

# **Soma Oil & Gas Exploration Limited**

**Annual Report and Financial Statements**

**For the year ended 31 December 2015**

**Company number 08619726**

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# **SOMA OIL & GAS EXPLORATION LIMITED**

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# **SOMA OIL & GAS EXPLORATION LIMITED**

## **COMPANY INFORMATION**

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<b>DIRECTORS:</b>	Lord Howard of Lympne, CH, QC (Chairman) Basil Shiblaq William Richard Anderson Robert Allen Sheppard Philip Edward Charles Wolfe Hassan Khaire
<b>COMPANY SECRETARY:</b>	Peter Damouni
<b>REGISTERED OFFICE:</b>	33 Cavendish Square London United Kingdom W1G 0PW
<b>REGISTERED NUMBER:</b>	08619726 (United Kingdom)
<b>ANTI-BRIBERY &amp; CORRUPTION AND CORPORATE LEGAL ADVISERS:</b>	DLA Piper UK LLP 3 Noble St London EC2V 7EE
<b>OIL &amp; GAS LEGAL ADVISERS:</b>	Akin Gump Strauss Hauer & Feld LLP Ten Bishops Square, 8 <sup>th</sup> Floor London E1 6EG
<b>AUDITORS:</b>	Deloitte LLP 2 New Street Square London EC4A 3BZ
<b>ACCOUNTANTS:</b>	Capita Asset Services 1 <sup>st</sup> Floor 40 Dukes Place London EC3A 7NH

# **SOMA OIL & GAS EXPLORATION LIMITED**

## **STRATEGIC REPORT**

For the year ended 31 December 2015

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The Directors present their Strategic Report for the year ended 31 December 2015.

Soma Oil & Gas Exploration Limited (the "Company" or "Soma Exploration") along with Soma Management Limited ("Soma Management") are wholly owned subsidiaries of Soma Oil & Gas Holdings Limited ("Soma" or the "Parent Company"). Together they are referred to herein as the Group.

### **Business review and future developments**

#### **Introduction**

Soma Exploration is an exploration pioneer into the deep water hydrocarbon potential offshore Somalia. The Company's aim is to revive exploration in a territory where, prior to 1991, a number of International Oil Companies were granted licenses before declaring *Force Majeure* due to the geopolitical situation at that time. If the Company is successful, the discovery and development of hydrocarbons offshore Somalia could provide the country with a bright and secure future.

On 6 August 2013, Soma Exploration signed the Seismic Option Agreement ("SOA") with the Ministry of National Resources<sup>1</sup> of the Federal Government of Somalia (the "Federal Government"). Under the terms of the SOA, Soma Exploration was required to undertake an Exploration Programme in the Federal Republic of Somalia over a two year period. Upon meeting the requirements of the SOA Soma Exploration gained the right to apply for and be granted Production Sharing Agreements ("PSA"s) covering an area of up to 60,000 sq. km (equivalent to 12 Blocks), for further exploration.

The above Exploration Programme had two phases: Phase 1 required Soma Exploration to complete a regional evaluation including the collating of all historical seismic and other geological data; and Phase 2 required Soma Exploration to acquire and process new 2D seismic, across an 114,000 sq. km Evaluation Area offshore Somalia agreed by the MPMR in December 2013. Under the terms of the SOA, Soma Exploration was required to spend a minimum of US\$15,000,000 on the Exploration Programme and provide the Federal Government with the historical and newly acquired and processed seismic data by 6 August 2015.

Due to a request from the Federal Government and in order for it to be able to deliver on its rights and obligations under the SOA, on 25 April 2014 Soma Exploration signed a Capacity Building Agreement ("CBA") whereby the Company agreed to fund the set up and staffing of a technical department in the Ministry, the costs of which would be recoverable under potential future PSAs. This is a fairly typical practice in the oil & gas industry and Soma Exploration implemented the CBA after consultation with specialist legal advisers in Anti-Bribery & Corruption. All payments due under the CBA were made to the Federal Government's Central Bank of Somalia account and the Ministry provided the details on allocation of funds as required under the provisions of the CBA.

On the 29 July 2015, Soma became aware that the UK Serious Fraud Office (the "SFO") was investigating an allegation of bribery and corruption made against Soma (the "SFO Investigation") since 25 June 2015. Soma understands that the principal complainant is the UN Somalia and Eritrea Monitoring Group (the "Monitoring Group"), which is mandated under the UN Security Council on an annual basis.

Since 29 July 2015, Soma Exploration and its Directors have cooperated to an unusually high extent with the SFO with the sole objective of assisting the SFO to bring the Investigation to a close as soon as possible, not least in order to minimise loss and damage. Despite the best efforts of the Company and its Directors, the SFO Investigation was still ongoing 12 months later. In August 2016, Soma took the decision to seek a Judicial Review in relation to the reasonableness of the ongoing SFO investigation. Whilst it was accepted that such an application could only proceed in exceptional circumstances, this was a unique situation where the company could face ruin by the ongoing delay in closing the investigation, despite Soma, its legal advisors and leading QC demonstrating there was no plausible case for criminality. The Court rejected the application and the Company is waiting for the approved written Judgment, expected in October, which it is hoped will contain relevant and positive observations.

Until the SFO investigation is closed, it will be challenging for Soma Exploration to progress on its business strategy and tasks 11(b) to 16 listed below. Meanwhile the Company and its Directors continue to experience significant financial and reputational damage.

On 31 July 2015, Soma Exploration delivered the Notice of Completion to the Federal Government, within the two year timeframe as per the terms of the SOA.

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<sup>1</sup> As of January 2014, the Ministry of National Resources was divided amongst successor ministries and the relevant ministry for oil and gas is now the Ministry of Petroleum & Mineral Resources ("MPMR").

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On 9 December 2015, the Prime Minister of Somalia officially opened the new office of the MPMR. This included the opening of the new data room in Mogadishu. The entire exploration data set acquired and processed by Soma Exploration under the SOA was formally presented to the Federal Government. The MPMR has been very active since the opening of its new offices.

Also on 9 December 2015, Soma Exploration made applications for 12 blocks to be negotiated into PSAs by submitting the Notice of Application to the Federal Government.

***Progress to date and expected future progress***

The key stages in Soma Exploration's progress to date and expected future progress are summarised below.

1. Determine if there is potential for undiscovered hydrocarbons using geological knowledge & basin modelling	April to August 2013
2. Soma Exploration signs SOA with Federal Government	6 August 2013
3. Complete Regional Evaluation study (Phase 1 of Exploration Programme)	August 2013 to April 2014
4. Signed CBA with Federal Government	25 April 2014
5. Acquire 2D seismic survey over the offshore Evaluation Area (Phase 2 of Exploration Programme)	February 2014 to June 2014
6. Process and interpret seismic data in conjunction with basin modelling to determine the potential for the discovery of hydrocarbons (Phase 2 of Exploration Programme)	June 2014 to July 2015
7. Signed Data Room in Mogadishu letter with Federal Government to support creation of Data Room as per SOA obligation	17 December 2014
8. Signed Additional CBA for six month extension with Federal Government	28 April 2015
9. Provision of processed seismic data to Federal Government <sup>2</sup>	28 July 2015/ 9 December 2015
10. Notice of Completion of Exploration Programme	31 July 2015
11. (a) Apply for and (b) negotiate/be granted PSAs by Federal Government (to shoot additional seismic and drill exploration wells to confirm presence of oil and /or gas with options to develop if discovery is commercial).	(a) 9 December 2015 (b) ongoing
12. Form Joint Ventures through "farm-ins" by other exploration and development companies to participate in the PSAs to bring together the right operating expertise and to share business risk & rewards of further exploration & development of the target fields	
13. Drill & test exploration wells. Depending on results, drill additional exploration and/or appraisal wells	
14. If prospective fields are commercially viable, develop field development plans for approval by Joint Venture partners	
15. The field development plans will also need to be approved by the Federal Government before implementation	
16. Execute the field development plans, which involves building the surface & subsea infrastructure and drilling multiple wells to enable the production of oil and/ or gas over the lifetime of the field	

On 31 January 2014, Soma Exploration signed a contract with SeaBird Exploration of Norway to carry out the 2D seismic acquisition survey offshore Somalia.

On 2 June 2014, Soma Exploration successfully completed the acquisition of 20,500 km lines of 2D seismic data across the offshore Evaluation Area.

