

# **Soma Oil & Gas Exploration Limited**

Directors' Report and Financial Statements

For the year ended 31 December 2014

Company number 08619726



# **SOMA OIL & GAS EXPLORATION LIMITED**

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# **SOMA OIL & GAS EXPLORATION LIMITED**

## **COMPANY INFORMATION**

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<b>DIRECTORS:</b>	Lord Howard of Lympne, CH, QC Basil Shiblaq Robert Allen Sheppard Philip Edward Charles Wolfe Hassan Khaire
<b>COMPANY SECRETARY:</b>	Peter Damouni
<b>REGISTERED OFFICE:</b>	2 <sup>nd</sup> Floor 6 Duke Street St James's London England SW1Y 6BN
<b>REGISTERED NUMBER:</b>	08619726 (United Kingdom)
<b>SOLICITORS:</b>	Stephenson Harwood LLP 1 Finsbury Circus London EC2M 7SH
<b>ANTI-BRIBERY &amp; CORRUPTION ADVISERS:</b>	DLA Piper UK LLP 3 Noble St London EC2V 7EE
<b>OIL &amp; GAS LEGAL ADVISERS:</b>	Akin Gump Strauss Hauer & Feld LLP Bishops Square London E1 6EG
<b>AUDITOR:</b>	Deloitte LLP 2 New Street Square London EC4A 3BZ
<b>ACCOUNTANTS:</b>	Capita Corporate Solutions Capita Asset Services 1 <sup>st</sup> Floor 40 Dukes Place London EC3A 7NH

# **SOMA OIL & GAS EXPLORATION LIMITED**

## **STRATEGIC REPORT**

For the year ended 31 December 2014

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The Directors present their Strategic Report for the year ended 31 December 2014.

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

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

#### ***Introduction***

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

On 6 August 2013, Soma Exploration signed a Seismic Option Agreement ("SOA") with the Ministry of National Resources<sup>1</sup>, Federal Government of Somalia ("Federal Government"). 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. Upon meeting the requirements of the SOA Soma Exploration gains 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 had two phases: Phase 1 required Soma Exploration to complete a regional evaluation including the collating of all historical seismic and other geological data; and Phase 2 required Soma Exploration to acquire and process new 2D seismic, across a 114,000 sq. km Evaluation Area offshore Somalia agreed by the Ministry of National Resources, of the Federal Government in December 2013. Under the terms of the SOA, Soma Exploration was required to spend a minimum of US\$15 million on the Exploration Programme and provide the Federal Government with the historical and newly acquired and processed seismic data by 6 August 2015.

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

On the 29 July 2015, Soma Exploration became aware that the UK Serious Fraud office (the "SFO") was investigating an allegation of bribery and corruption made against the Company (the "SFO Investigation"). The Company understands that the principle complainant is the UN Somalia and Eritrea Monitoring Group (the "Monitoring Group"), which is mandated under the UN Security Council on an annual basis. The Company is actively cooperating with the SFO. Until the SFO investigation is closed, it will be challenging for the Company to progress on its business strategy and tasks 11 to 16 listed below. Meanwhile the Company and its Directors continue to experience significant financial and reputational damage.

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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 EXPLORATION LIMITED

## STRATEGIC REPORT

For the year ended 31 December 2014

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

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

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

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

On 27 April 2015, Soma Exploration completed the processing and reprocessing of the acquired 2D seismic data and other technical analysis related to the Exploration Programme. Soma Exploration made the processed data available to the Federal Government on 28 July 2015 and delivered the Notice of Completion in regards to the Exploration Programme as per the terms of the SOA to the Federal Government on 31 July 2015.

To date Soma Exploration has spent approximately US\$41.3 million on the Exploration Programme, exceeding the required spend under the SOA.

Soma Exploration has now identified the specific areas of interest within the offshore evaluation area and will be making applications for PSAs by submitting the Notice of Application to the Federal Government.

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

<sup>2</sup> The processed seismic data is ready and was made available for delivery and this has been acknowledged by the Ministry of Petroleum & Mineral Resources.

# **SOMA OIL & GAS EXPLORATION LIMITED**

## **STRATEGIC REPORT**

For the year ended 31 December 2014

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### **SFO Investigation**

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

The SFO made an announcement regarding the investigation on its website on 31 July 2015.

