Annex 149

S. M. Glaser et al., “Securing Somali fisheries”, One Earth Future Foundation, 2015 (Extracts)
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http://securefisheries.org/report/securing-somali-fisheries
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*Province of China
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In 2013, Somali representatives came together to visualize and create the Somali Maritime Resource and Security Strategy. This plan outlines many aspirations for a prosperous Somalia. The report herein honors a step towards that future.

The One Earth Future (OEF) foundation is proud to deliver *Securing Somali Fisheries*, the inaugural report of our Secure Fisheries program. This report closes previous gaps in knowledge about the state of Somali fisheries and documents the extent and impact of illegal, unreported, and unregulated fishing on Somalis and their fisheries resources. As the founder of OEF, I employ the skills that helped me build a successful business—analysis, evidence, foresight, and long-term thinking—to apply to global problems. As such, OEF conducts research and promotes ideas that lead to increased cooperation and conflict reduction. My hope is that the evidence presented by *Securing Somali Fisheries* will help catalyze the international fishing community, Somali fishing authorities, and NGOs to come together in their common interest to (1) strengthen fisheries management, (2) guide investment in fisheries resources, and (3) improve monitoring, control, and surveillance efforts in Somali waters.

Two years ago, several European Union countries, the United States, the World Bank, the African Development Bank, and others pledged €1.8 billion towards peace and state-building efforts in Somalia (the Somali New Deal Compact). Revitalizing and expanding the Somali economy is a central component of these efforts. Fisheries is one of three high-priority economic sectors targeted for growth. If developed sustainably with an eye towards building long-term prosperity, Somali fisheries will provide jobs and economic opportunity in many under-served communities.

Today, Somali fisheries face numerous challenges. Decades of unregulated fishing by foreign vessels and a severe lack of fisheries management have taken their toll. This report shows that foreign vessels from over a dozen different countries catch many times more fish than Somalis do every year. This unregulated foreign fishing risks depleting a resource that should promote food and economic security for Somalis. Rampant bottom-trawling also causes substantial damage to important coastal ecosystems that are needed to sustain local fisheries. Conversely, if foreign vessels were regulated by their governments and properly licensed and monitored, Somalia and Somaliland could invest license fees to build domestic fisheries and processing activities. Eventually, foreign vessels could land their regulated catch in Somalia, providing much-needed revenue as seafood products move up the value chain. Further, growth of the domestic fishing sector will benefit from a long-term approach to development that balances short-term needs with longer-term economic goals. This will ensure fishing is developed around a resource base that will provide a reliable source of income for generations to come, rather than around one that will be depleted.

To achieve this combination of economic development and resource security, foreign fishing must be limited in order to promote a vibrant domestic fishing economy. Domestic fishery laws must translate into effective management plans promoting sustainability and prioritizing the livelihoods of Somalis. This report offers key recommendations to help achieve these ends and secure prosperous and sustainable fisheries for Somalia.

These steps can contribute to lasting stability in Somalia. Given the potential for a rebound in piracy and the ongoing threat from Al-Shabaab, improved security in this region is of vital importance to the EU, the US, and the international community.

*Secure Fisheries was developed as part of Oceans Beyond Piracy’s work to facilitate public-private partnerships and promote maritime governance and security. They, along with Shuraako, our Somali finance and business development program, are funded by the One Earth Future Foundation.*

Marcel Arsenault

Founder and Chairman, One Earth Future Foundation
This report benefitted substantially from the input of many individuals within One Earth Future, in Somalia, and in the international community.

Secure Fisheries was developed as part of Oceans Beyond Piracy’s work to facilitate public-private partnerships and promote maritime governance and security. Input for this report came from Jon Huggins, Jerome Michelet, Jens Vestergaard Madsen, John Steed, Matthew Walje, Ben Lawellin, and Peter Kerins. We had significant assistance from Shuraako members Abdikarim Gole and Mahad Awale who distributed our survey of Somali fishers and gave us valuable advice. We also had support from Lee Sorensen, Alex Wise, John Linton, and the entire Shuraako team.

We are indebted to many Somalis who provided photographs, stories, and information about their lives as fishers to guide some of our reporting. In particular, we thank Yusuf Abdilahi Gulled Ahmed and Jama Mohamud Ali for their advice. We are incredibly grateful for expert feedback and input from people who have lived and worked in Somalia and the region, including Julien Million, Andy Read, Marcel Kroese, Per Erik Bergh, Jorge Torrens, Kifle Hagos, and Stephen Akester.

Timothy Davies, Ashley Wilson, and Robert Arthur of MRAG collected and analyzed price data, created value chain diagrams, estimated the value of Somali fisheries presented in Chapter 3, estimated the potential license fee revenue in Chapter 2, and wrote a significant portion of Chapter 3. We received valuable comments on early drafts of this report from Julien Million, Dyhia Belhabib, Stephen Akester, Rashid Sumaila, and Steve Trent. Technical advice was provided by Dirk Zeller, Christopher Costello, and Daniel Ovando.

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DEDICATION

This report is dedicated to the memories of Jorge Torrens and Yahye Osman. Jorge and Yahye worked for the UN Food and Agriculture Organization fisheries sector. Tragically, they lost their lives in a car accident in Somaliland on April 29, 2015. Jorge joined FAO in 2010 and worked as a fisheries officer in Mauritania, Kenya, and Somalia. Yahye joined FAO in 2009 and worked as a driver in Somalia; he had recently been promoted to the fisheries technical team. Both men were dedicated to and loved their work in Somali fisheries. Jorge was an early contributor to this report. Our thoughts and prayers are with their colleagues, family, and friends.
Somali waters have the potential to support some of the most productive fisheries in the world. Yet, the domestic fishing sector in Somalia is relatively small. Development of fisheries proceeded fruitfully during the 1970s and 1980s, but the 1991 civil war reversed this development and opened Somali waters to an influx of unregulated fishing from foreign vessels. Although Somali fisheries are poorly documented, a recent surge in interest from investors has highlighted the need to understand the state of Somali fisheries.

This report was created to close the significant gaps in knowledge of Somali fisheries, such as:

- The magnitude of foreign fishing;
- The effects of illegal foreign fishing on Somali fisheries and supporting habitat;
- The sustainability status of economically important species; and
- The economic value and supply chain potential of domestic markets.

This report promotes sustainable harvests of Somali fisheries by identifying underused resources and highlighting challenges. By creating a shared set of knowledge about the resource, it also provides a foundation for improved stakeholder partnerships, data sharing, and transparency. Finally, the report calls on the international community to prioritize the health of Somali fisheries and ensure that their fishing vessels follow Somali law in order to promote jobs, growth, and stability.

Our report shows that the biggest cause for concern is foreign illegal, unregulated, and unreported (IUU) fishing. We estimate foreign IUU vessels catch three times as many fish as the Somali artisanal fishing sector, and many of those vessels cause significant environmental damage. Our analysis suggests that foreign fishing must immediately be limited, regulated, reported, and licensed. We also find a significant number of Somali fish stocks are overfished and, if these trends continue, Somali fishers will face declining catches and profits.

Chapter 1: Introduction to Somali Marine Fisheries

In Chapter 1, we review a brief history of Somalia as it relates to its fisheries sectors. While national-level statistics are outdated, the most recent numbers available document 4,500 full-time and 5,000 part-time fishers across the region. In 1996, fisheries indirectly employed an additional 30,000 persons full-time and 60,000 part-time in occupations. Fisheries in all regions face significant challenges to development. The lack of infrastructure, especially ice, freezing, and cold storage facilities, is a major constraint on the expansion of fisheries.

After decades of limited fisheries management, several important steps have been made recently:

- In April 2014, Somali representatives agreed to cooperate on fisheries management through federal and regional licensing schemes.
- In May 2014, Somalia joined the Indian Ocean Tuna Commission and engaged the international community in shared management of tuna and tuna-like species.
- In June 2014, Somalia proclaimed its Exclusive Economic Zone, strengthening its legal foundation for fisheries management, especially with respect to foreign vessels in Somali waters.
- In October 2014, the parliament adopted an updated draft fisheries legislation, the Somali Fisheries Law (Law no 29), which was signed by President Hassan Sheikh Mohamud in November 2014. This legislation prioritizes sustainability, promotes cooperation between federal and regional administrations, recognizes the importance of including fishers’ perspectives in fisheries management, and takes a strong stand against IUU fishing.
Chapter 2: Foreign Fishing in Somali Waters

In Chapter 2, we report the results of the first comprehensive review and measurement of foreign fishing in Somali waters. We combine published reports, interviews with experts, analysis of satellite data, and reported catch data to estimate total catch by foreign vessels. Foreign vessels caught over 132,000 metric tons of marine life in 2013, nearly three times the amount caught by Somali artisanal and subsistence fishers. Iran and Yemen have the largest fishing presence in Somali waters. Vessels from Europe and Asia also have had a significant presence in Somali waters. Many of the foreign purse seine and longline vessels crowd the outside border of the Somali Exclusive Economic Zone, while others have been granted license to fish inside the EEZ.

IUU foreign fishing in Somali waters has been a problem for decades. During the 1990s, IUU fishing became an initial justification for pirate attacks on foreign fishing vessels. The sustainable development of fisheries by Somalis is made significantly more difficult while foreign IUU vessels operate with impunity. Furthermore, rampant unreported and unregulated foreign fishing, whether illegal or not, has galvanized public resentment. Foreign vessels have been accused of hiring armed guards and shooting at Somalis, spraying Somalis with hot water, destroying artisanal fishing gear, depleting fish stocks at the expense of domestic catch, and destroying coral reef habitat. Somali authorities have asked for international cooperation to fight back against illegal foreign fishing. It is imperative to reduce foreign IUU fishing in Somali waters, and now is a critical time for the international community to act.

The presence of foreign fleets also damages habitat. Bottom trawlers, vessels that drag nets along the seafloor in shallow waters, are active in Somali waters during 75% of the year. Bottom trawling wreaks havoc on marine habitat, reduces biodiversity, and diminishes fish populations long after trawling ceases. Furthermore, the number of active trawlers is higher than what we tracked, and the negative impact of trawling is much greater than we can document. As such, we recommend that bottom trawlers cease operating in Somali waters immediately, in line with Somalia’s new fisheries legislation.

However, the presence of some foreign vessels could be leveraged for the benefit of Somalis. We estimate Somalis could generate between US$4 and US$17 million in revenues each year from licensing foreign longline and purse seine tuna fleets. Licensing revenue would be even greater if vessels from Iran and Yemen were licensed. This potential revenue represents an important opportunity for investment in the Somali fisheries sector. To facilitate the sustainable development of Somali fisheries, foreign fishing (both legal and illegal) must be limited, licensed, recorded, and regulated as soon as possible.
Chapter 3: Economic Value of Somali Domestic Fisheries

In Chapter 3, we analyze domestic value chains for fish products. The market for fish products that are landed by Somalis shows significant opportunity for growth and development, both within Somalia and for export. Somali fish catch increased dramatically from the mid-1980s to today, but markets did not concurrently diversify. We develop value chains to demonstrate the potential for market development of Somali fish products.

We estimate the total economic value of domestic fisheries, after value is added through the supply chain, to be US$135 million per year. Substantially greater economic benefit could be obtained by the Somali fishing and seafood industries through improved value addition. Landing sites are not equipped with sufficient support services or infrastructure for off-loading, chilling, storing, and transporting fish. As a result, Somali fishers cannot leverage price premiums that accrue to processed fish. Developing small-scale processing facilities could enable fishers to add value to catches and provide a means to improve marketing opportunities.

Our conversations with Somali fishers reveal growing concern over the state of the resource, lost profits attributed to competition from foreign industrial vessels, and a lack of access to formal markets. If developed equitably, fisheries have the potential to be an important source of food and income security and, eventually, of stability.

Chapter 4: Sustainability of Fishing in Somali Waters

In Chapter 4, we assess the sustainability of fish stocks in Somali waters. We find almost half the groups of fishes we analyzed, including sharks and groupers, are currently fished at unsustainable levels. Other groups, including sardines and jacks, appear to be sustainable for the time being.

Additionally, we calculate the amount of fish that could be sustainably harvested from Somali waters, and we compare that to the amount of fish that is currently harvested from Somali waters. Our comparisons demonstrate marine top predators (e.g., tuna and sharks) are being harvested at maximum capacity and there is no room to sustainably increase catch of these fish. However, fishes such as sardines, anchovies, and some bottom fishes could sustain higher levels of catch in the future. For sustainable development to be successful, we recommend a more balanced approach to harvesting that decreases catch of top predators and increases catch of forage fishes and bottom fishes that are not currently harvested.

Ultimately, there are reasons to be optimistic about the sustainability of fisheries in Somalia. On average, Somali fisheries are more sustainable than in the rest of the world and immediate action to manage these fisheries could preserve that sustainability. However, caution is warranted. If Somali stocks continue on their current path, we estimate well over half of stocks will be fished at unsustainable levels in under a decade.

Chapter 5: Opportunities for Developing Somali Marine Fisheries

There is great potential in Somali fisheries, but there is also great risk. Run-away foreign fishing, much of it illegal, poses the greatest threat to the long-term health of the Somali fishery ecology and economy. In Chapter 5, we outline nineteen opportunities to support a sustainable foundation for Somali fisheries, for Somalis to reduce illegal fishing in their waters, and for international action to stop illegal and destructive fishing in Somali waters. Some of the most important opportunities include:

- Finalizing a mechanism for licensing foreign vessels and investing that revenue into the Somali fishery sector;
- Developing greater capacity for monitoring, control, and surveillance;
- Increasing data collection;
- Growing the domestic sector through investment in cold storage, freezers, and infrastructure;
- Developing fisheries management plans;
• Stopping foreign illegal fishing by enforcing sanctions against vessels;
• Improving data sharing by foreign navies and fishing vessels with Somali officials;
• Inspecting vessels suspected of fishing illegally in Somali waters that unload in foreign ports; and
• Supporting regional agreements to end IUU fishing.

