

# **Soma Oil & Gas Holdings Limited**

Consolidated Annual Report and Financial Statements

For the year ended 31 December 2016

Company number 08506858

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# **SOMA OIL & GAS HOLDINGS LIMITED**

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## **SOMA OIL & GAS HOLDINGS LIMITED**

### **GROUP INFORMATION**

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<b>DIRECTORS:</b>	Lord Howard of Lympne, CH, QC (Chairman) Basil Shiblaq William Richard Anderson Robert Allen Sheppard Georgy Dzhaparidze The Earl of Clanwilliam
<b>COMPANY SECRETARY:</b>	Peter Damouni
<b>REGISTERED OFFICE:</b>	21 Arlington Street St. James's London United Kingdom SW1A 1RD
<b>REGISTERED NUMBER:</b>	08506858 (United Kingdom)
<b>ANTI-BRIBERY &amp; CORRUPTION LEGAL ADVISERS:</b>	Paul Hastings LLP 10 Bishops Square London E1 6EG
<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>AUDITOR:</b>	Deloitte LLP 2 New Street Square London United Kingdom EC4A 3BZ
<b>ACCOUNTANTS:</b>	Capita Asset Services 1 <sup>st</sup> Floor 40 Dukes Place London EC3A 7NH

# **SOMA OIL & GAS HOLDINGS LIMITED**

## **STRATEGIC REPORT**

**For the year ended 31 December 2016**

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The Directors present their Strategic Report for the year ended 31 December 2016.

Soma Oil & Gas Holdings Limited (the "Company" or "Soma") and its two wholly owned subsidiaries, Soma Management Limited ("Soma Management") and Soma Oil & Gas Exploration Limited ("Soma Exploration") together are referred to herein as the Group. The Company is a private company limited by shares and incorporated in England and Wales.

### **Developments with the Federal Republic of Somalia since last Annual Report**

On 14 July 2016, the Ministry of Petroleum and Mineral Resources ("MPMR" or "Ministry") provided Soma with the new model Production Sharing Agreement ("PSA") for Somalia. This model PSA is based on the latest industry practices and developed for the Ministry by the IMMMA law firm based in Tanzania, funded by the Africa Development Bank.

On 25 to 28 July 2016, Soma and its legal advisor (Akin Gump) met with the Somali MPMR and their legal and technical advisors (provided by the World Bank) to negotiate an agreement for the next stage of exploration using the new model PSA. Significant progress was made during the discussions. The majority of legal terms and conditions were clarified and agreed. Commercial terms were also discussed but not finalised.

On 2 September 2016, in response to a request, Soma provided the MPMR with estimates for an Exploration Programme budget under the Initial Exploration Period of the planned PSAs and Soma's financial capacity to execute.

On 8 September 2016, in response to a request by the MPMR, Soma provided an update on the investigation by the Serious Fraud Office ("SFO").

On 1 November 2016, at the Africa Oil Week Conference in Cape Town, the MPMR updated the industry on their progress to develop the legal and regulatory framework for hydrocarbon exploration in Somalia and announced plans for an inaugural Bid Round for blocks offshore; Galmudug, Hirshabelle and South West Member states. The available acreage will exclude the shallow water blocks under the 1988 concession agreement with Shell and ExxonMobil and the Notice of Application blocks under direct PSA negotiations with Soma.

On 16 February 2017, after a successful and open election process, H.E. Mohamud Abdullahi Mohamed "Farmajo" was elected as the new president of Somalia.

On 23 February 2017, Mr Hassan Khaire resigned his position as Soma's Director for Africa, due to his appointment as the new Prime Minister of Somalia. Mr Khaire immediately severed all contact with Soma and relinquished all his shares, options and any existing and future remuneration with the Company.

On 21 March 2017, H.E. Abdirashid Mohamed Ahmed, was appointed as the new Somali Minister of Petroleum & Mineral Resources.

On 24 May 2017, Soma met with H.E. Abdirashid Mohamed Ahmed, the new Minister of Petroleum & Mineral Resources and with Ibrahim Hussein, Head of External Affairs for the Ministry of Petroleum & Mineral Resources. The Minister advised that the Petroleum Law 2008 had been substantively updated and was planned to be ratified by the Somali Parliament in the next session starting in July 2017 after which the Ministry would meet with Soma to finalise the planned PSAs.

On 25 May 2017, Soma arranged for Akin Gump to make a presentation to the Minister and his advisor on their Workshop on Key Issues for Upstream Oil & Gas. Topics included; fundamentals of the market, value chains, timelines, participants, agreement types, legal and commercial frameworks, methods to grant and exploit the right to develop, host government instruments, PSAs, bidding, joint operating agreements, decommissioning, local content with examples from Tanzania, Ghana & Uganda.

On 26 May 2017, RPS Energy (Soma's technical advisors) presented to the Minister and his advisor, an overview of the geological basins offshore Somalia and some of the potential leads and prospects from the interpretation of the 2D seismic data acquired by Soma.

# **SOMA OIL & GAS HOLDINGS LIMITED**

## **STRATEGIC REPORT**

For the year ended 31 December 2016

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

#### **Introduction**

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

#### **Seismic Option Agreement**

On 6 August 2013, Soma Exploration signed a Seismic Option Agreement ("**SOA**") with the Ministry of National Resources<sup>1</sup> of the Federal Government of Somalia ("**FGS**"). Under the terms of the SOA, Soma 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 gained the right to apply for blocks and negotiate PSAs for further exploration covering an area of up to 60,000 sq. km.

The Exploration Programme had two phases:

- Phase 1 required Soma Exploration to complete a regional evaluation including the collating of historical seismic and other geological data.
- Phase 2 required Soma Exploration to acquire and process new 2D seismic data, across a 114,000 sq. km Evaluation Area offshore Somalia as agreed with the MPMR in December 2013.

Under the terms of the SOA, Soma was required to spend a minimum of US\$15 million on the Exploration Programme and provide the Federal Government with the historical (Phase 1) and newly acquired and processed seismic data (Phase 2) by 6 August 2015 as well as providing financial support to set up a data room in the new Ministry offices in Mogadishu.

Soma successfully acquired 20,500 kilometres of 2D seismic data offshore Somalia from December 2014 to March 2015. This data was processed between January and July 2015 and on 28 July 2015 Soma advised the Ministry that the data was available for transfer. The Ministry deferred delivery until the completion of their new office with a data room in Mogadishu.

On 9 December 2015, at the official opening of the new office for the Ministry of Petroleum and Mineral Resources, Soma transferred the legacy and newly acquired 2D seismic data for the new data room. Soma also submitted a Notice of Application for twelve 5,000 square kilometre blocks as per the SOA.

As part of the SOA, Soma agreed to pay the third party legal costs incurred by the Ministry for their SOA negotiation support and contributed \$100,000 to help pay for the data room building & installation in Mogadishu.

#### **Capacity Building Agreement**

In March 2014, H.E. Daud Mohamed Omar, the Minister of Petroleum & Natural Resources at that date, wrote to Soma requesting capacity building support to fund the set up and staffing of a technical department in the Ministry. This is a typical practice in the industry for emerging countries. On 25 April 2014, after consulting and implementing comprehensive Anti-Bribery and Corruption ("**ABC**") advice from our legal advisors, DLA Piper, Soma signed a Capacity Building Agreement ("**CBA**") which provided US\$30,000 per month for 12 months. On 28 April 2015, Soma and the Ministry signed a 6 month extension for the CBA. In total US\$540,000 was provided by Soma to the Ministry over 18 months. Under the CBA, this US\$540,000 funding is cost recoverable from future training and community fees that are part of the model PSA.

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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.

**SOMA OIL & GAS HOLDINGS LIMITED**  
**STRATEGIC REPORT**  
For the year ended 31 December 2016

The key stages in Soma'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 (see Negotiation of PSAs section below)
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. Acquire additional seismic data. 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 fields	

**Negotiation of PSAs**

As stated above, the negotiation of PSAs started in July 2016 when the rewritten Model PSA was made available by the Somali Ministry. Negotiation was suspended in the autumn of 2016 as the Somali Government prepared for General Election. A new Parliament, Upper House, President, Prime Minister and Cabinet was appointed over the first Quarter of 2017. The negotiations of PSAs between the Company and the Ministry will recommence after the ratification of the new Petroleum Law which is expected to occur during the autumn session of the Somali parliament.

**SFO Investigation Closure**

On 14 December 2016 the Company received a letter from the SFO confirming that it closed its investigation into allegations of corruption that had been made against Soma by a third party.

**SFO investigation Summary**

- 29 July 2015: Soma learned about the SFO investigation which was based on a UN Somalia & Eritrea Monitoring Group (SEMG) report.
- 22 April 2016: Soma submitted a comprehensive Letter of Representation (LoR) to the SFO addressing and refuting the allegations made by the SEMG.