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

#### **Company Statement**

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

The Company understands that the principal complainant who instigated the SFO's investigation in to Soma Exploration was the United Nations Somalia and Eritrea Monitoring Group (the "Monitoring Group").

### **Monitoring Group leaked report**

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

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

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

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

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

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

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

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

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

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

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

# **SOMA OIL & GAS EXPLORATION LIMITED**

## **STRATEGIC REPORT**

For the year ended 31 December 2014

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

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

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

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

Soma Exploration is highly confident that any allegations against the Company will be disproved and that in due course the SFO Investigation will reach a "No Further Action" conclusion. Soma Exploration is cooperating fully with the SFO and is urging the SFO to complete the investigation as soon as possible. It is not known how long the SFO Investigation will last, however this will not impact the Company's plans to submit the Notice of Application for PSAs.

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

In the event that a court were to find Soma Exploration or any of its Directors guilty of bribery, Soma Exploration would be exposed to significant fines and penalties, and likely forfeit the SOA and all its rights under that agreement.

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

### **EITI disclosure**

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

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

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

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

### **Legal Fees of Petroleum Regimes Advisory**

In July 2013, the Federal Government asked the Company to pay the legal fees of their independent legal adviser Petroleum Regimes Advisory ("PRA"), who was advising the Federal Government on the SOA.

After consideration by the Board and based on legal advice received from Stephenson Harwood LLP, Soma Exploration entered into an agreement with the Ministry of National Resources on 6 August 2013. That agreement committed the Company to pay the PRA fees incurred in connection with the negotiation, preparation, approval by the Federal Government, execution, implementation and enforcement of the SOA (and any other directly associated agreements involving Soma Exploration).

PRA's total billed hours between June 2013 and October 2014 amounted to an invoice of US\$494,565 for advising the Federal Government on the SOA and the performance of their rights and obligations under the SOA as well as

# **SOMA OIL & GAS EXPLORATION LIMITED**

## **STRATEGIC REPORT**

For the year ended 31 December 2014

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ensuring that Soma Exploration delivered on its obligations under the SOA to the Federal Government. The standard hourly rates had been agreed upfront between PRA and the Federal Government, and Soma Exploration was aware of those rates when it agreed with the Federal Government to pay the legal fees from PRA. Soma Exploration paid that amount directly to PRA in December 2014.

### Capacity Building Arrangements

#### Background

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

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

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

#### Capacity Building Arrangements with the Federal Government

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

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

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

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

The aggregate payments made by Soma Exploration under the CBA are US\$580,000.

#### Data Room in Mogadishu

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

The Federal Government identified a building, the Agency of Water Supply Offices in Mogadishu (the "Ministry Building") to be rehabilitated and refurbished to serve as the Ministry of Petroleum & Mineral Resources and house the Data Room in Mogadishu.

# **SOMA OIL & GAS EXPLORATION LIMITED**

## **STRATEGIC REPORT**

For the year ended 31 December 2014

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On 9 July 2014, the Federal Government provided Soma Exploration with a detailed plan and estimate of the costs to undertake the rehabilitation and refurbishment of the Ministry Building which was at that time in a considerably bad state of repair (due to the prior two decades of civil war) and was occupied by Indigenous Displaced People ("IDPs"). The estimate of costs amounted to US\$485,317 and the Federal Government asked the Company to pay this full amount.

The Board agreed that Soma Exploration was able to contribute US\$100,000 towards the project on the basis of its obligation and commitment to create the Data Room in Mogadishu as per the SOA terms. Soma Exploration also outlined to the Federal Government the necessary hardware and software that the Ministry would need to acquire in order to create the Data Room in Mogadishu.

On 17 October 2014, Soma Exploration wrote to H.E. Daud Mohamed Omar, Minister of Petroleum & Mineral Resources committing to pay the costs relating to the rebuilding and refurbishment of that part of the Ministry Building that will house the Data Room in Mogadishu up to a maximum of US\$100,000.

In December 2014, Soma Exploration transferred the US\$100,000 to the designated Central Bank of Somalia bank account at T. C. Ziraat Bankasi A.S., in Istanbul, Turkey.