On 27 April 2015, Soma Exploration completed the processing and reprocessing of the acquired 2D seismic data and other technical analysis related to the Exploration Programme. Soma Exploration made the processed data available

<sup>2</sup> The processed seismic data was ready and was made available for delivery on 28 July 2015 and this was acknowledged by the Ministry of Petroleum & Mineral Resources. The actual handover of the processed seismic data was postponed until the opening of the Ministry Building and Dataroom in Mogadishu on 9 December 2015.

# **SOMA OIL & GAS EXPLORATION LIMITED**

## **STRATEGIC REPORT**

**For the year ended 31 December 2015**

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to the Federal Government on 28 July 2015 and delivered the Notice of Completion in regards to the Exploration Programme as per the terms of the SOA to the Federal Government on 31 July 2015.

Soma Exploration has spent approximately US\$42,500,000 million on the Exploration Programme, exceeding the required spend under the SOA.

Soma Exploration has identified the specific areas of interest within the offshore evaluation area and made applications for 12 Blocks to be negotiated into PSAs by submitting the Notice of Application to the Federal Government on 9 December 2015.

PSAs will not be granted to Soma Exploration until the terms of the PSAs are negotiated. Granting of the PSAs is also conditional on approval by the entire Federal Government including the Council of Ministers and in addition a revenue sharing agreement being signed by the Federal Government and the regional authorities.

On 14 July 2016, the MPMR sent Soma Exploration the final Model PSA form and invited proposals for the negotiation of terms. Soma Exploration and its legal advisers started negotiations on the terms and conditions of the new Model PSA with the Federal Government and their advisors in face to face meetings in Nairobi from the 25 to 28 July 2016. Negotiation of the PSAs is ongoing.

In July 2015, the Group obtained a funding commitment of US\$3,000,000 from existing shareholders. In December 2015, the Group obtained a further funding commitment of US\$15,000,000 (as described in note 18).

The Group ended the year with a loss of US\$4,151,000 and net assets of US\$41,430,000 including cash of US\$882,000. Further information regarding the Group's and Company's current funding position and outlook is provided in note 1 to the financial statements.

### **SFO Investigation**

On 29 July 2015, the Company became aware that the SFO had opened a criminal investigation on 25 June 2015 into Soma Oil & Gas Holdings Ltd, Soma Oil & Gas Exploration Limited, Soma Management Limited and others in relation to allegations of corruption in Somalia. The SFO made an announcement regarding the investigation on its website on 31 July 2015.

The Company reiterates its press release of 1 August 2015 regarding the SFO Investigation:

#### **Company Statement**

*Soma Oil & Gas can confirm that it has been informed by the Serious Fraud Office ("SFO") that it is investigating an allegation that has been made against the Company. Soma Oil & Gas is confident that there is no basis to the allegation and it is co-operating fully with the SFO to answer its queries. Soma Oil & Gas has always conducted its activities in a completely lawful and ethical manner and expects this matter to be resolved in the near future.*

The Company understands that the principal complainant who instigated the SFO's investigation in to Soma was the Monitoring Group.

### **Monitoring Group leaked report**

The Monitoring Group is mandated under the UN Security Council by the United Nations Charter VII (renewed through resolution 2182 (2014)). It comprises eight or nine members (who typically cover the disciplines of finance, humanitarian, arms & armed groups, transport and region), that ultimately assess threats to peace and security in Somalia and Eritrea. The Monitoring Group has been in correspondence with Soma since late 2013 and Soma has been cooperative in responding to its enquiries.

In its Report to the UN Security Council dated 13 October 2014 (S/2014/726), the Monitoring Group made the following recommendation under "Threats to peace and security":

*"That the Security Council consider deciding a resolution to request a moratorium on oil licensing until a legal understanding is reached between the regional and federal authorities in respect of ownership of natural resources in Somalia"*

No such resolution has been made by the UN Security Council.

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In late July 2015, parts of the Monitoring Group's 2015 draft confidential report were leaked to various journalists, the media and the public and, on 2 August 2015, the full draft confidential report was leaked.

Soma Exploration reiterates its press release of 3 August 2015 regarding the leaked draft report:

*"Response to United Nations Somalia and Eritrea Monitoring Group comments on Capacity Building Agreement"*

*The United Nations Somalia and Eritrea Monitoring Group ("UNSEMG") has fundamentally misunderstood the nature, purpose and destination of the payments made under the terms of the Capacity Building Agreement ("CBA") signed by Soma Oil & Gas ("Soma") and the Federal Government of the Republic of Somalia ("the Somali Government").*

*The CBA was entered into at the request of the Somali Government to provide the much needed resources, technical capacity and infrastructure to support the Seismic Option Agreement ("SOA"). The broad terms of the CBA were published by Soma in 2014 and have been published in full by the Somali Government on its website. The SOA also provides for the creation of a Data Room in Mogadishu, which has been funded by Soma at the request of the Somali Government.*

*All payments pursuant to the CBA and relating to the Data Room were made directly to the Somali Government following appropriate due diligence and the implementation of various legal safeguards pursuant to independent legal advice provided to the Company. Soma has never made payments to individual government officials. Furthermore, the CBA provides for all payments to be offset against future monies due to the Government of Somalia under potential PSAs.*

*The decision to award the SOA to Soma was approved by the Council of Ministers of the Somali Government. No person involved in the CBA programme was, or is, in a position to influence the decision to grant any commercial agreements for the benefit of Soma.*

*No conflict of interest arises in relation to the legal advice given by Jay Park QC of Petroleum Regimes Advisory ("PRA"). PRA provided advice to the Somali Government between June 2013 and October 2014 relating to the SOA. Soma agreed to the Somali Government's request to pay these fees and did so after taking legal advice which confirmed that it was appropriate to do so. PRA provided the Somali Government with independent legal advice and owed a duty solely to them in the provision of that advice.*

*Any suggestion that any of the payments to the Somali Government or to PRA were improper, unlawful or gave rise to a conflict of interest is incorrect and defamatory. Soma has always conducted its business in a completely lawful and ethical manner and will take all appropriate steps to protect its reputation."*

### **Soma's Cooperation with the SFO**

Since the Company was fully aware of the corruption risks of doing business in Somalia, it had gone to great lengths to seek and follow advice on all Anti-Bribery & Corruption matters from leading international law firm DLA Piper. Knowing this, once the SFO Investigation was launched, the best outcome for the Company was for the SFO to carry out a thorough investigation to confirm that there was in fact no evidence of criminality by the Company in any of its business dealings in Somalia.

Soma's strategy was to deliver the highest level of cooperation possible to the SFO in order to bring the investigation to a conclusion in the shortest possible time so that the Company could return to focusing on its business opportunities in Somalia. The unusually high level of cooperation included making all Company executives and Directors available for interview, the waiving of legal professional privilege on all Company documents, emails, accounts, legal advice, etc., handed over to the SFO and the submission of formal "Representations regarding the discontinuance of the Soma investigation" to the SFO on 22 April 2016, comprised of 1,500 pages and exhibits. Soma also provided the SFO with an opinion from one of the UK's leading criminal barristers, which concluded there was no evidence of wrong doing.

The Company also provided to the SFO the findings of the Independent Committee report dated 16 November 2015 commissioned by the Federal Government at the request of the United Nations. The Independent Committee, chaired by a representative of the World Bank, investigated the allegations of the UNSEMG and confirmed that there was no wrong doing by either Soma or the MPMR.

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## **STRATEGIC REPORT**

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### **Developments in the Federal Republic of Somalia**

On 9 December 2015, the Prime Minister of Somalia officially opened the new office of the MPMR. This included the opening of the new data room which was financially supported by Soma Exploration in the amount of US\$100,000 as per the terms of the SOA signed on 6 August 2013 and the Data Room in Mogadishu agreement signed on 17 October 2014. The opening was attended by the Company's Chairman, Deputy Chairman, CEO and Executive Director for Africa. The entire exploration data set acquired and processed by Soma Exploration under the SOA was formally presented to the Federal Government so it could be installed in the Data Room. Soma Exploration also applied for 12 offshore blocks to be negotiated into PSAs. This also formally completed all of Soma Exploration's requirements under the SOA. Soma's 20,500 kilometres of 2D seismic data was provided to Spectrum ASA, who had been appointed to market this data on behalf of the MPMR.

