

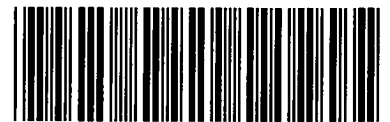
Soma Oil & Gas Holdings Limited

Consolidated Annual Report and Financial Statements

For the period from Incorporation (26 April 2013) to 31 December 2013

Company number 08506858

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SOMA OIL & GAS HOLDINGS LIMITED

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SOMA OIL & GAS HOLDINGS LIMITED

GROUP INFORMATION

DIRECTORS:

Lord Howard of Lympne, CH, QC
Basil Shiblaq
Robert Allen Sheppard
Philip Edward Charles Wolfe
Hassan Khaire
Mohamad Ali Ajami
Georgy Dzhaparidze
William Richard Anderson
The Earl of Clanwilliam

COMPANY SECRETARY:

Peter Damouni

REGISTERED OFFICE:

2nd Floor
6 Duke Street St James's
London
England
SW1Y 6BN

REGISTERED NUMBER:

08506858 (United Kingdom)

SOLICITORS:

Stephenson Harwood LLP
1 Finsbury Circus
London
EC2M 7SH

AUDITOR:

Deloitte LLP
2 New Street Square
London
EC4A 3BZ

ACCOUNTANTS:

Capita Corporate Solutions (formerly Whale Rock Accounting)
Capita Asset Services
1st Floor
40 Dukes Place
London
EC3A 7NH

SOMA OIL & GAS HOLDINGS LIMITED

DIRECTORS' REPORT

For the period from Incorporation (26 April 2013) to 31 December 2013

The Directors present their report together with the audited consolidated financial statements of Soma Oil & Gas Holdings Limited for the period from incorporation to 31 December 2013.

Soma Oil & Gas Holdings Limited¹ ("The Company") 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.

The Company and its subsidiaries together are referred to herein as the Group.

GOING CONCERN

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

During the first half of 2014, the Group successfully obtained funding of US\$15,000,000 from Winter Sky Investments Limited through the issue of shares. The Group also has a commitment in place to issue a further 10 million shares for US\$10,000,000 to an existing shareholder, AfroEast Energy Limited by no later than 31 December 2014. The Directors have no reason to believe that the committed financing will not be received.

The Group is dependent on this existing shareholder taking up the shares issue to generate the funds necessary to meet its planned operating expenditure going forwards. If this financing were not received as expected, management would need to reduce the non-committed planned operating expenditures, which they have the ability to do, or otherwise seek alternative sources of finance. As a result the financial statements have been prepared on the going concern basis, which the Directors believe to be appropriate.

RESULTS AND DIVIDENDS

The Group's comprehensive loss after tax for the eight months to 31 December 2013 amounted to US\$4,206,000. The Directors do not recommend the payment of a dividend.

SUPPLIER PAYMENT POLICY

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

DIRECTORS

The Directors who have held office during the period to the date of this report are as follows:

Lord Howard of Lympne, CH, QC	(appointed 7 May 2013)
Basil Shiblaq	(appointed 26 April 2013)
Robert Allen Sheppard	(appointed 31 July 2013)
Philip Edward Charles Wolfe	(appointment 16 September 2013)
Hassan Khaire	(appointed 4 November 2013)
Mohamad Ali Ajami	(appointed 5 December 2013)
Georgy Dzhaparidze	(appointed 17 December 2013)
William Richard Anderson	(appointed 17 December 2013)
The Earl of Clanwilliam	(appointed 17 December 2013)

DIRECTORS' REMUNERATION

The total paid to Directors during the year was US\$435,000. This included the highest paid Director who was Robert Allen Sheppard at US\$165,000.

During the year no Directors exercised their options.