As of September 2015, Soma Exploration understands that the Ministry Building is still occupied by IDPs and rehabilitation and refurbishment work has not commenced. The Federal Government has confirmed to Soma Exploration in writing and provided evidence to show that over US\$100,000 remained in the Central Bank of Somalia bank account in Turkey as of 3 August 2015.

### **Principal risks and uncertainties**

#### *Exploration risk*

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

#### *Regulatory risk*

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

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

The Monitoring Group is recommending to the UN Security Council that they put in place a moratorium on all oil and gas exploration activities in the Federal Republic of Somalia.

#### *Oil and gas price risk*

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

#### *Foreign exchange risk*

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

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

#### *Tax risk*

**SOMA OIL & GAS EXPLORATION LIMITED**  
**STRATEGIC REPORT**  
For the year ended 31 December 2014

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

*Political risk*

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

A key condition precedent for the signing of any PSAs is the establishment of a revenue sharing agreement between the Federal Government and the regional authorities. There is no certainty that an agreement will be established in the near future.

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

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

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

**Key performance indicators**

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

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

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

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

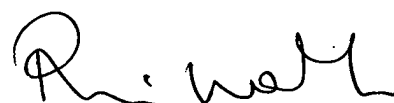
The key performance indicators are monitored by the Board of Directors to ensure that they are progressing as planned in a timely manner. At this stage the Board of Directors is confident that these targets are being met.

**ON BEHALF OF THE BOARD:**



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**Robert Allen Sheppard**  
Chief Executive Officer  
30 September 2015



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**Philip Edward Charles Wolfe**  
Chief Financial Officer  
30 September 2015

# **SOMA OIL & GAS EXPLORATION LIMITED**

## **DIRECTORS' REPORT**

**For the year ended 31 December 2014**

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The Directors present their report together with the audited financial statements of Soma Oil & Gas Exploration Limited for the year ended 31 December 2014.

Soma Oil & Gas Exploration Limited was incorporated in England and Wales on 22 July 2013.

### **PRINCIPAL ACTIVITIES**

The principal activity of Soma Oil & Gas Exploration Limited ("the Company" or "Soma Exploration") is exploration for oil and gas in the Federal Republic of Somalia.

### **GOING CONCERN**

There is a material uncertainty which may cast significant doubt over the Company's ability to continue as a going concern as a result of the ongoing SFO investigation together with the Company's requirement of further funding. The going concern status of the Company is explained in detail in note 1 to the financial statements on page 19.

### **RESULTS AND DIVIDENDS**

The Company's loss for the year was US\$80,000 (2013: US\$19,000). The Directors do not recommend payment of a dividend.

### **BALANCE SHEET**

At 31 December 2014 the Company had a US\$1,606,000 (2013: US\$nil) cash balance and total assets of US\$41,843,000 (2013: US\$1,063,000).

### **FINANCIAL RISK MANAGEMENT**

The risks and the Company's process for management thereof are set out in Note 11 of the Financial Statements.

### **DIRECTORS**

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

Lord Howard of Lympne, CH, QC  
Basil Shiblaq  
Robert Allen Sheppard  
Philip Edward Charles Wolfe  
Hassan Khaire

### **DIRECTORS' REMUNERATION**

The total paid to Directors of the Company during the year was US\$579,000 (2013: US\$nil). This included the highest paid Director who was Hassan Khaire US\$579,000 (2013: \$nil). The remuneration for the remainder of the Directors is borne by Soma Management, a company under common control.

### **Disclosure of information to the 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.


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

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

**SOMA OIL & GAS EXPLORATION LIMITED**  
**DIRECTORS' REPORT**  
For the year ended 31 December 2014

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ON BEHALF OF THE BOARD:



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**Robert Allen Sheppard**  
Chief Executive Officer  
30 September 2015



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**Philip Edward Charles Wolfe**  
Chief Financial Officer  
30 September 2015

**SOMA OIL & GAS EXPLORATION LIMITED**  
**THE STATEMENT OF DIRECTORS' RESPONSIBILITIES**  
For the year ended 31 December 2014

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

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

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

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

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

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

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

**SOMA OIL & GAS EXPLORATION LIMITED**  
**REPORT OF THE INDEPENDENT AUDITOR**  
For the year ended 31 December 2014

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

We have audited the financial statements of Soma Oil & Gas Exploration Limited for the year ended 31 December 2014 which comprise the Statement of Comprehensive Income, Statement of Financial Position, Statement of Changes in Equity, Statement of Cash Flow and the related notes 1 to 16. 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.