The MPMR has been very active since the opening of its new offices. It engaged the services of IMMMA, a legal firm, to redraft the Model PSA using best practice from the region. A legal expert, Professor W. Kosar, was seconded to the Ministry by the World Bank as was Mr S. O'Toole, a technical expert, also funded by the World Bank. The MPMR issued a mapping system for its offshore blocks and has developed a central register to record all existing concessions and future PSAs. The Ministry also continues to work on updating the Petroleum Law.

The MPMR signed an agreement with Spectrum ASA to acquire over 20,000 kilometres of 2D seismic covering existing offshore concessions and overshooting Soma's seismic survey and extending the survey into deeper waters and penetrating deeper into the subsurface. The survey was completed over the 2015/2016 winter and is currently being processed by Spectrum.

The Federal Government has developed a Revenue Sharing Agreement ("RSA") to be signed with Federal Member States. The signing of the RSA is a pre-condition to the signing of any PSA. As of September 2016, Soma Exploration understands from the Federal Government that it has signed RSAs with South West region, Galmadug and Puntland.

There are elections in Somalia planned for October and November 2016 for the Members of Parliament and for the President.

### **Judicial Review**

Based on Soma's co-operation and its constructive dialogue with the SFO and what is considered to be its very compelling Representations, the Company anticipated a conclusion to the investigation in June 2016. Instead, the SFO advised the Company that it was pursuing outstanding lines of enquiry overseas where the timing was outside of its control. The Company decided to apply for a judicial review of the SFO's decision not to conclude the investigation due to the risk to its business by the apparently open ended delay in bringing the investigation to a close. The application was rejected by the Court but Soma remains hopeful that the investigation is being progressed with due expedition and will be concluded satisfactorily in the near future.

### **Potential impact of the ongoing SFO Investigation**

While the SFO Investigation is ongoing, it is likely to have a negative impact on Soma's ability to raise additional finance from new investors whether via farmouts at the asset level or equity or debt issuance by the Group. The SFO Investigation may also delay the granting of PSAs by the Federal Government, and therefore the planned timetable for future exploration activity including the acquisition of future 3D seismic surveys and the drilling of exploration wells. As such, the SFO Investigation may cause Soma very serious economic and financial damage. Furthermore, the additional legal and other related costs incurred by Soma as a result of the SFO Investigation are likely to be in the millions of pounds.

Soma is confident that all outstanding allegations against Soma will be disproved and that the SFO Investigation will result in a decision of "No Further Action". Soma is cooperating fully with the SFO and is urging the SFO to complete the investigation as soon as possible.

However, in the unlikely event that the SFO Investigation results in charges being made against Soma and/or any of its Directors, the case may go before the UK courts. The reputational and economic damage to Soma would be expected to increase under this scenario.

In the event that a court was to conclude that Soma was implicated in corrupt behaviour, it is possible that Soma could be exposed to significant fines and penalties, and may even forfeit the SOA and all its rights under that agreement.



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Soma remains confident that there is no basis to the allegations, and it is taking all appropriate steps to protect its reputation and its business.

### ***EITI disclosure***

Soma Exploration is committed to the highest standards of transparency, accountability and strong corporate governance.

In February 2015, Soma Exploration became a corporate supporter of the Extractive Industries Transparency Initiative ("EITI").

Soma Exploration is also actively supporting the Federal Government and Somalia in its ambitions to become an EITI compliant country.

Soma Exploration is pleased to set out the areas in which it has provided financial support to the Federal Government in the context of its exploration activities in the Federal Republic of Somalia for the 2015 financial year.

### **Capacity Building Arrangements**

#### **Background**

Capacity building is typically defined as the development and strengthening of human and institutional resources.

Capacity building has been a long-standing feature of the oil and gas industry. One of the characteristics of the industry is that significant quantities of the world's oil & gas reserves are located in developing countries and emerging markets. In order to explore for and develop these reserves, it has typically been necessary for International Oil Companies ("IOCs") to engage in capacity building of local persons and governments.

To build capacity effectively, it is first essential to understand what capacity is already in place, which is typically a function of the stage of development of the relevant country's oil and gas industry. An early stage oil and gas jurisdiction is likely to place more extensive capacity building requirements on IOCs than a more developed oil and gas producing jurisdiction. As a result, an aspect of capacity building that may look unusual or unconventional in one jurisdiction may be necessary and appropriate in another jurisdiction.

#### **Capacity Building Arrangements with the Federal Government**

At the beginning of 2014, the Federal Government and specifically the MPMR had very limited infrastructure or technical personnel to manage and develop the country's oil and gas sector. Furthermore, they lacked the capacity to deliver on their obligations and commitments under the SOA, particularly in regards to the Exploration Programme that Soma Exploration was committed to complete. In February 2014, Soma Exploration was asked by H.E. Daud Mohamed Omar, Minister of Petroleum & Mineral Resources to provide financial support to the MPMR to help them create the necessary capacity.

Subsequently, on 25 April 2014, Soma Exploration entered into the CBA to assist the MPMR to put in place the necessary resources. Under the terms of the CBA any payments would be offset against the training fees and rental obligations anticipated to become due under any future PSAs. The total amount in the CBA was US\$400,000 broken down as follows: (i) US\$40,000 for office equipment, transportation and other work tools needed by the MPMR; and (ii) US\$30,000 per month for a 12-month period for Capacity Support Salaries to pay staff, consultants or advisors. Soma Exploration has retained the law firm DLA Piper since July 2013 as its Anti-Bribery & Corruption adviser and received legal advice from both them and Stephenson Harwood LLP in regards to the CBA to ensure transparency and legitimacy in all of its processes and dealings with the Federal Government.

On 28 April 2015, Soma Exploration entered into a further agreement, the Additional Capacity Building Arrangements that extended the Capacity Support Salaries payments for an additional 6 months, which equated to a further US\$180,000.

All monies relating to the CBA were paid into the designated Central Bank of Somalia bank account at T. C. Ziraat Bankasi A.S., in Istanbul, Turkey.

The aggregate payments made by Soma Exploration under the CBA are US\$580,000 of which US\$270,000 related to the 2015 financial period, corresponding to 9 months of Capacity Support Salaries.

The Capacity Building Arrangements between Soma Exploration and the Federal Government are now concluded.

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Soma Exploration will recover the US\$580,000 against the rental payments and training fees payable on the signature of the first four PSAs with the Federal Government.

Data Room in Mogadishu

Under the terms of the SOA, Soma Exploration committed to support the creation of a physical Data Room in Mogadishu which was to contain all geological and geophysical data in a catalogued and ordered form, including processed seismic gathered from the Exploration Programme and any other available and relevant existing data that Soma Exploration might acquire within the Exploration Area.

On 17 October 2014, Soma Exploration wrote to H.E. Daud Mohamed Omar, Minister of Petroleum & Mineral Resources at that time committing to pay the costs relating to the rebuilding and refurbishment of that part of the MPMR offices ("Ministry Building") that will house the Data Room in Mogadishu up to a maximum of US\$100,000. Originally the Ministry Building was to be established in the former Agency of Water Supply Offices.

Soma Exploration understands that the original location for the Ministry Building had to be changed as the Agency of Water Supply Offices was occupied by Indigenous Displaced People.

On 9 December 2015, the Federal Government opened the new Ministry Building and Data Room in a new location in Mogadishu. Soma Exploration has received invoices from the Federal Government supporting the US\$100,000 contribution made by Soma Exploration relating to the Data Room in Mogadishu.

**Principal risks and uncertainties**

*Exploration risk*

The principal activity of the Company is the exploration for hydrocarbons. The Company runs the risk of its exploration projects failing to find hydrocarbons. The Company manages this risk through extensive and detailed reserve surveys prior to any significant exploration activity actually taking place.

*Regulatory risk*

The Company has experienced and may continue to experience a high level of regulatory risk given its involvement in the Federal Republic of Somalia.

The ongoing SFO Investigation continues to have a significantly negative impact on the business strategy and financial position of the Group.

The Monitoring Group is recommending to the UN Security Council that they put in place a moratorium on all oil and gas exploration activities in the Federal Republic of Somalia. However, the UN Security Council continues to support Somalia's sovereign rights over its natural resources.

*Oil and gas price risk*

The potential for oil and gas prices to fluctuate over any given period could put the commerciality of certain partnerships and related corporate transactions at risk.