Conclusions

Ultimately, Somali fisheries have the potential to bolster food and income security throughout the region. A more robust domestic fishery would increase jobs and wages in one of Somalia’s most vulnerable employment sectors. Management of foreign fishing is important to ensure lasting benefits for Somalis. Given the decades of IUU fishing by foreign vessels within Somali waters, the international community bears a responsibility to help support sustainable fisheries through investment, regulation of its vessels, and respect for Somali law. Accordingly, investment in the Somali fisheries economy, especially infrastructure, would spill over and improve other domestic sectors, set the foundation for long-term prosperity, and improve national security.
### ABBREVIATIONS

<table>
<thead>
<tr>
<th>Acronym</th>
<th>Description</th>
</tr>
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<tbody>
<tr>
<td>AIS</td>
<td>Automatic Identification System</td>
</tr>
<tr>
<td>ASCLME</td>
<td>Agulhas and Somali Current Large Marine Ecosystem Project</td>
</tr>
<tr>
<td>CMM</td>
<td>Conservation and Management Measures</td>
</tr>
<tr>
<td>CPI</td>
<td>Consumer Price Index (World Bank)</td>
</tr>
<tr>
<td>DG-Mare</td>
<td>Directorate-General for Maritime Affairs and Fisheries</td>
</tr>
<tr>
<td>DWF</td>
<td>Distant Water Fleets</td>
</tr>
<tr>
<td>DWFD</td>
<td>Distant Water Fisheries Development</td>
</tr>
<tr>
<td>EEZ</td>
<td>Exclusive Economic Zone</td>
</tr>
<tr>
<td>FAO</td>
<td>Food and Agriculture Organization of the United Nations</td>
</tr>
<tr>
<td>FGS</td>
<td>Federal Government of Somalia</td>
</tr>
<tr>
<td>FMC</td>
<td>Fisheries Monitoring Center</td>
</tr>
<tr>
<td>FPP</td>
<td>Fishery Production Potential</td>
</tr>
<tr>
<td>FSFA</td>
<td>Federal Somali Fisheries Authority</td>
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<tr>
<td>FV</td>
<td>Fishing Vessel</td>
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<tr>
<td>HMS</td>
<td>Highly Migratory Species</td>
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<tr>
<td>ICU</td>
<td>Islamic Courts Union</td>
</tr>
<tr>
<td>IDP</td>
<td>Internally Displaced Person</td>
</tr>
<tr>
<td>IMO</td>
<td>International Maritime Organization</td>
</tr>
<tr>
<td>IOTC</td>
<td>Indian Ocean Tuna Commission</td>
</tr>
<tr>
<td>IUCN</td>
<td>International Union for Conservation of Nature</td>
</tr>
<tr>
<td>IUU</td>
<td>Illegal, Unreported, and Unregulated fishing</td>
</tr>
<tr>
<td>LME</td>
<td>Large Marine Ecosystem</td>
</tr>
<tr>
<td>MCS</td>
<td>Monitoring, Control, and Surveillance</td>
</tr>
<tr>
<td>MMSI</td>
<td>Maritime Mobile Service Identity</td>
</tr>
<tr>
<td>MSY</td>
<td>Maximum Sustainable Yield</td>
</tr>
<tr>
<td>NECFISH</td>
<td>North-East Coast Fishing Enterprise</td>
</tr>
<tr>
<td>NGO</td>
<td>Non-Governmental Organization</td>
</tr>
<tr>
<td>OSY</td>
<td>Optimum Sustainable Yield</td>
</tr>
<tr>
<td>PSMA</td>
<td>Port State Measures Agreement</td>
</tr>
<tr>
<td>SHIFCO</td>
<td>Somali High Seas Fishing Company</td>
</tr>
<tr>
<td>SMRSS</td>
<td>Somali Maritime Resource and Security Strategy</td>
</tr>
<tr>
<td>TAC</td>
<td>Total Allowable Catch</td>
</tr>
<tr>
<td>TFG</td>
<td>Transitional Federal Government</td>
</tr>
<tr>
<td>TURF</td>
<td>Territorial Use Rights for Fisheries</td>
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<tr>
<td>UN</td>
<td>United Nations</td>
</tr>
<tr>
<td>VMS</td>
<td>Vessel Monitoring System</td>
</tr>
<tr>
<td>VSF-S</td>
<td>Vétérinaires Sans Frontières Suisse</td>
</tr>
<tr>
<td>WIO</td>
<td>Western Indian Ocean</td>
</tr>
</tbody>
</table>
CHAPTER 2. FOREIGN FISHING IN SOMALI WATERS

Fishing by Somalis is primarily an artisanal endeavor, and catch by domestic fisheries is fairly moderate—estimated to be between 29,800\textsuperscript{a} mt and 65,000\textsuperscript{b} mt in 2010 (see Chapter 3). Foreign vessels catch a significant amount of additional fish in Somali waters. Most catch by foreign vessels never directly benefits Somalis or the Somali economy. The following analysis demonstrates that in order to sustainably develop Somali fisheries beyond current levels, foreign fishing (both legal and illegal) must be limited, licensed, recorded, and regulated as soon as possible. If done properly, revenues gained from licensing foreign fishing can be invested and distributed to benefit Somali people, especially fishers.

Illegal, unreported, and unregulated (IUU) fishing in Somali waters has been problematic for decades.\textsuperscript{1,2,3} During the 1990s, the specter of IUU fishing became an initial justification for pirate attacks on foreign fishing vessels.\textsuperscript{4,5} The success of this piracy, and the ransoms received, encouraged attacks on merchant and private vessels in Somali waters. Piracy became such a risk that distant water fleets (DWF) targeting tuna and tuna-like species dramatically altered their fishing habits and effectively withdrew from Somali waters during the mid-2000s.\textsuperscript{6} While piracy has declined due to the presence of foreign naval vessels and armed guards on merchant vessels, the problem of IUU fishing persists.\textsuperscript{7}

\begin{figure}[h]
\centering
\includegraphics[width=\textwidth]{figure21.png}
\caption{The Western and Eastern Indian Ocean, divided by FAO Area boundaries.}
\end{figure}

\begin{table}
\begin{tabular}{|c|c|c|}
\hline
| Country          | Estimated 2010 Catch (mt) | Source                                                                 |
\hline
Somalia          | 29,800\textsuperscript{a} | UN FAO listed in FishStatJ software. Accessed 30 July 2015.             |
\hline
\end{tabular}
\end{table}
vessels, the continued presence of foreign fishing vessels within sight of the Somali coast is again galvanizing public anger. This, in turn, risks greater public support of piracy (see Chapter 1 §4.5). Furthermore, the sustainable development of fisheries by Somalis is made significantly more difficult while foreign vessels operate with impunity. The imperative to reduce foreign IUU fishing in Somali waters is of immediate importance.

FIGURE 2.2 Marine capture production for the Western Indian Ocean as reported to the FAO.

1. THE CONTEXT: FISHING IN THE WESTERN INDIAN OCEAN

The Western Indian Ocean (WIO, Figure 2.1), congruent with UN Food and Agriculture Organization (FAO) Area S1, accounts for approximately 5.5% of global marine capture production. Since around 2003, capture data reported to the FAO for the WIO show stagnation between 4 and 4.5 million mt per year (Figure 2.2). By comparison, global capture production began to stagnate in the late 1980s, suggesting that fisheries development in the WIO has lagged behind global development. Caution is needed when inferring trends from these data, however, because IUU fishing may mask the true patterns of fishing in the WIO. The recent plateau in capture from the WIO could be caused by stagnation in fisheries productivity or a decrease in reporting. If the former, there may be little room to increase annual capture beyond the current 4.5 million mt. Some have argued that Somali waters represent an untapped source of fisheries potential given the low levels of domestic development. However, considering the extensive amount of foreign fishing within Somali waters we document in this report, and the high levels of IUU fishing in the WIO in general, the capacity to increase fish catch in Somali waters may be limited.

Half of fisheries capture in the Indian Ocean comes from artisanal fleets. This creates significant data challenges across the region. Small, artisanal fleets have characteristics that complicate fisheries data collection and hence management: many small boats, low governance capacity, dispersed and numerous landing sites, diverse market chains, multi-species and multi-gear fleets, and no clear distinction between target and bycatch species. Consequently, data quality varies widely, underreporting is widespread, and catch is rarely documented at the species level.

Today, India dominates fishing in the WIO (Table 2.1), accounting for almost 50% of all marine capture production reported to the FAO. The second ranked country, Iran, accounts for only 10% of the total. Somali marine capture production ranks seventeenth in the WIO according to these reported data. FAO’s database of fisheries statistics. Fisheries Centre Reports. 11(6). 9 pp.

Since 1988, Somalia has not reported capture to the UN, so the FAO estimates capture based on prior years of reporting. The Sea Around Us has produced a reconstruction of Somali capture, by which they estimate 65,000 mt was caught in 2010. See Chapter 3 for details.
The top species captured in the Indian Ocean are Indian oil sardine (*Sardinella longiceps*, 9%), skipjack tuna (*Katsuwonus pelamis*, 7%), yellowfin tuna (*Thunnus albacares*, 7%), and Bombay duck (*Harpadon nehereus*, 4%) (Figure 2.3). The Indian artisanal fleet targets Indian oil sardine and Bombay duck lizardfish, whereas tuna and mackerel are targeted by most other fleets. Sixteen percent of all marine life caught in the WIO is unidentified, adding to the challenge of fully assessing the stocks of commercially important fishes.

2. THE PROBLEM OF IUU FISHING IN SOMALI WATERS

IUU fishing poses a serious threat to the ecological and economic sustainability of Somalia’s marine fisheries and to the livelihoods of Somali coastal communities (Box 2.1).\(^\text{14}\) In general, IUU fishing interferes with a nation’s ability to meet fisheries management goals, reduces the profitability of its fisheries, and hastens the collapse of overfished stocks.\(^\text{15}\)

In 2000, the FAO defined IUU fishing as follows:\(^\text{16}\)

- **Illegal** fishing includes poaching (vessels fishing in territorial waters without permission to be there), failure to observe conservation and management measures, and fishing on the high seas in violation of the UN Convention on the Law of the Seas (UNCLOS).
- **Unreported** fishing involves any fishing that is not reported or is misreported to a relevant agency.
- **Unregulated** fishing includes fishing in areas where reporting is not mandated, where management does not exist or is not enforced, or where detailed knowledge of fishery resources is lacking.

All three components of IUU fishing exist in Somali waters. Determining how widespread illegal fishing has been in the past is difficult. Since passage of the Somali Fisheries Law\(^\text{17}\) in December 2014, licenses previously issued to foreign vessels became null and void, and new licenses must be issued.\(^\text{e}\) All bottom trawling, regardless of whether a vessel is flagged to Somalia or elsewhere, is

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**TABLE 2.1** Marine capture production for the Western Indian Ocean as reported to FAO in 2013.

<table>
<thead>
<tr>
<th>Nation</th>
<th>Landings (mt)</th>
<th>% of total</th>
</tr>
</thead>
<tbody>
<tr>
<td>India</td>
<td>2,180,030</td>
<td>47.7</td>
</tr>
<tr>
<td>Iran</td>
<td>473,658</td>
<td>10.4</td>
</tr>
<tr>
<td>Pakistan</td>
<td>351,748</td>
<td>7.7</td>
</tr>
<tr>
<td>Yemen</td>
<td>210,000</td>
<td>4.6</td>
</tr>
<tr>
<td>Oman</td>
<td>206,170</td>
<td>4.5</td>
</tr>
<tr>
<td>Spain</td>
<td>158,968</td>
<td>3.5</td>
</tr>
<tr>
<td>Mozambique</td>
<td>137,241</td>
<td>3.0</td>
</tr>
<tr>
<td>Maldives</td>
<td>129,842</td>
<td>2.8</td>
</tr>
<tr>
<td>Madagascar</td>
<td>81,434</td>
<td>1.8</td>
</tr>
<tr>
<td>Seychelles</td>
<td>73,905</td>
<td>1.6</td>
</tr>
<tr>
<td>United Arab Emirates</td>
<td>72,000</td>
<td>1.6</td>
</tr>
<tr>
<td>Saudi Arabia</td>
<td>71,947</td>
<td>1.6</td>
</tr>
<tr>
<td>Tanzania</td>
<td>67,422</td>
<td>1.5</td>
</tr>
<tr>
<td>Taiwan (Province of China)</td>
<td>66,329</td>
<td>1.5</td>
</tr>
<tr>
<td>France</td>
<td>65,754</td>
<td>1.4</td>
</tr>
<tr>
<td>Egypt</td>
<td>43,634</td>
<td>1.0</td>
</tr>
<tr>
<td>Somalia</td>
<td>29,800</td>
<td>0.7</td>
</tr>
<tr>
<td>Zanzibar</td>
<td>30,712</td>
<td>0.7</td>
</tr>
<tr>
<td>Republic of Korea</td>
<td>16,606</td>
<td>0.4</td>
</tr>
<tr>
<td>Bahrain</td>
<td>14,978</td>
<td>0.3</td>
</tr>
<tr>
<td>Qatar</td>
<td>12,006</td>
<td>0.3</td>
</tr>
<tr>
<td>All others</td>
<td>78,307</td>
<td>1.5</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>4,572,491</strong></td>
<td><strong>100</strong></td>
</tr>
</tbody>
</table>

**FIGURE 2.3** Marine species caught in the Western Indian Ocean as reported to the FAO (summed over 2004-2013). The category misc. marine species includes 321 taxonomic groups, each 2% or less of total catch.
now illegal in Somali waters. Finally, the first 12 nm of Somali waters are reserved for Somali fishers only.