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

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

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

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

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

**Respective responsibilities of Directors and Auditor**

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

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

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

**SOMA OIL & GAS EXPLORATION LIMITED**  
**REPORT OF THE INDEPENDENT AUDITOR**  
For the year ended 31 December 2014

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**Opinion on financial statements**

In our opinion the financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 December 2014 and of its loss for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

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

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

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

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

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



Bevan Whitehead (Senior Statutory Auditor)  
for and on behalf of Deloitte LLP  
Chartered Accountants and Statutory Auditor  
London, United Kingdom  
30 September 2015

**SOMA OIL & GAS EXPLORATION LIMITED**  
**STATEMENT OF COMPREHENSIVE INCOME**  
For the year ended 31 December 2014

	Note	For the year ended 31 December 2014 US\$'000	For the period ended 31 December 2013 US\$'000
Administrative expenses	3	(80)	(19)
<b>Loss before tax</b>		<b>(80)</b>	<b>(19)</b>
Taxation	5	-	-
<b>Total comprehensive loss for the year</b>		<b>(80)</b>	<b>(19)</b>

See note 1 for details of the period ended 31 December 2013.

All of the above results are derived from continuing operations.

There was no other comprehensive income in the year.

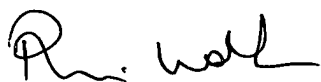
The accompanying notes on pages 19 to 31 form an integral part of the financial statements.

**SOMA OIL & GAS EXPLORATION LIMITED**  
**STATEMENT OF FINANCIAL POSITION**  
As at 31 December 2014

	Notes	At 31 December 2014 US\$'000	At 31 December 2013 US\$'000
<b>Assets</b>			
<b>Non-current assets</b>			
Intangibles: exploration and evaluation assets	6	40,033	1,059
Property, plant and equipment	7	164	-
		<u>40,197</u>	<u>1,059</u>
<b>Current assets</b>			
Prepayments and other receivables	8	40	4
Cash in bank and on hand		1,606	-
		<u>1,646</u>	<u>4</u>
<b>Liabilities</b>			
<b>Current liabilities</b>			
Trade and other payables	9	(41,942)	(1,082)
		<u>(41,942)</u>	<u>(1,082)</u>
Net current liabilities		(40,296)	(1,078)
<b>Net liabilities</b>		<u>(99)</u>	<u>(19)</u>
<b>Equity</b>			
Share capital	12	-	-
Retained earnings		(99)	(19)
<b>Total equity</b>		<u>(99)</u>	<u>(19)</u>

The accompanying notes on pages 19 to 31 form an integral part of the financial statements.

These financial statements were approved by the Board of Directors on 30 September 2015 and were signed on its behalf by:



**Philip Edward Charles Wolfe**  
Chief Financial Officer

**Company Registered Number: 08619726**

**SOMA OIL & GAS EXPLORATION LIMITED**  
**STATEMENT OF CHANGES IN EQUITY**  
For the year ended 31 December 2014

	Share capital US\$'000	Retained earnings US\$'000	Total equity US\$'000
Balance at incorporation (22 July 2013)	-	-	-
Loss for the period	-	(19)	(19)
Total comprehensive loss for the period	-	(19)	(19)
<b>Balance at 31 December 2013</b>	<b>-</b>	<b>(19)</b>	<b>(19)</b>
Loss for the year	-	(80)	(80)
Total comprehensive loss for the year	-	(80)	(80)
<b>Balance at 31 December 2014</b>	<b>-</b>	<b>(99)</b>	<b>(99)</b>

The accompanying notes on pages 19 to 31 form an integral part of the financial statements.