*Foreign exchange risk*

Any future proceeds from the Company's oil and natural gas sales are expected to be in US Dollars. Whilst the majority of the expenditure is also in US Dollars, the Company has general and administrative expenses with respect to its office in Mogadishu and Nairobi in other currencies. Hence the Company is exposed to foreign exchange risk against Somali Shilling and Kenyan Shilling, which may have positive or negative consequences for the Company's overall profitability.

During the year, the Company did not enter into any financial instruments to hedge this potential foreign exchange risk.

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*Tax risk*

The Company is subject to sales, employment and corporation taxes and the payment of certain royalties in local jurisdictions in which it operates. The application of such taxes may change over time due to changes in laws, regulations or interpretations by the relevant tax authorities. Whilst no material changes are anticipated in such taxes, any such changes may have a material adverse effect on the Company's financial condition and results of operations.

*Political risk*

The Federal Government faces numerous challenges to its authority including militancy, ethnic and clan rivalries, separation and limited financial resources.

A key condition precedent for the signing of any PSAs is the establishment of a revenue sharing agreement between the Federal Government and the regional authorities.

The granting of the PSAs requires the approval of the Federal Government including the Council of Ministers.

The value of the Company may be negatively affected by political uncertainties such as changes in Somalia government policies, taxation and currency repatriation restriction, as well as changes in law and economic impact of regional and international political events.

The Company monitors government policies to minimize their effects on the value of the Company.

There are Federal elections planned for October and November 2016 for the Members of Parliament and for the President of the Federal Government of Somalia. There is a risk that a change in Government could delay or even terminate progress on the negotiation and conversion of the 12 blocks into agreed PSAs.

**Key performance indicators**

The main key performance indicators include meeting articulated milestones as set out by the Board of Directors:

Soma Exploration successfully achieved the milestone of completing the 2D seismic acquisition programme offshore Somalia in June 2014;

Soma Exploration achieved the milestone of completing the Exploration Programme and filed the Notice of Completion on 31 July 2015;

Soma Exploration submitted the Notice of Applications for PSAs to the Federal Government on 9 December 2015.

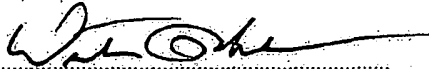
The next milestones are signing the PSAs, progressing the exploration programme and securing farm-in partners/new investors.

The key performance indicators are monitored by the Board of Directors to ensure that they are progressing as planned in a timely manner. At this stage the Board of Directors is confident that these targets are being met.

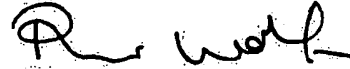
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**ON BEHALF OF THE BOARD:**



**William Richard Anderson**  
Chief Executive Officer  
30 September 2016



**Philip Edward Charles Wolfe**  
Chief Financial Officer  
30 September 2016

**REGISTERED OFFICE:**

33 Cavendish Square  
London  
England  
W1G 0PW

# **SOMA OIL & GAS EXPLORATION LIMITED**

## **DIRECTORS' REPORT**

### **For the year ended 31 December 2015**

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The Directors present their report together with the audited financial statements of Soma Exploration for the year ended 31 December 2015.

Soma Exploration was incorporated in England and Wales on 22 July 2013.

#### **PRINCIPAL ACTIVITIES**

The principal activity of Soma Exploration is exploration for oil and gas in the Federal Republic of Somalia.

#### **GOING CONCERN**

Soma Exploration does not generate revenue, and as such is reliant on funding from other Group companies.

There is a material uncertainty which may cast significant doubt over the Group's ability to continue as a going concern as a result of the ongoing SFO investigation together with the Company's requirement for additional funding. The going concern status of the Group is explained in detail in note 1 to the financial statements.

#### **EVENTS AFTER THE BALANCE SHEET DATE**

Details of significant events since the balance sheet date are contained in note 18 to the financial statements.

#### **RESULTS AND DIVIDENDS**

The Company's profit for the year was US\$87,000 (2014: loss of US\$80,000). The Directors do not recommend payment of a dividend.

#### **BALANCE SHEET**

At 31 December 2015 the Company had a cash balance of US\$853,000 (2014: US\$1,606,000) and total assets of US\$43,215,000 (2014: US\$41,843,000).

#### **FINANCIAL RISK MANAGEMENT**

The risks and the Company's process for management thereof are set out in Note 12 of the Financial Statements.

#### **DIRECTORS**

The Directors who held office during the year were as follows:

Lord Howard of Lympne, CH, QC (Chairman)  
Basil Shiblaq  
William Richard Anderson  
Robert Allen Sheppard  
Philip Edward Charles Wolfe  
Hassan Khaire

William Richard Anderson was appointed Chief Executive Officer on 11 December 2015. Robert Allen Sheppard was Chief Executive Officer prior to 11 December 2015 and has served as a non-executive Director since then.

#### **DIRECTORS' REMUNERATION**

The total paid to Directors of the Company during the year was US\$417,000 (2014: US\$579,000). This included the highest paid Director who was paid US\$417,000 (2014: US\$579,000). The remuneration for the remainder of the Directors is borne by Soma Management, a company under common control.

#### **DIRECTORS' INDEMNITIES**

The Company has granted an indemnity to each of its Directors under which the Company will, to the fullest extent permitted by law and to the extent provided by the Articles of Association, indemnify them against all costs, charges, losses and liabilities incurred by them in the execution of their duties. The Company also has Directors' and Officers' liability insurance in place and details of the policy are given to new Directors on appointment.

**SOMA OIL & GAS EXPLORATION LIMITED**  
**DIRECTORS' REPORT**  
For the year ended 31 December 2015

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**DISCLOSURE OF INFORMATION TO THE AUDITOR**

Each of the persons who is a director at the date of approval of this report confirms that:

- So far as the Director is aware, there is no relevant audit information of which the Company's Auditor is unaware; and
- the director has taken all the steps he ought to have taken as a Director in order to make himself aware of any relevant audit information and to establish that the Company's Auditor is aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of Section 418 of the Companies Act 2006.

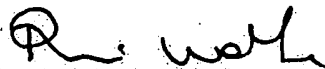
Deloitte LLP have expressed their willingness to continue in office as Auditor and a resolution to reappoint them will be proposed at the forthcoming Annual General Meeting.

The Director's report has been prepared in accordance with the provisions applicable to the companies entitled to the small companies' exemption.

**ON BEHALF OF THE BOARD:**



**William Richard Anderson**  
Chief Executive Officer  
30 September 2016



**Phillip Edward Charles Wolfe**  
Chief Financial Officer  
30 September 2016

**REGISTERED OFFICE:**

33 Cavendish Square  
London  
England  
W1G 0PW

**SOMA OIL & GAS EXPLORATION LIMITED**  
**STATEMENT OF DIRECTORS' RESPONSIBILITIES**  
For the year ended 31 December 2015

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The Directors are responsible for preparing the Directors' Report and the financial statements in accordance with applicable law and regulations.

Company Law requires the Directors to prepare the Company's financial statements for each financial year. Under that law they have elected to prepare the Company's financial statements in accordance with International Financial Reporting Standards as adopted by the EU and applicable law.

Under Company Law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that year. In preparing each of the Company financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether they have been prepared in accordance with IFRSs as adopted by the EU; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that its financial statements comply with the Companies Act 2006. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Company and to prevent and detect fraud and other irregularities.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website ([www.somaoilandgas.com](http://www.somaoilandgas.com)).

Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

**SOMA OIL & GAS EXPLORATION LIMITED**  
**INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF SOMA OIL & GAS**  
**EXPLORATION LIMITED**  
**For the year ended 31 December 2015**

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We have audited the financial statements of Soma Oil & Gas Exploration Limited for the year ended 31 December 2015 which comprise the Statement of Comprehensive Income, Statement of Financial Position, Statement of Changes in Equity, Statement of Cash Flow and the related notes 1 to 18. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an Auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

**Respective responsibilities of Directors and Auditor**

As explained more fully in the Directors' Responsibilities Statement, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

**Scope of the audit of the financial statements**

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

**Opinion on financial statements**

In our opinion the financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 December 2015 and of its profit for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

**Emphasis of matter: going concern and Impact of SFO investigation**

In forming our opinion on the financial statements, which is not modified, we have considered the adequacy of the disclosure made in note 1 to the financial statements concerning the Company's ability to continue as a going concern. The Company is reliant on funding from its Parent Company, Soma Oil & Gas Holdings Limited. The Parent is committed to provide funding to the Company as necessary, and has signed a letter of support to this effect covering a period of at least 12 months from the signing of these financial statements. Per the Parent Company's financial statements, it is reliant on receiving financing from existing shareholders in the next 3 months in order to continue to meet its obligations as they fall due, and thus continue supporting the Company.