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

# **SOMA OIL & GAS HOLDINGS LIMITED**

## **STRATEGIC REPORT**

For the year ended 31 December 2016

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### ***SFO Investigation Closure (continued)***

- 6 May 2016: QC David Perry's opinion of LoR concluded "compelling rebuttal of any suggestion of impropriety in Soma's dealings with the Somali Government and this is a case in which there is no realistic prospect of conviction".
- 17 August 2016: Soma applied for a Judicial Review at the High Court in attempt to have the SFO finalise & close their investigation. Application rejected.
- 12 October 2016: Approved Judgement of the rejected application released by High Court with SFO statement of insufficient evidence of criminality by Soma in Capacity Building and the Lord Justice urged the SFO to expeditiously conclude their investigation.
- 14 December 2016: SFO closed the investigation of Soma in relation to allegations of corruption. Vindicating the Company and the Somali Ministry of Petroleum and Mineral Resources and our policy of full compliance with UK ABC Law.

### ***EITI disclosure***

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

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

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

### ***Principal risks and uncertainties***

The Group's financial and capital risk management policies are set out in Note 14 financial instruments within the accounting policies section of this report. Other risks are shown below:

#### ***Exploration risk***

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

#### ***Regulatory risk***

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

The SFO investigation was terminated confirming Soma's policy of full adherence to ABC Law in all our business dealings with Somalia.

Unlike prior years the Somalia & Eritrea Monitoring Group (SEMG) 2016 report no longer recommends 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. 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. The continued lower for longer oil price could negatively impact the ability to raise funding from some financial instruments/markets.

**SOMA OIL & GAS HOLDINGS LIMITED**  
**STRATEGIC REPORT**  
For the year ended 31 December 2016

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**Principal risks and uncertainties (continued)**

*Foreign exchange risk*

Any future proceeds from the Group'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 Group has general and administrative expenses with respect to its office in London and its offices in Mogadishu and Nairobi in other currencies. Hence the Group is exposed to foreign exchange risk against UK Pound Sterling, Somali Shilling and Kenyan Shilling, which may have positive or negative consequences for the Group's overall profitability.

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

*Tax risk*

The Group 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 Group's financial condition and results of operations.

*Political risk*

The Federal Government of Somalia 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 Federal Member States.

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

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

The recent Federal elections for the Members of Parliament and for the President of the Federal Government of Somalia has caused delay in the negotiation and conversion of the 12 blocks into agreed PSAs. With a fragile country like Somalia, there is the risk of sovereign intervention to cancel agreements made by the prior Government.

*Financing and Liquidity risk*

This is the risk that the Group will not be able to raise working capital for its ongoing activities. The Group's goal is to finance its exploration and development activities from future cash flows but until that point is reached the Group is reliant on raising working capital from private investment. There is no certainty such funds will be available when needed and this is further discussed in the Going Concern section of the Directors Report.



**SOMA OIL & GAS HOLDINGS LIMITED**  
**STRATEGIC REPORT**  
For the year ended 31 December 2016

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**Key performance indicators**

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

The next milestones are signing the PSAs, progressing the exploration programme and securing farm-in partners / new investors. The negotiation of the PSAs was initially delayed by 6 months due to a rewrite of the model PSA, followed by a further 6 months due to a general election and an ongoing delay of several months due to the rewrite of the Petroleum Law and its ratification by the Somali parliament.

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 with the slow progress outside of the Company's control.

**ON BEHALF OF THE BOARD:**



**William Richard Anderson**

Chief Executive Officer

27 September 2017

# **SOMA OIL & GAS HOLDINGS LIMITED**

## **DIRECTORS' REPORT**

### **For the year ended 31 December 2016**

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The Directors present their annual report on the affairs of the Group, together with the consolidated financial statements of Soma Oil & Gas Holdings Limited and the auditor's report for the year ended 31 December 2016.

Soma Holdings was incorporated in England and Wales on 26 April 2013. The Company and its two wholly owned subsidiaries, Soma Management and Soma Exploration have been established to pursue oil and gas exploration in the Federal Republic of Somalia. Both subsidiaries were incorporated in England and Wales on 22 July 2013.

#### **BUSINESS REVIEW AND FUTURE DEVELOPMENTS**

The business review and details of future developments can be found in the Strategic Report on page 3 and form part of this report by cross-reference.

#### **RISK MANAGEMENT POLICIES**

Oil and exploration activities have inherent risks, the main risks to which the Group is exposed are discussed in the Strategic Report.

#### **GOING CONCERN**

The Group is currently in the exploration phase and not generating revenue and is as such reliant on external financing.

In December 2015, the Group successfully obtained further funding through a US\$15 million draw down facility from existing shareholders. The Group is dependent on this facility set up by existing shareholders, which is primarily funded by a major shareholder and the controlling party of the group, Winter Sky Investments Limited "Winter Sky". At the 31 August 2017 the total drawdown on this facility was US\$7,667,938. The facility is available until the 31 December 2017 at which point the amount drawn down may be converted into shares in the Company or repayment may be demanded at the option of the lenders.

The Group's capital management policy is to preserve the Group's existing reserves through reducing near term exploration and development activities. This will continue whilst the licence negotiation process with the Somali government completes.

As at the 31 August 2017 the Group had a cash balance of US\$823,435 and remains in a net liability position.

Based on management's forecasts, the remaining undrawn balance on the facility together with the Group's cash will be sufficient to meet operational costs over the going concern assessment period albeit with minimal headroom remaining. However, the Group would be unable to repay the facility on 31 December 2017 when due if not converted or extended, without an alternative source of finance. Whilst the Group's assessment is that the loan is likely to be converted by Winter Sky, and thus repayment will not be required, Winter Sky is under no obligation to convert and thus the Group's dependence on the facility gives rise to a material uncertainty which may cast significant doubt over the Group'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. The financial statements do not include the adjustments that would result if the Company and the Group were unable to continue as a going concern.

However, having considered the above uncertainty 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 as a minimum and as such, the Directors consider it appropriate to prepare the financial statements on a going concern basis.

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

Details of significant events since the balance sheet date are contained in Note 21 to the financial statements.

#### **RESULTS AND DIVIDENDS**

The Group's comprehensive loss after tax to 31 December 2016 amounted to US\$2,176,000 (2015: US\$4,131,000). The Directors do not recommend the payment of a dividend.

**SOMA OIL & GAS HOLDINGS LIMITED**  
**DIRECTORS' REPORT**  
For the year ended 31 December 2016

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**SUPPLIER PAYMENT POLICY**

The Company's policy, which is also applied by the Group, is to settle supplier invoices within 30 days (2015: 30 days) of the date of the invoice. The Company may, by exception, pay individual suppliers on different terms.

**DIRECTORS**

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

Lord Howard of Lympne, CH, QC (Chairman)

Basil Shibliq

William Richard Anderson

Robert Allen Sheppard

Georgy Dzhaparidze

The Earl of Clanwilliam

Philip Edward Charles Wolfe

Hassan Khaire

Mohamad Ali Ajami

(Resigned 17 March 2017)

(Resigned 23 February 2017)

(Resigned 6 March 2017)

**DIRECTORS' REMUNERATION**

The total paid to Directors during the year was US\$1,681,000 (2015: US\$2,147,000). This included the highest paid Director who was paid US\$374,000 (2015: US\$417,000).

During the year no Directors exercised their options.

**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.

**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.



William Richard Anderson

Chief Executive Officer

27 September 2017

**SOMA OIL & GAS HOLDINGS LIMITED**  
**STATEMENT OF DIRECTORS' RESPONSIBILITIES**  
**For the year ended 31 December 2016**

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

Company Law requires the Directors to prepare the Group financial statements for each financial year. Under that law they have elected to prepare the Group'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 Group and of the profit or loss of the Group for that year. In preparing each of the Group 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 Group will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain The Group's transactions and disclose with reasonable accuracy at any time the financial position of the Group 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 Group 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 HOLDINGS LIMITED**  
**INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF SOMA OIL & GAS**  
**HOLDINGS LIMITED**  
For the year ended 31 December 2016

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We have audited the financial statements of Soma Oil & Gas Holdings Limited for the year ended 31 December 2016 which comprise the Consolidated Statement of Comprehensive Income, Consolidated and Company Statements of Financial Position, Consolidated and Company Statements of Changes in Equity and Consolidated and Company Statements of Cash Flow and the related notes 1 to 21. 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 and, as regards the parent company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

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

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

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Group's and 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 group's and of the Company's affairs as at 31 December 2016 and of the group's loss for the year then ended;
- the group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- the parent company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

**Emphasis of matter: going concern**

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 and the Group's ability to continue as a going concern. The Group and Company is reliant on the funding in place under the US\$15 million convertible loan facility from its existing shareholders in order to meet its obligations as they fall due over the 12 month period from the signing of the financial statements.