**SOMA OIL & GAS EXPLORATION LIMITED****CASH FLOW STATEMENT**

For the year ended 31 December 2014

	Note	For the year ended 31 December 2014 US\$'000	For the period ended 31 December 2013 US\$'000
<b>Net cash used in operating activities</b>	13	(89)	-
<b>Cash flow from investing activities</b>			
Additions of exploration and evaluation assets	6	(38,974)	-
Additions of property, plant and equipment	7	(191)	-
Increase in trade and other payables relating to exploration and evaluation assets		(661)	-
<b>Net cash used in investing activities</b>		(39,826)	-
<b>Cash flow from financing investing activities</b>			
Amounts owed to companies under common control		41,521	-
<b>Net cash generated from financing activities</b>		41,521	-
<b>Net increase in cash and cash equivalents</b>		1,606	-
<b>Cash and cash equivalents at beginning of the year</b>		-	-
<b>Cash and cash equivalents at end of year</b>		1,606	-

No cash flow statement has been included for the period ended 31 December 2013 as the Company had no cash or cash equivalents in the period. Accordingly no cash transactions had been incurred by the Company in this period.

The accompanying notes on pages 19 to 31 form an integral part of the financial statements.

# **SOMA OIL & GAS EXPLORATION LIMITED**

## **NOTES TO THE FINANCIAL STATEMENTS**

For the year ended 31 December 2014

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### **1 Accounting policies**

Soma Oil & Gas Exploration Limited (the "Company" or Soma Exploration) is a Company incorporated in England and Wales on 22 July 2013, and therefore the prior period is for the five month period ended 31 December 2013. The Company is domiciled in the UK.

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

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

#### **Going concern**

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

However, as the Group is currently in the exploration phase and not generating revenue, the Parent Company is also reliant on external financing.

In July 2015, the Group successfully obtained a funding commitment of US\$3,000,000 from its existing shareholders through the issue of shares and warrants. At that time this US\$3,000,000 was sufficient to fund the Group through the end of 2015, by which time additional finance was planned to be sourced from its existing shareholders or new investors.

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

Soma is cooperating fully with the SFO so that the investigation may be brought to a conclusion as soon as possible.

While the SFO Investigation is ongoing it is likely to have a negative impact on the Group's ability to raise additional finance from new investors whether via farmouts at the asset level or equity issuance at Soma Oil & Gas Holdings Limited. Furthermore, the additional legal and other related costs incurred by the Group as a result of the SFO Investigation are likely to be in the millions of dollars.

The Group will require additional funding within the next two months. The Directors are in discussions with shareholders to provide and commit additional funding by the end of November that will ensure the Group has the necessary liquidity for the next 12 months.

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

**SOMA OIL & GAS EXPLORATION LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**  
For the year ended 31 December 2014

**1 Accounting policies (continued)**

**New standards, amendments and interpretations issued and effective during the financial year beginning 1 January 2014**

The following relevant new standards, amendments to standards and interpretations are mandatory for the first time for the financial year beginning 1 January 2014, but had no significant impact on the Company:

<b>Standard</b>	<b>Key requirements</b>	<b>Effective date as adopted by the EU</b>
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
Amendment to IAS 32, Offsetting Financial Assets and Financial liabilities	The amendments clarify existing application issues relating to the offsetting requirements.	1 January 2014
Amendment to IAS 36 'Impairment of Assets'	Amendment to reduce the circumstances in which the recoverable amount of assets or cash-generating units is required to be disclosed, clarify the disclosures required, and to introduce an explicit requirement to disclose the discount rate used in determining impairment (or reversals) where recoverable amount (based on fair value less costs of disposal) is determined using a present value technique.	1 January 2014
Amendment to IAS 39 'Financial Instruments: Recognition and Measurement'	Amendment to make it clear there is no need to discontinue hedge accounting if a hedging derivative is novated, provided certain criteria are met.  A novation indicates an event where the original parties to a derivative agree that one or more clearing counterparties replace their original counterparty to become the new counterparty to each of the parties. In order to apply the amendments and continue hedge accounting, novation to a central counterparty (CCP) must happen as a consequence of laws or regulations or the introduction of laws or regulations.	1 January 2014

**Standards issued but not yet effective**

The following relevant new standards, amendments to standards and interpretations have been issued, but are not effective for the financial year beginning on 1 January 2014, 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 15, 'Revenue from Contracts with Customers'	The objective of IFRS 15 is to establish the principles that an entity shall apply to report useful information to users of financial statements about the nature, amount, timing, and uncertainty of revenue and cash flows arising from a contract with a customer.	1 January 2017
Amendment to IAS 1, 'Presentation of Financial Statements'	The amendments address perceived impediments to preparers exercising their judgement in presenting their financial reports.	1 January 2016