¹Soma Oil & Gas Limited changed its name to Soma Oil & Gas Holdings Limited on 31 July 2013

SOMA OIL & GAS HOLDINGS LIMITED
DIRECTORS' REPORT

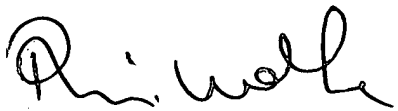
For the period from Incorporation (26 April 2013) to 31 December 2013

Disclosure of information to Auditor

As far as each Director is aware, there is no relevant audit information of which the Company's Auditor is unaware. In addition, each 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.

Pursuant to Section 485 of the Companies Act 2006, Deloitte LLP was appointed on 21 August 2013 as auditor of the Company. Deloitte LLP have expressed their willingness to continue in office as auditor and a resolution to reappoint them will be proposed at the forthcoming Annual General Meeting.

ON BEHALF OF THE BOARD:


.....
Robert Allen Sheppard
Chief Executive Officer
17 September 2014
.....
Philip Edward Charles Wolfe
Chief Financial Officer
17 September 2014

SOMA OIL & GAS HOLDINGS LIMITED
THE STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE
DIRECTORS' REPORT AND FINANCIAL STATEMENTS
For the period from Incorporation (26 April 2013) to 31 December 2013

The Directors present their Strategic Report for the period from incorporation to 31 December 2013.

Business review and future developments

On 6 August 2013, Soma Oil & Gas Exploration Limited ("Soma Exploration") signed a Seismic Option Agreement ("SOA") with the Ministry of National Resources, Federal Government of Somalia. Under the terms of the SOA, Soma Exploration is required to undertake an exploration programme in the Federal Republic of Somalia over a two year period. If Soma Exploration fails to meet the requirements of the SOA then they would lose the right to apply for and be granted Production Sharing Agreements ("PSAs") covering an area of up to 60,000 sq km.

The above exploration programme comprises a 2D seismic acquisition programme across a 122,000 sq km Evaluation Area offshore Somalia agreed by the Ministry of National Resources, Federal Government of Somalia in December 2013. Under the terms of the SOA, Soma Exploration is required to spend US\$15 million on the exploration programme, including a regional evaluation of historic geological data, undertaking a new seismic survey and providing the Federal Government of Somalia with the processed seismic data by August 2015.

On 30 December 2013, Soma Oil & Gas Holdings Limited signed a funding agreement with Winter Sky Investments Limited for US\$50 million.

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

On 2 June 2014, Soma Exploration successfully completed the acquisition of 20,500 km lines of 2D seismic data. Soma Exploration expects to complete the processing of the seismic data at the end of 2014 or early 2015.

To date Soma Exploration has spent approximately US\$37.0 million on the exploration programme, exceeding the required spend under the SOA.

Principal risks and uncertainties

The Group's financial and capital risk management policies are set out in notes 3.1 and 3.2 within the accounting policies section of this financial 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 reserve 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.

Oil and gas price risk

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

Foreign exchange risk

Any future proceeds from the 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. Hence the Group is exposed to foreign exchange risk against UK Pound Sterling and in the future Somali Shilling and Kenyan Shilling, which may have positive or negative consequences for the Group's overall profitability.

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

SOMA OIL & GAS HOLDINGS LIMITED
THE STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE
DIRECTORS' REPORT AND FINANCIAL STATEMENTS

For the period from Incorporation (26 April 2013) to 31 December 2013

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.

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

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

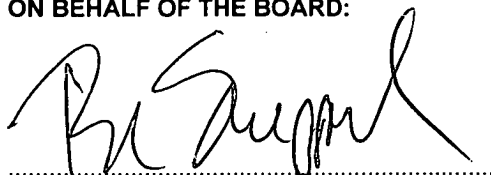
KEY PERFORMANCE INDICATORS

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

- Soma Oil & Gas Holdings Limited successfully completed its first milestone of securing an equity fundraising of more than £25 million in December 2013;
- Soma Oil & Gas Holdings Limited's wholly owned subsidiary Soma Exploration successfully achieved the next milestone of completing the 2D seismic acquisition programme offshore Somalia in June 2014; and
- The next milestones are signing the PSAs, progressing the exploration programme and securing farm-in partners.