Prior to passage of the law, however, legality of foreign fishing was unclear. The Somali Maritime Code (see Chapter 1 §2) clearly mandated licenses for all foreign fishing vessels, and that provision applied to the 200 nm territorial sea claimed by Somalia in 1972. Despite the fact that Somalia’s territorial waters claim occurred before UNCLOS, many nations challenged the validity of the claim and used it as an excuse to fish in Somali waters beyond 12 nm without license. Foreign vessels sometimes obtained licenses to fish from regional or local fishing authorities, from local village or clan leaders, and, in some cases, from warlords. Licenses were frequently issued by parties with no legal authority to do so, and foreign vessels were either ignorant of or complicit in such activity. Widespread corruption around these licenses has been reported, and in some cases license fees were exchanged for “protection” from pirates. Some vessels

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**Box. 2.1: The Personal Side of IUU Fishing**

*Jama Mohamud Ali, Puntland*

Mr. Jama Mohamud Ali has been in the fishing industry for over 24 years. He founded one of the largest fishing companies in Puntland, Corno Africa Fishing Company (CAFCO), with facilities in Bosaso and Bander Beyla. King fish, grouper, snapper, tuna, lobster, and sharks comprise the majority of the company’s income. In addition to fishing, his company markets fresh fish, sells fuel to fishing boats, repairs outboard engines, and refills air tanks for lobster divers. He and his 74 employees have witnessed foreign fishing in their waters for years. He believes the problem is widespread and worsening. In his own words:

*The illegal fishing in Somalia’s sea triggered huge destructive impacts on my daily life and that of my relatives. The illegal fishing vessels destroyed our fishing gear. On March 10, 2000 they overran two of my company’s small fishing pots, completely destroying them. The men on my company’s vessels were badly injured during this incident. Again on October 8, 2008, the illegal fishing vessels injured many of my company’s fishermen by firing machine guns at them. The foreign vessels are extremely well-equipped with weapons that they use to prevent the local fishermen from using the fishing zones.*

*The illegal fishing in Somalia has tremendously reduced the fishing activities of local businesses, leading to low production. As a result, my business is facing difficulties. Our boats and gear are small and cannot go far out to sea. The fishermen fear the foreign illegal fishing ships will overrun them in the middle of the night, killing or seriously injuring them by firing their sophisticated armaments. These large, modern fishing vessels are depleting our catch. Our pots are set close to shore and even after letting them fish for days and nights, little or no fish is caught. Sometimes we cannot even pay the fishermen or the expenses for fishing gear. These large vessels are also dominating the export market. This is an enormous problem.*

*The illegal fishing initiated Somali piracy, which in turn affected the cost of daily life here. The price of commodities went up, which affected my business and daily life. There was also an effect on the water. The fishermen fear either the pirates or the anti-piracy forces. The anti-piracy forces are addressing the problem, but not the causes of piracy.*
obtained what appeared to be legitimate licenses, but allowed those licenses to expire while continuing to fish. Vessels from some nations, such as Yemen, entered into arrangements with local fishers and authorities to trade fish or fishing rights for ice and fuel (Box 2.3). Given the lack of a central authority, especially in fish-rich regions such as Puntland or Somaliland, such arrangements were made out of necessity and may not have been illegal. However, many vessels took advantage of the instability in Somalia and never attempted to obtain a fishing license from any authority.

It is neither practical nor fruitful to retrospectively assign legal status to most fishing that has occurred in Somali waters. The past confusion over licensing authority demonstrates that ad hoc licensing without a robust regulatory framework in place is highly problematic. Recent progress has been made in putting such a framework in place. In April 2014, the Federal Government of Somalia (FGS), Somaliland, and the federal coastal states, under the Fisheries Working Group of the Somali Maritime Resource and Security Strategy (SMRSS), signed a communiqué that gave the authority to license foreign demersal coastal fishing to the states and the authority to license foreign highly migratory species (HMS) fishing to the FGS. Federal and state authorities must still agree on a revenue-sharing system before further action can be taken.

Much of the fishing in Somali waters is unreported. The FGS is not collecting nationwide domestic catch statistics, nor have they reported catch to the FAO since 1988. Recently, local efforts to report catch have been initiated. For example, fishers working for Somali Fair Fishing, an NGO operating in Berbera, have systematically reported their catch. However, there is an important need for a nationally or regionally coordinated attempt to report, archive, and analyze catches from domestic fisheries. Domestic and foreign vessels are now legally required to report all catch, but there is not yet a mechanism by which this can be accomplished. For foreign vessels, flag state reporting mandates vary. Indian Ocean Tuna Commission (IOTC) Members or Non-Contracting Cooperating Parties are required to collect catch data from their vessels and to report it to the IOTC. However, vessels operating outside IOTC mandate, including trawlers, may not report catch to any agency. In particular, it is unclear whether vessels from Yemen report the catch they make while in Somali waters to any central authority.

Finally, for the past several decades, all fishing (foreign or domestic) in Somali waters has been unregulated. The management measures enacted during the 1980s have not been regularly or effectively enforced. Scientific surveys of Somali waters have not been conducted since the 1980s and fishery data collection has been piecemeal. As a result, detailed knowledge about the fisheries is severely lacking. While much attention is given to illegal fishing, unregulated fishing is equally problematic for the ecological and economic sustainability of fish stocks. Without resource assessments and management policies informed by sound science, unregulated fishing can lead to resource depletion and collapse. This can happen without warning as a consequence of poor monitoring. While some foreign vessels may be able to relocate their fishing effort to overcome local depletions of fishes, Somali fishers have no such capacity.

The failure to implement and enforce a national, comprehensive approach to licensing foreign vessels has resulted in the widespread perception in Somalia that all foreign boats are fishing illegally. This, in turn, has galvanized the Somali public’s resentment against foreign

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h Somali Fisheries Law, Article 24.
vessels. This anger is not unwarranted. Foreign vessels have been accused of hiring armed guards and shooting at Somali fishers, spraying Somalis with hot water, destroying artisanal fishing gear (Box 2.1), depleting fish stocks at the expense of domestic catch, and destroying coral reef habitat. Regardless of the technical definition of illegal fishing, Somalis experience the negative impacts of rampant foreign fishing whether it is legal or not.

An uptick in public anger at foreign fishing has had consequences for foreign fishing vessels. Vessels that were once allowed to fish freely, often under legal arrangements, have recently lost that right. For example, Egyptian trawlers that had been licensed to fish in Somaliland are now subject to inspection and have even been arrested. Piracy, which in 2014 was almost eliminated, may be resurging; two Iranian fishing vessels were captured in March 2015 and as of this writing 19 of these fishers are being held in Somalia. In May 2015, another Iranian vessel thought to be fishing illegally ran out of fuel and drifted onto shore in El-Dheer, an Al Shabaab stronghold. After paying a “fishing fee,” the crew and cargo were released. In addition, 26 fishers on the hijacked Naham 3 have been held hostage since 2012.

Somali authorities have asked for international cooperation to fight back against illegal foreign fishing. In April 2015, the Somali delegation to the annual IOTC meeting documented specific occurrences of illegal fishing in its waters. They presented evidence, including vessel tracks and photographs, of illegal fishing by four Iranian gillnetters (the FVs Aresh, Siraj, Jabber, and an unknown vessel). At least one of these had an altered (and expired) license on board. At least nine Chinese longline vessels were operating illegally in Somali waters during March and April 2015. And a long battle against foreign trawlers continues. The Somali delegation named four trawlers that were formerly flagged to South Korea and that have been operating close to shore since 2006 (see §4 below). Two additional trawlers, both with Korean origins, have been operating illegally throughout 2015. It appears these vessels were recently allowed to leave port in Mogadishu with a cargo of fish, but there was an attempt to have the trawlers inspected when they landed in Mombasa, Kenya.

Somali authorities were successful at preventing one of these trawlers from unloading cargo in Salalah, Oman by imploring Oman to invoke the Port State Measures Agreement, to which they are a signatory. The agreement allows ports to deny entry to vessels believed to have engaged in IUU fishing. That trawler appears to have landed its cargo in Yemen, while the other successfully unloaded in Oman after presenting a license from Puntland.

Below, we reconstruct the levels of foreign fishing occurring in Somali waters to the best of our ability based on the data available. We choose not to put a precise number on illegal versus legal foreign vessels in Somali waters because the designations are too individualized and contextualized, as explained above. Rather, understanding that all foreign fishing in Somali waters is unregulated, most of it is unreported to Somali authorities, and unknown amounts of it are illegal, we posit that knowing the exact numbers of illegal vessels is not necessary. IUU fishing is a significant, urgent, and ongoing threat to the sustainability of Somali fisheries. Political will by Somali politicians, the international community, and within fishing communities is needed in order to overcome these challenges. There has been real progress towards adopting national legislative instruments that can address IUU fishing, but they need to be implemented and respected by foreign vessels to be effective. Given the tenuous state of commercially important fish stocks in Somali waters (see Chapter 4), the next 7 to 10 years will be a critical period for the international and Somali communities to take immediate steps to stop IUU fishing in Somali waters.

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\[i\] Nineteenth Session of the Indian Ocean Tuna Commission, 27 April–1 May 2015, Busan, Korea.

\[j\] The Chinese delegation to the IOTC took swift action and their vessels left Somali waters immediately thereafter. There were reports in June 2015 that at least some of these nine vessels had returned under license by the Federal Government.

\[k\] These are two of the same trawlers we have included in our AIS analysis of trawling. See §4.

\[l\] As of June 12, 2015, two of these vessels were spotted (from AIS on ShipView) in Yemeni waters.
Box 2.2: How IUU Vessels Avoid Detection

IUU fishing is a significant problem around the globe, not just in Somali waters. The value of fish that IUU vessels pursue far outweighs whatever consequences they might incur if caught poaching. Governments are implementing increasingly harsher penalties meant to deter IUU fishing, and while there are international statutes targeted at reducing illegal fishing, loopholes remain that allow vessels to avoid detection while they are conducting illicit activities.

The increasing geographic footprint of the global distant water fishing fleet means vessels can travel far from their home ports to plunder the waters of countries, like Somalia, that have weak governance, poor law enforcement, or minimal monitoring, control, and surveillance (MCS). Many developing countries lack sufficient capacity to detect, deter, or prosecute IUU vessels, making their fish stocks desirable targets.

Ships use a variety of methods to avoid detection during and after IUU activities.

- **Flags of convenience**: A vessel may use a flag from a country different from that of the vessel’s beneficial owner in order to obscure its identification and to avoid penalties for IUU fishing. Notoriously, some nations are known to sell their flags, and vessels shop around for nations that offer the least oversight and fewest regulations at the best price. This is often called a “flag of convenience” or “flag of non-compliance.”

- **Concealment of physical identifiers**: Vessels cover or obscure their names and identification numbers, making it difficult for others to report suspicious activities.

- **Tampering with Automatic Identification System (AIS) signals**: AIS is not a tamper-proof system. The broadcast information is easily adjusted to mask vessel identity. Tactics include:
  - Completely disabling the AIS unit during illicit activities
  - Using generic Maritime Mobile Service Identity (MMSI) and International Maritime Organization (IMO) identification numbers or using numbers that belong to other vessels
  - Not listing an IMO number at all
  - Changing the radio call sign
  - Adjusting latitude and longitude coordinates to show a location different from where fishing actually occurred

- **Port avoidance**: There are many regulations in place to prevent IUU fish from entering global markets, most notably the Port State Measures Agreement. To avoid compliance with such measures, boats will avoid ports during offloading. A transport (reefer) vessel will meet the fishing vessel on the water and the fish will be transferred to the transport vessel, often mixing illegal fish with legally captured fish and making the illegal fish undetectable in the market.

- **Catch non-reporting**: Flag of convenience vessels undermine fishery conservation measures by exceeding regional quotas because they often lack a mandate to report catch to the flag state

As a reaction to these practices, there has been a push to increase the liability for IUU activities of boat owners and the countries in which they reside, rather than the flag state. However, vessel ownership is often hidden behind complicated and deceptive business arrangements, making it difficult to enforce such laws. It is crucial for the international community to close legal loopholes that allow IUU fishing to flourish around the world.
3. ESTIMATING FOREIGN FISHING IN SOMALI WATERS

While foreign fishing in Somali waters has been problematic for at least the past two decades, the lack of reporting and monitoring means that little data is available to quantify the problem. A systematic assessment of foreign fishing in Somali waters has never been done until now. Here, we combine a variety of methods to estimate the volume of fish removed from Somali waters by foreign fleets. As discussed, we do not distinguish foreign vessels fishing legally from those fishing illegally in Somali waters. Rather, our goal is to estimate the total volume of fish catch from Somali waters since the early 1980s by boats not flagged to Somalia.