The loan is due on 31 December 2017 if not converted. The Group would be unable to repay the facility on 31 December 2017 when due if not converted or extended, without an alternative source of finance. Whilst the Group's assessment is that the loan is likely to be converted by Winter Sky, and thus repayment will not be required, Winter Sky is under no obligation to convert. This indicates the existence of a material uncertainty which may cast doubt on the Company's and Group's ability to continue as a going concern. The financial statements do not include the adjustments that would result if the Company and Group were unable to continue as a going concern.

**SOMA OIL & GAS HOLDINGS LIMITED**  
**INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF SOMA OIL & GAS**  
**HOLDINGS LIMITED**  
**For the year ended 31 December 2016**

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

In our opinion, based on the work undertaken in the course of the audit:

- 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; and
- the Strategic Report and the Directors' Report have been prepared in accordance with applicable legal requirements.

In the light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we have not identified any material misstatements in the Strategic Report and the Directors' Report.

**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 by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company 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  
Statutory Auditor  
London, United Kingdom  
28 September 2017

**SOMA OIL & GAS HOLDINGS LIMITED**  
**CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME**  
For the year ended 31 December 2016

	Notes	For the year ended 31 December 2016 US\$'000	For the year ended 31 December 2015 US\$'000
Other income	3	692	-
Administrative expenses	5	(2,348)	(4,143)
<b>Operating loss</b>		<b>(1,656)</b>	<b>(4,143)</b>
Interest received		9	-
Interest expense	13	(529)	-
<b>Loss before tax</b>		<b>(2,176)</b>	<b>(4,143)</b>
Taxation	7	(8)	(8)
<b>Loss for the year</b>		<b>(2,184)</b>	<b>(4,151)</b>
<b>Other comprehensive income</b>			
Currency translation differences		38	20
<b>Total comprehensive loss for the year</b>		<b>(2,146)</b>	<b>(4,131)</b>

All of the above results are derived from continuing operations. The loss for the current and prior years and the total comprehensive loss for the current and prior periods are wholly attributable to the shareholders of the Group. No other comprehensive income will be reclassified subsequently to profit and loss.

The notes on pages 19 to 42 are an integral part of these financial statements.

**SOMA OIL & GAS HOLDINGS LIMITED**  
**STATEMENTS OF FINANCIAL POSITION**  
As at 31 December 2016

		Group	Company	Group	Company
	Notes	At 31 December 2016 US\$'000	At 31 December 2016 US\$'000	At 31 December 2015 US\$'000	At 31 December 2015 US\$'000
<b>Assets</b>					
<b>Non-current assets</b>					
Exploration and evaluation assets	8	42,983	-	42,232	-
Property, plant and equipment	9	35	-	143	-
		<u>43,018</u>	<u>-</u>	<u>42,375</u>	<u>-</u>
<b>Current assets</b>					
Prepayments and other receivables	10	887	58,683	295	53,209
Cash in bank and on hand	11	864	-	882	-
		<u>1,751</u>	<u>58,683</u>	<u>1,177</u>	<u>53,209</u>
<b>Liabilities</b>					
<b>Current liabilities</b>					
Bank overdraft	11	(173)	-	-	-
Trade and other payables	12	(1,053)	(48)	(2,114)	(73)
Convertible loan	13	(6,005)	(6,005)	-	-
Current tax liabilities		(8)	-	(8)	-
		<u>(7,239)</u>	<u>(6,053)</u>	<u>(2,122)</u>	<u>(73)</u>
Net current (liabilities) / assets		(5,488)	52,630	(945)	53,136
<b>Net assets</b>		<u><b>37,530</b></u>	<u><b>52,630</b></u>	<u><b>41,430</b></u>	<u><b>53,136</b></u>
<b>Equity</b>					
Share capital	15	-	-	-	-
Share premium	15	51,800	51,800	51,800	51,800
Share based payment reserve		1,543	1,543	3,883	3,883
Convertible loan reserve	13	865	865	826	826
Warrant reserve	13	2,287	2,287	2,287	2,287
Currency translation reserve		(27)	-	(65)	-
Retained losses		(18,938)	(3,865)	(17,301)	(5,660)
<b>Total equity</b>		<u><b>37,530</b></u>	<u><b>52,630</b></u>	<u><b>41,430</b></u>	<u><b>53,136</b></u>

The Company has taken the exemption from requirement to publish a separate income statement.

The total comprehensive income for the Company in the year was US\$1,248,000 (2015: total comprehensive income of US\$1,079,000).

The notes on pages 19 to 42 form an integral part of these financial statements.

The financial statements of Soma Oil & Gas Holdings Limited, company registration number 08506858 were approved by the Board of Directors and authorised for issue on 27 September 2017. They were signed on its behalf by:



**William Richard Anderson**  
Chief Executive Officer



**SOMA OIL & GAS HOLDINGS LIMITED**  
**STATEMENTS OF CHANGES IN EQUITY**  
For the year ended 31 December 2016

**Group**

	Share capital	Share premium	Share based payment reserve	Currency translation reserve	Convertible Loan Reserve	Warrant Reserve	Retained losses	Total equity
	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000
<b>Balance at 1 January 2015</b>	-	51,800	5,056	(85)	-	-	(13,037)	43,734
<b>Comprehensive expense</b>								
Loss for the year	-	-	-	-	-	-	(4,151)	(4,151)
Other comprehensive income	-	-	-	20	-	-	-	20
<b>Total comprehensive loss</b>	-	-	-	20	-	-	(4,151)	(4,131)
<b>Transactions with Shareholders</b>								
Share based payment	-	-	(1,173)	-	-	-	-	(1,173)
Issue of 2015 convertible loan notes	-	-	-	-	826	-	-	826
Issue of 2015 warrants	-	-	-	-	-	2,287	-	2,287
Interest on 2015 convertible loan notes	-	-	-	-	-	-	(113)	(113)
<b>Total transactions with shareholders</b>	-	-	(1,173)	-	826	2,287	(113)	1,827
<b>Balance as at 31 December 2015</b>	-	51,800	3,883	(65)	826	2,287	(17,301)	41,430
<b>Comprehensive expense</b>								
Loss for the year	-	-	-	-	-	-	(2,184)	(2,184)
Other comprehensive income	-	-	-	38	-	-	-	38
<b>Total comprehensive loss</b>	-	-	-	38	-	-	(2,184)	(2,146)
<b>Transactions with Shareholders</b>								
Share based payment	-	-	(547)	-	-	-	547	-
Recycled share options	-	-	(1,793)	-	-	-	-	(1,793)
Interest on 2015 convertible loan notes	-	-	-	-	17	-	-	17
2016 convertible loan note equity reserve	-	-	-	-	22	-	-	22
<b>Total transactions with shareholders</b>	-	-	(2,340)	-	39	2,287	547	(1,754)
<b>Balance as at 31 December 2016</b>	-	51,800	1,543	(27)	865	2,287	(18,938)	37,530

The notes on pages 19 to 42 form an integral part of these financial statements.

**SOMA OIL & GAS HOLDINGS LIMITED**  
**STATEMENTS OF CHANGES IN EQUITY**  
For the year ended 31 December 2016

**Company**

	Share capital	Share premium	Share based payment reserve	Convertible loan reserve	Warrant reserve	Retained losses	Total equity
	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000
<b>Balance at 1 January 2015</b>	-	51,800	5,056	-	-	(6,626)	50,230
<b>Comprehensive income</b>							
Profit for the year	-	-	-	-	-	1,079	1,079
<b>Total comprehensive profit</b>	-	-	-	-	-	1,079	1,079
<b>Transactions with Shareholders</b>							
Share based payment	-	-	(1,173)	-	-	-	(1,173)
Issue of 2015 convertible loan notes	-	-	-	826	-	-	826
Issue of 2015 warrants	-	-	-	-	2,287	-	2,287
Interest on 2015 convertible loan notes	-	-	-	-	-	(113)	(113)
<b>Total transactions with shareholders</b>	-	-	(1,173)	826	2,287	(113)	1,827
<b>Balance as at 31 December 2015</b>	-	51,800	3,883	826	2,287	(5,660)	53,136
<b>Comprehensive loss</b>							
Loss for the year	-	-	-	-	-	1,248	1,248
<b>Total comprehensive loss</b>	-	-	-	-	-	1,248	1,248
<b>Transactions with Shareholders</b>							
Recycled options	-	-	(547)	-	-	547	-
Share based payment	-	-	(1,793)	-	-	-	(1,793)
Interest on 2015 convertible loan notes	-	-	-	17	-	-	17
2016 convertible loan note equity reserve	-	-	-	22	-	-	22
<b>Total transactions with shareholders</b>	-	-	(2,340)	39	-	547	(1,754)
<b>Balance as at 31 December 2016</b>	-	51,800	1,543	865	2,287	(3,865)	52,630

The notes on pages 19 to 42 form an integral part of these financial statements.

