust the rights of all parties and may vest any of these specific assets in trustees upon trusts for the persons entitled to the dividend as may seem expedient to the Directors; or
- (b) direct that a dividend be payable to particular Shareholders wholly or partly out of any particular fund or reserve or out of profits derived from any particular source and to the remaining Shareholders wholly or partly or of any other particular fund or reserve or out of profits derived from any other particular source and may so direct notwithstanding that by so doing the dividend will form part of the assessable income for taxation purposes of some Shareholders and will not form part of the assessable income of others.

For the purposes of this clause, the Company is authorised to distribute securities of another body corporate by way of dividend and, on behalf of the shareholders, provide the consent of each shareholder to becoming a member of that body corporate and the agreement of each shareholder to being bound by the constitution of that body corporate.

## **21.6 Payment of Dividends**

All dividends shall be dispatched simultaneously to the Shareholders entitled to the dividend. Any dividend payable may be paid by:

- (a) cheque sent through the mail directed to:
  - (i) the address of the Shareholder shown in the Register or to the address of the joint holders of Shares shown first in the Register; or
  - (ii) an address which the Shareholder has, or joint holders have, in writing notified the Company as the address to which dividends should be sent;
- (b) electronic funds transfer to an account with a bank or other financial institution nominated by the Shareholder and acceptable to the Company; or



(c) any other means determined by the Directors.

### **21.7 Unclaimed Dividends**

Except as otherwise provided by statute, all dividends unclaimed for one year after having been declared may be invested or otherwise made use of by the Directors for the benefit of the Company until claimed.

### **21.8 Breach of Restriction Agreement**

In the event of a breach of the Listing Rules relating to Restricted Securities or of any escrow arrangement entered into by the Company under the Listing Rules in relation to any Shares which are classified under the Listing Rules or by a Recognised Stock Exchange as Restricted Securities, the Shareholder holding the Shares in question shall cease to be entitled to be paid any dividends in respect of those Shares for so long as the breach subsists.

---

## **22. CAPITALISATION OF PROFITS**

### **22.1 Capitalisation**

The Directors, subject to the Listing Rules, may from time to time determine to capitalise any amount, being the whole or a part of the amount for the time being standing to the credit of any reserve account or the profit and loss account or otherwise available for distribution to Shareholders, and that that amount be applied, in any of the ways mentioned in clause 22.2 for the benefit of Shareholders in the proportions to which those Shareholders would have been entitled in a distribution of that amount by way of dividend.

### **22.2 Application of Capitalised Amounts**

The ways in which an amount may be applied for the benefit of Shareholders under clause 22.1 are:

- (a) in paying up any amounts unpaid on Shares held by Shareholders;
- (b) in paying up in full unissued Shares or debentures to be issued to Shareholders as fully paid; or
- (c) partly as mentioned in paragraph (a) and partly as mentioned in paragraph (b).

### **22.3 Procedures**

The Directors shall do all things necessary to give effect to the resolution referred to in clause 22.1 and, in particular, to the extent necessary to adjust the rights of the Shareholders among themselves, may:

- (a) issue fractional certificates or make cash payments in cases where Shares or debentures could only be issued in fractions; and
- (b) authorise any person to make, on behalf of all the Shareholders entitled to any further Shares or debentures upon the capitalisation, an agreement with the Company providing for the issue to them, credited as fully paid up, of any further Shares or debentures or for the payment up by the Company on their behalf of the amounts or any part of the amounts remaining unpaid on their existing Shares by the application of their respective proportions of the sum resolved to be capitalised,

and any agreement made under an authority referred to in paragraph (b) is effective and binding on all the Shareholders concerned.

---

## **23. BONUS SHARE PLAN**

### **23.1 Authorisation of Bonus Share Plan**

Subject to the Listing Rules and the Corporations Act, the Company may, by ordinary resolution in general meeting, authorise the Directors to implement a Bonus Share Plan on such terms and conditions as are referred to in the resolution and which plan provides for any dividend which the Directors may declare from time to time under clause 21, less any amount which the Company shall either pursuant to this Constitution or any law be entitled or obliged to retain, not to be payable on Shares which are participating Shares in the Bonus Share Plan but for those Shares to carry instead an entitlement to receive an allotment of additional fully paid ordinary Shares to be issued as bonus Shares.