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


ON BEHALF OF THE BOARD:



Robert Allen Sheppard

Chief Executive Officer

17 September 2014



Philip Edward Charles Wolfe

Chief Financial Officer

17 September 2014

SOMA OIL & GAS HOLDINGS LIMITED
THE STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE
DIRECTORS' REPORT AND FINANCIAL STATEMENTS
For the period from Incorporation (26 April 2013) to 31 December 2013

Statement of Directors' responsibilities in respect of the Directors' report and the financial statements

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

Company Law requires the Directors to prepare The 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 period. 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).

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

SOMA OIL & GAS HOLDINGS LIMITED

REPORT OF INDEPENDENT AUDITOR

For the period from Incorporation (26 April 2013) to 31 December 2013

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF SOMA OIL & GAS HOLDINGS LIMITED

We have audited the financial statements of Soma Oil & Gas Holdings Limited for the period ended 31 December 2013 which comprise the Consolidated Statement of Comprehensive Income, Consolidated and Parent Company Statement of Financial Position, Consolidated Statement of Changes in Equity and Consolidated and Parent Company Statement 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.

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

Respective responsibilities of directors and auditor

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

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the group's and the parent 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 parent company's affairs as at 31 December 2013 and of the Group's loss for the period then ended;
- the Group and Parent Company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matter prescribed by the Companies Act 2006

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

SOMA OIL & GAS HOLDINGS LIMITED
REPORT OF INDEPENDENT AUDITOR

For the period from Incorporation (26 April 2013) to 31 December 2013

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
Chartered Accountants and Statutory Auditor
London, United Kingdom
17 September 2014

SOMA OIL & GAS HOLDINGS LIMITED
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
For the period from Incorporation (26 April 2013) to 31 December 2013

	Note	For the period from incorporation to 31 December 2013 US\$'000
Continuing operations		
Administrative expenses	5	<u>(4,206)</u>
Operating loss		(4,206)
Finance income		-
Finance costs		<u>-</u>
Loss before tax		(4,206)
Taxation	7	<u>-</u>
Loss for the period		(4,206)
Items that may be classified subsequently to profit or loss		
Currency translation differences		<u>(32)</u>
Total comprehensive loss for the period		<u>(4,238)</u>

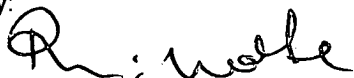
All of the above results are derived from continuing operations.

The notes on pages 14 to 27 are an integral part of these financial statements.

SOMA OIL & GAS HOLDINGS LIMITED
STATEMENTS OF FINANCIAL POSITION
As at 31 December 2013

		Group	Company
		At 31	At 31
	Notes	December	December
		2013	2013
		US\$'000	US\$'000
Assets			
Non-current assets			
Intangibles: exploration and evaluation assets	8	1,059	-
Property, plant and equipment	9	48	-
		<u>1,107</u>	<u>-</u>
Current assets			
Trade and other receivables	10	214	-
Cash and cash equivalents	11	35,000	35,000
		<u>35,214</u>	<u>35,000</u>
Liabilities			
Current liabilities			
Trade and other payables	12	(3,617)	-
		<u>(3,617)</u>	<u>-</u>
Net current assets		31,597	35,000
Net assets		<u>32,704</u>	<u>35,000</u>
Equity			
Share capital	14	-	-
Share premium	14	36,500	36,500
Share based payment reserve		442	442
Currency translation reserve		(32)	-
Retained earnings		(4,206)	(1,942)
Total equity		<u>32,704</u>	<u>35,000</u>

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 17 September 2014. They were signed on its behalf by:



Philip Edward Charles Wolfe
Chief Financial Officer

The notes on pages 14 to 27 form an integral part of these financial statements.