**SOMA OIL & GAS HOLDINGS LIMITED**  
**STATEMENTS OF CASH FLOW**  
For the year ended 31 December 2016

		Group	Company	Group	Company
		For the year ended 31 December 2016	For the year ended 31 December 2016	For the year to 31 December 2015	For the year to 31 December 2015
	Notes	US\$'000	US\$'000	US\$'000	US\$'000
<b>Net cash used in operating activities</b>	18	<b>(4,954)</b>	<b>(5,514)</b>	<b>(3,747)</b>	<b>(3,000)</b>
<b>Cash flow from investing activities</b>					
Additions of exploration and evaluation assets	8	(751)	-	(2,119)	-
Additions of property, plant and equipment	9	-	-	(33)	-
<b>Net cash used in investing activities</b>		<b>(751)</b>	<b>-</b>	<b>(2,152)</b>	<b>-</b>
<b>Cash flow from financing activities</b>					
Proceeds on issue of convertible loan notes	13	5,514	5,514	3,000	3,000
<b>Net cash generated from financing activities</b>		<b>5,514</b>	<b>5,514</b>	<b>3,000</b>	<b>3,000</b>
Net decrease in cash and cash equivalents		(191)	-	(2,899)	-
<b>Cash and cash equivalents at beginning of the year</b>	11	<b>882</b>	<b>-</b>	<b>3,781</b>	<b>-</b>
<b>Cash and cash equivalents at end of year</b>	11	<b>691</b>	<b>-</b>	<b>882</b>	<b>-</b>

The notes on pages 19 to 42 form an integral part of these financial statements.

# **SOMA OIL & GAS HOLDINGS LIMITED**

## **NOTES TO THE FINANCIAL STATEMENTS**

For the year ended 31 December 2016

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### **1. Accounting policies for Group and Company**

#### **1.1 Basis of preparation for Group and Company**

The consolidated and Company financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRSs") as adopted by the European Union. The consolidated financial statements have been prepared under the historical cost convention. The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies.

Soma Oil & Gas Holdings Limited ("the Company") is a company limited by shares which was incorporated in England and Wales on 26 April 2013. The Company and its two wholly owned subsidiaries, Soma Management Limited and Soma Oil & Gas Exploration Limited have been established to pursue oil & gas exploration in the Federal Republic of Somalia. Both subsidiaries were incorporated in England and Wales on 22 July 2013.

#### **Going concern**

The Group is currently in the exploration phase and not generating revenue and is as such reliant on external financing.

In December 2015, the Group successfully obtained further funding through a US\$15 million draw down facility from existing shareholders. The Group is dependent on this facility set up by existing shareholders, which is primarily funded by a major shareholder and the controlling party of the group, Winter Sky Investments Limited "Winter Sky". At the 31 August 2017 the total drawdown on this facility was US\$7,667,938. The facility is available until the 31 December 2017 at which point the amount drawn down may be converted into shares in the Company or repayment may be demanded at the option of the lenders.

The Group's capital management policy is to preserve the Group's existing reserves through reducing near term exploration and development activities. This will continue whilst the licence negotiation process with the Somali government completes.

As at the 31 August 2017 the Group had a cash balance of US\$823,435 and remains in a net liability position.

Based on management's forecasts, the remaining undrawn balance on the facility together with the Group's cash will be sufficient to meet operational costs over the going concern assessment period albeit with minimal headroom remaining. However, the Group would be unable to repay the facility on 31 December 2017 when due if not converted or extended, without an alternative source of finance. Whilst the Group's assessment is that the loan is likely to be converted by Winter Sky, and thus repayment will not be required, Winter Sky is under no obligation to convert and thus the Group's dependence on the facility gives rise to a material uncertainty which may cast significant doubt over the Group'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. The financial statements do not include the adjustments that would result if the Company and the Group were unable to continue as a going concern.

However, having considered the above uncertainty 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 as a minimum and as such, the Directors consider it appropriate to prepare the financial statements on a going concern basis.

**SOMA OIL & GAS HOLDINGS LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**  
For the year ended 31 December 2016

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**1. Accounting policies for Group and Company (continued)**

The following relevant new standards, amendments to standards and interpretations are mandatory for the first time for the financial year beginning 1 January 2016, but had no significant impact on the group:

<b>Standard</b>	<b>Key requirements</b>	<b>Effective date as adopted by the EU</b>
Amendment to IFRS 11, 'Accounting for Acquisitions of Interests in Joint Operations'	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: <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 acceptable methods of depreciation and amortisation.	1 January 2016
Amendments to IAS 27	Amends IAS 27 Separate Financial Statements to permit investments in subsidiaries, joint ventures and associates to be optionally accounted for using the equity method in separate financial statements.	1 January 2016
Amendments to IAS 1	Disclosure amendments	1 January 2016

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 2016, as adopted by the European Union, and have not been early adopted:

<b>Standard</b>	<b>Key requirements</b>	<b>Effective date as adopted by the EU</b>
IFRS 9	Financial Instruments – Replacement to IAS 39 and is built on a single classification and measurement approach for financial assets which reflects both the business model in which they are operated and their cash flow characteristics.	1 January 2018
IFRS 15	Revenue from contracts with customers – Introduces requirements for companies to recognise revenue for the transfer of goods or services to customers in amounts that reflect the consideration to which the company expects to be entitled in exchange for those goods or services. Also results in enhanced disclosure about revenue.	1 January 2018
IFRS 16	Leases – Introduces a single lessee accounting model and eliminates the previous distinction between an operating and a finance lease.	1 January 2019

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 Group when the relevant standards and interpretations come into effect.

**SOMA OIL & GAS HOLDINGS LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**  
For the year ended 31 December 2016

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**1. Accounting policies for Group and Company (continued)**

The principal accounting policies adopted are set out below.

**1.2 Basis of consolidation**

The consolidated financial statements incorporate the financial results of the Company and entities controlled by the Company and its subsidiaries. Control is achieved where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

Uniform accounting policies have been adopted across the Group. All intragroup transactions, balances, income and expenses are eliminated on consolidation. The Group's presentation currency is the United States dollar (USD). The functional currency of the majority of the Group's subsidiaries is USD except for Soma Management Limited for which GBP was selected as functional currency.

The following subsidiaries have been included in the Group's consolidation and are directly held by the Company:

No.	Name	Countries of operation	Principal activity	Class of shares	%	Registered office address	Country of registration
1.	Soma Management Limited	UK	Management company	Ordinary	100%	21 Arlington Street, St. James's London United Kingdom SW1A 1RD	UK
2.	Soma Oil & Gas Exploration Limited	The Federal Republic of Somalia and Kenya	Oil & gas exploration	Ordinary	100%	21 Arlington Street, St. James's London United Kingdom SW1A 1RD	UK

**1.3 Revenue recognition**

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods and services provided in the normal course of business, net of discounts and sales related taxes. Revenue is recognised when services are delivered and title has passed.

Interest income is accrued on a time basis, by reference to the principal outstanding and the interest rate applicable.

**1.4 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.

**1.5 Foreign currencies**

In preparing the financial statements of the individual companies, transactions in currencies other than the entity's functional currency are recognised at the monthly average exchange rate. At each balance sheet date, monetary assets and liabilities that are denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are translated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

On consolidation, the assets and liabilities of the Group's foreign operations are translated into the presentation currency of the Group at the closing rate at the date of the balance sheet. Income and expenses are translated at the monthly average exchange rates where these approximate the rates at the dates of the transactions. All resulting exchange differences arising are recognised within the statement of comprehensive income and transferred to the Group's currency translation adjustment reserve.

**SOMA OIL & GAS HOLDINGS LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**  
For the year ended 31 December 2016

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**1. Accounting policies for Group and Company (continued)**

**1.6 Employee services settled in equity instruments**

The Group issues equity-settled share-based payments to certain Directors and employees and warrants to institutional investors as part of funding activities. Equity-settled share-based payments and warrants are measured at fair value (excluding the effect of non-market-based vesting conditions) at the date of grant.

The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the Group's estimate of shares that will eventually vest and adjusted for the effect of non-market-based vesting conditions.

Fair value is measured by use of the Black-Scholes model. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions, and behavioural considerations.

**1.7 Oil and gas properties**

*Exploration and evaluation assets*

The Group 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 exploration and evaluation 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 includes the cost of acquisitions and purchases of such assets, directly attributable overheads, and the cost of recognising provisions for future restoration and decommissioning.