3.1 Methods for Estimating Foreign Fishing in Somali Waters

We used four approaches to estimate fishing by foreign vessels: (1) analysis of fish catch reported to the IOTC, (2) catch reconstruction using data found in scientific and media reports, (3) analysis of AIS vessel broadcast data that have date, time, and location stamps, and (4) catch allocation estimates published by the Sea Around Us. Where available, we supplemented these data with information on catch composition. For a given fishing nation, the approach chosen was dependent on the type, quality, and duration of data available. Following an established method for estimating IUU fishing outlined by Pitcher et al., we began our analysis by creating a detailed fishery timeline through extensive searches of the literature, expert interviews, and conversations with Somalis (Appendix 1). We started our estimation in 1981, based on our review of the literature and available data, which show that foreign fishing in Somali waters began to increase in earnest during the early 1980s. We do not make estimates for 2014 or 2015 due to a lack of consistent data: IOTC data run through 2013, AIS data run through 2014, and Sea Around Us data run through 2010. Appendix 2 provides details of our analysis of IOTC catch and effort data. Briefly, we overlaid a 1°x1° grid (for the purse seine dataset) and a 5°x5° grid (for the longline and coastal datasets) onto the boundaries of Somali waters. Catch in 1° cells that overlapped Somali waters or touched the boundary line was assigned 100% to Somali waters. Catch in 5° cells that overlapped Somali waters was disaggregated by the proportion of the cell that overlapped. For example, if a 5° cell fell half in and half out of Somali waters, the catch reported for that cell was assigned 50% “in” and 50% “out” of Somali waters.

This approach introduces uncertainty to the estimates of IOTC-reported catch assigned to Somali waters. Our disaggregation assumes an equal likelihood of catch at any point in a grid cell. However, it is possible that none (or all) of the catch in a given 5° cell occurred in Somali waters. We urge the IOTC and its members to report all longline data at a finer (1°x1°) resolution to reduce the uncertainty associated with locating fishing activities in the Indian Ocean.

Catch reconstruction

We modeled our reconstruction approach after that developed by Pauly et al. to estimate the volume and patterns of catch by the Chinese distant water fishing fleet. Our modified approach was as follows: (1) establish

Analysis of IOTC data

Nations that are Members or Non-Contracting Cooperating Parties of the IOTC are required to submit annual records that describe the number and/or volume of fish species caught (nominal catch data), the amount of fishing effort (e.g., hours fished), the gear used, and the date and location of the catch (catch and effort data). These reporting requirements apply only to the 16 species under IOTC mandate plus commonly caught shark species. The IOTC makes these data available on its website, and the catch-and-effort data are available in three sets: from longline vessels, from purse seine vessels, and from coastal vessels (e.g., gillnets or handlines). We estimated catch by IOTC-reporting nations in Somali waters based on the latitude and longitude reported with catches.

Appendix 2 provides details of our analysis of IOTC catch and effort data. Briefly, we overlaid a 1°x1° grid (for the purse seine dataset) and a 5°x5° grid (for the longline and coastal datasets) onto the boundaries of Somali waters. Catch in 1° cells that overlapped Somali waters or touched the boundary line was assigned 100% to Somali waters. Catch in 5° cells that overlapped Somali waters was disaggregated by the proportion of the cell that overlapped. For example, if a 5° cell fell half in and half out of Somali waters, the catch reported for that cell was assigned 50% “in” and 50% “out” of Somali waters.

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Catch reconstruction

We modeled our reconstruction approach after that developed by Pauly et al. to estimate the volume and patterns of catch by the Chinese distant water fishing fleet. Our modified approach was as follows: (1) establish

n Albacore, skipjack, yellowfin, southern bluefin, longtail, kawakawa, bullet, frigate, and bigeye tunas; swordfish, black marlin, blue marlin, striped marlin, Indo-Pacific sailfish, Indo-Pacific king mackerel, and narrow-barred Spanish mackerel.


p Somali waters were defined by the EEZ boundaries submitted to the United Nations in July 2014. http://www.un.org/Depts/los/LEGISLATIONANDTREATIES/PDFFILES/SOM_2014_EEZ.pdf Secure Fisheries understands and respects disagreement about these boundaries, but we use them because they provide concrete boundaries for mapping and analysis purposes.
the presence of a given nation’s vessels in Somali waters from available literature and expert input; (2) estimate the likely number of vessels flagged to a given nation that are fishing in Somali waters for years in which data are available; (3) use various records of catch (e.g., catch rate or vessel capacity) and species composition to estimate total catch amount and type by fishing vessels of a given nation for years in which data are available; (4) extrapolate catch amount between years for which data exist (anchor points) to years for which data do not exist; (5) generate 95% confidence intervals for our estimates of catch as a measure of uncertainty (a Monte Carlo simulation) based on ranges of vessel numbers and catch amounts. Methods varied slightly from country to country given available information. See Appendix 2 for country-specific details.

Analysis of satellite-based AIS data

AIS is a vessel tracking system used by ocean-going vessels for collision avoidance, tracking, and identification. Signals are broadcast from vessels and intercepted by ship, land-based station, or satellite-based receivers. The IMO mandates that all vessels 300 gross tonnage or larger, and all passenger vessels, be equipped with AIS for safety. Fishing vessels are not required to broadcast AIS, although many larger vessels do so voluntarily. We obtained AIS data for a set of foreign trawlers operating in Somali waters from July 2010 through December 2014. These seven trawlers were flagged to South Korea during that period. Using speed over ground from AIS broadcasts, we estimated the trawlers’ locations and days spent trawling. We then matched estimates of days spent trawling to reports of volume and composition of fish caught during seven fishing campaigns of various lengths (between 20 and 27 days each). These catch reports were obtained from three of the seven trawlers. See Appendix 3 for details.

Allocation of catch using Sea Around Us algorithms

We used catch allocated to Somali waters by the algorithms developed by the Sea Around Us to estimate catch by Pakistan. These estimates of catch were obtained from their publicly available online datasets.

Sea Around Us assigned foreign catch to Somali waters by: (1) estimating total catch for a given foreign nation using FAO catch statistics; (2) overlaying species’ geographical distributions with Somalia’s EEZ; and (3) including consideration of any access agreements between Somalia and the foreign fleet.

3.2 Results: Estimates of Foreign Fishing in Somali Waters since 1981

Between 1981 and 2013, we estimate that foreign vessels fishing in Somali waters landed approximately 3,100,000 mt of marine life (Table 2.2 and Figure 2.4). In comparison, reconstruction of Somali domestic catch is only 1,404,125 mt over the same time period. In the most recent year analyzed (2013), we estimate annual catch by foreign vessels was 132,000 mt while Somali artisanal catch was only 40,000 mt per year, less than one-third that of foreign catch. Foreign catch peaked at 193,000 mt in 2003 as regional fleets (primarily from Iran and Yemen) became firmly established, but before the peak of pirate activity caused IOTC vessels fishing for HMS to avoid Somali waters.

Today, Iran and Yemen are by far the dominant foreign presence in Somali waters. Our estimates are bolstered by informal interviews in early 2015 with Somali fishers and fish processors in Puntland and Somaliland (see Appendix 1). When asked, “What country do the foreign fishers come from?” 33 respondents listed the following nations (listed in descending order of the number of times a country was mentioned): Yemen, Iran, South Korea, India, Seychelles, Thailand, Egypt, Taiwan (Province of China), Pakistan, Spain, Oman, France, and Sri Lanka. More than 60% of those interviewed reported seeing foreign vessels in their waters more than once per day.

q exactEarth, Cambridge, Ontario, Canada. Data obtained March 26, 2015.


s Sea Around Us reconstruction stopped in 2010. Therefore, to estimate Somali catch from 2011–2013, we carried forward the estimate of catch in 2010.
TABLE 2.2 Summary of foreign catch (in metric tons) in Somali waters, 1981–2013. The decadal columns give the average catch in one year for that decade (not the total catch over ten years).

<table>
<thead>
<tr>
<th></th>
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<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Iran</td>
<td>9,444</td>
<td>31,874</td>
<td>44,853</td>
<td>44,853</td>
<td>1,031,673</td>
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<td>Yemen</td>
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<td>15,644</td>
<td>26,537</td>
<td>28,970</td>
<td>579,404</td>
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<td>Spain</td>
<td>1,995</td>
<td>14,803</td>
<td>16,178</td>
<td>8,884</td>
<td>363,296</td>
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<td>Egypt</td>
<td>3,240</td>
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<td>12,420</td>
<td>12,240</td>
<td>286,020</td>
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<tr>
<td>France</td>
<td>4,369</td>
<td>6,345</td>
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<td>7,352</td>
<td>215,529</td>
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</tr>
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<td>7,407</td>
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<td>105,948</td>
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<td>Other</td>
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<td>0</td>
<td>99,756</td>
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</tr>
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<td>3,172</td>
<td>1,361</td>
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<td>5,495</td>
<td>90,680</td>
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<tr>
<td>Taiwan*</td>
<td>387</td>
<td>2,481</td>
<td>5,066</td>
<td>2,360</td>
<td>88,393</td>
<td>IOTC</td>
</tr>
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<td>Italy</td>
<td>1,758</td>
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<td>2,408</td>
<td>0</td>
<td>74,306</td>
<td>Reconstruction</td>
</tr>
<tr>
<td>Pakistan</td>
<td>0</td>
<td>792</td>
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<td>158</td>
<td>31,348</td>
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</tr>
<tr>
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<td>0</td>
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<td>9</td>
<td>28,215</td>
<td>Reconstruction, IOTC</td>
</tr>
<tr>
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</tr>
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<td>0</td>
<td>2,080</td>
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<tr>
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<tr>
<td>Réunion</td>
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<td>35</td>
<td>0</td>
<td>0</td>
<td>348</td>
<td>IOTC</td>
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<tr>
<td><strong>Total</strong></td>
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<td>91,500</td>
<td>144,104</td>
<td>118,123</td>
<td>3,100,741</td>
<td></td>
</tr>
</tbody>
</table>

*Province of China

Catch by IOTC vessels in Somali waters

Purse seine and longline vessels catch significant amounts of tuna and tuna-like species as they migrate through Somali waters (Figure 2.5). The peak IOTC catch in 2003 (about 95,000 mt) was likely driven by an unusually good fishing year for HMS in the Somali basin. The decline in catch around 2005 was driven by several factors: the expiration of private agreements with EU purse seine vessels that allowed access to Somali waters, the southward movement of the purse seine and longline fleets to follow record numbers of tuna in Kenyan and Tanzanian waters, and a peak in pirate activity that caused vessels to avoid Somali waters (Figure 2.6). In 2013, we estimate IOTC nations caught just under 50,000 mt of HMS, approximately equivalent to the catch of all species by the Somali domestic fleet (see Chapter 3). Spain and the Seychelles top the list of nations whose flagged vessels catch fish assigned by our approach to Somali waters; in the case of the Seychelles, many of these vessels are owned and operated by Taiwan (Province of China). France, South Korea, and Taiwan round out the top five foreign fleets that likely had a presence in Somali waters in 2013 (Figure 2.7).
We must stress the uncertainty inherent in our approach to estimating the location of fishing by IOTC Member nations and Non-Contracting Cooperating Parties. Purse seine catch is reported in $1^\circ\times1^\circ$ cells, and longline catch is reported in $5^\circ\times5^\circ$ cells. Our disaggregation approach (assigning cells that overlap the boundaries of the Somali EEZ) makes the assumption that catch is uniformly distributed in these cells. Our assignment of catch to Somali waters is the best estimate made with the available data. The spatial patterns of catch by countries estimated to be fishing in Somali waters since 2006 (Spain, France, Taiwan (Province of China), Seychelles)
show these countries “fishing the line” of the Somali EEZ. While our approach assigns this catch to Somali waters, the fishing vessels may have been just outside the boundaries. More accurate reports of catch location would significantly aid in estimation, and we welcome new sources of information from the relevant nations. For a better understanding of the spatial extent and temporal patterns of catch reported to the IOTC, please see the animations made available on our website.

*Estimates of catch on a country-by-country basis*

In the following pages, we report estimates of catch by each country that we believe fishes (or has fished) in Somali waters; countries are listed in order by the accumulated volume of fish caught between 1981 and 2013.

**Iran**

We estimate Iran caught 45,000 mt of fish in Somali waters in 2013 and has caught 1,032,000 mt since 1981 (Figure 2.8). Iran has a large fishing fleet: in 2007, its gillnet fleet had 6,363 boats51 (1,296 of which are authorized by the IOTC to fish outside Iranian waters). In 2013, the UN Security Council reported 180 Iranian gillnet vessels were fishing in Somali waters.52 Our reconstruction was based on a range of 5 vessels minimum53 and 180 vessels maximum.54 The vast majority of Iranian vessels in Somali waters are targeting tuna. Quantitative catch composition was not available, but a significant amount of catch is known to be yellowfin and skipjack tuna.55 Bycatch likely includes billfishes, sharks, rays, and mammals.56 To estimate the amount of catch made by these vessels, we applied global estimates of fish storage capacity on coastal gillnet vessels.57 Vessel data were available spanning 2000–2013, and we extrapolated from 2000 to zero catch in 1981. Given the large ranges of possible numbers of boats and their catch capacities, the 95% confidence intervals (CI) are very large (9,000 mt–104,000 mt for the years 2000–2013). Iranian vessels have been accused of fishing illegally in Somali waters by the Somali delegation to the IOTC, who recently provided photographic evidence of their charge.58

**Yemen**

Yemen and Somalia have a complicated fishing history that is simultaneously mutually beneficial and conflictual (Box 2.3). Our research suggests Yemeni fishing boats began operating in Somali waters in notable numbers in the early 1980s, especially in Somaliland.59 At that time there was little reason for conflict between Yemeni and Somali fishers, although Mohamed Yassin,60 anticipating future conflict, advised a coordinated management plan for the Indian oil sardine because these fish regularly traverse the Somali-Yemeni border in the Gulf of Aden. In the early 1990s, Yemeni vessels purchased fish directly from Puntland-based Somali fishers in the Gulf of Aden. The price received was favorable to Yemeni purchasers61 and still represents a large market for Somali fishers.
Box 2.3: The Complicated Relationship with Yemen*

In April 2015, Houthi rebels forced Yemen’s President Abdu Rabbu Mansour Hadi to flee, and hundreds of Yemeni civilians died in the ensuing conflict. Saudi Arabia intervened soon thereafter with a bombing campaign and a blockade of Yemen’s port cities to cut off Iranian resupply of rebels. Besides blocking weapons, the blockade also had a major impact on food security and food assistance in Yemen, and its effects spilled over into Somalia.