As disclosed in note 1, in 2015 the Serious Fraud Office ("SFO") opened a criminal investigation into the Group in relation to allegations of corruption in Somalia. The outcome of the SFO investigation and any potential legal case that may follow is inherently uncertain but while the SFO investigation is ongoing, this may negatively impact the ability of the Group to raise further finance and also delay the granting of Production Sharing Agreements ("PSAs") to Soma, resulting in delays to the planned timetable for future exploration activity as well as significant additional legal and other expenses being incurred in the next 12 months.

In addition, should the Group or Company be found guilty of the corruption allegations the Company may forfeit its rights to PSAs granted by the Federal Government of Somalia which may result in an impairment of the exploration and evaluation ("E&E") asset and the Company may be subject to significant fines under the UK Bribery Act 2010 and other similar legislation.



**SOMA OIL & GAS EXPLORATION LIMITED**  
**INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF SOMA OIL & GAS**  
**EXPLORATION LIMITED**  
**For the year ended 31 December 2015**

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The requirement for further funding, along with the potential impact of the SFO investigation on the ability of the Parent to provide further funding, indicates the existence of a material uncertainty which may cast doubt on the Company's ability to continue as a going concern. The financial statements do not include the adjustments that would result if the Company and Group were unable to continue as a going concern.

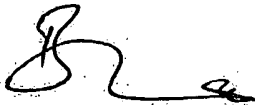
**Opinion on other matter prescribed by the Companies Act 2006**

In our opinion the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

**Matters on which we are required to report by exception**

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of Directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.



Bevan Whitehead (Senior Statutory Auditor)  
for and on behalf of Deloitte LLP  
Chartered Accountants and Statutory Auditor  
London, United Kingdom  
30 September 2016

**SOMA OIL & GAS EXPLORATION LIMITED**  
**STATEMENT OF COMPREHENSIVE INCOME**  
For the year ended 31 December 2015

	Note	For the year ended 31 December 2015 US\$'000	For the year ended 31 December 2014 US\$'000
Other operating income		382	-
Administrative expenses	4	(287)	(80)
<b>Profit/(loss) before tax</b>		<b>95</b>	<b>(80)</b>
Taxation	6	(8)	-
<b>Total comprehensive profit/(loss) for the year</b>		<b>87</b>	<b>(80)</b>

All of the above results are derived from continuing operations.

There was no other comprehensive income in the year.

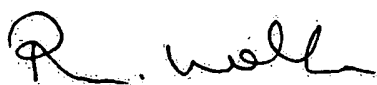
The accompanying notes on pages 21 to 33 form an integral part of the financial statements.

**SOMA OIL & GAS EXPLORATION LIMITED**  
**STATEMENT OF FINANCIAL POSITION**  
For the year ended 31 December 2015

	Notes	At 31 December 2015 US\$'000	At 31 December 2014 US\$'000
<b>Assets</b>			
<b>Non-current assets</b>			
Intangibles: exploration and evaluation assets	7	42,232	40,033
Property, plant and equipment	8	104	164
		<u>42,336</u>	<u>40,197</u>
<b>Current assets</b>			
Prepayments and other receivables	9	26	40
Cash in bank and on hand		853	1,606
		<u>879</u>	<u>1,646</u>
<b>Liabilities</b>			
<b>Current liabilities</b>			
Trade and other payables	10	(43,219)	(41,942)
Current tax liability		(8)	-
		<u>(43,227)</u>	<u>(41,942)</u>
<b>Net current liabilities</b>		<u>(42,348)</u>	<u>(40,296)</u>
<b>Net assets</b>		<u>(12)</u>	<u>(99)</u>
<b>Equity</b>			
Share capital	14	-	-
Retained losses		(12)	(99)
<b>Total equity</b>		<u>(12)</u>	<u>(99)</u>

The accompanying notes on pages 21 to 33 form an integral part of the financial statements.

The financial statements of Soma Oil & Gas Exploration Limited, company registration number 08619726 were approved by the Board of Directors and authorised for issue on 30 September 2016. They were signed on its behalf by:



**Philip Edward Charles Wolfe**  
Chief Financial Officer

**SOMA OIL & GAS EXPLORATION LIMITED**  
**STATEMENT OF FINANCIAL POSITION**  
For the year ended 31 December 2015

	Share capital US\$'000	Retained losses US\$'000	Total equity US\$'000
Balance at 1 January 2014	-	(19)	(19)
Loss for the year	-	(80)	(80)
Total comprehensive loss for the year	-	(80)	(80)
Balance at 31 December 2014	-	(99)	(99)
Profit for the year	-	87	87
Total comprehensive income for the year	-	87	87
Balance at 31 December 2015	-	(12)	(12)

The accompanying notes on pages 21 to 33 form an integral part of the financial statements.

**SOMA OIL & GAS EXPLORATION LIMITED**  
**STATEMENT OF CASH FLOWS**  
For the year ended 31 December 2015

		For the year ended 31 December 2015 US\$'000	For the year ended 31 December 2014 US\$'000
	Note		
<b>Net cash generated from/(used in) operating activities</b>	15	210	(89)
<b>Cash flow from investing activities</b>			
Additions of exploration and evaluation assets	7	(2,199)	(38,974)
Additions of property, plant and equipment	8	(5)	(191)
Increase/(decrease) in trade and other payables relating to exploration and evaluation assets		80	(661)
<b>Net cash used in investing activities</b>		(2,124)	(39,826)
<b>Cash flow from financing activities</b>			
Increase in amounts owed to companies under common control		1,161	41,521
<b>Net cash generated from financing activities</b>		1,161	41,521
<b>Net (decrease)/ increase in cash and cash equivalents</b>		(753)	1,606
<b>Cash and cash equivalents at beginning of the year</b>		1,606	-
<b>Cash and cash equivalents at end of year</b>		853	1,606

The accompanying notes on pages 21 to 33 form an integral part of the financial statements.

# **SOMA OIL & GAS EXPLORATION LIMITED**

## **NOTES TO THE FINANCIAL STATEMENTS**

For the year ended 31 December 2015

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### **1 Accounting policies**

Soma Exploration is a Company incorporated in England and Wales on 22 July 2013. The Company is domiciled in the UK.

The Company's financial statements have been prepared and approved by the Directors in accordance with International Financial Reporting Standards as adopted by the EU ("Adopted IFRSs") and under the historical cost convention.

The accounting policies set out below have, unless otherwise stated, been applied consistently to all years presented in these financial statements.

#### **Going concern**

Soma Exploration does not generate revenue, and as such is reliant on funding from other Group companies. The Parent Company, Soma Oil & Gas Holdings Limited, is committed to provide funding to the Company as necessary, and has signed a letter of support to this effect covering a period of at least 12 months from the signing of these financial statements.

As the Group is currently in the exploration phase and not generating revenue, it is reliant on receiving external financing.

In December 2015, as further discussed in note 18, the Group signed a non-binding funding agreement for US\$15,000,000 from its existing shareholders underwritten by Winter Sky Investments Limited, through the issue of a Convertible Loan Note. At that time this US\$15,000,000 was considered sufficient to fund the Company through to the signing of Production Sharing Agreements in late 2016, by which time additional finance was expected to be sourced from new investors or farm in partners. At the date of approval of these financial statements US\$4,800,000 had been drawn down under this convertible loan note. Continuance of this funding is at the discretion of the existing shareholders.

At the end of 31 December 2015 the Group had cash resources of US\$882,000 (2014: US\$3,781,000) and at the date of the approval of these financial statements the balance stood at approximately US\$700,000.