**1.8 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.

**1.9 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.

**SOMA OIL & GAS HOLDINGS LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**  
For the year ended 31 December 2016

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**1. Accounting policies for Group and Company (continued)**

**1.10 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 Note 1.7.

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.

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

At each balance sheet date, the Group 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 Group 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.

**1.12 Financial instruments**

Financial assets and financial liabilities are recognised on the Group's Statement of Financial Position when the Group becomes party to the contractual provisions of the instrument. Financial assets are de-recognised when the contractual rights to the cash flows from the financial asset expire or when the contractual rights to those assets are transferred. Financial liabilities are de-recognised when the obligation specified in the contract is discharged, cancelled or expired.

**1.12.1 Trade receivables**

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method. Appropriate provisions for estimated irrecoverable amounts are recognised in the income statement when there is objective evidence that the assets are impaired.

The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating interest income over the relevant year. The effective interest rate is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset, or, where appropriate, a shorter period.



**SOMA OIL & GAS HOLDINGS LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**  
For the year ended 31 December 2016

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**1. Accounting policies for Group and Company (continued)**

**1.12.2 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.

**1.12.3 Trade payables**

Trade payables are initially recognised at fair value and subsequently measured at amortised cost using the effective interest method.

**1.12.4 Warrant reserve**

Warrants represent own equity instruments issued, measured at the fair value of cash or other amounts receivable, net of issue costs. The fair value has been calculated using the Black Scholes model.

**1.13 Compound financial instruments**

Compound financial instruments issued by the Group comprise of notes that can be converted to share capital at the option of the holder. The number of shares issued does not vary with changes in the fair value.

The liability component of the compound financial instrument is initially recognised at the fair value of a similar liability that does not have an equity conversion option. The equity component is recognised initially at the difference between the fair value of the compound financial instrument as a whole and the fair value of the liability component.

Subsequent to the initial recognition, the liability component of the compound financial instrument is measured at amortised cost using the effective interest method. The equity component of a compound financial instrument is not remeasured subsequent to initial recognition.

**1.14 Other income**

Other income is measured at the fair value of consideration received from a third party. The income relates to the agreed reimbursable amounts for costs incurred during the SFO investigation. These costs are covered by the Group's insurance policy. No income was received in the prior year.

**2. Group financial risk management, critical judgements and key sources of estimation uncertainty**

**2.1 Financial risk factors**

The Group's activities expose it to a variety of financial risks: market risk, credit risk and liquidity risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance.

**2.1.1 Market risk - foreign exchange risk**

The Group operates internationally and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the GB pound sterling, the Somali shilling, Kenyan shilling and US dollar. Foreign exchange risks could arise from future commercial transactions and recognised assets and liabilities.

The majority of the intra-group transactions are conducted in US dollar. As a result there is no significant foreign exchange risk at present. However, the Group does review its exposure to transactions denominated in other currencies and takes necessary action to minimise this exposure.

**SOMA OIL & GAS HOLDINGS LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**  
For the year ended 31 December 2016

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**2. Group financial risk management, critical judgements and key sources of estimation uncertainty (continued)**

*2.1.2 Credit risk*

Credit risk is managed on a Group basis. Credit risk arises from cash and cash equivalents and outstanding receivables. Approximately 99 per cent of the Group's cash and cash equivalents are held by 'BBB' or better rated banks. All trade and other receivables are considered operational in nature and have payment terms of 30 days.

*2.1.3 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 Group'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".

*2.1.4 Market risk - interest rate risk*

At year end the Group did not bear any interest rate risk. The business expenses incurred and paid by the Directors were paid post year end.

**2.2 Capital risk management**

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal structure to reduce the cost of capital. The Group has no externally imposed capital requirements.

In order to maintain or adjust the capital structure, the Group may return capital to shareholders, issue new shares or sell assets to reduce debt.

**2.3 Fair values of financial assets and liabilities**

The carrying value less impairment provision of trade receivables and payables are assumed to approximate their fair values because of the short term nature of such assets and liabilities, and the effect of discounting is negligible. There are no assets or liabilities carried at fair value at present.

**2.4 Critical judgements**

*2.4.1 Capitalisation policy of Exploration and Evaluation assets*

The Group balance sheet includes significant E&E assets (see Note 8). 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 Group's accounting policy is set out in Note 2. Judgement is required in assessing whether E&E rights are sufficient to support the commencement of cost capitalisation. The SOA entitles the Group to apply and negotiate for PSAs over an area of up to 60,000 sq. km and therefore the Group consider its E&E rights under the SOA are sufficient to support asset recognition.

Further judgement is involved in applying the Group'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 Group's current E&E rights under the SOA into future exploration and production rights under a number of PSAs.

**SOMA OIL & GAS HOLDINGS LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**  
For the year ended 31 December 2016

**2. Group financial risk management, critical judgements and key sources of estimation uncertainty (continued)**

**2.5 Key sources of estimation uncertainty**

**2.5.1 Exploration and Evaluation asset recoverability**

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 Group's E&E assets were not impaired at 31 December 2016.

**2.5.2 Share based remuneration**

The Group uses share based remuneration arrangements to compensate its employees, details of which are provided in Note 19. The Group's accounting policy for share based remuneration is described in Note 2. Accounting for the Group's share based payment arrangements involves estimates of the fair values of share based awards at the time they are conditionally granted to employees. Estimates of the period over which such awards may vest, and judgements as to whether performance milestones are likely to be met are also required, and these estimates and judgements are required to be reassessed each reporting period in order to determine the appropriate income statement charge in each period. Details of the Group's share based remuneration expense and the judgements and estimates made in relation thereto are provided in Note 19.

**3. Other income**

	At 31 December 2016 US\$'000	At 31 December 2015 US\$'000
Other income	<u>692</u>	<u>-</u>

Other income comprises of monies agreed to be reimbursed to Soma through the Directors and Officers insurance policy. The claim relates to legal expenses incurred in connection with the SFO investigation.

**4. Group auditor's remuneration**

The operating loss for the year is stated after charging:

	Year ended 31 December 2016 US\$'000	Year ended 31 December 2015 US\$'000
<b>Audit fees:</b>		
Fees payable to the Company's Auditor for the Group and Company annual report	24	70
Audit of the Company's subsidiaries pursuant to legislation	<u>40</u>	<u>40</u>
	<u>64</u>	<u>110</u>
<b>Non-audit fees:</b>		
Tax services	<u>21</u>	<u>33</u>
	<u>21</u>	<u>33</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. Group administrative expenses**

The operating loss for the year includes the following administrative expenses:

	Year ended 31 December 2016 US\$'000	Year ended 31 December 2015 US\$'000
Share based payment (Note 17)	(1,793)	(1,173)
Directors' remuneration (Note 6)	1,307	1,957
Travel and subsistence	296	721
Rent and rates	274	419
Staff wages	361	448
Legal and professional fees	756	1,013
Accountancy	120	120
Auditor's remuneration (Note 4)	64	143
Marketing and public relations	60	127
Consultancy fees	560	114
Depreciation (Note 9)	42	86
Loss on disposal of property, plant and equipment	-	18
Foreign exchange	5	10
Other administrative expenses	296	140
	<b>2,348</b>	<b>4,143</b>

**6. Group staff numbers and costs**

The average number of employees (including executive Directors) employed was as follows:

	Year ended 31 December 2016 No.	Year ended 31 December 2015 No.
Soma Management Limited	10	9
Soma Oil & Gas Exploration Limited	2	2
	<b>12</b>	<b>11</b>

Staff costs, excluding directors comprised:

	Year ended 31 December 2016 US\$'000	Year ended 31 December 2015 US\$'000
Wages, salaries and benefits	316	393
Social security costs	45	55
Share based payments	97	40
	<b>458</b>	<b>488</b>

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**6. Group staff numbers and costs (continued)**

The Directors' remuneration comprised:

	Year ended 31 December 2016 US\$'000	Year ended 31 December 2015 US\$'000
Directors' wages, salaries and benefits	1,479	2,147
Directors' consultancy fees	94	-
Directors' social security costs	108	192
Directors' defined contribution pension	-	35
Share based payments	130	(1,213)
	<u>1,811</u>	<u>1,161</u>

The highest paid Director in the year was paid a salary of US\$374,000 (2015: US\$417,000). No share options have been exercised during the year. A total of US\$374,000 (2015: US\$417,000) in relation to Directors' remuneration has been capitalised as part of Exploration and Evaluation assets (Note 8).