### **23.2 Amendment and Revocation**

Any resolution passed by the Company in general meeting pursuant to clause 23.1 may, at any time, be amended or revoked by the Company by ordinary resolution in general meeting.

---

## **24. DIVIDEND REINVESTMENT PLAN**

### **24.1 Authorisation of Dividend Reinvestment Plan**

Subject to the Listing Rules and the Corporations Act, the Company may, by resolution of the Directors, implement a Dividend Reinvestment Plan on such terms and conditions as are referred to in the resolution and which plan provides for any dividend which the Directors may declare from time to time under clause 21 and payable on Shares which are participating Shares in the Dividend Reinvestment Plan, less any amount which the Company shall either pursuant to this Constitution or any law be entitled or obliged to retain, to be applied by the Company to the payment of the subscription price of ordinary fully paid Shares.

## **24.2 Amendment and Revocation**

Any resolution passed by the Company in general meeting pursuant to clause 24.1 may, at any time, be amended or revoked by the Company by ordinary resolution in general meeting.

---

## **25. NOTICES**

### **25.1 Service**

A notice may be given by the Company to any Shareholder either by:

- (a) serving it on him or her personally; or
- (b) by sending it by post to the Shareholder at his or her address as shown in the Register of Shareholders or the address supplied by the Shareholder to the Company for the giving of notices to this person. Notices to Shareholders whose registered address is outside Australia shall be sent by airmail or, where applicable, by the means provided for by clause 25.7; or
- (c) be sending it to the fax number or electronic address (if any) nominated by the member.

### **25.2 Deemed receipt of Notice**

A notice will be deemed to be received by a Shareholder when:

- (a) where a notice is served personally, service of the notice shall be deemed to be effected when hand delivered to the member in person;
- (b) where a notice is sent by post, service of the notice shall be deemed to be effected by properly addressing, pre-paying and posting a letter containing the notice, and to have been effected, in the case of a notice of a meeting, on the date after the date of its posting and, in any other case, at the time at which the letter would be delivered in the ordinary course of post;
- (c) where a notice is sent by facsimile, service of the notice shall be deemed to be effected upon confirmation being received by the Company that all pages of the notice have been successfully transmitted to the member's facsimile machine at the facsimile number nominated by the member; and
- (d) where a notice is sent to an electronic address by electronic means, service of the notice shall be deemed to be effected once sent by the Company to the electronic address nominated by the member

(regardless of whether or not the notice is actually received by the member).

### **25.3 Notice to Joint Holders**

A notice may be given by the Company to the joint holders of a Share by giving the notice to the joint holder first named in the Register of Shareholders in respect of the Share.

### **25.4 Notices to Personal Representatives and Others**

A notice may be given by the Company to a person entitled to a Share in consequence of the death or bankruptcy of a Shareholder by serving it on him or her or by sending it to him or her by post addressed to the person by name or by the title or representative of the deceased or assignee of the bankrupt, or by any like description, at the address (if any) supplied for the purpose by the person or, if such an address has not been supplied, at the address to which the notice might have been sent if the death or bankruptcy has not occurred.

### **25.5 Persons Entitled to Notice**

Notice of every general meeting shall be given to:

- (a) every Shareholder;
- (b) every person entitled to a Share in consequence of the death or bankruptcy of a Shareholder who, but for his death or bankruptcy, would be entitled to receive notice of the meeting;
- (c) every Director or Alternate Director;
- (d) the auditor for the time being of the Company; and
- (e) if the Company has issued and there are currently any Listed Securities, the Home Branch.

No other person is entitled to receive notices of general meetings.

### **25.6 Change of Address**

The Company shall acknowledge receipt of all notifications of change of address by Shareholders.