The UN Food and Agriculture Organization estimates that 10.6 million Yemenis are currently food insecure and nearly 5 million are facing emergency conditions characterized by malnutrition and lack of food access.63 The rapid escalation of fighting increased domestic food prices, disrupted food markets, and interrupted access to marine fisheries.

Yemen’s marine fish catch has increased tenfold since the 1970s. To sustain this increase, fishers have expanded their reach into Somali waters. In 1994, an agreement was reached with local authorities in Heis whereby Yemenis would deliver fuel in exchange for rights to fish in Somali waters. Such arrangements continue today, but in a slightly different form: Yemenis bring ice as well as fuel (which is subsidized in Yemen, but difficult to come by in Somalia) and in exchange purchase fish directly from Somali fishers at favorable prices.

But as stocks in Yemeni waters have declined due to heavy fishing, more and more boats have crossed into Somali waters without licenses. Estimates suggest that before the blockade between 200 and 300 Yemeni boats were fishing illegally in Somali waters at any given time.

Mahad Awale, a field manager in Puntland for the non-profit Shuraako, says the number of Yemeni fishers coming to Somali waters dropped to almost zero when the blockade began. According to the State Minister for Fisheries and Marine Resources in Puntland, Abdi-R Kulmiye, Yemenis that came to trade fuel for fish usually made three trips a month, carrying home between 10 and 18 metric tons of fish per trip.64 For those Yemenis living in coastal cities where fish protein is important, the cessation of these trips will exacerbate already critical food shortages.

The interruption of this trade has also impacted Somalis. Without a Yemeni market, Somali fishers have taken their catch from Bosaso to the major port city of Berbera, almost 900 kilometers away by road. On average, the prices obtained in Berbera are lower than those received from Yemeni boats, and our sources suggest the ability of the Berbera market to absorb excess fish is likely short-lived. Furthermore, without access to ice brought from Yemen, Somali fishers risk spoilage of current inventory. One Puntland-based fishing company reported a 50% decline in profits since the outbreak of conflict, largely driven by a decline in fish prices. The short-term effects, therefore, are likely to be negative for Somali fish traders.

We estimate that Yemen currently catches 29,000 mt of fish in Somali waters each year, catching 579,000 mt since 1981 (Figure 2.9 and further details in Box 2.3). Yemeni reports to the IOTC indicate catch composition of yellowfin (48%), other tunas including longtail, narrow-barred Spanish mackerel (or kingfish), frigate tuna and kawakawa (38%), and sharks (5%). However, others report very high landings of sharks to support a profitable shark fin export industry.

**Egypt**

Egyptian trawlers have operated in the waters of Somaliland since the early 1980s, filling a vacuum left by the dissolution of the Soviet joint venture SOMALFISH. At that time, no more than 10 trawlers from Egypt and Italy combined were operating in Somali waters. By 2003, 36 Egyptian trawlers were operating and in 2007, 34 were reported. Published estimates of catch by these vessels agree on a value of 30 mt per trawler-month; of that, 5% were in Somali waters without license. In response, Iran deployed two warships to the Gulf of Aden, which in turn provoked additional naval deployment from the United States and Saudi Arabia. While the Iranian navy maintained that deployment of these warships was to protect its fishing fleet from pirates, their presence near Yemen may also have provided support to the Houthi rebels.

The most immediate impact of violence in Yemen was on the civilian population, as the Saudi-led bombing campaign claimed civilian lives, destroyed infrastructure, and disrupted markets. But indirect and long-term impacts on fishing communities, in both Yemen and Somalia, could be substantial as well.

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*u* While Yemen reported catch to the IOTC for 2003–2007, the reports were not spatially explicit (and they were unrealistically high) so we did not include them in the IOTC analysis.

*v* It is unclear whether the two references for catch refer to the same raw values, refer to each other, or arrived at these estimates independently.
of catch was shrimp and the remainder was finfish. We estimate Egyptian trawlers caught approximately 13,000 mt per year when 36 trawlers were operating and that catch totals 286,000 mt since 1981 (Figure 2.11). Unlike our reconstructions for Iran and Yemen, we do not have enough data to estimate confidence intervals.

While trawlers have been licensed through Somaliland since at least the early and mid-2000s, there has been a recent shift in policy and public opinion against Egyptian trawlers. Somaliland ceased licensing foreign fishing vessels in 2012.\textsuperscript{72} Reports\textsuperscript{73} that are difficult to verify indicate two trawlers were arrested and held in Las Korah in 2009, and one trawler was arrested in Somaliland in 2014.\textsuperscript{74}

**France**

We estimate French vessels caught approximately 6,000–8,000 mt of fish in Somali waters per year in 2013 and have caught 216,000 mt since 1981 (Figure 2.12). Their catch consisted of skipjack tuna (53%), yellowfin tuna (38%), and bigeye tuna (9%). Vessels are exclusively purse seiners. Annual catch has ranged from 610 mt (1984) to 26,634 mt (2002).

**Seychelles**

We estimate Seychellois vessels caught approximately 9,000 mt of fish in Somali waters in 2013 and have caught 106,000 mt since 1981 (Figure 2.13). Annual catch ranged from 1 mt (1996) to 15,257 mt (2003), primarily by longline vessels, although purse seiners and coastal vessels employing handlines were also reported. Catch composition included skipjack (51%), yellowfin tuna (33%), and bigeye tuna (12%). Other tuna, swordfish, other billfishes, and several species of shark comprised the remaining 4%.

**Taiwan (Province of China)**

We estimate Taiwanese vessels caught approximately 5,000 mt of fish per year in Somali waters in 2013, and have caught 88,000 mt since 1981 (Figure 2.14). Annual catch has ranged from 38 mt (1982) to 11,358 mt (2005). Catch consists of bigeye tuna (45%), yellowfin tuna (29%), swordfish (14%), and blue and striped marlin (6%). All catch is from longline vessels, except two data points in 1987 and 1991 that are gillnet vessels. Taiwan is also likely flagging its vessels to other countries (like the Seychelles).

**Italy**

Italy has a long history of involvement in Somali fisheries. In the 1930s, Italians built two tuna canneries on the north shore of Somalia to process catch by their fleet.\textsuperscript{75} Fishing for tuna off northern Somalia continued through at least the 1950s. Trawling began in the late 1970s and continued, under various auspices, until 2006. Three Italian trawlers owned by an Italian seafood company, \textit{Amoroso e Figli}, operated during 1978–1979. In 1981,
a joint venture between Italy and Somalia, SOMITFISH, began operations that continued through 1983. After a lull in trawling, SOMITFISH was reconstituted as SHIFCO, and between three and five trawlers operated until 2006. Finally, in addition to the SHIFCO trawlers, one trawling vessel operated in (at least) 1984, two in 1985, and five in 1988, but very little information about these trawlers is available.

Our reconstruction of Italian fishing in Somali waters is based on data available for the SHIFCO trawlers. An Italian seafood importer, PanaPesca SpA, built and then gifted trawlers to the Somali government for operation. In return, the catch of these vessels was sold exclusively to PanaPesca. Three trawlers were built and operated beginning in 1981, and two more were added to the fleet in 1990. Each trawler was 57–66 m in length and held 40 crew members. These vessels reflaged from Somalia to Belize in 1997 or 1998 (see Appendix 2). For the purposes of our reconstruction, catch from vessels flagged to Somalia are included in domestic numbers, therefore catch assigned to Italy from these trawlers covers the period 1998–2006. Catch from SHIFCO vessels was applied to known trawling activity during 1981–1997. Today there is no fishing by Italian-flagged vessels in Somali waters.

Between 1981 and 2006, Italian trawlers landed between 2,000 and 5,000 mt of fishery resources annually, for a total of 74,000 mt since 1981 (Figure 2.15). The vast majority of catch was coastal, often reef-associated species of fish; cephalopods were also a significant component (Figure 2.16). In 2006, the vessels stopped operating in Somali waters due to high fuel costs and conflict between vessel owners and authorities in Aden, and SHIFCO’s involvement ceased. At that point, most had reflaged to a variety of countries. The area trawled by the former Italian fleet, and the market they supplied, was replaced by the South Korean trawlers discussed below.

**Pakistan**

Little information is available to inform reconstructions of fishing by Pakistan. Our interviews with experts suggest that their fishing presence in Somali waters is likely. Estimates from catch allocation are 74,000 mt during 1991–2005, or 5,000 mt annualy.
per year, exclusively from gillnets (Figure 2.17). A high ratio of sharks to non-sharks in the gillnet fleet suggests targeting.81 Spanish mackerel also is a significant component of catch by Pakistani vessels.82

**FIGURE 2.17** Estimated catch by Pakistani-flagged vessels in Somali waters.

![Graph showing estimated catch by Pakistani-flagged vessels in Somali waters](image)

that catch by these trawlers that was landed in Salalah, Oman, was greater than 6,000 mt in 2014.83 Figure 2.18 combines longline and trawl catch by South Korean vessels.

**FIGURE 2.18** Estimated catch by South Korean-flagged vessels in Somali waters.

![Graph showing estimated catch by South Korean-flagged vessels in Somali waters](image)

**South Korea**

South Korean fishing in Somali waters consists of two general fleets: longline vessels targeting HMS covered by the IOTC, and trawlers targeting demersal fishes and cephalopods. To estimate catch by South Korean vessels, we combined analysis of IOTC catch data with analysis of AIS satellite data. We estimate South Korea has caught 47,000 mt of HMS inside Somali waters since 1981. Their catch consists of yellowfin tuna (45%), bigeye tuna (39%), swordfish (5%), and blue and striped marlin (5%). The IOTC-registered vessels are almost exclusively longline, with a small tonnage of catch by purse seiners in 2012 and 2013. Annual catch of HMS has ranged from 2 mt (2009) to 5,971 mt (1978).

To estimate catch by the South Korean trawl fleet, we used AIS to calculate days trawled per year for seven known trawl vessels operating in Somali waters in 2010–2014 (for more details, see §4 below and Appendix 3). We combined these data with six months of catch data to determine mean catch per boat per day. We calculated that the South Korean trawl fleet caught 27,000 mt during this period. On average, this equates to 5,495 mt per year from trawling. We applied this value to the years in which South Korean trawling has occurred (beginning in 2006). Catch consisted largely of cephalopods, with cuttlefish comprising 20% of catch and squid comprising 19%. The main fish catch was emperors (17%), followed by barracudas (9%), and grunts (7%). Our estimate of 5,495 mt annually may be an underestimate as there may have been vessels trawling in Somali waters that were not broadcasting AIS. A regional expert estimated

**Japan**

We estimate Japanese vessels caught approximately 300 mt of fish in Somali waters in 2013 and have caught 31,000 mt since 1981 (Figure 2.19). However, Japan has reported data to the IOTC since 1955, the earliest records available, and some of this early catch appears to have occurred in Somali waters as well. Japanese vessels were absent in the Somali EEZ during 2010 and 2011, but returned during 2012 and 2013. Their catch consists of yellowfin tuna (50%), bigeye tuna (25%), striped marlin (10%), and small volumes of other tunas and billfishes. Vessels are predominantly longline vessels, with some catch by purse seiners during the early 1990s. Annual catch has ranged from 21 mt (2009) to 3,772 mt (2005).

**Thailand**

We estimate Thai vessels have caught 28,000 mt since 1981 (Figure 2.20). Thailand did not report spatially disaggregated data to the IOTC until 2006; at that point, its purse seine fleet was widely distributed across the Indian Ocean.8 We assumed the distribution of purse seine vessels was similar to 2006, 2009, and 2011–2013. We estimate between 35 and 490 mt of HMS were caught by Thai purse seine vessels during this time. Catch was 74% skipjack, 16% bigeye, 10% yellowfin, and 1% swordfish.

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x  http://securefisheries.org/report/securing-somali-fisheries
Thai trawlers also operated in Puntland from at least 2005 to 2009. A document produced by the Puntland Coast Guard reports an incident in which three Puntland-based officers guarded a Thai trawler. The official notes a private agreement between the State of Puntland and the Thai seafood company Sirichai. Seven trawlers, owned by Sirichai, operated year-round in Puntland. These vessels were licensed, operated for six consecutive months by transshipping to a Thai freezer ship in Somali waters, and returned twice a year to Salalah (Oman) for repairs and unloading. We were unable to find estimates for the amount of catch by each vessel; consequently, given the location of trawling and type of vessel, we reconstructed catch by these seven trawlers by applying the vessel catch-rate calculated for the Korean trawlers discussed above (785 mt per vessel per year). We believe this is a minimum estimate and likely underestimates the catch by these trawlers. Thai vessels withdrew from Somali waters in 2009 after a pirate attack in November 2008 on the trawler *Ekawatnava 5*: the Indian navy, thinking they were targeting a pirate mothership, sank the vessel, killing 14 Thai crew members along with the pirates. Another Thai trawler, *Thai Union 3*, was hijacked in October 2009 and released in March 2010.