While the SFO Investigation is ongoing it is likely to have a negative impact on Soma's ability to raise additional finance from new investors whether via farmouts at the asset level or equity or debt issuance by Soma Oil & Gas Holdings Limited. The SFO Investigation may also delay the granting of PSAs by the Federal Government, and therefore the planned timetable for future exploration activity including the acquisition of future 3D seismic surveys and the drilling of exploration wells. As such, the SFO Investigation may cause Soma very serious economic and financial damage. Furthermore, the additional legal and other related costs incurred by Soma as a result of the SFO Investigation, if the matter proceeds, are likely to be in the millions of dollars. A portion of this is expected to be covered by Soma's Directors' and Officers' Liability Insurance. Further detail on the SFO investigation is contained in the Strategic Report on page 3 and note 2.1.

Soma is cooperating fully with the SFO and continues to urge the SFO to complete the investigation as soon as possible.

In the meantime, Soma is wholly dependent on its existing shareholders for ongoing funding and survival and will require additional funding within the next 3 months. The Directors are in discussions with shareholders to provide ongoing funding that will ensure the Group has the necessary liquidity for the next 12 months.

The requirement for ongoing funding together with the uncertainties described above gives rise to a material uncertainty which may cast significant doubt over the Group's and the Company's ability to continue as a going concern and therefore it may be unable to realise the full value of its assets and discharge its liabilities in the normal course of business. However, having considered the above uncertainties and all the available information, the Directors have a reasonable expectation that although the Group does not have adequate resources to continue in operational existence for the foreseeable future, existing shareholders will continue to support the business for the next 12 months at a minimum and as such, the Directors consider it appropriate to prepare the financial statements of the Company on a going concern basis. Further detail is contained in the Business Review and future developments on page 3.

**SOMA OIL & GAS EXPLORATION LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**  
For the year ended 31 December 2015

**1 Accounting policies (continued)**

**New standards, amendments and interpretations issued and effective during the financial year beginning 1 January 2015**

The following relevant new standards, amendments to standards and interpretations are mandatory for the first time for the financial year beginning 1 January 2015, but had no significant impact on the Company:

Standard	Key requirements	Effective date as adopted by the EU
Amendment to IAS 19, 'Employee benefits'	Amendment to IAS 19, 'Employee benefits'	1 February 2015
IFRIC Interpretation 21 Levies	The interpretation clarifies recognition a liability for a levy.	17 June 2014

**Standards issued but not yet effective**

The following relevant new standards, amendments to standards and interpretations have been issued, but are not effective for the financial year beginning on 1 January 2015, as adopted by the European Union, and have not been early adopted:

Standard	Key requirements	Effective date as adopted by the EU
Amendment to IFRS 11, 'Accounting for Acquisitions of Interests in Joint Operations'	<p>Amends IFRS 11 Joint Arrangements to require an acquirer of an interest in a joint operation in which the activity constitutes a business (as defined in IFRS 3 Business Combinations) to:</p> <ul style="list-style-type: none"> <li>• apply all of the business combinations accounting principles in IFRS 3 and other IFRSs, except for those principles that conflict with the guidance in IFRS 11</li> <li>• disclose the information required by IFRS 3 and other IFRSs for business combinations.</li> </ul> <p>The amendments apply both to the initial acquisition of an interest in joint operation, and the acquisition of an additional interest in a joint operation (in the latter case, previously held interests are not remeasured).</p>	1 January 2016
Amendments to IAS 16 and IAS 38	Clarifies of acceptable methods of depreciation and amortisation.	1 January 2016
Amendments to IAS 1	Disclosure amendments	1 January 2016

The Directors anticipate that the adoption of these Standards and Interpretations in future years will have no material impact on the financial statements of the Company when the relevant Standards and Interpretations come into effect.

**Operating lease payments**

Payments made under operating leases are recognised in the statement of comprehensive income on a straight-line basis over the term of the lease. Lease incentives received are recognised in the income statement as an integral part of the total lease expense.

**Foreign currency**

**Functional and presentation currency**

The Company's functional and presentation currency is US Dollar, being the currency of the majority of its transactions.

**SOMA OIL & GAS EXPLORATION LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**  
For the year ended 31 December 2015

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**1 Accounting policies (continued)**

*Foreign Currencies*

Transactions in foreign currencies are translated to the Company's functional currency at the month average foreign exchange rate at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are retranslated to the functional currency at the foreign exchange rate ruling at that date. Foreign exchange differences arising on translation are recognised in the income statement.

Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are retranslated to the functional currency at foreign exchange rates ruling at the dates the fair value was determined.

*Oil and gas properties*

*Exploration and evaluation assets*

The Company follows the successful efforts method of accounting for intangible exploration and evaluation (E&E) costs. All licence acquisition, exploration and evaluation costs are initially capitalised as intangible assets in cost centres by field or exploration area, as appropriate, pending determination of commerciality of the relevant property. Directly attributable administration costs are capitalised in so far as they relate to specific exploration activities. Pre-licence costs and general exploration costs not specific to any particular licence or prospect are expensed as incurred.

If prospects are deemed to be impaired ('unsuccessful') on completion of the evaluation, the associated costs are charged to the income statement. If the field is determined to be commercially viable, the attributable costs are transferred to property, plant and equipment in single field cost centres.

*Development and production assets*

Development and production assets are accumulated generally on a field-by-field basis within property, plant and equipment and represent the cost of developing the commercial reserves discovered and bringing them into production, together with the exploration and evaluation expenditures incurred in finding commercial reserves transferred from intangible exploration and evaluation assets as outlined 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.

*Depletion, amortisation and impairment – development and production assets*

Expenditure carried within each field will be amortised from the commencement of production on a unit of production basis, which is the ratio of oil or gas production in the year to the estimated quantities of commercial reserves at the end of the year plus the production in the year, generally on a field-by-field basis. Costs used in the unit of production calculation comprise the net book value of capitalised costs plus the estimated future field development costs. Changes in the estimates of commercial reserves or future field development costs are dealt with prospectively.

*Commercial reserves*

Commercial reserves (2P) are proven and probable natural gas reserves, which are defined as the estimated quantities of natural gas which geological, geophysical and engineering data demonstrate with a specified degree of certainty to be recoverable in future years from known reservoirs and which are considered commercially producible. There should be a 50 per cent statistical probability that the actual quantity of recoverable reserves will be more than the amount estimated as proven and probable reserves and a 50 per cent statistical probability that it will be less.

*Property, plant and equipment*

Property, plant and equipment is stated at cost less accumulated depreciation and any impairment losses. Cost includes the original purchase price of the asset and the costs attributable to bringing the asset to its working condition for its intended use. Depreciation is charged so as to write-off the costs of assets less their residual value over their estimated useful lives, using the straight-line method commencing in the month following the purchase, on the following basis:

Computer equipment	3 years
Fixtures and fittings	3 to 5 years
Motor vehicles	3 years

Oil and gas properties – see above

The gain or loss arising on the disposal of an asset is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in income.



**SOMA OIL & GAS EXPLORATION LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**  
For the year ended 31 December 2015

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**1 Accounting policies (continued)**

***Impairment of property, plant and equipment***

At each balance sheet date, the Company reviews the carrying amount of its property, plant and equipment to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss. For the purposes of impairment the Company's estimates the recoverable amount of the cash-generating unit to which assets belong.

Where there has been a change in economic conditions that indicates a possible impairment in a discovery field, the recoverability of the net book value relating to that field is assessed by comparison with the estimated discounted future cash flows based on management's expectations of future oil and gas prices and future costs.

Recoverable amount is the higher of 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 which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset or cash-generating unit is estimated to be less than its carrying amount, the carrying amount of the asset cash-generating unit is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately, unless the relevant asset is carried at a re-valued amount, in which case the impairment loss is treated as a revaluation decrease.

Where conditions giving rise to impairment subsequently reverse, the effect of the impairment charge is also reversed as a credit to the income statement, net of any depreciation that would have been charged since the impairment.

***Cash and cash equivalents***

Cash and cash equivalents include cash at bank and in hand and highly liquid interest-bearing securities with maturities of three months or less.

***Taxation***

Tax on the profit or loss for the year comprises current and deferred tax. Tax is recognised in the income statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Current deferred tax is provided on temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not provided for: the initial recognition of goodwill; the initial recognition of assets or liabilities that affect neither accounting nor taxable profit other than in a business combination, and differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the temporary difference can be utilised.

***Financial Instruments***

Financial assets and financial liabilities are recognised on the balance sheet when the Company has become a party to the contractual priorities of the instrument.