### **25.7 Incorrect Address**

Where the Company has bona fide reason to believe that a Shareholder is not known at his or her registered address, and the Company has subsequently made an enquiry in writing at that address as to the whereabouts of the

Shareholder and this enquiry either elicits no response or a response indicating that the Shareholder or his present whereabouts are unknown, all future notices will be deemed to be given to the Shareholder if the notice is exhibited in the Registered Office (or, in the case of a member registered on a Branch Register, in a conspicuous place in the place where the Branch Register is kept) for a period of 48 hours (and shall be deemed to be duly served at the commencement of that period) unless and until the Shareholder informs the Company of a new address to which the Company may send him notices (which new address shall be deemed his registered address).

---

## **26. WINDING UP**

### **26.1 Distribution in Kind**

If the Company is wound up, the liquidator may, with the authority of a special resolution, divide among the Shareholders in kind the whole or any part of the property of the Company, and may for that purpose set a value as the liquidator considers fair upon any property to be so decided, and may determine how the division is to be carried out as between the Shareholders or different classes of Shareholders.

### **26.2 Trust for Shareholders**

The liquidator may, with the authority of a special resolution, vest the whole or any part of any property in trustees upon such trusts for the benefit of the contributories as the liquidator thinks fit, but so that no Shareholder is compelled to accept any Shares or other securities in respect of which there is any liability.

### **26.3 Distribution in Proportion to Shares Held**

Subject to the rights of Shareholders (if any) entitled to Shares with special rights in a winding-up and the Corporations Act all monies and property that are to be distributed among Shareholders on a winding-up, shall be distributed in proportion to the Shares held by them respectively, irrespective of the amount paid-up or credited as paid-up on the Shares.

### **26.4 Order for winding up**

Where an order is made for the winding up of the Company or it is resolved by special resolution to wind up the Company, then on a distribution of assets to Shareholders, Shares classified by a Recognised Stock Exchange as Restricted Securities at the time of the commencement of the winding up shall rank in priority after all other Shares.

---

## **27. INDEMNITIES AND INSURANCE**

## **27.1 Liability to Third Parties**

The Company:

- (a) indemnifies and agrees to keep indemnified every director, principal executive officer or secretary of the Company;
- (b) may, by deed, indemnify or agree to indemnify an officer (other than a director, principal executive officer or secretary) of the Company,

against a liability to another person, other than the Company or a related body corporate of the Company, PROVIDED THAT:

- (c) the provisions of the Corporations Act (including, but not limited to, Chapter 2E) are complied with in relation to the giving of the indemnity; and
- (d) the liability does not arise in respect of conduct involving a lack of good faith, gross negligence, wilful misconduct or fraud on the part of the officer.

## **27.2 Defending Proceedings**

The Company:

- (a) hereby indemnifies and agrees to keep indemnified every director, principal executive officer and secretary of the Company; and
- (b) may, by deed, indemnify or agree to indemnify an officer of the Company (other than a director, principal executive officer or secretary);

out of the property of the Company in relation to the period during which that officer held his or her office against a liability for costs and expenses incurred by that officer in that capacity, provided that such liability did not arise in respect of conduct involving a lack of good faith, gross negligence, wilful misconduct or fraud on the part of that officer:

- (c) in defending proceedings, whether civil or criminal, in which:
  - (i) judgment is given in favour of that officer; or
  - (ii) that officer is acquitted; or
- (d) in connection with an application in relation to any proceedings referred to in clause 27.2(c) in which relief is granted to that officer by the Court under the Corporations Act.

### **27.3 Insurance**

The Company or a related body corporate of the Company may pay, or agree to pay, a premium under a contract insuring an officer in relation to the period during which that officer held that office, including in respect of a liability for costs and expenses incurred by a person in defending civil or criminal proceedings whether or not the officer has successfully defended himself or herself in these proceedings, provided that:

- (a) the provisions of the Corporations Act (including, but not limited to, Chapter 2E) are complied with in relation to the payment of the premium; and
- (b) the liability does not arise out of conduct involving a wilful breach of duty to the Company or a contravention of Sections 184(2) or (3) of the Corporations Act.

### **27.4 Disclosure**

Subject to any exception provided for in the Corporations Act, full particulars of the Company's indemnities and insurance premiums in relation to the officers must be included each year in the Directors' Report.