**FIGURE 2.20** Estimated catch by Thai-flagged vessels in Somali waters.

**FIGURE 2.19** Estimated catch by Japanese-flagged vessels in Somali waters.

**Figure 2.21** Estimated catch by Chinese-flagged vessels in Somali waters.

**FIGURE 2.22** Automatic Identification System tracks of eleven Chinese longline vessels fishing during March-May 2015.

**China**

We estimate Chinese vessels caught approximately 500 mt of fish in Somali waters in 2013, and have caught 10,000 mt since 1981 (Figure 2.21). Their catch consists of bigeye tuna (59%), yellowfin tuna (27%), swordfish (7%), and small volumes of other tuna, billfishes, and blue sharks. Vessels are exclusively longliners. Annual catch has ranged from 3 mt (2000) to 2,361 mt (2006).
However, we suspect Chinese catch in Somali waters is much higher than that reported to the IOTC. Reports indicate Siad Barre sold fishing access rights to China in exchange for weapons. This exchange was formalized in a 1989 agreement, but this fishing likely continued well after the collapse of his regime in 1991. No records exist to quantify this fishing, however. China’s distant water fleet has a large footprint around the world, and it harvests approximately 3.1 million mt per year in African waters. This catch is largely unreported, and it seems likely that this underreporting applies to Somali waters. In March 2015, the Somali delegation to the nineteenth session of the IOTC presented AIS evidence that China had unlicensed longline vessels in Somali waters. The Chinese delegation responded and their vessels withdrew immediately, but they have since returned (Figure 2.22).

**The Former Soviet Union**

We estimate Soviet Union (or member) vessels have caught 8,000 mt since 1981 (Figure 2.23). Annual catch by purse seiners ranged from 12 mt (1986) to 2,730 mt (2000) and consisted of skipjack (69%), yellowfin (23%), and bigeye tuna (6%). Soviet trawlers were also important joint ventures with Somalia, likely targeting bottom fishes and lobster (see Chapter 1, Α4.3).

**FIGURE 2.23** Estimated catch by Soviet-flagged vessels in Somali waters.

![Estimated catch by Soviet-flagged vessels in Somali waters.](image)

**Portugal**

We estimate Portuguese vessels have not recently caught fish in Somali waters but have caught approximately 2,000 mt since 1981 (Figure 2.23). In 2005, Portuguese longliners caught 2,043 mt of fish, primarily blue shark (64%), swordfish (27%), and mackerel sharks (4%). Catch in 2006 (34 mt) and 2007 (3 mt) also were estimated.

**Greece**

We estimate Greek trawlers have caught 2,235 mt of fish in Somali waters since 1981. Greek trawlers began operating in Somalia during the 1960s. Haakonsen reported “a few” licensed Greek trawlers operating in the mid-1960s and Bihi noted “a number of” Greek trawlers operating in at least 1983. After 1983 and until recent times, we found no reports of Greek vessels in Somali waters. Two Greek trawlers flagged to Belize, the Greko 1 and 2, have been operating since 2010. These vessels appear to be licensed and have been fishing off the southern Somali coast. The composition of catch is unknown. To estimate catch by these trawlers, we assumed catch rates per gross tonnage were similar to the Korean-flagged trawlers operating in recent years. That is, we applied the same catch per gross ton from the Korean trawlers (1.16 mt per GT) to the Greek trawlers (each 193 GT), for a total of 447 mt per year. We assumed two trawlers were present in 1983, and two were present from 2010 – 2013.

**Kenya**

Kenyan prawn trawlers have operated along the southern Somali border, near the Juba River, since at least 2004. There are reports of 19 illegal trawlers catching 800 mt of prawns each year, for a total of 8,000 tons since 2004. The border between Somalia and Kenya contains sensitive nesting grounds for sea turtles, and the prawn fishery has been accused of killing turtles as bycatch in trawl nets. Recently, the Kenyan government banned fishers from crossing into Somali waters because of security concerns around Al Shabaab. This has resulted in a significant loss of income for Kenyan fishers in the region.

**Mauritius**

Mauritian fishing in Somali waters has been extremely limited. During 1989–1999, we estimate their purse seiners caught 1,400 mt, between 20 and 500 mt of fish annually. Catch was primarily skipjack (83%) and yellowfin tuna (13%). We estimate 7 mt were caught in Somali waters by a longline vessel in 2008, but this is likely an artifact of the methodology by which longline data were assigned to the Somali EEZ.
La Réunion (France)

We estimate La Réunion, a French département, has caught 350 mt of fish in Somali waters since 1981. Catch from longliners ranged from 2 to 158 mt per year and comprised swordfish (88%), yellowfin tuna (6%), and other tunas and billfishes. Like Mauritius, this could be an artifact of the method used to assign longline catch to Somali waters.

Other IOTC Vessels

The IOTC reports catch from vessels that are not assigned to a specific fishing nation. We estimate between 20 mt and 14,000 mt has been caught in Somali waters each year between 1984 and 2009. This catch consisted of skipjack tuna (58%), yellowfin tuna (34%), and bigeye tuna (8%). We include these estimates, a total of 100,000 mt over the time period, in our summary figures.

Nations for which more information is required

Sri Lanka

There are infrequent reports of fishing by Sri Lankan vessels in Somali waters. In the late 1990s, three Sri Lankan longliners were fishing for sharks out of Berbera and trawlers were also operating in Somali waters. Catch composition and volume are not known. More recently, indirect evidence suggests fishing vessels from Sri Lanka may occasionally operate in Somali waters. In October 2011, the *Nimesha Duwa* was captured by pirates while fishing illegally in Somali waters. In November 2010 and January 2011, two Sri Lankan fishing vessels (the *Lakmali* and *Darshana 6*) were hijacked by Somali pirates. Both vessels were reportedly in international waters; some of the crew from the *Lakmali* escaped from the hijacked vessel to the island of Minicoy off the coast of southern India, lending support to the claim that at least this boat was fishing in international waters. It is unclear whether the other vessel was operating within 200 nautical miles of the Somali coast. In our interviews with Somali fishers (see Appendix 1), only one person (of 39 respondents) identified Sri Lanka as a country whose vessels they saw in their waters. Finally, Sri Lanka does not report catch to the IOTC, and all of the reported catch we analyzed fell in the EEZs of either Sri Lanka or the Maldives. Consequently, while there is some evidence of Sri Lankan fishing in Somali waters, especially in prior decades, the scale of it may be small. However, there are reports of Sri Lankan vessels in Maldivian and Chagos waters, indicating the possibility of their presence in Somali waters.

India

India claims almost 50% of all marine life caught in the Western Indian Ocean (2.2 million mt in 2013, Table 2.1), but there is little evidence of Indian fishing activity in Somali waters. The vast majority of the Indian fishing fleet is composed of small, coastal vessels that do not fish far from shore. Forty-one drifting longline vessels are currently authorized to fish for tuna and tuna-like species outside the Indian EEZ, however, none of the reported longline catch in the high seas falls within Somali waters. Further, most of India’s catch is not HMS, which is what most commonly draws vessels to Somali waters. According to data reported to the FAO, India’s catch in the Western Indian Ocean is Indian oil sardines (13%), croakers (9%), Bombay duck (8%), giant tiger prawns (6%), natantian shrimp (5%), hairtails (5%), cephalopods (3%), and anchovies (3%). Fish not identified comprise over 22% of all catch. These species are predominately confined to nearshore environments and are likely caught in Indian waters.

Experts interviewed by Secure Fisheries agree that Indian vessels are likely not fishing in Somali waters. In our survey of Somali fishers (see Appendix 1), India was named frequently (by 12 of 39 respondents) as a country of origin for foreign fishers. However, our survey did not distinguish between the flag of a vessel and the national origin of its crew. Indian seafarers are commonly crew members on vessels flagged to other countries. Finally, there are no reports of Indian fishing vessels being...
of India to require vessels fishing on the high seas and outside Indian EEZ boundaries to report more explicitly the location of their fishing activities and catch.

Oman and Djibouti

We have received anecdotal reports of fishing by vessels from Oman and Djibouti, but these have not been substantiated with numbers. Djibouti is negotiating their maritime boundaries with Somaliland and Somalia, and there may be Djiboutian vessels fishing in this disputed area (see Chapter 1, Figure 1.2). When surveyed, fishers from Puntland and Somaliland reported seeing Omani vessels in their waters, but the reports were few. Given the proximity to Somali waters and the similarity of Djiboutian and Omani fleets to other regional fishing fleets (e.g., Yemen), it is likely vessels from these two nations fish in Somali waters.

4. THE IMPACT OF TRAWLING IN SOMALI WATERS

Foreign trawlers have been operating in Somali waters since the mid-1970s. From then until the government collapsed in 1991, joint ventures were established with Italy, Egypt, Greece, Japan, France, the Soviet Union, Singapore, and Iraq. These agreements required licensing, landing the catch in Somalia, and catch reporting. With the collapse of the government came the dissolution of most of these ventures and a loss of Somali oversight of trawlers.

A handful of trawlers operated through the ensuing political chaos (Chapter 1) and the surge in piracy. Five Italian vessels belonging to SHIFCO and 36 trawlers from Egypt operated along the northern coast (see §3). Due to high fuel costs, the Italian effort ceased in 2006, and South Korean trawlers took over supplying the Italian market. Since then, those South Korean vessels have been targeting similar fishing grounds and species in Somali waters. Two Greek trawlers, the Greko 1 and 2, have been operating in southern Somali waters since 2010. Today, bottom trawling is illegal under the new Somali Fisheries Law (Article 33.1). Not only do some of these trawlers continue to operate, four of them are now flagged to Somalia and licensed in Puntland. Because of the lack of monitoring, control, and surveillance in Somalia, these trawlers have been free to operate at will, fishing without restrictions on time or location (i.e., unreported and unregulated). We do not know the full extent of the damage these vessels are doing to demersal fish stocks and benthic habitat as they drag nets along the bottom; here we make conservative estimates of the impact bottom trawling is having on Somali fisheries.

4.1 Trawling by Seven Korean Vessels

To better understand the impact of the South Korean trawling fleet, we analyzed Automatic Identification System data broadcast in Somali waters during 2010–2014 for seven known bottom trawlers (ranging from 49–68 m long, 439–888 gross tonnage). Active trawling was identified based on the speed at which the vessels were traveling (speed over ground). Catch composition for two of the trawlers was combined with trawl location and duration information to estimate total catch and species composition. While the presence of seven vessels was confirmed by AIS, data needed to quantify trawling was only available for five of these vessels. For complete methodology, see Appendix 3.

It is important to note that the amount of trawling, area covered, and catch amounts are likely underestimates because of the limitations of AIS data. AIS is not mandatory for fishing vessels, nor is it a tamper-proof system, so vessel operators can turn it off at will or adjust the kind of information broadcast (Box 2.2). Crucial information was often missing from broadcasts we obtained, such as speed over ground. Some latitude/longitude coordinates were obviously incorrect, and large gaps in the data stream were created when the system was turned off. Finally, it is possible there were vessels trawling in Somali waters that were not broadcasting AIS at all.

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y Out of 39 respondents, three indicated foreign vessels from Oman were present in their waters.

z exactEarth, Cambridge, Ontario, Canada. Data obtained March 26, 2015.
The amount of time these vessels spent in Somali waters is significant. On average, each vessel trawled for 229 days per year in Somali waters (Figure 2.24). This is comparable to the South Korean vessels’ Italian counterparts that trawled for approximately 55 days during each of four trips per year.108

During May through January, these vessels trawled 73% to 87% of days in any given month (Figure 2.25). Trawling was reduced during February through April, with trawling occurring during 34% to 62% of those months, likely due to challenging ocean conditions during that period.

Most trawling took place off the coast of Puntland, partly driven by an ocean bottom type favorable to trawling and high fish availability over the wide continental shelf, but also due to licenses provided by the state of Puntland. The vast majority of trawling (95%) was concentrated in shallow waters within the 75 m depth contour (Figure 2.26 and Appendix 3).

Each boat trawled approximately 3 km² per day. Over the time period for which we have data, this scales up to 120,652 km², an area slightly greater than the land mass of Somalia’s near neighbor, Eritrea. This estimate, while large, does not account for the magnified impact of trawling over the same habitat again and again. Several areas in northeast Puntland are bearing the brunt of trawling by these vessels (Figure 2.27) and likely experience significant ecosystem damage as a result.

Volume of catch made during a fishing campaign was estimated from catch certificates that two of the vessels submitted to the European Union. We extrapolated catch from these certificates to the additional vessels and trawl periods for which we had AIS data (see Appendix 3 for detailed methods). As a result, we estimate that, on average, these trawlers caught 5,495 mt per year. Data on the composition of this catch was supplied by a European seafood importer. The catch varied widely depending on time of year (Figure A3.1) and, on average, was dominated by cephalopods with cuttlefish comprising 20% of catch and squid comprising 19%. The main fish catch was emperors (17%), followed by barracudas (9%), and grunts (7%) (Figure 2.28).

4.2 Potential Impacts of Trawling

Due to the limited ability to conduct scientific surveys in Somali waters, there have been no studies since the 1980s on benthic habitat type, nor on distribution and diversity of benthic invertebrates and demersal fishes.109,110 Thus, the direct and indirect impacts of trawling in Somalia are purely speculative and are based on studies conducted around the world on the effects of...
trawling. Trawling results in significant levels of bycatch of non-target species, including at-risk species such as marine turtles and sharks. Unwanted bycatch is usually thrown overboard and mortality rates of those animals are very high.111

Moreover, trawling can change the structure of bottom sediments by: carving tracks from the doors onto the seafloor; re-suspending sediments, nutrients, and minerals into the water column; and smoothing and compacting sediments over time. Such changes disrupt the biogeochemical exchange systems between the bottom and the water column.112 More alarming are the effects on the benthic community, such as corals, sponges, echinoderms, and other mollusks, which can be damaged or killed by trawling. This decreases benthic productivity113 and shifts community structure away from larger organisms (macroinvertebrates) to smaller organisms, reducing diversity of prey and negatively impacting fish stocks.114

Given the dearth of studies investigating impacts of trawling in Somali waters, we are left to draw lessons from other regions. Unregulated commercial trawling has occurred for at least four decades. Thus, the probability that considerable ecosystem damage has already occurred is high. Recovery times for trawl-impacted ecosystems vary widely depending on bottom type, but a global synthesis of trawling studies115 showed that a 20% recovery could take over 8 years. A similar analysis116 showed that ecosystem recovery generally took 500 days regardless of bottom type or gear used. For areas that are most heavily trawled, such as the waters around Ras Hafun in the northeast of Somalia (Figure 2.27), this could mean that the benthos and associated communities never have the chance to recover before being disturbed by a trawl again.

