

Iona Energy Company (UK) Ltd – Violation of the ABM-rules – Delisting of bonds from Nordic ABM

1. Introduction

The matter relates to whether the bonds issued by Iona Energy Company (UK) Ltd (the “**Company**”) are no longer suitable for listing on Nordic ABM.

As of the date of this letter, the Company has not published annual or interim financial reports since the Q2-report for 2015 was published on 26 August 2015. The last audited annual report published by the Company was the annual report for 2014 which was made public on 29 April 2015.

The question is whether this entails that the Company’s bonds are not suitable for listing and accordingly shall be delisted from trading on Nordic ABM, cf. section 7.1 (1) and (2) of the ABM-rules.

2. The factual circumstances of the case

The Company’s bonds (the “**Bonds**”) with ISIN NO0010689763 was listed on Nordic ABM on 21 March 2014. At the time of the issue of the Bonds, the Company was a wholly-owned subsidiary of Iona Energy Inc. (“**Iona Energy**”), a Canadian oil and gas company with assets in the UK North Sea.

On 24 November 2015, the Company published a stock exchange release¹ where Iona Energy informed that the Company together with certain other subsidiaries of Iona Energy would commence insolvency procedures. Iona Energy also informed that given the Company’s level of senior secured debt under its bonds and the concentration of Iona Energy’s assets in the Company, it would be highly unlikely that there would be any residual value for Iona Energy’s shareholders following such process. The stock exchange notice also stated that trading of the shares in Iona Energy on TSX Venture Exchange would be suspended.

Due to the content of the above stock exchange notice, the Oslo Stock Exchange decided to suspend the Company’s bonds on Nordic ABM on 25 November 2015.²

On 22 December 2015, Nordic Trustee, acting as bond trustee for the Bonds, declared that the Bonds were in default and enforced certain security for the Bonds. On 23 December 2015, the directors of the Company filed for administration of the Company and administrators were appointed 6 January 2016.

Following efforts from the administration to secure a solution for the financial distress of the Company, a stock exchange notice was released on 22 February 2016³ where it was announced that the administrators and Nordic Trustee had entered into a conditional share purchase agreement for the sale of 100% of the Company’s shares to Decipher Energy Limited. Following approval by the bondholders’ meeting, the transaction was completed on 18 April 2017⁴. In connection with the transaction, the bond agreement was also amended with regard to the repayment of the Bonds. At the same date, a notice of end of administration of the Company was filed. The Company has informed

¹ <http://www.newsweb.no/newsweb/search.do?messageId=390101>

² <http://www.newsweb.no/newsweb/search.do?messageId=390141>

³ <http://www.newsweb.no/newsweb/search.do?messageId=420815>

⁴ <http://www.newsweb.no/newsweb/search.do?messageId=424897>

the Oslo Stock Exchange that it is no longer dependent on financing from the Bonds to fulfill its capital requirements.

As mentioned above, the Company has not published any financial reports pursuant to the ABM-rules since the Q2-report for 2015 was published on 26 August 2015. The last audited annual report published by the Company was the annual report for 2014 which was announced on 29 April 2015.

3. The Company's account of the matter

The Oslo Stock Exchange understands that the reason for the outstanding financial reporting is mainly the challenging financial situation the Company was subject to prior to being acquired by Decipher Energy Limited, which also entailed that the Company was under administration for a period of time.

The Oslo Stock Exchange has been in contact with representatives of the Company in October 2017, whereby the Company informed the Oslo Stock Exchange that it would not correct the ongoing violations of the mandatory financial reporting rules or recommence financial reporting going forward. The Company has not objected to a delisting of the Bonds.

4. Legal background

Pursuant to section 3.4.7 of the ABM rules, the audited annual financial report shall be made public at the latest four months after the end of each financial year. As stated in the ABM rules section 3.4.6, a half-yearly report or tertial report prepared in accordance with section 3.4.4 shall be made public as soon as possible after the end of the relevant period, but at the latest two months thereafter.

The rules shall secure reporting of the financial situation in the issuer to the investors and other market participants on a regular basis. Financial information is essential for the market's considerations and forms the basis for the investment decisions made by the investors and other market participants, which is reflected in the market's pricing of the relevant financial instrument. A functional financial market is dependent on a steady and diligent flow of information from the issuers to the market which again form the basis for an effective pricing of the financial instruments. The quality of the market place is accordingly affected negatively when there is a breach of the elementary rules that shall secure the market participants access to financial information on a regular basis.

The Oslo Stock Exchange may decide that bonds issued by a borrower in certain circumstances shall be delisted, cf. section 7.1 of the ABM-rules:

- (1) Nordic ABM may decide that bonds issued by a borrower shall be delisted if they no longer satisfy the exchange's conditions or if called for on other special grounds. However, Nordic ABM cannot delist a financial instrument if this can be expected to cause material disadvantage for the owners of the instruments or for the market's duties and function.*
- (2) If the borrower has grossly or repeatedly violated the provisions of these Rules, the general provisions of stock exchange legislation or legal regulations issued pursuant to such legislation, this shall in general be regarded as a sufficient reason that may call for delisting of the company's bonds.*

(...)