***Trade and other receivables***

Trade and other receivables are measured at their initial recognition at fair value. Appropriate allowances for estimated irrecoverable amounts are recognised in the income statement when there is objective evidence that the asset is impaired. Trade receivables are disclosed within these financial statements as loans and receivables.

**SOMA OIL & GAS EXPLORATION LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**  
For the year ended 31 December 2015

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**1 Accounting policies (continued)**

***Trade and other payables***

Trade payables are initially measured at their fair value and are subsequently measured at their amortised cost using the effective interest rate method. Trade payables are disclosed within these financial statements as other financial liabilities.

***Financial liabilities and equity***

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into. An equity instrument is any contract that evidences a residual interest in the assets of the Company after deducting all of its liabilities. Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

**2 Critical judgements and key sources of estimation uncertainty**

***2.1 SFO investigation***

As described in the Strategic Report, the SFO has opened a criminal investigation into Soma Oil & Gas Holdings Limited and its subsidiaries and others in relation to allegations of corruption in Somalia.

This is likely to have a negative impact on the Soma's ability to raise additional finance from new investors whether via farmouts at the asset level or equity or debt issuance by the Group. The investigation may also delay the granting of PSAs by the Federal Government. Furthermore, the Group is likely to incur significant legal and other related costs as a result of the investigation. These matters are considered further under Going Concern in note 1.

Soma is cooperating fully with the SFO so that the investigation may be brought to a conclusion as swiftly as possible. However, the timetable of the investigation is inherently uncertain. Were the case to go to court and if Soma and or its Directors were found guilty of bribery, the Group may be exposed to significant fines and penalties which management has no basis to quantify. Furthermore, if Soma or its Directors were found guilty of bribery the Company would likely forfeit its rights to PSAs under the SOA, which is discussed further under Exploration and Evaluation assets below.

***2.2 Exploration and Evaluation assets***

The Company balance sheet includes significant E&E assets (see note 7).

Management is required to exercise judgement in selecting an appropriate accounting policy for the capitalisation, or otherwise, of costs incurred in connection with the acquisition of E&E rights and costs of E&E activities to exploit those rights. The Company's accounting policy is set out in note 1. Judgement is required in assessing whether E&E rights are sufficient to support the commencement of cost capitalisation. The SOA entitles the Company to apply for and be granted PSAs over an area of up to 60,000 sq. km and therefore the Company consider its E&E rights under the SOA are sufficient to support asset recognition.

Further judgement is involved in applying the Company's accounting policy to certain categories of costs, such as the Capacity Building Payments and Data Room costs as further described in the Strategic Report. Management capitalises such costs as they are considered directly attributable to the conversion of the Company's current E&E rights under the SOA into future exploration and production rights under a number of PSAs.

E&E assets are required to be assessed for indications of impairment at least at each balance sheet date, with reference to the indicators of impairment set out in IFRS 6 Exploration and Evaluation of Mineral Resources. Such assessment often requires significant judgement, such as whether substantive further E&E activity is planned, and whether rights to explore in the specific area will expire in the near future. Having considered these uncertainties in the light of all of the information currently available, in management's judgement the Company's E&E assets were not impaired at 31 December 2015.

**SOMA OIL & GAS EXPLORATION LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**  
For the year ended 31 December 2015

**3 Other operating income**

	Year ended 31 December 2015 US\$'000	Year ended 31 December 2014 US\$'000
Kenyan branch recharge	382	-

The Company has a service agreement in place with Soma Management Limited, a company under common control. All costs incurred by the Companies Kenyan Branch are recharged to Soma Management Limited with a 10% uplift resulting in other operating income in the year of US\$382,000 in (2014: US\$nil) which is on costs incurred in both 2014 and 2015.

**4 Administrative expenses and Auditor's remuneration**

Included in operating profit/(loss) are the following:

	Year ended 31 December 2015 US\$'000	Year ended 31 December 2014 US\$'000
Travel and subsistence	78	5
Depreciation	65	27
Staff salaries	49	15
Rent and rates	35	19
Auditor's remuneration	28	9
Legal and professional fees	-	2
Other administrative expenses	32	3
	<u>287</u>	<u>80</u>

Auditor's remuneration:

	Year ended 31 December 2015 US\$'000	Year ended 31 December 2014 US\$'000
<b>Audit fees:</b>		
Auditor's remuneration for the statutory audit of the Company	20	9
	<u>20</u>	<u>9</u>
<b>Non-audit fees:</b>		
Tax services	8	-
	<u>8</u>	<u>-</u>

The Audit Committee has a policy on the use of Auditors in a non-audit capacity which is aimed at ensuring their continued independence. The use of the external Auditor for services relating to accounting systems or financial statements is not permitted, as are various other services that could give rise to conflicts of interests or other threats to the Auditor's objectivity that cannot be reduced to an acceptable level by applying safeguards.

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**5 Staff numbers and costs**

The average number of persons employed by the Company during the year was as follows:

	Year ended 31 December 2015 No.	Year ended 31 December 2014 No.
Average number of persons employed	2	2
	<u>2</u>	<u>2</u>

Staff costs comprised:

	Year ended 31 December 2015 US\$'000	Year ended 31 December 2014 US\$'000
Wages and salaries	34	15
Social security costs	15	-
	<u>49</u>	<u>15</u>

The Directors' remuneration comprised:

	Year ended 31 December 2015 US\$'000	Year ended 31 December 2014 US\$'000
Directors' wages and salaries	417	579
	<u>417</u>	<u>579</u>

A total of US\$417,000 (2014: US\$579,000) in relation to Directors remuneration has been capitalised as part of Exploration and Evaluation assets (Note 7).

The total paid to Directors of the Company during the year was US\$417,000 (2014: US\$579,000). This included the highest paid Director who was paid US\$417,000 (2014: US\$579,000). The remuneration for the remainder of the Directors is borne by Soma Management, a company under common control. No specific proportion of their remuneration is attributable to their services to the Company.

**6 Taxation**

UK corporation tax is calculated at 20.25% (2014: 21.5%) of the estimated taxable profit/loss for the year. Kenyan income tax is calculated at 37.5%, all costs incurred by the Kenyan Branch of the Company are recharged to the Soma Management Limited with a 10% uplift resulting in an income tax charge in the year.

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**6 Taxation (continued)**

	Year ended 31 December 2015 US\$'000	Year ended 31 December 2014 US\$'000
Profit/(loss) before tax	95	(80)
Income tax using the UK domestic corporation tax rate of 20.25% (2014: 21.5%)	(19)	17
Kenyan Branch income tax	8	-
Unutilised tax losses	19	(17)
Current tax charge	8	-

UK tax losses may be carried forward indefinitely and set off against future taxable profits. Deferred tax assets have not been recognised in respect of these items because it is not yet probable that future taxable profit will be available against which the Group can utilise the benefits therefrom.

**7 Intangible assets**

	Exploration and evaluation assets US\$'000
<b>Cost:</b>	
At 1 January 2014	1,059
Additions in the year	38,974
At 31 December 2014	40,033
Additions in the year	2,199
At 31 December 2015	42,232
<b>Amortisation and impairment:</b>	
At 1 January 2014	-
Amortisation charge for the year	-
At 31 December 2014	-
Amortisation charge for the year	-
At 31 December 2015	-
<b>Net book value:</b>	
At 31 December 2014	40,033
At 31 December 2015	42,232

Significant judgements and uncertainties relating to the Company's exploration and evaluation assets, including the potential impact of the ongoing SFO investigation, are explained in note 2.

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**8 Property, plant and equipment**

	Motor vehicles US\$'000	Fixtures and fittings US\$'000	Computer equipment US\$'000	Total US\$'000
<b>Cost:</b>				
At 1 January 2014	-	-	-	-
Additions in the year	126	59	6	191
At 31 December 2014	126	59	6	191
Additions in the year	-	5	-	5
At 31 December 2015	126	64	6	196
<b>Depreciation:</b>				
At 1 January 2014	-	-	-	-
Charge for the year	18	8	1	27
At 31 December 2014	18	8	1	27
Charge for the year	42	21	2	65
At 31 December 2015	60	29	3	92
<b>Net Book Value:</b>				
At 31 December 2014	108	51	5	164
At 31 December 2015	66	35	3	104

**9 Prepayments and other receivables**

	At 31 December 2015 US\$'000	At 31 December 2014 US\$'000
<b>Due within a year:</b>		
Prepayments	3	12
VAT recoverable	4	9
Other receivables	19	19
	<u>26</u>	<u>40</u>

There were no trade receivables held by the Company at 31 December 2015, therefore there is no average credit year taken on the sale of goods.