**7. Group taxation**

	Year ended 31 December 2016 US\$'000	Year ended 31 December 2015 US\$'000
<i>Current tax:</i>		
Current tax	-	-
Adjustments in respect of prior years	8	8
Total current tax expense	<u>8</u>	<u>8</u>
<i>Deferred tax</i>	-	-
Total income tax expense in the income statement	<u>8</u>	<u>8</u>

UK corporation tax is calculated at 20% (2015: 20.25%) of the estimated taxable loss for the year. Kenyan income tax is calculated at 37.5%, all costs incurred by the Kenyan Branch of Soma Oil & Gas Exploration Limited are recharged to the Soma Management Limited with a 10% uplift resulting in an income tax charge in the year.

	Year ended 31 December 2016 US\$'000	Year ended 31 December 2015 US\$'000
Loss before tax	2,176	4,143
Income tax using the UK domestic corporation tax rate of 20% (2015: 20.25%)	435	839
Kenyan branch income tax	8	8
Unutilised tax losses	(435)	(839)
Current tax charge	<u>8</u>	<u>8</u>

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**7. Group taxations (continued)**

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 there from. At 31 December 2016, tax losses were US\$15,670,000 (2015: US\$10,967,000).

**8. Group intangible assets**

	<b>Exploration and evaluation assets</b>
	<b>US\$'000</b>
<b>Cost:</b>	
At 1 January 2015	40,033
Additions in the year	2,199
At 31 December 2015	<u>42,232</u>
Additions in the year	751
At 31 December 2016	<u><u>42,983</u></u>
<b>Amortisation and impairment:</b>	
At 1 January 2015 and 31 December 2015	-
Amortisation charge for the year	-
At 31 December 2016	<u><u>-</u></u>
<b>Net book value:</b>	
At 31 December 2015	<u>42,232</u>
At 31 December 2016	<u><u>42,983</u></u>

Significant judgements and estimation uncertainties relating to the Group's exploration and evaluation assets, are explained in Note 2.4 and 2.5.

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**9. Group 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 2015	126	109	26	261
Additions in the year	-	31	2	33
Disposals in the year	-	(42)	-	(42)
<b>At 31 December 2015</b>	<b>126</b>	<b>98</b>	<b>28</b>	<b>252</b>
Disposals in the year	(126)	-	-	(126)
<b>At 31 December 2016</b>	<b>-</b>	<b>98</b>	<b>28</b>	<b>126</b>
<b>Depreciation:</b>				
At 1 January 2015	18	23	6	47
Charge for the year	42	35	9	86
Disposals in the year	-	(24)	-	(24)
<b>At 31 December 2015</b>	<b>60</b>	<b>34</b>	<b>15</b>	<b>109</b>
Charge for the year	-	33	9	42
Disposals in the year	(60)	-	-	(60)
<b>At 31 December 2016</b>	<b>-</b>	<b>67</b>	<b>24</b>	<b>91</b>
<b>Net Book Value:</b>				
<b>At 31 December 2015</b>	<b>66</b>	<b>64</b>	<b>13</b>	<b>143</b>
<b>At 31 December 2016</b>	<b>-</b>	<b>31</b>	<b>4</b>	<b>35</b>

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**10. Prepayments and other receivables**

**Group**

	At 31 December 2016 US\$'000	At 31 December 2015 US\$'000
Prepayments	72	108
VAT recoverable	110	98
Other receivables	705	89
	<u>887</u>	<u>295</u>

Included in other receivables at 31 December 2016, US\$447,904 (2015: nil) was due from William Richard Anderson. On 1 January 2016 he entered into a Director's loan agreement with the Company to provide a loan of up to \$500,000 during 2016. On the balances drawn down an annualised interest rate of 3% accrued during the year, see Note 19 for further details.

There were no trade receivables held by the Group at 31 December 2016, therefore there is no average credit period taken on the sale of goods.

There are no balances within either trade or other receivables that are past their due settlement date and no impairment has been deemed necessary during the year.

**Company**

	At 31 December 2016 US\$'000	At 31 December 2015 US\$'000
Amounts owed by Soma Management Limited	15,247	50,283
Amounts owed by Soma Oil & Gas Exploration Limited	43,436	2,926
	<u>58,683</u>	<u>53,209</u>

The recoverability of the amounts owed by Soma Management Limited and Soma Oil & Gas Exploration Limited should be weighed along with the disclosures made in relation to going concern (see Note 1) and the uncertainties relating to exploration and evaluation asset recoverability (see note 2.5.1). Management has assessed that in light of the going concern assumption being applied to all group accounts that the intercompany loan is recoverable as at the date of preparing these accounts.

**11. Cash and cash equivalents**

**Group**

	At 31 December 2016 US\$'000	At 31 December 2015 US\$'000
Cash in bank and on hand	864	882
Bank overdraft	(173)	-
	<u>691</u>	<u>882</u>

**Company**

	At 31 December 2016 US\$'000	At 31 December 2015 US\$'000
Cash in bank and on hand	-	-

The Directors consider that the carrying amount of cash and cash equivalents approximates their fair value.



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**12. Trade and other payables**

**Group**

	At 31 December 2016 US\$'000	At 31 December 2015 US\$'000
Trade payables	263	1,240
Accruals	790	675
Social security and other taxes	-	128
Other payables	-	71
	<u>1,053</u>	<u>2,114</u>

Trade payables principally comprise amounts outstanding for trade purchases.

The Directors consider that the carrying amounts of trade and other payables are approximate to their fair values.

The Group has financial risk management policies in place to ensure that all payables are paid within the credit time frame and no interest has been charged by any suppliers as a result of late payment of invoices during the year.

**Company**

	At 31 December 2016 US\$'000	At 31 December 2015 US\$'000
Accruals	<u>48</u>	<u>73</u>

**13. Convertible loan notes and warrants**

***Shareholder funding – US\$15m draw down facility - 2016***

In December 2015 the Group undertook a shareholder funding exercise to raise US\$15,000,000 from existing shareholders in the form of a Convertible Loan Note. During 2016 funding has been provided under this loan by Winter Sky as of 31 December 2016 US\$5,513,935 had been drawn down under this convertible loan note.

Under the terms of the loan note instrument the existing shareholders of the Company could subscribe to the loan note instrument in equal portions to their existing holdings. During the year all shareholders except Winter Sky waived their rights to participate in the loan note instrument. Winter Sky has taken up the all other shareholder rights, requiring them to invest up to US\$15,000,000 at the Company's discretion.

Each note accrues interest from the date in which it is allocated to the Noteholder up until the earlier of conversion or redemption of the loan note at a rate of 15% per annum. During the year an interest charge of US\$513,088 accumulated on the loan notes and was charged as a finance cost. All interest accumulated on the capital balance due to Winter Sky becomes payable on the earlier of conversion or redemption of the note, and shall convert into fully paid Ordinary Shares.

The Noteholders have the option to convert all outstanding notes into fully paid Ordinary Shares at the Conversion price of US\$0.25. If not converted, the notes are repayable on 31 December 2017. As the notes are convertible at the option of the Noteholder they have been classified as a liability and equity instrument in accordance with accounting policy IAS 32.

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**13. Convertible loan notes and warrants (continued)**

**Terms and debt repayment schedule**

	Currency	Nominal interest rate %	Date of redemption	Face Value 31 December 2016 \$	Carrying Amount 31 December 2016 \$
Convertible loan notes	USD	15	31.12.2017	5,513,935	6,005,138

<b>Convertible loan note movements:</b>	<b>\$</b>
Proceeds from the issue of USD convertible loan notes	<u>5,513,935</u>
Amount classified as equity through fair value discounting	<u>(21,885)</u>
Discounted fair value of the convertible loan	<u>5,492,050</u>
Effective interest charge on convertible loan to 31 December 2016	513,088
<b>Carrying amount of the convertible loan at 31 December 2016</b>	<b><u>6,005,138</u></b>

**Split showing the maturity of the convertible loan notes:**

Liability due in <1 year at 31 December 2016	6,005,138
Liability due in >1 year at 31 December 2016	-

**Shareholder funding – Convertible loan notes US\$3m - 2015**

In 2015 a total of 3,000,000 Convertible Loan Notes were issued at a price of US\$1 per note which were paid in monthly instalments from July to December 2015. The notes are convertible into 2,000,000 ordinary shares and will convert on the date on which a conversion event occurs. Whether the notes are converted or redeemed is at the option of the Company, therefore they have been classified entirely as equity instruments.

The funding was provided by various shareholders, being Winter Sky, Soma Oil & Gas BVI, Afro East Energy Limited, Robert Allen Sheppard, Hassan Khaire, Philip Edward Charles Wolfe and Doma Investment Holdings Limited.

The convertible loan notes carry interest at a rate of 15% per annum and accrues until redemption or conversion where it can be converted into shares.