### **27.5 Definition**

For the purposes of this clause 27, "officer" means:

- (a) a director, secretary or executive officer of the Company, whether past, present or future by whatever name called and whether or not validly appointed to occupy or duly authorised to act in such a position; and
- (b) any person who by virtue of any applicable legislation or law is deemed to be a director or officer of the Company, including without limitation, the persons defined as an officer of a company by Section 9 of the Corporations Act.

Nothing in this clause 27 precludes the Company from indemnifying employees (other than officers) and consultants or sub-contractors where the Directors consider it is necessary or appropriate in the exercise of their powers to manage the Company.

---

## **28. DIRECTORS ACCESS TO INFORMATION**

Where the Directors consider it appropriate, the Company may:



- (a) give a former Director access to certain papers, including documents provided or available to the Directors and other papers referred to in those documents; and
- (b) bind itself in any contract with a Director or former Director to give the access.

---

## **29. OVERSEAS SHAREHOLDERS**

Each Shareholder with a registered address outside Australia acknowledges that, with the approval of the Home Branch, the Company may, to the extent permitted by the Listing Rules and applicable market practice, arrange for a nominee to dispose of any of its entitlement to participate in any issue of Shares or Share Options by the Company to Shareholders.

---

## **30. LOCAL MANAGEMENT**

### **30.1 Local Management**

The Directors may from time to time provide for the management and transaction of the affairs of the Company in any specified locality whether in or outside the State in such manner as it thinks fit and the provisions contained in clauses 30.2, 30.3 and 30.4 shall be without prejudice to the general powers conferred by this clause 30.1.

### **30.2 Local Boards or Agencies**

The Directors may at any time and from time to time establish any local boards or agencies for managing any of the affairs of the Company in any specified locality and appoint any persons to be Shareholders of a local board or any managers or agents and may fix their remuneration. The Directors may from time to time and at any time delegate to any person so appointed any of the powers, authorities and discretions for the time being vested in the Directors other than the power of making calls and may authorise the Shareholders for the time being of any local board or any of them to fill up any vacancies on a local board and to act notwithstanding vacancies. This appointment or delegation may be made on the terms and subject to the conditions that the Directors think fit and the Directors may at any time remove any person so appointed and may annul or vary any or all of this delegation.

### **30.3 Appointment of Attorneys**

The Company may at any time and from time to time by power of attorney appoint any person or persons to be the attorney or attorneys of the Company for purposes and with powers, authorities and discretions (not exceeding those vested in or exercisable by the Company) and for the period and subject to the conditions that the Company may from time to time think fit. This appointment

may (if the Company thinks fit) be made in favour of the Shareholders or any of the Shareholders of any local board established under clause 30.2 or in favour of any company or of the Shareholders, directors, nominees or managers of any company or firm or in favour of any fluctuating body of persons whether or not nominated directly by the Company. The power of attorney may contain any provisions for the protection or convenience of persons dealing with such attorney or attorneys that the Company thinks fit.

#### **30.4 Authority of Attorneys**

Any such delegates or attorneys as appointed under this Constitution may be authorised by the Company to sub-delegate all or any of the powers, authorities and discretions for the time being vested in them.

---

#### **31. DISCOVERY**

Save as provided by the Corporations Act or the Listing Rules no Shareholder shall be entitled to require discovery of any information in respect of any details of the Company's trading or any matter which is or may be in the nature of a trade secret, mystery of trade or technical process which may relate to the business of the Company and which in the opinion of the Directors it would be expedient in the interests of the Shareholders of the Company to communicate.

---

#### **32. SALE OF THE COMPANY'S MAIN UNDERTAKING**

For so long only as any of the securities of the Company are Listed Securities then, notwithstanding anything to the contrary contained in this Constitution, any sale or disposal of the Company's main undertaking shall be conditional upon approval by an ordinary resolution of the Shareholders.