SOMA OIL & GAS HOLDINGS LIMITED
STATEMENTS OF CHANGES IN EQUITY

For the period from Incorporation (26 April 2013) to 31 December 2013

	Group				
	Share capital	Share premium	Share based payment reserve	Currency translation reserve	Accumulated losses
	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000
Comprehensive expense					
Loss for the period from incorporation	-	-	-	-	(4,206)
Other comprehensive loss	-	-	-	(32)	-
Total comprehensive loss	-	-	-	(32)	(4,206)
Transactions with Shareholders					
Issue of share capital (100 million shares at nominal value)	-	-	-	-	-
Fundraising (35 million shares at US\$1 per share)	-	35,000	-	-	-
Share based payment	-	1,500	442	-	-
Total transactions with shareholders	-	36,500	442	(32)	-
Balance at 31 December 2013	-	36,500	442	(32)	(4,206)

	Company				
	Share capital	Share premium	Share based payment reserve	Accumulated losses	Total equity
	US\$'000	US\$'000		US\$'000	US\$'000
Comprehensive expense					
Loss from incorporation to 31 December 2013	-	-	-	(1,942)	(1,942)
Total comprehensive loss	-	-	-	(1,942)	(1,942)
Transactions with Shareholders					
Issue of share capital (100 million shares at nominal value)	-	-	-	-	-
Fundraising (35 million shares at US\$1 per share)	-	35,000	-	-	35,000
Share based payment	-	1,500	442	-	1,942
Total transactions with shareholders	-	36,500	442	-	36,942
Balance at 31 December 2013	-	36,500	442	(1,942)	35,000

The notes on pages 14 to 27 form an integral part of these financial statements.

SOMA OIL & GAS HOLDINGS LIMITED
CASH FLOW STATEMENTS

For the period from Incorporation (26 April 2013) to 31 December 2013

		Group	Company
		For the period to 31 December 2013	For the period to 31 December 2013
	Note	US\$'000	US\$'000
Net cash used in operating activities	17	-	-
Cash flow from investing activities			
Additions of exploration and evaluation assets	8	-	-
Additions of property, plant and equipment	9	-	-
Net cash used in investing activities		-	-
Cash flow from financing activities			
Share capital issued (net of costs)	14	35,000	35,000
Net cash generated from financing activities		35,000	35,000
Net increase in cash and cash equivalents		35,000	35,000
Cash and cash equivalents at beginning of the period		-	-
Effect of exchange rate fluctuations on cash held		-	-
Cash and cash equivalents at end of year	11	35,000	35,000

The notes on pages 14 to 27 form an integral part of these financial statements

SOMA OIL & GAS HOLDINGS LIMITED
NOTES TO THE COMPANY FINANCIAL STATEMENTS
For the period from Incorporation (26 April 2013) to 31 December 2013

1. Basis of preparation for Group and Company

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ('IFRS') as adopted by the European Union and IFRIC interpretations. 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 Limited¹ ("The Company") 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

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

During the first half of 2014, the Group successfully obtained funding of US\$15,000,000 from Winter Sky Investments Limited through the issue of shares (see note 21). The Group also has a commitment in place to issue a further 10 million shares for US\$10,000,000 to an existing shareholder, AfroEast Energy Limited by no later than December 2014. The Directors have no reason to believe that the committed financing will not be received.

The Group is dependent on this existing shareholder taking up the shares issue to generate the funds necessary to meet its planned operating expenditure going forwards. If this financing were not received as expected, management would need to reduce the non-committed planned operating expenditures, which they have the ability to do, or otherwise seek alternative sources of finance. As a result the financial statements have been prepared on the going concern basis, which the Directors believe to be appropriate.

At the end of 31 December 2013 the Group had cash resources of US\$35,000,000.