As part of the issue of the convertible loan notes warrants were also issued to the same parties. 8,250,000 Class A Warrants were issued with an exercise price of US\$0.25 and 25,000,000 Class B Warrants were issued with an exercise price of US\$0.05.

In 2016 all Class A and B Warrants attaching to Afro East Energy Limited were transferred to Winter Sky.

As the warrants are capable of being transferred, cancelled or redeemed independently of the convertible loan notes they are accounted for separately and the proceeds of the issue has been split within equity between a warrant reserve and a convertible loan reserve.

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**13. Convertible loan notes and warrants (continued)**

Movements in the warrant reserve and convertible loan reserve are as follows:

	Convertible loan reserve US\$'000	Warrant reserve US\$'000	Total US\$'000
<b>Convertible loan reserve</b>			
Brought forward at 1 January 2016	826	2,287	3,113
Interest on \$3m convertible issue	17	-	17
Equity reserve on \$15m convertible issue	22		22
Carried forward at 31 December 2016	<b>865</b>	<b>2,287</b>	<b>3,152</b>

The warrants were valued on the grant date using a Black-Scholes option pricing model which calculates the fair value of an option by using the vesting period, the expected volatility of the share price, the current share price, the assumed exercise price and the risk-free interest rate.

Movements in the number of warrants outstanding and their related weighted average assumed exercise prices are as follows:

	31 December 2016	
	Number of warrants	Weighted average exercise price in US\$
Outstanding at the beginning of the year	33,250,000	0.1
Granted	-	-
Lapsed	-	-
Exercised	-	-
Outstanding at the end of the year	<b>33,250,000</b>	<b>0.1</b>
Exercisable at the end of the year	-	-

The following table lists the inputs to the model used to determine the fair value of warrants granted:

	Year ended 31 December 2016	Year ended 31 December 2015
Pricing model used	Black-Scholes	Black-Scholes
Weighted average share price at grant date (US\$)	0.12	0.12
Weighted average exercise price (US\$)	0.10	0.10
Weighted average contractual life (years)	3	3
Weighted average share price volatility (%)	71.32%	71.32%
Dividend yield	0%	0%
Weighted average risk-free interest rate (%)	0.88%	0.88%

On 30 January 2017 the Board members issued a written resolution approving the cessation of interest accruing on the loan notes effective 30 January 2016. Additionally a conversion notice was issued stating all interest accrued to the 30 January 2016 (US\$129,000) and the principal (US\$3,000,000) would be fully converted into new fully paid Ordinary shares on 1 February 2017. The conversion price was amended to US\$1.50 per share and an additional 2,086,177 new fully paid Ordinary shares was issued on 1 February 2017.

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**14. Group financial instruments**

The Group is exposed to the risks that arise from its use of financial instruments. This note describes the objectives, policies and processes of the Group 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 Group, from which financial instrument risk arises are as follows:

- Cash and cash equivalents
- Other receivables
- Trade payables
- Accruals

***Financial assets***

	<b>At 31 December 2016</b>	
	<b>Current US\$'000</b>	<b>Non-current US\$'000</b>
Cash and cash equivalents	691	-
Other receivables	705	-
	<b>1,396</b>	<b>-</b>

	<b>At 31 December 2015</b>	
	<b>Current US\$'000</b>	<b>Non-current US\$'000</b>
Cash and cash equivalents	882	-
Other receivables	89	-
	<b>971</b>	<b>-</b>

***Financial liabilities***

	<b>31 December 2016</b>	
	<b>Current US\$'000</b>	<b>Non-current US\$'000</b>
Trade payables	263	-
Accruals	790	-
Convertible loan	6,005	-
	<b>7,058</b>	<b>-</b>

	<b>31 December 2015</b>	
	<b>Current US\$'000</b>	<b>Non-current US\$'000</b>
Trade payables	1,240	-
Accruals	675	-
Other payables	71	-
	<b>1,986</b>	<b>-</b>

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**14. Group financial instruments (continued)**

**Foreign currency risk**

Foreign currency risk refers to the risk that the value of a financial commitment or recognised asset or liability will fluctuate due to changes in foreign currency rates. The Group is exposed to foreign currency risk due to the following:

- 1) Transactional exposure relating to operating costs and capital expenditure incurred in currencies other than the functional currency of Group companies, being US Dollars and GBP Sterling;
- 2) Translation exposures relating to monetary assets and liabilities, including cash and short-term investment balances, held in currencies other than the functional currency of operations and net investments that are not denominated in US Dollars.

The table below shows the currency profile of cash and cash equivalents:

	At 31 December 2016 US\$'000	At 31 December 2015 US\$'000
US Dollars	846	850
GBP Sterling	(173)	24
Kenyan Shillings	18	8
	<u>691</u>	<u>882</u>

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

The carrying amount of the Group's foreign currency denominated monetary assets and monetary liabilities at 31 December 2016 is as follows:

	Assets US\$'000	Liabilities US\$'000
<b>2016</b>		
US Dollars	933	6,118
GBP Sterling	445	939
Kenya Shilling	18	1
	<u>1396</u>	<u>7058</u>
<b>2015</b>		
US Dollars	850	661
GBP Sterling	94	1,312
Kenya Shilling	27	59
	<u>971</u>	<u>2032</u>

**Interest rate risk**

The Group has minimal exposure to interest rate risk as all debt is at a fixed rate and therefore the Directors believe that interest rate risk is at an acceptable level.

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**15. Group and Company issued share capital and share premium**

	Number of shares No.	Ordinary shares par value US\$	Ordinary shares share premium US\$
As at 31 December 2015 and 2016	181,500,000	294	51,799,867

The Company has one class of ordinary shares with a par value of US\$0.00000161 (£0.000001). There is no limit on authorised share capital. All shares have equal voting rights and rank pari passu.

- (i) On 30 December 2013, 35,000,000 shares were issued as part of a fundraising at US\$1.00 per share, giving a premium of US\$34,999,944. This fundraising was completed with a final issue of 15,000,000 shares and 30,000,000 warrants on 11 June 2014. Winter Sky exercised their 17,500,000 warrants on 30 October 2014 and Afro East Energy exercised their 12,500,000 warrants on 12 December 2014 at a share price of US\$0.01 per share

Winter Sky is part owned by a close member as defined in IAS 24 by Georgy Dzhaparidze who is a Director of the Company and as such a related party relationship exists between Winter Sky and Soma.

**16. Group operating lease commitments**

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

	31 December 2016 US\$'000	31 December 2015 US\$'000
Within one year	21	21
Within 2-5 years	64	85
More than 5 years	-	-

At the balance sheet date the Group had no unprovided capital commitments (2015: none).

**17. Group share options and other share based payments**

	Year ended 31 December 2016 US\$'000	Year ended 31 December 2015 US\$'000
Credit for the year	(1,793)	(1,173)

The Board has established a share option plan, in which share options will be granted and vest on successful completion of certain milestones (described below). The Company signed agreements with the Directors setting out the terms of the options from 2013 onwards. Once the Remuneration Committee has confirmed the successful completion of the milestone, a certain number of share options will be granted and vest for each participant.

**Resignations**

Milestone options were put in place to incentive the Executives Directors. On 17 March 2017, Philip Wolfe stood down as Chief Financial Officer, he notified the company about his impending resignation during 2016 and in doing so, agreed to waive 4,137,950 non-vested share options.

On 23 February 2017 Hassan Khaire stood down as a Director of Soma Exploration Limited, please see Note 21 for further detail, in doing so he agreed to waive all outstanding options to him totalling 5,241,400.

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**17. Group share options and other share based payments (continued)**

As a result of both resignations previous milestones recognised in 2015 (3 and 4) are no longer applicable in the current year.

**Share options issued**

During the year 4,000,000 new options were issued to Richard Anderson (2,500,000) and an employee of the Soma Group (1,500,000) with the conditions attaching to milestone 2. Additionally a further 4,000,000 new options were issued to Richard Anderson (2,500,000) and an employee of the Soma group (1,500,000) under a new milestone 2.5. During the year the options under milestone 2.5 have vested as the company received a 'No Further Action' letter from the SFO. The options under this milestone have not been exercised at the year end.

Milestone	Number of options	Grant Date	Exercise price (US\$) at grant date	Non market vesting condition	Exercise period (years)	Assumed Vesting period
1	2,250,000	Aug-13	1.00	Acquisition of 2D seismic <sup>1</sup>	5	To 31 December 2014
2	4,000,000	Jul-16	0.25	Earliest of: a) Signing the first three PSAs b) Issue of the first three blocks for hydrocarbon exploration and production <sup>3</sup>	5	To 31 December 2017
2.5	4,000,000	Jul-16	0.25	Date on which the Company receives a "No Further Action" letter or a substantially similar document from the U.K. Serious Fraud Office <sup>2</sup>	5	To 31 December 2016
3.5A	206,900	Sep-14	0.01	Sign the fourth PSA <sup>4</sup>	5	To 31 December 2018

<sup>1</sup> Achieved in June 2014.