**SOMA OIL & GAS EXPLORATION LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**  
For the year ended 31 December 2014

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**1 Accounting policies (continued)**

Amendments to IAS 16 & IAS 38, 'Property, Plant and Equipment' and 'Intangible Assets'	The amendments provide clarification of acceptable methods of depreciation and amortisation.	1 January 2016
Update of IFRS 9, 'Financial Instruments'	A finalised version of IFRS 9 which contains accounting requirements for financial instruments superseding IFRS 9 (2009)	1 January 2018

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

**Operating lease payments**

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

**Foreign currency**

*Functional and presentation currency*

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

*Foreign Currencies*

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

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

**Exploration and evaluation assets**

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

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

**Development and production assets**

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

The cost of development and production assets also includes the cost of acquisitions and purchases of such assets, directly attributable overheads, and the cost of recognising provisions for future restoration and decommissioning.

**SOMA OIL & GAS EXPLORATION LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**  
For the year ended 31 December 2014

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**1 Accounting policies (continued)**

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

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

**Commercial reserves**

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

**Property, plant and equipment**

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

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

Oil and gas properties – see above

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

**Impairment of property, plant and equipment**

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

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

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

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

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

**Cash and cash equivalents**

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

**SOMA OIL & GAS EXPLORATION LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**  
For the year ended 31 December 2014

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**1 Accounting policies (continued)**

**Taxation**

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

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

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

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

**Financial Instruments**

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

**Trade and other receivables**

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

**Trade and other payables**

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

**Financial liabilities and equity**

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

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

**2.1 SFO investigation**

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

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

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

**SOMA OIL & GAS EXPLORATION LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**  
For the year ended 31 December 2014

**2 Critical judgements and key sources of estimation uncertainty (continued)**

**2.2 Exploration and Evaluation assets**

The Company balance sheet includes significant E&E assets (see note 6).

Management is required to exercise judgement in selecting an appropriate accounting policy for the capitalisation, or otherwise, of costs incurred in connection with the acquisition of E&E rights and costs of E&E activities to exploit those rights. The Company's accounting policy is set out in note 1. Judgement is required in assessing whether E&E rights are sufficient to support the commencement of cost capitalisation. The SOA entitles the Company to apply for

and be granted PSAs over an area of up to 60,000 sq. km and therefore the Company consider its E&E rights under the SOA are sufficient to support asset recognition.

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

E&E assets are required to be assessed for indications of impairment at least at each balance sheet date, with reference to the indicators of impairment set out in IFRS 6 Exploration and Evaluation of Mineral Resources. Such assessment often requires significant judgement, such as whether substantive further E&E activity is planned, and whether rights to explore in the specific area will expire in the near future. Having considered these uncertainties in the light of all of the information currently available, in management's judgement the Company's E&E assets were not impaired at 31 December 2014.

**3 Expenses and Auditor's remuneration**

Included in operating loss are the following:

	Year ended 31 December 2014 US\$'000	Period ended 31 December 2013 US\$'000
Depreciation	27	-
Rent and rates	19	-
Staff salaries	15	-
Auditor's remuneration for statutory audit of the Company	9	10
Travel and subsistence	5	-
Legal and professional fees	2	-
Other administrative expenses	3	9
	<u>80</u>	<u>19</u>

**4 Staff numbers and costs**

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

	Year ended 31 December 2014 No.	Period ended 31 December 2013 No.
Average number of persons employed	<u>2</u>	<u>-</u>
	<u>2</u>	<u>-</u>

**SOMA OIL & GAS EXPLORATION LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**  
For the year ended 31 December 2014

**4 Staff numbers and costs (continued)**

The Directors' remuneration comprised:

	Year ended 31 December 2014 US\$'000	Period ended 31 December 2013 US\$'000
Directors' wages and salaries	579	-
	<u>579</u>	<u>-</u>

A total of US\$579,000 (2013: US\$nil) in relation to Directors remuneration has been capitalised as part of Exploration and Evaluation assets (Note 6).

The total paid to Directors of the Company during the year was US\$579,000 (2013: US\$nil). This included the highest paid Director who was Hassan Khaire US\$579,000 (2013: \$nil). The remuneration for the remainder of the Directors is borne by Soma Management, a company under common control. No specific proportion of their remuneration is attributable to their services of the Company.