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 2013, as adopted by the European Union, and have not been early adopted:

Standard	Key requirements	Effective date as adopted by the EU
IFRS 10, 'Consolidated financial statements' and corresponding amendment to IAS 27, 'Consolidated and separate financial statements'	IFRS 10 replaces guidance in IAS 27 regarding the principles for the presentation and preparation of consolidated financial statements when an entity controls one or more other entities. It builds on existing principles by identifying the concept of control as the determining factor in whether an entity should be included within the consolidated financial statements of the parent company. The standard provides additional guidance to assist in the determination of control where this is difficult to assess.	1 January 2014
IFRS 11, 'Joint Arrangements'	IFRS 11 identifies joint arrangements by focusing on the rights and obligations of the arrangement rather than its legal form. There are two types of joint arrangement: joint operations and joint ventures. Proportional consolidation of joint ventures is no longer allowed.	1 January 2014
Amendment to IAS 28, 'Associates and joint ventures'	IAS 28 includes the requirements for joint ventures, as well as associates, to be equity accounted following the issue of IFRS 11.	1 January 2014

¹ Soma Oil & Gas Limited changed its name to Soma Oil & Gas Holdings Limited on 31 July 2013

SOMA OIL & GAS HOLDINGS LIMITED
NOTES TO THE COMPANY FINANCIAL STATEMENTS
For the period from Incorporation (26 April 2013) to 31 December 2013

Standard	Key requirements	Effective date as adopted by the EU
IFRS 12, 'Disclosure of interests in other entities'	Provides disclosure requirements for IFRS 10, IFRS 11 and IAS 28 (Associates) and introduces disclosure requirements for unconsolidated structured entities.	1 January 2014
Amendment to IAS 32, Offsetting Financial Assets and Financial Liabilities	The amendments clarify existing application issues relating to the offsetting requirements of financial assets and liabilities	1 January 2014

None of these are expected to have a significant effect on the consolidated financial statements of the Group.

2. Group and Company summary of significant accounting policies

The principal accounting policies adopted are set out below.

2.1 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 intra-Group transactions, balances, income and expenses are eliminated on consolidation. The functional and presentation currency of the Group is the US Dollar.

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

Name	Countries of operation	Principal activity	Class of shares	%	Country of registration
Soma Management Limited	UK	Management company	Ordinary	100%	UK
Soma Oil & Gas Exploration Limited	The Federal Republic of Somalia, Kenya	Oil & gas exploration	Ordinary	100%	UK

2.2 Business combinations

The acquisition of subsidiaries is accounted for using the acquisition method. For each business combination, the consideration transferred for the acquisition is measured at the aggregate of the fair values, at the date of exchange, of assets given, liabilities incurred or assumed, and equity instruments issued by the Group in exchange for control of the acquiree. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Acquisition related costs are expensed as incurred. The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under IFRS 3 are recognised at their fair value at the acquisition date. On an acquisition basis the Group recognises any non-controlling interest in the acquiree either at fair value or at the non-controlling interests proportionate share of the acquiree's net assets.

The excess of the consideration transferred over the amount of any non-controlling interest in the acquiree and the acquisition date fair value of any previous equity interest in the acquiree over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If this is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognised directly in the income statement.

SOMA OIL & GAS HOLDINGS LIMITED
NOTES TO THE COMPANY FINANCIAL STATEMENTS
For the period from Incorporation (26 April 2013) to 31 December 2013

2. Group and Company summary of significant accounting policies (continued)

2.3 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.

2.4 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.

2.5 Foreign currencies

In preparing the financial statements of the individual companies, transactions in currencies other than the entity's presentation 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 groups 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

2.6 Employee services settled in equity instruments

The Group has applied the requirements of IFRS 2 share based payments. The Group makes equity settled share based payments to certain employees, which are measured at fair value at the date of grant and expensed on a straight line basis over the vesting period, based on the Group's estimate of shares that will eventually vest. The options granted all have non-market vesting conditions and as such a Black Scholes model has been used to calculate the fair value. The likelihood of these shares vesting has been taken into account when determining the relevant charge for the period. The vesting assumptions are reviewed at each reporting period to reflect the latest current expectations.

2.7 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.

SOMA OIL & GAS HOLDINGS LIMITED
NOTES TO THE COMPANY FINANCIAL STATEMENTS
For the period from Incorporation (26 April 2013) to 31 December 2013

2. Group and Company summary of significant accounting policies (continued)

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.

2.8 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 period to the estimated quantities of commercial reserves at the end of the period plus the production in the period, 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.