---

#### **33. COMPLIANCE (OR INCONSISTENCY) WITH THE LISTING RULES**

If the Company is admitted to the Official List of a Recognised Stock Exchange, the following clauses apply:

- (a) notwithstanding anything contained in this Constitution, if the Listing Rules prohibit an act being done, the act shall not be done;
- (b) nothing contained in this Constitution prevents an act being done that the Listing Rules require to be done;
- (c) if the Listing Rules require an act to be done or not to be done, authority is given for that act to be done or not to be done (as the case may be);
- (d) if the Listing Rules require this Constitution to contain a provision and it does not contain such a provision, this Constitution is deemed to contain that provision;

- (e) if the Listing Rules require this Constitution not to contain a provision and it contains such a provision, this Constitution is deemed not to contain that provision; and
- (f) if any provision of this Constitution is or becomes inconsistent with the Listing Rules, this Constitution is deemed not to contain that provision to the extent of inconsistency.

---

## **34. CONSISTENCY WITH CHAPTER 2E OF THE CORPORATIONS ACT**

### **34.1 Requirements of Chapter 2E**

Notwithstanding any other provision to the contrary contained in this Constitution:

- (a) the Company shall not give a financial benefit to a related party except as permitted by Chapter 2E of the Corporations Act;
- (b) all notices convening general meetings for the purposes of Section 208 of the Corporations Act shall comply with the requirements of Sections 217 to 227 of the Corporations Act;
- (c) all meetings convened pursuant to Section 221 shall be held in accordance with the requirements of Section 225 of the Corporations Act; and
- (d) no holder of Shares or person on their behalf shall be entitled to vote or vote on a proposed resolution under Part 2E.1 of the Corporations Act if that holder of Shares is a related party of the public company to whom the resolution would permit a financial benefit to be given or an associate of such a related party.

### **34.2 Definitions**

For the purposes of this clause 34 the terms:

- (a) "financial benefit" and "related party" shall have the meanings given or indicated by Part 2E.1 and Part 2E.2 of the Corporations Act"; and
- (b) "associate" shall have the meaning given to it in Division 2 of Part 1.2 of the Corporations Act.

---

## **35. INADVERTENT OMISSIONS**

If for some formality required by this Constitution is inadvertently omitted or is not carried out the omission does not invalidate any resolution, act, matter or thing which but for the omission would have been valid unless it is proved to the

satisfaction of the Directors that the omission has directly prejudiced any Shareholder financially. The decision of the Directors is final and binding on all Shareholders.

---

## **36. PARTIAL TAKEOVER PLEBISCITES**

### **36.1 Resolution to Approve Proportional Off-Market Bid**

- (a) Where offers have been made under a proportional off-market bid in respect of a class of securities of the Company ("**bid class securities**"), the registration of a transfer giving effect to a contract resulting from the acceptance of an offer made under the proportional off-market bid is prohibited unless and until a resolution (in this clause 36 referred to as a "**prescribed resolution**") to approve the proportional off-market bid is passed in accordance with the provisions of this Constitution.
- (b) A person (other than the bidder or a person associated with the bidder) who, as at the end of the day on which the first offer under the proportional off-market bid was made, held bid class securities is entitled to vote on a prescribed resolution and, for the purposes of so voting, is entitled to one vote for each of the bid class securities.
- (c) A prescribed resolution is to be voted on at a meeting, convened and conducted by the Company, of the persons entitled to vote on the prescribed resolution.
- (d) A prescribed resolution that has been voted on is to be taken to have been passed if the proportion that the number of votes in favour of the prescribed resolution bears to the total number of votes on the prescribed resolution is greater than one half, and otherwise is taken to have been rejected.

### **36.2 Meetings**

- (a) The provisions of this Constitution that apply in relation to a general meeting of the Company apply, with modifications as the circumstances require, in relation to a meeting that is convened pursuant to this clause 36.2 as if the last mentioned meeting was a general meeting of the Company.
- (b) Where takeover offers have been made under a proportional off-market bid, the Directors are to ensure that a prescribed resolution to approve the proportional off-market bid is voted on in accordance with this clause 36 before the 14<sup>th</sup> day before the last day of the bid period for the proportional off-market bid (the "**resolution deadline**").

### **36.3 Notice of Prescribed Resolution**

Where a prescribed resolution to approve a proportional off-market bid is voted on in accordance with this clause 36 before the resolution deadline, the Company is, on or before the resolution deadline:

- (a) to give the bidder; and
- (b) if the Company is listed – each relevant financial market (as defined in the Corporations Act) in relation to the Company;

a notice in writing stating that a prescribed resolution to approve the proportional off-market bid has been voted on and that the prescribed resolution has been passed, or has been rejected, as the case requires.