Promisingly, the new Somali Fisheries Law (Article 33.1) bans bottom trawling. This is an important first step toward stopping this destructive practice and allowing the affected marine communities to recover. Enforcing the ban will benefit marine habitat and improve fish stocks, increasing the sustainability and profitability of fishing for Somalis.

Despite the long history of foreign trawling in Somali waters, there has recently been intense local and international scrutiny of bottom trawling by the vessels flagged to or owned by companies from South Korea.117 These large vessels have become emblematic of the negative effects of foreign fishing in Somali waters.118,119,120,121 Because the Somali continental shelf is narrow, trawling in shallow water brings these vessels close to shore within view of coastal communities and Somali fishers, drawing attention to their activities.

The legality of the trawlers’ presence prior to the declaration of the EEZ in 2014 was nebulous. Flagged to South Korea, these vessels had licenses that were issued by the government of Puntland. This highlights the need for consistency of fishing laws among the regions and with federal fisheries law. With the declaration of

FIGURE 2.26 Total extent of area trawled by five South Korean vessels during 2010–2014.
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Foreign Fishing

FIGURE 2.27 Concentration (point density) of AIS broadcasts during trawling for five vessels, 2010–2014.

FIGURE 2.28 Composition of trawl catch by Korean vessels during 2010-2014.

the EEZ and the adoption of the new Somali Fisheries Law, trawling by these vessels is illegal in Somali waters. Some have attempted to capitalize on a perceived loophole by re-flagging to Somalia. However, the ban on bottom trawling is not exclusive of domestic vessels, which means Somali flag or not, these vessels are operating illegally. This has recently been recognized internationally, by Oman, who, under the auspices of the Port State Measures Agreement, initially blocked some of these vessels from using the port of Salalah (but later, upon receiving licensing documents from Puntland, allowed the trawlers to land).

5. POTENTIAL REVENUE GENERATION THROUGH LICENSING OF FOREIGN VESSELS

While unregulated foreign fishing negatively affects Somali fisheries, properly regulated and licensed foreign fishing may present opportunities. We estimate foreign vessels catch at least three times as much fish as the Somali domestic fleet, and the imbalance is even greater for high-value HMS (see Chapter 3). Given the highly competitive nature of global tuna fishing and the large scale of the companies engaged in it, coupled with the need for growth and technology in the Somali domestic fleet, it is unlikely that a nascent Somali tuna fleet will be competitive in the short term. A small-scale longline fleet, similar to the domestic tuna fisheries in La Réunion or Mauritius, may be possible in the medium term (e.g., 10+ years). In the interim, however, licensing foreign tuna vessels is a potential source of revenue that could be used to bolster the Somali fisheries sector and its governance. Here, we estimate the revenue that could be gained from licensing foreign purse seine and longline vessels fishing for yellowfin, skipjack, or bigeye tuna in Somali waters.

5.1 Estimating Potential Revenue: Methodology

Potential license fee revenue from foreign purse seine and longline operations was estimated as a percentage of the annual gross market value

Analysis in Section 5 completed by MRAG.
of three commercially important tropical tuna species harvested in Somali waters: yellowfin, bigeye, and skipjack tuna. We multiplied annual catch of tuna (in metric tons) by the price commanded for a metric ton of tuna and applied a range of possible license rates.

The movement of foreign longline and purse seine fleets out of Somali waters (see Chapter 1 and §2 above) means recent years have not been representative of the full potential of tuna fishing in Somali waters. Before the threat of piracy peaked in 2011, and before the expiration of EU purse seine agreements in 2006, fishing for HMS by foreign boats was at much higher levels than in the following years. Given an expectation of a return to those conditions, we used catch by foreign tuna vessels during 2001–2005 as a baseline approximation for the amount of tuna fishing that could occur once proper licensing arrangements are secured and if piracy remains at or below 2014 levels.

Catch of tuna in metric tons (mt) was calculated from monthly catch of yellowfin, bigeye, and skipjack by purse seine and longline vessels estimated to be in Somali waters for the period 2001–2005 based on reports to the IOTC (see §3 above and Appendix 2 for detailed methods). Monthly global market prices ($US/mt) adjusted for inflation using the World Bank Consumer Price Index (CPI) were applied to fresh yellowfin and skipjack tuna for the same period. Based on case studies of similar nations and contexts, we assumed Somali authorities may charge a license fee ranging from 2% to 10% of the gross value of tuna caught within Somali waters. The upper end of this range is relatively high when compared to most examples in the region, but Somali waters lie within some of the most productive fishing grounds in the Western Indian Ocean, and therefore they may be able to command these license fee rates. See Appendix 4 for additional methodological details.

### 5.2 Value of Somali Tuna Fisheries and Potential Licensing Revenue

During 2001–2005, we estimate annual catch of yellowfin, bigeye, and skipjack tunas by IOTC-reporting longline and purse seine fleets within Somali waters ranged between 29,500 and 83,000 mt (on average, 54,291 mt). Applying the price of tuna during these same years (Table 2.3), this catch is valued at between US$38 million and US$121 million per year (US$94.9 million, on average) (Table 2.4). Assuming a licensing rate ranging between 2% and 10% of the total value, the potential annual revenue from licensing would range between US$1.9 million and US$8.4 million (Table 2.5). These values assume all catch was reported correctly to the IOTC and that all relevant vessels inside Somali waters would purchase a fishing license.

The market value of tuna in 2013 was considerably higher than in the early 2000s, particularly for longline-caught fish. If we assume catches inside Somali waters return to a level similar to that observed during 2001–2005, the estimated landed value of that catch using 2013 prices would have averaged US$173.4 million, with revenues from licensing ranging between US$3.5 million (at 2% return) and US$17.4 million (at 10% return).

<table>
<thead>
<tr>
<th>Species</th>
<th>Fishery</th>
<th>2001</th>
<th>2002</th>
<th>2003</th>
<th>2004</th>
<th>2005</th>
<th>2013</th>
</tr>
</thead>
<tbody>
<tr>
<td>Yellowfin Longline</td>
<td>$3,414</td>
<td>$3,438</td>
<td>$3,417</td>
<td>$3,887</td>
<td>$3,730</td>
<td>$9,421</td>
<td></td>
</tr>
<tr>
<td>Bigeye Longline</td>
<td>$5,873</td>
<td>$5,028</td>
<td>$5,344</td>
<td>$6,098</td>
<td>$5,594</td>
<td>$9,644</td>
<td></td>
</tr>
<tr>
<td>Skipjack Purse seine</td>
<td>$1,087</td>
<td>$1,036</td>
<td>$965</td>
<td>$1,170</td>
<td>$1,093</td>
<td>$2,040</td>
<td></td>
</tr>
<tr>
<td>Yellowfin Purse seine</td>
<td>$1,336</td>
<td>$1,499</td>
<td>$1,493</td>
<td>$1,438</td>
<td>$1,565</td>
<td>$2,291</td>
<td></td>
</tr>
</tbody>
</table>

*Prices from 2001-2005 were used to estimate landings values and license revenue for catch made during 2001-2005. Prices for 2013 are presented for estimation of value and revenue possible under more recent market prices.

**Expected variability and uncertainty**

When licensing schemes are based on market value of catch, revenue will vary with both catch volumes and prices. Variation in year-to-year catches (Figure 2.29) has been driven by at least three factors: migration of tuna, piracy, and access agreements. For example, during
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TABLE 2.4 Estimated value (US$) of the catch of yellowfin, bigeye, and skipjack tuna caught in Somali waters by the foreign longline and purse seine fleets.

<table>
<thead>
<tr>
<th>Fleet</th>
<th>2001</th>
<th>2002</th>
<th>2003</th>
<th>2004</th>
<th>2005</th>
</tr>
</thead>
<tbody>
<tr>
<td>Longline</td>
<td>$29,780,393</td>
<td>$83,031,075</td>
<td>$74,838,950</td>
<td>$57,738,476</td>
<td>$34,595,906</td>
</tr>
<tr>
<td>Purse seine</td>
<td>$8,629,712</td>
<td>$15,840,676</td>
<td>$46,341,434</td>
<td>$60,718,410</td>
<td>$62,899,933</td>
</tr>
<tr>
<td>Total</td>
<td>$38,410,105</td>
<td>$98,871,751</td>
<td>$121,180,384</td>
<td>$118,456,886</td>
<td>$97,495,839</td>
</tr>
</tbody>
</table>

TABLE 2.5 Potential license fee revenues leveraged from the sale of fishing licenses to longline and purse seine vessels.

<table>
<thead>
<tr>
<th>Fee rate</th>
<th>2001</th>
<th>2002</th>
<th>2003</th>
<th>2004</th>
<th>2005</th>
</tr>
</thead>
<tbody>
<tr>
<td>2%</td>
<td>$768,202</td>
<td>$1,977,435</td>
<td>$2,423,608</td>
<td>$2,369,138</td>
<td>$1,949,917</td>
</tr>
<tr>
<td>5%</td>
<td>$1,172,886</td>
<td>$4,943,588</td>
<td>$6,059,019</td>
<td>$5,922,844</td>
<td>$4,874,792</td>
</tr>
<tr>
<td>8%</td>
<td>$3,072,808</td>
<td>$7,909,740</td>
<td>$9,694,431</td>
<td>$9,476,551</td>
<td>$7,799,667</td>
</tr>
<tr>
<td>10%</td>
<td>$3,841,010</td>
<td>$9,887,175</td>
<td>$12,118,038</td>
<td>$11,845,689</td>
<td>$9,749,584</td>
</tr>
</tbody>
</table>

Since 2006, EU-flagged vessels have been prohibited under their relevant national legislations from fishing in Somali waters. It is important to note the volume of catch shown in Figure 2.29 contains significant uncertainty in allocation to Somali waters for reporting grid cells that border the Somali EEZ. Several of the important purse seine fleets, especially those of Spain and France, have reported fishing near the Somali EEZ, but not necessarily within it. From visualizations of their reported catch, it is clear they have been “fishing the line” of the Somali EEZ. If companies for these two fleets enter into new licensing agreements with Somali authorities, we believe the data presented here represent a likely estimate of the variability in catch that could be expected in the future.

Our method of estimation includes several sources of uncertainty. First, as noted in §3 above, we have assigned

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catch that was reported in 1°×1° (purse seine) and 5°×5° (longline) resolution to Somali waters. These cells fell across the Somali EEZ boundaries, and we assumed catch was made uniformly throughout these cells. Additionally, because ex-vessel prices were not available, the total market values calculated (Table 2.4) are likely an overestimate as import prices are invariably higher than ex-vessel prices.

TABLE 2.4

<table>
<thead>
<tr>
<th>Fee rate</th>
<th>2001</th>
<th>2002</th>
<th>2003</th>
<th>2004</th>
<th>2005</th>
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<td>$9,749,584</td>
</tr>
</tbody>
</table>

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Licensing other fleets

Ultimately, the estimates presented here represent a baseline of license revenue possible in Somali waters. We have included data from the fleets most likely to obtain legal licenses in the near future. Catch from the countries that fish the most in Somali waters (Yemen and Iran) is not represented in the IOTC longline and purse seine catch-and-effort dataset (their catch is largely by gillnet vessels). Additionally, in the recent past, Egyptian mid-water trawlers have been licensed to fish in Somali waters. If industrial gillnet vessels and mid-water trawl vessels were also licensed, Somalia could earn revenue off the balance of foreign fishing.

The bottom line

Even with uncertainty in the estimates of the tuna resource value presented here, the potential license revenue Somali authorities could earn is high and license fee revenues could be realized in the near future. Total catches of tropical tunas in Somali waters, and the northwest Indian Ocean more generally, have increased rapidly in recent years, primarily due to a reduction in the threat of piracy to fishing vessels. The increase in catch in and around Somali waters suggests foreign fishing fleets have resurrected their presence in the productive northwest Indian Ocean fishing grounds (i.e., Somali...
Basin area) relatively quickly. Purse seine vessels, which never left the northwest Indian Ocean entirely,\textsuperscript{130} have recently had more freedom\textsuperscript{ah} to search for tuna schools. Longline vessels, which generally avoided the northwest Indian Ocean region during the height of piracy, have started to return to these fishing grounds. This trend is expected to continue, and catches inside Somali waters may increase slightly or at least stabilize at current levels (excluding short term spikes). Increase in catch is most likely for the longline fishery because it was the most displaced by piracy and has not yet moved back into the region to the same extent as the purse seine fleet.

**FIGURE 2.29** Estimated catch by longline and purse seine fleets of yellowfin, skipjack, and bigeye tuna in Somali waters. Data obtained from reports to the IOTC.

Somalia does face challenges to realizing the full potential of licensing. Transparency regarding the nature (e.g., levels of effort and catch) and benefits derived from foreign fishing agreements is low. This can make it difficult to ascertain whether the benefits from the fishing agreements are being maximized. In general, coastal states face a number of challenges in negotiating and enforcing fishing agreements. Their negotiating positions are often weakened by a combination of incomplete knowledge of the fish resources and their final market value, the benefits and costs associated with different policy options, lack of capacity to undertake fisheries assessments and gain market intelligence, and low capacity to monitor and enforce fisheries regulations.