The borrower is still subject to the reporting obligations under the ABM-rules when its bonds are suspended by the Oslo Stock Exchange.

5. The Oslo Stock Exchange's assessment

The Oslo Stock Exchange monitors the issuers' compliance with the applicable disclosure obligations on the Exchange's market places. The Oslo Stock Exchange considers this work to be of high importance for maintenance of the integrity of the market place.

Financial information is a key factor in the information regime for listed companies, and constitutes an important part of the Company's duty to provide correct and updated information to the market. Failure to comply with the financial reporting requirements is in itself considered to be a gross breach of the ABM-rules, cf. section 7.1 (2) of the ABM-rules.

As accounted for under item 2 above, the Company has not published any financial reports pursuant to the ABM-rules since August 2015. This implies that the 2015 and the 2016 audited annual reports, which should have been made public within 30 April the subsequent year, have not been published. In addition, the Company should have published a half-yearly report or tertial report prepared in accordance with section 3.4.4 of the ABM-rules within two months after the end of each relevant period. As stated above, the Company has not published any interim financial reports since the Q2-report for 2015 was published on 26 August 2015. Due to the Company reporting on a quarterly basis, the Company should have published the Q3-report for 2015 within 30 November 2015 and subsequent quarters within two months after the end of each relevant period.

As accounted for under item 4 above, financial information from issuers of bonds is considered essential and represents in many circumstances the majority of information provided by a bond issuer to the bondholders and the market. Given the long period of time the Company has not published any financial reports to the market, the Exchange considers the repeated violations of the rules as gross, section 7.1 (2) of the ABM-rules.

The breaches are accordingly persistent and the Company has as mentioned above informed the Oslo Stock Exchange that they will not correct the ongoing violations of the mandatory financial reporting rules or recommence financial reporting going forward.

Nordic ABM is not a regulated market pursuant to the Securities Trading Act and the rules for ABM are accordingly determined by the Oslo Stock Exchange. Pursuant to the ABM-rules, it is not possible to impose violation charges on issuers that breach the rules. The sanctions that can be implemented are limited to criticism and delisting. Given the long period of time with repeated violations of the financial reporting rules by the Company, and the fact that the financial reporting will not recommence, the Exchange does not consider criticism an appropriate measure in this case. The Oslo Stock Exchange therefore finds it necessary to consider whether the Company's bonds are suitable for listing on Nordic ABM.

Pursuant to section 7.1 (1) second sentence of the ABM-rules, the Exchange cannot delist a financial instrument if this can be expected to cause material disadvantage for the owners of the instruments or for the market's duties and function. This implies that a wide discretion has to be made as to the reasons for and against delisting when making the assessment of delisting. The interest of the Exchange and the market in being able to delist issuers which repeatedly and grossly violate key reporting rules must be weighed against the bondholders' interest in a continued listing.

The outstanding amount of the Company's bond loan has been reduced from USD 275 million to USD 525 thousand, which means that the economic interest in the loan has been significantly reduced. In addition, given that the Bonds have been suspended for nearly two years, a delisting of the Bonds will in the opinion of the Exchange not cause a materially changed situation for the bondholders in terms of trading in the Bonds. The disclosure obligations of issuers with bonds listed on Nordic ABM are key elements in the protection of existing and potential investors in the bond loan.

The Exchange understands that the Company has been in a challenging financial situation that has contributed to the lack of financial reporting. However, the rules for timely financial reporting in the ABM-rules apply regardless of the type of situation the relevant issuer is in. While the potential upside in a bond loan is limited to the conditions of the bond agreement, the downside of the issuer not being able to repay the loan in accordance with the agreed terms will always be present. The Exchange is therefore of the opinion that the financial reports of an issuer in financial distress in many circumstances have more information value than from an issuer that regularly complies with its obligations under the bond agreement.

Based on the above, the Oslo Stock Exchange considers that a delisting of the Bonds will not cause any material disadvantage for the bondholders or for the market's duties and function, cf. section 7.1 (1) second sentence of the ABM-rules. The Exchange also notes that the Company has not objected to a delisting of the Bonds.

Following an overall assessment of the above, the Oslo Stock Exchange considers that the Bonds are no longer suitable for listing on Nordic ABM. The Company has for a long period of time repeatedly violated the rules on mandatory financial reporting and the violations are still ongoing. Furthermore, the Company has stated that it does not intend to correct the ongoing violations or recommence its financial reporting going forward. As stated above, the Exchange also considers that a delisting of the Bonds will not cause any material disadvantage for the bondholders or for the market's duties and function.

The Oslo Stock Exchange has accordingly reached the conclusion that the Bonds are not suitable for listing on Nordic ABM. The Oslo Stock Exchange has therefore made the following decision:

"The Oslo Stock Exchange considers that the bonds issued by Iona Energy Company (UK) Ltd with ISIN NO0010689763 are not suitable for listing due to repeated and ongoing violations of the ABM-rules on financial reporting. The Oslo Stock Exchange has decided to delist the bonds from Nordic ABM pursuant to section 7.1 (1) and (2) of the ABM-rules with effect from 20 November 2017. The last listing date will be 17 November 2017."