### **36.4 Takeover Resolution Deemed Passed**

Where, at the end of the day before the resolution deadline, no prescribed resolution to approve the proportional off-market bid has been voted on in accordance with this clause 36, a resolution to approve the proportional off-market bid is to be, for the purposes of this clause 36, deemed to have been passed in accordance with this clause 36.

### **36.5 Takeover Resolution Rejected**

Where a prescribed resolution to approve a proportional off-market bid under which offers have been made is voted on in accordance with this clause 36 before the resolution deadline, and is rejected, then:

- (a) despite Section 652A of the Corporations Act:
  - (i) all offers under the proportional off-market bid that have not been accepted as at the end of the resolution deadline; and
  - (ii) all offers under the proportional off-market bid that have been accepted and from whose acceptance binding contracts have not resulted as at the end of the resolution deadline,are deemed to be withdrawn at the end of the resolution deadline;
- (b) as soon as practicable after the resolution deadline, the bidder must return to each person who has accepted any of the offers referred to in clause 36.5(a)(ii) any documents that were sent by the person to the bidder with the acceptance of the offer;
- (c) the bidder:
  - (i) is entitled to rescind; and

(ii) must rescind as soon as practicable after the resolution deadline,

each binding takeover contract resulting from the acceptance of an offer made under the proportional off-market bid; and

(d) a person who has accepted an offer made under the proportional off-market bid is entitled to rescind the takeover contract (if any) resulting from the acceptance.

### **36.6 Renewal**

---

**37. THIS CLAUSE 36 CEASES TO HAVE EFFECT ON THE THIRD ANNIVERSARY OF THE DATE OF THE ADOPTION OF THE LAST RENEWAL OF THIS CLAUSE 36. TRANSITIONAL**

### **37.1 Provisions Relating to Official Quotation of Securities**

Subject to clause 37.2 the provisions of this Constitution which relate to the official quotation of the Company's securities on a Recognised Stock Exchange (**Official Quotation**), including but not limited to clauses which refer to a Recognised Stock Exchange, the Listing Rules, applicable Settlement Rules, the Home Exchange, CSD, CHES, Restricted Securities or Listed Securities shall not come into effect until such time as the Company is admitted to the official list of entities that a Recognised Stock Exchange has admitted and not removed.

### **37.2 Severance**

To the extent that any of the provisions of this Constitution referred to in clause 37.1 above can continue to have effect following severance of the matters relating to Official Quotation, then such provisions shall be valid and effectual, notwithstanding clause 37.1, as from the date of adoption of this Constitution by special resolution of the members of the Company.

---

## SCHEDULE 1 - PREFERENCE SHARES (CLAUSE 2.4)

---

1. In this schedule, unless the context otherwise requires:

**Dividend Date** means, in relation to a Preference Share, a date specified in the Issue Resolution on which a Dividend in respect of that Preference Share is payable.

**Dividend Rate** means, in relation to a Preference Share, the term specified in the Issue Resolution for the calculation of the amount of Dividend to be paid in respect of that Preference Share on any Dividend Date, which calculation may be wholly or partly established by reference to an algebraic formula.

**Franked Dividend** has the same meaning ascribed to Franked Distribution in Part 3-6 of the Tax Act.

**Issue Resolution** means the resolution specified in clause 4 of this schedule.

**Preference Share** means a preference share issued under clause 2.5.

**Redeemable Preference Share** means a Preference Share which the Issue Resolution specified as being, or being at the option of the Company to be, liable to be redeemed.

**Redemption Amount** means, in relation to a Redeemable Preference Share, the amount specified to be paid on redemption of the Redeemable Preference Share.

**Redemption Date** means, in relation to a Redeemable Preference Share, the date specified in the Issue Resolution for the redemption of that Preference Share.