2.9 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.

2.10 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:

Equipment	3 years
Fixtures and fittings	3 to 5 years

Oil and gas properties – see note 2.7.

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.

2.11 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.

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2. Group and Company summary of significant accounting policies (continued)

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.

2.12.1 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 period. 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.

2.12.2 Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and demand deposits, and other short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value.

2.12.3 Trade payables

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

3. Group financial risk management

3.1. 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.

3.1.1. 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.

3.1.2 Credit risk

Credit risk is managed on a Group basis. Credit risk arises from cash and cash equivalents and outstanding receivables. Approximately 80 per cent of the Group's cash and cash equivalents are held by 'A' or better rated banks. All trade and other receivables are considered operational in nature and have payment terms of 30 days.

3.1.3 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 secures the necessary estimated funding before committing to expenditures.

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3. Group financial risk management (continued)

3.1.4 Market risk - interest rate risk

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

3.2 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.

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. At present, there is no debt.

3.3 Fair value estimation

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 the effect of discounting liabilities is negligible. There are no assets or liabilities carried at fair value at present.

4. Group auditor's remuneration

The operating loss for the year is stated after charging:

	Period ended 31 December 2013 US\$ '000
Audit fees:	
Fees payable to the Company's auditor for the Group and Company annual report	29
Audit of the Company's subsidiaries pursuant to legislation	20
	<u>49</u>
Non-audit fees:	
Tax services	15
	<u>15</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.

5. Group operating loss for the period

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

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5. Group operating loss for the period (continued)

	Period ended 31 December 2013 US\$'000
Legal and professional fees	985
Directors Remuneration and employers NI	488
Staff wages and employer NI	15
Marketing & PR	101
Travel & subsistence	365
Consultancy fees	82
Accountancy	56
Rent and rates	63
Auditor's remuneration	64
Foreign exchange differences	14
Share based payment (note 16)	1,942
Other administrative expenses	31
	<u>4,206</u>

6. Group staff costs

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

	Period ended 31 December 2013
Management	3
	<u>3</u>

The aggregate remuneration comprised:

	Period ended 31 December 2013 US\$'000
Directors' wages and salaries	436
Directors' social security costs	52
	<u>488</u>

All of the staff costs charge is included within administrative expenses. The highest paid director in the period was Robert Allan Sheppard who was paid a salary of US\$165,000. No share options exercised during the period.

7. Group taxation

	Period ended 31 December 2013 US\$'000
Current tax	-
Deferred tax	-
Total income tax expense in the income statement	<u>-</u>

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7. Group taxation (continued)

UK corporation tax is calculated at 20% of the estimated taxable loss for the year.

	Period ended 31 December 2013 US \$'000
Loss before tax	4,206
Income tax using the UK domestic corporation tax rate of 20%	841
Unutilised tax losses	(841)
Current tax charge	-

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 probable that future taxable profit will be available against which the Group can utilise the benefits therefrom.

8. Group intangible assets

	Exploration and evaluation assets US\$'000
Cost:	
At incorporation	-
Additions	1,059
At 31 December 2013	1,059

9. Group property, plant and equipment

	Fixtures and fittings US\$'000	Computer equipment US\$'000	Total US\$'000
Cost:			
At incorporation	-	-	-
Additions	38	10	48
At 31 December 2013	38	10	48
Depreciation:			
At incorporation	-	-	-
Charge for the year	-	-	-
At 31 December 2013	-	-	-
Net Book Value:			
At 31 December 2013	38	10	48

The property, plant and equipment were purchased towards the end of the accounting period. Hence the depreciation charge was below US\$500 and therefore rounded down.

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10. Group trade and other receivables

	At 31 December 2013 US\$'000
Value added tax	214
	<u>214</u>

There were no trade receivables held by the Group at 31 December 2013, therefore there is no average credit period taken on the sale of goods.

The Group did not make any sales during the period and therefore has no specific credit scoring policy with regards to measuring the credit quality of potential new customers. The Group currently has no specific policy for providing against overdue invoices, however a policy will be implemented when the Group start making sales.