**5 Taxation**

	Year ended 31 December 2014 US \$'000	Period ended 31 December 2013 US \$'000
Loss before tax	(80)	(19)
Income tax using the UK domestic corporation tax rate of 21.5% (2013: 20%)	17	4
Unutilised tax losses	(17)	(4)
Current tax charge	<u>-</u>	<u>-</u>

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

**6 Intangible assets**

	Exploration and evaluation assets US\$'000
<b>Cost:</b>	
At incorporation	-
Additions in the period	1,059
At 31 December 2013	<u>1,059</u>
Additions in the year	38,974
At 31 December 2014	<u>40,033</u>

**SOMA OIL & GAS EXPLORATION LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**  
For the year ended 31 December 2014

**6 Intangible assets (continued)**

	Exploration and evaluation assets
	US\$'000
<b>Amortisation and impairment:</b>	
At incorporation	-
Amortisation charge for the period	-
At 31 December 2013	-
Amortisation charge for the year	-
At 31 December 2014	-
<b>Net book value:</b>	
At 31 December 2013	1,059
At 31 December 2014	40,033

Significant judgements and uncertainties relating to the Company's exploration and evaluation assets, including the potential impact of the ongoing SFO investigation, are explained in note 1.

**7 Property, plant and equipment**

	Motor vehicles US\$'000	Fixtures and fittings US\$'000	Computer equipment US\$'000	Total US\$'000
<b>Cost:</b>				
At incorporation	-	-	-	-
Additions in the period	-	-	-	-
At 31 December 2013	-	-	-	-
Additions in the year	126	59	6	191
At 31 December 2014	126	59	6	191

**SOMA OIL & GAS EXPLORATION LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**  
For the year ended 31 December 2014

**7 Property, plant and equipment (continued)**

	Motor vehicles US\$'000	Fixtures and fittings US\$'000	Computer equipment US\$'000	Total US\$'000
<b>Depreciation:</b>				
At incorporation	-	-	-	-
Charge for the period	-	-	-	-
<b>At 31 December 2013</b>	-	-	-	-
Charge for the year	18	8	1	27
<b>At 31 December 2014</b>	<u>18</u>	<u>8</u>	<u>1</u>	<u>27</u>
<b>Net Book Value:</b>				
At 31 December 2013	-	-	-	-
At 31 December 2014	<u>108</u>	<u>51</u>	<u>5</u>	<u>164</u>

**8 Prepayments and other receivables**

	At 31 December 2014 US\$'000	At 31 December 2013 US\$'000
<b>Due within a year:</b>		
Prepayments	12	-
Value added tax	9	4
Other receivables	19	-
	<u>40</u>	<u>4</u>

There were no trade receivables held by the Company at 31 December 2014, therefore there is no average credit year 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. The fair value of the receivables is equal to their carrying value.

**9 Trade and other payables**

	At 31 December 2014 US\$'000	At 31 December 2013 US\$'000
<b>Due within a year:</b>		
Amounts due to companies under common control (note 14)	41,521	-
Trade payables	352	258
Accruals	69	824
	<u>41,942</u>	<u>1,082</u>

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

**SOMA OIL & GAS EXPLORATION LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**  
For the year ended 31 December 2014

**10 Contingent liabilities**

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

**11 Financial instruments**

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

**Principal financial instruments**

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

The Company held the following financial assets:

	At 31 December 2014 US\$'000	At 31 December 2013 US\$'000
<b>Financial assets</b>		
Cash in bank and on hand	1,606	-
Other receivables	19	-
	<u>1,625</u>	<u>-</u>

The Company had the following financial liabilities:

	At 31 December 2014 US\$'000	At 31 December 2013 US\$'000
<b>Financial liabilities</b>		
Amounts due to companies under common control	41,521	-
Trade payables	352	258
Accruals	69	824
	<u>41,942</u>	<u>1,082</u>

All of the Company's financial liabilities in the year to 31 December 2014 are either payable or receivable within one year.

**Capital risk**

The Company manages its capital to ensure that it will be able to continue as a going concern.