**Tax Act** means the *Income Tax Assessment Act 1997*.

2. Each Preference Share confers upon its holder:

- (a) the right in a winding up to payment in cash of the capital (including any premium) then paid up on it, and any arrears of Dividend in respect of that Preference Share, in priority to any other class of Shares;
- (b) the right in priority to any payment of Dividend to any other class of Shares to a cumulative preferential Dividend payable on each Dividend Date in relation to that Preference Share calculated in accordance with the Dividend Rate in relation to that Preference Share; and



- (c) no right to participate beyond the extent elsewhere specified in clause 2 of this schedule in surplus assets or profits of the Company, whether in a winding up or otherwise.
3. Each Preference Share also confers upon its holder the same rights as the holders of ordinary Shares to receive notices, reports, audited accounts and balance sheets of the Company and to attend general meetings and confers upon its holder the right to vote at any general meeting of the Company in each of the following circumstances and in no others:
- (a) during a period during which a dividend (or part of a dividend) in respect of the Preference Share is in arrears;
  - (b) on a proposal to reduce the Company's share capital;
  - (c) on a resolution to approve the terms of a buy-back agreement;
  - (d) on a proposal that affects rights attached to the Preference Share;
  - (e) on a proposal to wind up the Company;
  - (f) on a proposal for the disposal of the whole of the Company's property, business and undertaking; and
  - (g) during the winding up of the Company.
4. The Board may only allot a Preference Share where by resolution it specifies the Dividend Date, the Dividend Rate, and whether the Preference Share is or is not, or at the option of the Company is to be, liable to be redeemed, and, if the Preference Share is a Redeemable Preference Share, the Redemption Amount and Redemption Date for that Redeemable Preference Share and any other terms and conditions to apply to that Preference Share.
5. The Issue Resolution in establishing the Dividend Rate for a Preference Share may specify that the Dividend is to be one of:
- (a) fixed;
  - (b) variable depending upon any variation of the respective values of any factors in an algebraic formula specified in the Issue Resolution; or
  - (c) variable depending upon such other factors as the Board may specify in the Issue Resolution,

and may also specify that the Dividend is to be a Franked Dividend or not a Franked Dividend.

6. Where the Issue Resolution specifies that the Dividend to be paid in respect of the Preference Share is to be a Franked Dividend the Issue Resolution may also specify:
  - (a) the extent to which such Dividend is to be franked (within the meaning of the Tax Act); and
  - (b) the consequences of any Dividend paid not being so franked, which may include a provision for an increase in the amount of the Dividend to such an extent or by reference to such factors as may be specified in the Issue Resolution.
  
7. Subject to the Corporations Act, the Company must redeem a Redeemable Preference Share on issue:
  - (a) on the specified date where the Company, at least 15 Business Days before that date, has given a notice to the holder of that Redeemable Preference Share stating that the Redeemable Preference Share will be so redeemed on the specified date; and
  - (b) in any event, on the Redemption Date,but no Redeemable Preference Share may be redeemed and no notice of redemption may be given before the second anniversary of the date upon which that Redeemable Preference Share is issued.
  
8. The certificate issued by the Company in relation to any Preference Share must specify in relation to that Preference Share:
  - (a) the date of issue of the Preference Share;
  - (b) the Dividend Rate and Dividend Dates;
  - (c) whether the Preference Share is a Redeemable Preference Share and if it is:
    - (i) the Redemption Amount and Redemption Date; and
    - (ii) the conditions of redemption (if any);
  - (d) the conditions of participation (if any) in respect of the Preference Share set out in clause 3 of this schedule; and
  - (e) any other matter the Board determines.
  
9. On redemption of a Redeemable Preference Share, the Company, after the holder has surrendered to the Company the certificate in respect of that

Redeemable Preference Share, must pay to the holder the Redemption Amount in cash, by cheque or in any other form that the holder agrees to in writing.



**African Petroleum Corporation Limited**

48 Dover Street  
London W1S 4FF  
United Kingdom

**Financial Advisor**

Pareto Securities AS  
Dronning Mauds gate 3  
N-0250 Oslo  
Norway

**Legal Advisor to the Company**

*(as to Norwegian law)*

Arntzen de Besche Advokatfirma AS  
Bygdøy allé 2  
N-0257 Oslo  
Norway