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 period.

11. Group and Company cash and cash equivalents

	At 31 December 2013 US\$'000
Cash and cash equivalents held on behalf of Group	<u>35,000</u>

The Directors consider that the carrying amount of cash and cash equivalents approximates their fair value. All of the Group's cash and cash equivalents at 31 December 2013 are in US Dollar.

As at 31 December 2013 Stephenson Harwood, the Group's legal adviser, held US\$35,000,000 of cash in their client account while the Group awaited their bank account to be opened. The cash has subsequently been received by the Group post year end.

12. Group trade and other payables

	At 31 December 2013 US\$'000
Trade payables	1,615
Accruals	1,122
Social security and other taxes	188
Wages	315
Directors' loans payable (note 20)	<u>377</u>
	<u>3,617</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.

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13. 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.

Capital risk management

The Group has no externally imposed capital requirements, see note 3.2.

Principal financial instruments

The principal financial instruments used by the Group, from which financial instrument risk arises are as follows:

- Trade and other receivables
- Trade and other payables
- Cash and cash equivalents
- Directors' loans payable

Financial assets

	At 31 December 2013	
	Current US\$'000	Non-current US\$'000
Cash and cash equivalents	35,000	-
	35,000	-

Financial liabilities

	31 December 2013	
	Current US\$'000	Non-current US\$'000
<i>Other financial liabilities:</i>		
Trade and other payables	1,615	-
Accruals	1,122	-
Directors' loans payable (note 20)	377	-
Wages control	315	-
	3,429	-

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;
- 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.

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13. Group financial instruments (continued)

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

	2013 US\$'000
US Dollars	35,000
	<u>35,000</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 2013 is as follows:

2013	Assets US\$'000	Liabilities US\$'000
US Dollars	-	79
Sterling	213	3,093
Somali Shilling	-	-
Kenya Shilling	-	-
Euro		257

Interest rate risk

The Group has minimal exposure to interest rate risk and the Directors believe that interest rate risk is at an acceptable level.

14. Group and Company issued share capital and share premium

	Number of shares	Ordinary shares par value US\$	Ordinary shares share premium US\$
At incorporation			
Issue of share capital (i)	100,000,000	161	-
Fundraising (ii)	35,000,000	56	34,999,944
Cost of fund raising (iii)	<u>1,500,000</u>	<u>3</u>	<u>1,499,997</u>
As at 31 December 2013	<u>136,500,000</u>	<u>220</u>	<u>36,499,941</u>

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.

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14. Group and Company issued share capital and share premium (continued)

- (i) On 31 July 2013, the Group issued its first 100,000,000 ordinary shares for a nominal value of US\$0.00000161 (£0.000001) per share
- (ii) On 30 December 2013, 35,000,000 shares were issued as part of fundraising at US\$1 per share, giving a premium of US\$34,999,944
- (iii) On 17 December 2013, 1,500,000 shares were issued to AfroEast Energy Limited (a company controlled by Mohamad Ali Ajami, a Non Executive Director of the Company) at nil cost. These shares were issued by way of payment to AfroEast for their services including seeking potential sources of finance for the company, one of which was the successful fundraising of US\$50,000,000 from Winter Sky.

15. 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 2013 US\$'000
Within one year	<u>205</u>
Within 2 -5 years	<u>461</u>

At the balance sheet date the group had no capital commitments not provided for.

16. Group share options and other share based payments

	For the period ended 31 December 2013 US\$'000
Charge for the year	<u>1,942</u>

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 in 2013. Under IFRS 2 the options were therefore deemed to have been granted in 2013. 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.