<sup>2</sup> Achieved in December 2016.

<sup>3</sup> Sufficiently progressed at 31 December 2016 to be at least considered 50% probable.

<sup>4</sup> Insufficiently progressed at 31 December 2016 to be considered at least 50% probable.

Given that each milestone is a non-market vesting condition, the likelihood of each will be re-assessed at each year end and the charge amended annually to recognise cumulatively the grant date fair value of those awards considered likely to ultimately vest as at the balance sheet date over the estimated vesting period.

The exercise price of all the options under Milestones 2, 2.5, 3A will be determined by the share price of any equity raised in the 12 months preceding the granting of the options. The Company has no legal or constructive obligation to repurchase or settle the options in cash.

The options were valued on the conditional grant date using a Black-Scholes option pricing model which calculates the fair value of an option by using the vesting period, the expected volatility of the share price, the current share price, the assumed exercise price and the risk-free interest rate. The fair value of the option is amortized over the anticipated vesting period. There is no requirement to revalue the option at any subsequent date.

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**17. Group share options and other share based payments (continued)**

Movements in the number of share options outstanding and their related weighted average assumed exercise prices are as follows:

	<b>31 December 2016</b>	
	<b>Number of share options</b>	<b>Weighted average exercise price in US\$ per share</b>
Outstanding at the beginning of the year	11,886,250	0.87
Granted	8,000,000	0.25
Lapsed / forfeited	(9,379,350)	0.85
Outstanding at the end of the year	<b>10,506,900</b>	<b>0.41</b>
Exercisable at the end of the year	<b>6,250,000</b>	<b>0.45</b>
	<b>31 December 2015</b>	
	<b>Number of share options</b>	<b>Weighted average exercise price in US\$ per share</b>
Outstanding at the beginning of the year	17,034,550	0.86
Granted	50,000	0.63
Lapsed	(5,198,300)	0.85
Outstanding at the end of the year	<b>11,886,250</b>	<b>0.87</b>
Exercisable at the end of the year	<b>3,250,000</b>	<b>1</b>

The weighted average fair value per share of the share options conditionally granted in the year, calculated using the Black-Scholes Option Pricing model, was US\$0.047 (2015: US\$0.43).

Based on Management's assessment of the likelihood of the non-market vesting conditions and considering the likely vesting period and the estimated number of shares that will vest for each milestone, this has led to a credit of US\$1,793,000 (2015: credit of US\$1,173,000) for the year to 31 December 2016.



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**18. Cash flows utilised in operating activities**

**Group**

		For the year ended 31 December 2016 US\$'000	For the year ended 31 December 2015 US\$'000
	Note		
<b>Cash flow from operating activities</b>			
Operating loss		(2,176)	(4,143)
<i>Adjustments for:</i>			
Depreciation on property, plant and equipment	9	42	86
Share based payment credit	17	(1,793)	(1,173)
Currency translation differences		38	20
Loss on disposal of fixed assets		-	18
Decrease in prepayments made and other receivables		(525)	(83)
(Decrease) / Increase in trade and other payables		(540)	1,528
<b>Net cash used in operating activities</b>		<b>(4,954)</b>	<b>(3,747)</b>

**Company**

		For the year ended 31 December 2016 US\$'000	For the year ended 31 December 2015 US\$'000
	Note		
<b>Cash flow from operating activities</b>			
Operating profit		1,248	1,079
<i>Adjustments for:</i>			
Share based payment credit	17	(1,793)	(1,173)
Interest paid		529	-
(Decrease) in prepayments made and other receivables		(5,474)	(2,946)
(Decrease)/ increase in trade and other payables		(24)	40
<b>Net cash used in operating activities</b>		<b>(5,514)</b>	<b>(3,000)</b>

No dividends were paid or declared during the year.

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**19. Related party transactions**

Transactions between the Company and its subsidiaries which are related parties of the Company have been eliminated on consolidation and are not disclosed in this note. Details of transactions between the Company and other related parties are disclosed below.

*Compensation of key management personnel*

Key management are the Directors (executive and non-executive). Further information about the remuneration of Directors is provided in Note 6.

*Shareholder funding – US\$15m draw down facility*

In December 2015 the Group undertook a shareholder funding exercise to raise US\$15,000,000 from existing shareholders in the form of a Convertible Loan Note. During 2016 funding has been provided under this loan by Winter Sky as of 31 December 2016 US\$5,513,935 had been drawn down under this convertible loan note.

Each note accrues interest from the date in which it is allocated to the Noteholder up until the earlier of conversion or redemption of the loan note at a rate of 15% per annum. During the year an interest charge of US\$513,088 accumulated on the loan notes and was charged as a finance cost. All interest accumulated on the capital balance due to Winter Sky becomes payable on the earlier of conversion or redemption of the note, and shall convert into fully paid Ordinary Shares, see Note 13 for further detail.

*Other transactions*

During the year, the Group companies entered into the following transactions with related parties who are not members of the Group.

	<b>Outstanding balance 2016 US\$'000</b>	<b>Directors fees 2016 US\$'000</b>	<b>Outstanding balance 2015 US\$'000</b>	<b>Directors fees 2015 US\$'000</b>
As at 31 December				
Matador Asset Management Ltd	75	68	23	78

Matador Asset Management Ltd is the entity controlled by The Earl of Clanwilliam which he uses to charge the Company for his Director fees.

During the financial year Richard Anderson provided additional services to the Company over and above his expected Directorship duties. An accrual has been included within Note 6 for the time spent providing consultancy services to the Company which will be invoiced through a company which he is the sole Director and shareholder.

On 1 January 2016 Soma Exploration Limited sold to former Director, Hassan Khaire, a company vehicle that he had been using as part of the normal service he provided to the Group. The vehicle was sold at the net book value it was recorded within Soma Exploration Limited which in management's view was equivalent to market value, this totalled US\$65,415. Interest has been accruing on the sale at an annualised rate of 3%, as at the year end a debtor existed of US\$67,377.

From January – December 2016 Soma Management Limited received services from a member of staff employed by Eurasia Drilling Company Limited, a company which shares a number of common shareholders with Winter Sky. The staff member has been charged at a market rate, services received during the year totalled US\$187,217 (2015: nil) and an amount of US\$34,056 was outstanding at the year end.

On the 1 January 2016 Soma Management Limited entered into a Director's loan agreement with Richard Anderson to provide up to US\$500,000 during 2016. The loan advanced during the year totalled US\$441,003 and accrued interest at an annualised rate of 3%, a total amount of US\$6,901 accrued on the balance. The total balance, US\$447,904, is included as part of other receivables in Note 10.

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**20. Group ultimate controlling party**

At 31 December 2015, there was no single controlling party. During 2016 AfroEast Energy Limited transferred its shareholding of 23,999,999 to Winter Sky (which is incorporated in the British Virgin Islands). At 31 December 2016 Winter Sky owned 91,499,999 of the issued Ordinary shares representing 50.4% (2015: 37.2%) giving the entity ultimate control of the Group.

**21. Group subsequent events**

**Conversion of \$3m convertible loan notes**

On 30 January 2017 the Board members issued a conversion notice stating all interest accrued to the 30 January 2016 (US\$129,000) and the principal (US\$3,000,000) would be fully converted into new fully paid Ordinary shares on 1 February 2017. The conversion price was amended to US\$1.50 per share and an additional 2,086,177 new fully paid Ordinary shares was issued on 1 February 2017.

**Resignation of a Director**

On 23 February 2017, Hassan Khaire a Director of the company resigned and was simultaneously elected to be the Prime Minister of Somalia. To ensure there were no conflicts of interest or existing ties with the Group, he agreed to relinquish his entire shareholding, all his share options and other instruments that he had accumulated whilst working for the Group.

Hassan received a salary up until the date of his resignation from Group but accrued no further benefits after resignation. Additionally, the loan due to the company for the purchase of a company vehicle on 1 January 2016 was agreed to be fully impaired.

**Extension of the US\$15 million convertible loan notes**

On the 21 March 2017 the Board agreed to extend the period of election on the US\$15m convertible facility to 30 June 2017. Subsequently on the 12 June 2017 the Board agreed to extend the period of election to 31 December 2017.

**Set-off Agreement**

On 30 June 2017 Winter Sky assumed the payment obligation due to Richard Anderson for all unpaid service fees due to Richard Anderson.

Winter Sky agreed to subscribe for Notes at the nominal amount of US\$1 per note, at 31 December 2016 there was a service fee accrued of US\$94,000.