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

**Foreign currency risk**

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

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

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

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**11 Financial instruments (continued)**

The carrying amount of the Company's foreign currency denominated monetary assets and monetary liabilities at 31 December 2014 is as follows:

<b>2014</b>	<b>Assets US\$'000</b>	<b>Liabilities US\$'000</b>
US Dollars	1,597	41,625
GBP Sterling	-	304
Kenya Shilling	28	13

<b>2013</b>	<b>Assets US\$'000</b>	<b>Liabilities US\$'000</b>
US Dollars	-	-
GBP Sterling	-	1,082
Kenya Shilling	-	-

**Interest rate risk**

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

**Credit risk**

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

At 31 December 2014, the Company held no collateral as security against any financial asset. No financial assets were past their due date and there were no problems with the credit quality of any financial asset in the year. The carrying amount of financial assets recorded in the financial statements, net of any allowances for losses, represents the Company's maximum exposure to credit risk. There has been no impairment of financial assets during the year.

**Liquidity risk**

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

**12 Share Capital**

	<b>At 31 December 2014 US\$'000</b>	<b>At 31 December 2013 US\$'000</b>
<b>Number of shares</b>		
On issue at 31 December	<u>1,000</u>	<u>1,000</u>
<b>Allotted, called up and fully paid</b>		
1,000 ordinary shares of £0.00001 each	<u>-</u>	<u>-</u>

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

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**13 Cash flows utilised in operating activities**

		For the year ended 31 December 2014	For the period ended 31 December 2013
	Note	US\$'000	US\$'000
<b>Cash flow from operating activities</b>			
Operating loss	2	(80)	-
<i>Adjustments for:</i>			
Depreciation of property, plant and equipment	7	27	-
Increase in trade and other receivables	8	(36)	-
<b>Net cash used in operating activities</b>		<b>(89)</b>	<b>-</b>

No cash flow statement has been included for the period ended 31 December 2013 as the Company had no cash or cash equivalents in the period. Accordingly no cash transactions had been incurred by the Company in this period.

**14 Related parties**

**Amounts owed to Company's under common control**

	At 31 December 2014	At 31 December 2013
	US\$'000	US\$'000
Amounts owed to Soma Management Limited	<b>41,521</b>	-

The total paid to key management personnel during the year was US\$579,000 (2103: US\$nil) See note 4 for further detail.

**15 Ultimate parent undertaking**

At 31 December 2014, there was no single controlling party. However, the ultimate controlling parties are considered to be Soma Oil & Gas Limited BVI (sole ultimate parent company in 2013) and Winter Sky Investments Limited jointly. Soma Oil & Gas Limited BVI, incorporated in the British Virgin Islands, owns 66.5 million shares (2013: 76.5 million shares) representing 36.6% (2013: 56.0%) of the Company, Soma Oil & Gas Limited BVI is controlled by Basil Shibliq and Iyad Shibliq. Winter Sky Investments Limited, incorporated in the British Virgin Islands, owns 67.5 million shares representing 37.2% (2013: 25.6%) of the Company.

The Company's immediate parent Company is Soma Oil & Gas Holdings Limited, a Company incorporated in the UK. Consolidated accounts for this entity are available at 2nd Floor, 6 Duke Street St James's, London, England, SW1Y 6BN.

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

**16 Subsequent events**

**SFO Investigation**

On 29 July 2015, the Group became aware that the SFO had opened a criminal investigation into Soma Oil & Gas Holdings Limited, Soma Oil & Gas Exploration Limited, Soma Management Limited and others in relation to allegations of corruption in Somalia. Further detail in relation to this matter is set out in the Strategic Report and in notes 1 to the financial statements.

**Shareholder funding**

The Group went through a shareholder funding exercise during July 2015 to raise the amount of US\$3,000,000. The Group successfully raised US\$3,000,000 in the form of a Convertible Loan Note with various warrants attached which is payable in monthly instalments of US\$500,000 from July to December 2015. It is being provided by various shareholders, being Winter Sky Investments Limited, Soma Oil & Gas BVI, AfroEast Energy Limited, Robert Allen Sheppard, Hassan Khaire, Philip Edward Charles Wolfe and Doma Investment Holdings Limited.

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**16 Subsequent events** *(continued)*

The Group will require additional funding within the next two months. The Directors are in discussions with shareholders to provide and commit additional funding by the end of November that will ensure the Group has the necessary liquidity for the next 12 months