Milestone	Number of options	Assumed Exercise price (\$)	Non market vesting condition	Exercise period (years)	Assumed Vesting period
1	3,250,000	1.00	Acquisition of 2D seismic ¹ (subsequently achieved in June 2014)	5	To 31 December 2014
2	3,250,000	1.00	Sign the first three Production Sharing Agreement (PSA) and issue of the first three blocks ²	5	N/A
3	3,250,000	1.00	Earliest of: a) Farm out of interest in one or more blocks b) Sale of one or more blocks c) Soma achieving a premium listing on the Official List of London Stock Exchange (or another stock exchange unanimously voted by Remuneration Committee) ²	5	N/A
4	3,250,000	1.00	Sale of Soma to a third party ²	5	N/A

¹ Considered probable as at 31 December 2013 and subsequently achieved in June 2014

² Insufficiently progressed at 31 December 2013 to be considered probable.

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16. Group share options and other share based payments (continued)

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.

Share options have been granted to Directors only. The exercise price 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 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 amortised over the anticipated vesting period. There is no requirement to revalue the option at any subsequent date.

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

	31 December 2013		
	Charge during the year US\$'000	Number of options	Assumed exercise price in US\$ per share
Outstanding at the beginning of the year	-	-	-
Granted	442	13,000,000	1.00
Lapsed	-	-	-
Exercised	-	-	-
Outstanding at the end of the year	442	13,000,000	1.00
Exercisable at the end of the year		13,000,000	1.00

The calculation of the share option charge per share using the Black-Scholes Option Pricing model has been calculated to be US\$0.55. Based on Management's assessment of the likelihood of the non-market vesting conditions and considering the likely vesting period for each milestone, this has led to a charge of US\$442,000 for the period to 31 December 2013.

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

	Period ended 31 December 2013
Pricing model used	Black-Scholes
Grant date	10/08/2013
Weighted average share price at grant date (US\$)	1.00
Weighted average exercise price (US\$)	1.00
Weighted average contractual life (years)	5.00
Share price volatility (%)	93.18%
Dividend yield	0%
Risk-free interest rate (%)	1.33%

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17. Group cash flows utilised in operating activities

	Note	For the period ended 31 December 2013 US\$'000
Cash flow from operating activities		
Operating loss	5	(4,206)
<i>Adjustments for:</i>		
Share based payment charge		1,942
Currency translation differences		(32)
Increase in trade and other receivables	10	(214)
Increase in trade and other payables		2,510
Net cash used in operating activities		<u>-</u>

18. Group dividends

No dividends were paid or declared during the period.

19. Group ultimate controlling party

At 31 December 2013, the ultimate parent company is considered to be Soma Oil & Gas Limited BVI, incorporated in the British Virgin Islands, which owns 76.5 million shares representing 56.0% of the Company. Soma Oil & Gas Limited BVI is controlled by Basil Shiblaq and Iyad Shiblaq.

20. Group related party transactions

There have been transactions with certain Directors during the period:

	31 December 2013 US\$'000
Robert Allen Sheppard	104
Mohamad Ajami	257
Philip Edward Charles Wolfe	16
	<u>377</u>

Amounts payable to the directors are considered short term and interest free and represent the maximum outstanding during the period. The above amounts reflect the expenses personally paid by the Directors on behalf of the Group, and were reimbursed in March 2014.

The total compensation paid to key management personnel comprised wages of US\$390,000 and share and share option based payments of US\$1,942,000. No other compensation was paid to key management personnel during the period.

Mohamad Ali Ajami, a Non Executive Director of the Company is the beneficial owner of AfroEast Energy Limited, which owns 1,500,000 shares in the Company.

21. Group subsequent events

On 11 June 2014, the group issued 15 million shares to Winter Sky Investments Limited ("Winter Sky") for US\$15 million. In addition, Winter Sky also received 30 million warrants exercisable into 30 million shares at an exercise price of US\$0.01 per share. On 10 July 2014, Winter Sky transferred 12.5 million warrants to AfroEast Energy Limited.

On the 2 June 2014, the group finalised the 2D seismic acquisition programme, completing 20,500 km lines of 2D seismic data. Upon completion of this seismic acquisition programme the first milestone under the share option agreements was met, and 3,250,000 options were issued to Directors. None of these options have been exercised to date in 2014.