There are no balances within either prepayments made or other receivables that are past their due settlement date and no impairment has been deemed necessary during the year. The fair value of the receivables is equal to their carrying value.

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**10 Trade and other payables**

	At 31 December 2015 US\$'000	At 31 December 2014 US\$'000
<b>Due within a year:</b>		
Amounts due to companies under common control (note 16)	42,682	41,521
Trade payables	383	352
Accruals	151	69
Other payables	3	-
	<u>43,219</u>	<u>41,942</u>

The fair value of the payables is equal to their carrying value.

**11 Contingent liabilities**

The Group's and therefore this Company's exposure to potential fines and penalties, the risk of loss of the Company's rights under the SOA due to the SFO investigation are explained in notes 1 and 2.

**12 Financial instruments**

The Company is exposed to the risks that arise from its use of financial instruments. This note describes the objectives, policies and processes of the Company for managing those risks and the methods used to measure them. Further quantitative information in respect of these risks is presented throughout these financial statements.

**Principal financial instruments**

The principal financial instruments used by the Company, from which financial instrument risk arises, are as stated below.

The Company held the following financial assets:

	At 31 December 2015 US\$'000	At 31 December 2014 US\$'000
<b>Financial assets</b>		
Cash in bank and on hand	853	1,606
Other receivables	19	19
	<u>872</u>	<u>1,625</u>

The Company had the following financial liabilities:

	At 31 December 2015 US\$'000	At 31 December 2014 US\$'000
<b>Financial liabilities</b>		
Amounts due to companies under common control	42,682	41,521
Trade payables	383	352
Accruals	151	69
Other payables	3	-
	<u>43,219</u>	<u>41,942</u>

All of the Company's financial assets and liabilities in the year to 31 December 2015 are either payable or receivable within one year.

**Capital risk**

The Company has no externally imposed capital requirements, as it is wholly funded by the Group.

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**12 Financial instruments (continued)**

**Foreign currency risk**

As highlighted earlier in these financial statements, the functional currency of the Company is US Dollar. All of the Company's future sales will be denominated in US Dollar as are the majority of its future expected costs, with a small number of costs being denominated in GB Pounds Sterling, Somalia Shillings and Kenya Shillings. Exposures to exchange rate fluctuations are therefore minimal.

The Company has not entered into any derivative financial instruments to manage its exposure to foreign currency risk.

The Company does not believe that it has any significant exposure to foreign currency risk, therefore no sensitivity analysis has been performed.

The carrying amount of the Company's foreign currency denominated monetary assets and monetary liabilities at 31 December 2015 is as follows:

<b>2015</b>	<b>Assets US\$'000</b>	<b>Liabilities US\$'000</b>
US Dollars	845	43,114
GBP Sterling	-	94
Kenya Shilling	27	10
	<u>27</u>	<u>10</u>
<b>2014</b>	<b>Assets US\$'000</b>	<b>Liabilities US\$'000</b>
US Dollars	1,597	41,625
GBP Sterling	-	304
Kenya Shilling	28	13
	<u>28</u>	<u>13</u>

**Interest rate risk**

The Company does not have any borrowings or cash deposits and therefore has no significant exposure to interest rate risk.

**Credit risk**

Credit risk refers to the risk that a counter-party will default on its contractual obligations resulting in financial loss to the Company. The Company gives careful consideration to which organisations it uses for its banking services in order to minimise credit risk.

At 31 December 2015, the Company held no collateral as security against any financial asset. No financial assets were past their due date and there were no problems with the credit quality of any financial asset in the year.

The carrying amount of financial assets recorded in the financial statements, net of any allowances for losses, represents the Company's maximum exposure to credit risk. There has been no impairment of financial assets during the year.

**Liquidity risk**

Prudent liquidity risk management implies maintaining sufficient cash and the availability of funding through an adequate amount of committed credit facilities. Management monitors rolling forecasts of the Company's liquidity and cash and cash equivalents on the basis of expected cash flow and seeks to secure the necessary estimated funding before committing to expenditures. See also note 1 'Going concern'.



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**13 Operating lease commitments**

At the balance sheet date, the Company had outstanding commitments for future minimum lease payments under non-cancellable operating leases, which fall due as follows:

	31 December 2015 US\$'000	31 December 2014 US\$'000
Within one year	21	-
Within 2 -5 years	85	-

**14 Share capital**

	At 31 December 2015 US\$'000	At 31 December 2014 US\$'000
<b>Number of shares</b>		
On issue at 31 December	1,000	1,000
<b>Allotted, called up and fully paid</b>		
1,000 ordinary shares of £0.00001 each	-	-

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company.

**15 Cash flows utilised in operating activities**

	Note	For the year ended 31 December 2015 US\$'000	For the year ended 31 December 2014 US\$'000
<b>Cash flow from operating activities</b>			
Operating loss		95	(80)
<i>Adjustments for:</i>			
Depreciation of property, plant and equipment	8	65	27
Decrease/(increase) in trade and other receivables		14	(36)
Increase in trade and other payables		36	-
<b>Net cash generated from/(used in) operating activities</b>		<b>210</b>	<b>(89)</b>

**16 Related parties**

**Amounts owed to companies under common control**

	At 31 December 2015 US\$'000	At 31 December 2014 US\$'000
Amounts owed to Soma Management Limited	39,756	41,521
Amounts owed to Soma Oil & Gas Holdings Limited	2,926	-
	<b>42,682</b>	<b>41,251</b>

The total paid to key management personnel during the year was US\$417,000 (2014: US\$579,000). See note 5 for further detail.

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**17 Ultimate parent undertaking**

The Company's immediate parent company is Soma Oil & Gas Holdings Limited, a Company incorporated in the UK. Consolidated accounts for this entity are available at 33 Cavendish Square, London, United Kingdom, W1G 0PW

At 31 December 2015, there was no single controlling party. However, the ultimate controlling parties were considered to be Soma Oil & Gas Limited BVI (sole ultimate parent company in 2013) and Winter Sky Investments Limited jointly. Soma Oil & Gas Limited BVI, incorporated in the British Virgin Islands, owned 66,500,000 shares in the Parent Company (2014: 66,500,000 shares) representing 36.6% (2014: 36.6%) of the Parent Company. Soma Oil & Gas Limited BVI is controlled by Basil Shiblaq and Iyad Shiblaq. Winter Sky, incorporated in the British Virgin Islands, owns 67,500,000 shares (2014: 67,500,000 shares) representing 37.2% (2014: 37.2%) of the Parent Company.

Soma Oil & Gas Holdings Limited is the only company for which consolidated accounts are prepared.

**18 Subsequent events**

***SFO Investigation & Judicial Review***

On 29 July 2015, the Group became aware that the SFO had opened a criminal investigation into Soma Oil & Gas Holdings Limited, Soma Oil & Gas Exploration Limited, Soma Management Limited and others in relation to allegations of corruption in Somalia. In August 2016, the Group took the decision to go to the High Courts of Justice to seek a Judicial Review in regards to the lawfulness and reasonableness of the ongoing SFO Investigation. Further detail in relation to these matters are set out in the Strategic Report and in notes 1 and 2.1 to the financial statements.

***Shareholder funding***

The Group went through a shareholder funding exercise in December 2015 to raise the amount of US\$15,000,000 from existing shareholders in the form of a Convertible Loan Note. At the balance sheet date this had not been drawn down and was not committed. During 2016 funding has been provided under this loan by Winter Sky in bi-monthly instalments of US\$1,200,000 and on an as needed basis until 30 September 2016. As of 30 September 2016, US\$4,800,000 had been drawn down under this convertible loan note. Continuance of this funding is at the discretion of the existing shareholders.

The Directors are in discussions with shareholders to provide ongoing funding to ensure the Group has the necessary liquidity for the next 12 months (see note 1).

***Change in ownership***

On 5 September 2016, Winter Sky purchased 23,999,999 shares of Soma Oil & Gas Holdings Limited from Afro East Energy Limited. As a result, Winter Sky now owns 50.4% of the issued and outstanding shares. Afro East Energy Limited retains one share. As such Winter Sky is now the Ultimate Controlling Party of the Group.