Making access agreements publicly available can help overcome this challenge. If the terms of fishing agreements are in the public domain, it is possible to hold governments, vessels, and corporate entities accountable. Equally, only if the amount of catch and effort can be estimated from the terms of access agreements can the biological status of the fish stock be assessed. Fishing interests have been accused of underreporting catches in order to protect commercial interests and maintain advantages in negotiating agreements.\textsuperscript{131} Increasing transparency in the sector would make it more difficult for fleets to perpetrate infractions of the arrangements and would allow immediate corrective action to be taken.

A regulatory framework to encourage and facilitate transparent licensing schemes will improve the economic benefits Somalia can extract from its natural resources. Weak management arrangements mean that the revenue generating potential of the resource cannot be fully realized. Without MCS and associated enforcement mechanisms, including port inspections, foreign vessels may exploit tuna resources within Somali waters illegally and reduce the returns available from the sale of licenses. However, the significant amount of tuna catch that is reported and that should be readily subject to licensing in the very near future is promising for Somalia. If widespread licensing of the foreign tuna fleets can be accomplished by the start of the 2016 tuna season, Somali fisheries authorities can begin building the coffers needed to invest in the domestic sector.

6. CONCLUSIONS

Fishery development in the Western Indian Ocean in general, and in Somali waters in particular, has lagged behind the rest of the world. However, WIO fisheries have expanded rapidly and the stagnation in fish catch suggests the species currently being targeted may not be able to support higher levels of fishing. The relatively unguarded Somali maritime domain has been an

\textsuperscript{ah} For a short period in 2006–2007, the purse seine industry established a voluntary exclusion zone roughly corresponding to the Somali EEZ, and for a time French-flagged vessels were instructed to fish in pairs, disrupting their freedom to search for tuna schools.
attractive target for foreign fishing fleets. We estimate foreign vessels' catch at least three times as much fish as Somalis do (around 132,000 mt in 2013)—and our estimates are decisively conservative. All of this catch is illegal, unregulated, or unreported. The consequences of rampant IUU foreign fishing in Somali waters are declining catch and profits for Somali fishers, habitat destruction, a loss of knowledge about the type of fish being caught, large amounts of bycatch, and physical injury to Somalis and their fishing gear.

We therefore conclude the major threat to Somali fisheries is IUU catch by foreign fleets. Somalis are losing millions of dollars each year to fishing by foreign vessels (Chapter 3). Furthermore, the health of Somali fish stocks is in jeopardy (Chapter 4). In order for Somali domestic fisheries to grow in a sustainable and profitable manner, the international community and national authorities must take swift action to reduce the presence of foreign IUU fishing in Somali waters.
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CHAPTER 4. SUSTAINABILITY OF FISHING IN SOMALI WATERS

1. THE IMPORTANCE OF SUSTAINABLE FISHERIES

For almost two decades, fisheries scientists, marine ecologists, and conservation NGOs have been sounding the alarm about the state of global fisheries. A stagnation, and then decline, in global catch starting in the late 1980s suggested demand for fish was beginning to outstrip supply. In the 1950s almost 80% of all fisheries were undeveloped; today, only 3% are undeveloped. The number of collapsed and overexploited fisheries has grown to over half of all stocks in the world today, and most remaining stocks are fully exploited. Unsustainable levels of fishing have important consequences for marine ecosystems: biodiversity is reduced, fish populations decline, and extinctions are more likely. Unsustainable fisheries also negatively impact the human populations who depend on them. As the costs associated with fishing grow, coastal fishing communities, especially those in developing nations, are receiving fewer of the direct benefits of their marine resources.

In the case of Somali fisheries, long-term sustainability is a critical goal shared by government, fishers, and coastal communities. It is embodied in the new Somali Fisheries Law through mandates of improved monitoring, ecosystem-based approaches to management, protection of threatened and endangered species, and total allowable catches based on optimum sustainable yield. But sustainability cannot be achieved through legislative tools alone. Our analysis (Chapter 2) shows foreign fleets harvest significantly more fish than Somalis do. Most of the vessels in foreign fleets are bigger, faster, and more technologically advanced than Somali vessels. Consequently, in the race to fish that ensues when resources decline, foreign vessels will have the competitive edge. Around the world, industrial distant water fishing fleets are crowding out small-scale and artisanal fishers. Small-scale fishers are some of the poorest in the world and are extremely vulnerable to changes in resource status. Sustainable harvest of resources is therefore a safeguard against economic shocks and loss of income for Somali fishers.

Here, we analyze the potential for fishing in Somali waters at sustainable levels and whether current fishing levels achieve sustainability. As noted before, the analyses possible are constrained by the amount (e.g., duration and resolution) and quality of data available. Data-poor approaches to sustainability analysis have been developed in recent years and promise to advance our understanding of under-monitored fisheries. But they carry with them important caveats and cautions. To the best of our ability we offer here a baseline estimate of fishery potential and sustainability of fisheries in Somali waters. Somali fishery scientists and authorities, international actors, and NGOs should capitalize on this beginning to improve estimates and further our understanding of the health of Somali fisheries.

2. FISHERY PRODUCTION POTENTIAL IN SOMALI WATERS

Somali waters are known for supporting high biomass of marine life (see Chapter 1 §3). The fishery production potential (FPP) of an area refers to the total biomass (in metric tons) of marine life that could be extracted on an annual basis when both economic (e.g., demand and feasibility) and ecological (e.g., food web links and sustainability) considerations are made. A recent FAO assessment of global FPP ranks Somali waters among the world’s highest (Figure 4.1). The Somali Coastal Current Large Marine Ecosystem (LME), along the Somali

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Footnotes:

a Large Marine Ecosystems are contiguous areas of the coastal ocean that have similar physical and biological characteristics, often defined by water masses or currents and biological populations. See http://lme.edc.uri.edu
east coast, is ranked fourth in the world in FPP. Out of 54 ranked LMEs, only the Baltic Sea, Canary Current (African northwest coast), and Benguela Current (African southwest coast) could sustainably produce more fish per square kilometer. Likewise, the Arabian Sea LME, along the Somali north coast, is ranked eighth in the world. This makes Somali waters potentially more productive, per unit area, than some of the largest fishing regions in the world, such as the California Current LME (U.S.) or the Humboldt Current LME (Chile/Peru).

A scientifically rigorous estimate of the amount of fish that could be sustainably harvested each year from Somali waters is sorely needed. Somali Fisheries Law mandates regulation of fishing to produce optimum sustainable yield (OSY), and catch can only be allocated to foreign vessels if surplus resources are available after domestic allocation. Estimates of fishery potential can be used to understand how much fishing the ecosystem can tolerate, what levels of fishing correspond to OSY, and how much surplus resource is available to foreign vessels. A best-practices approach to estimating fishery production potential would involve robust estimates of energy in the system (annual primary productivity derived from chlorophyll estimates, see Figure 4.2), quantifying how that energy moves through the Somali marine ecosystem, and having clear estimates of the amount of fishing pressure the system experiences.

Several historical estimates of potential fish catch in Somali waters exist. However, our review of their origins leaves us hesitant about their rigor and comparability. Estimates range from 180,000 metric tons (mt) per year to over 680,000 mt per year, leaving ample room for misjudgment over the degree of fishing that can be sustainably conducted. In his 1981 thesis, Yassin aggregated data published in other reports with surveys conducted by the R/V Fridtjof Nansen to estimate an annual catch potential of 680,000 mt. In 1983, Haakonsen reported annual catch potential of 180,400 mt for large and small pelagic fishes, demersal fishes, sharks and rays, lobster, and shrimp. The methods and data by which this estimate was derived were not reported. In a 1999 conference paper, Hassan and Tako report an FAO estimate of 300,000 mt of fish catch possible per year, but they do not reference the original source (or method by which it was derived).

We mention these estimates because they have been used in the past to inform the discussion of fishery potential in Somali waters. However, in the past year a new global FPP model (introduced above) has been built. A version of the model and its results exist in Rosenberg et al. published in 2014. The model is undergoing regular revision, and we obtained more recent estimates of FPP directly from the authors.

Briefly, the model divides the world into Large Marine Ecosystems and estimates primary production from satellite images of ocean color in each LME. Primary
production measures the amount of energy being created by photosynthesis by phytoplankton (see Figure 4.2). A food web model traces the flow of energy between prey and predators in each LME. The model measures FPP by estimating the biomass in different parts of the food web and applying constraints that account for the viability of a fishery for a given type of fish (e.g., whether it is a desired food source and whether harvest is economically practical). FPP is calculated as the amount of fish that could be sustainably harvested, assuming harvest should not exceed 20%–25% of available production. To simplify the model and data requirements, species of marine life were aggregated into categories of piscivores (animals that consume fish and are generally considered top predators, such as tuna), planktivores (animals that consume plankton and are consumed by predators, such as sardines), and benthivores (animals that consume bottom-dwelling organisms, such as flatfishes). Please see the original FAO document for full methodological details.20

We were provided with the most recent model estimates of FPP for piscivores, planktivores, and benthivores for the Somali Current LME and Arabian Sea LME (Table 4.1 and Figure 4.1). The LMEs are much larger than the area defined by the Somali Exclusive Economic Zone (EEZ), so to estimate FPP of the Somali EEZ, we calculated the overlap between the two LMEs and the EEZ (see Appendix 6). Northern Somali waters encompass 5.3% of the Arabian Sea LME, while eastern and southern Somali waters encompass 55.4% of the Somali Current LME. The FPP estimated for the full LME area was then reduced (weighted) by the percent of areal overlap (Table 4.1, area-weighted FPP columns). Finally, we combined FPP in the two LMEs that overlapped Somali waters. Fish catch in Somali waters by the foreign fleets (Chapter 2) and fish catch from the Somali domestic fleet (Chapter 3) were aggregated into categories of piscivores, planktivores, or benthivores (Figure 4.3) and compared to the total FPP in Somali waters (Table 4.1).

Somali waters have a FPP of 835,000 mt per year (Table 4.1). By comparison, we estimate only 194,000 mt of fish were caught in Somali waters in 2013. However, the harvest of these fish is severely unbalanced with respect to categories of fish. The FAO model estimates Somali waters can sustainably produce 136,000 mt of piscivores each year. This category includes tuna, billfishes, sharks, and predatory coastal fishes such as snappers. In 2013, we estimate 139,000 mt of piscivores were harvested from Somali waters. Consequently, this category of fishes appears to be fished at maximum capacity. We conclude fishing fleets in Somali waters cannot increase the amount of piscivores caught without implicating the sustainability of these commercially valuable fisheries.

On the other hand, planktivores (such as sardines) and benthivores (such as flatfishes) are fished far less than their estimated FPP (Table 4.1); 335,000 mt of planktivores could be harvested from Somali waters each year but only 26,000 mt were harvested in 2013. Likewise, 364,000 mt of benthivores could be harvested from Somali waters each year but only 28,000 mt were harvested. In order to protect the long-term sustainability of Somali’s fisheries, development of fisheries for planktivores and benthivores may be most profitable and ecologically sound (but see §3 below in which specific families of benthivores, such as emperors, are classified as unsustainable).

It is extremely important to note that the total FPP estimated for Somali waters, 835,000 mt per year, is only achievable if significant increases in catch are made for benthivores and planktivores. A significant amount of the planktivore biomass is composed of small mesopelagic

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**TABLE 4.1** Fishery production potential (FPP) compared to current catch in Somali waters. Catch is from foreign and domestic fishing combined. The area-weighted FPP columns give estimates of FPP in the LMEs that overlap Somali waters as defined by the Somali EEZ. All units are mt.

<table>
<thead>
<tr>
<th>Fishery Category</th>
<th>FPP in Somali LME</th>
<th>FPP in Arabian Sea LME</th>
<th>Area-Weighted FPP, Somali LME</th>
<th>Area-Weighted FPP, Arabian Sea LME</th>
<th>Total FPP in Somali Waters</th>
<th>Total Catch in Somali Waters (2013)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Piscivores</td>
<td>215,000</td>
<td>323,000</td>
<td>119,000</td>
<td>17,000</td>
<td>136,000</td>
<td>139,000</td>
</tr>
<tr>
<td>Planktivores</td>
<td>542,000</td>
<td>646,000</td>
<td>301,000</td>
<td>34,000</td>
<td>335,000</td>
<td>26,000</td>
</tr>
<tr>
<td>Benthivores</td>
<td>597,000</td>
<td>633,000</td>
<td>331,000</td>
<td>33,000</td>
<td>364,000</td>
<td>28,000</td>
</tr>
<tr>
<td>Total</td>
<td>1,354,000</td>
<td>1,603,000</td>
<td>751,000</td>
<td>84,000</td>
<td>835,000</td>
<td>194,000</td>
</tr>
</tbody>
</table>
fishes (myctophids or lanternfishes) that are not currently harvested at meaningful scales. Myctophids are not likely to be sold for direct human consumption, but they could contribute to fishmeal production in the future. The large imbalance in harvest between piscivores on the one hand and planktivores and benthivores on the other hand is illustrative of a global pattern: top predators have been highly desired for human consumption for many decades and their harvest levels are likely at (or in excess of) levels that are sustainable. For humans to increase fish catch in a sustainable manner, a more balanced approach to harvesting should increase catch of benthivores and planktivores. In this regard, Somali waters are no different than those in the rest of the world’s oceans.

3. SUSTAINABILITY OF FISHERIES AT CURRENT LEVELS OF FISHING EFFORT

The FPP analysis compares potential to actual harvest at highly aggregated taxonomic scales. But for a fuller understanding of the status of Somali fish stocks, sustainability analysis should be done for more useful groupings. Fisheries management plans must account for the health of different species of fishes because they may react very differently to changing environments or fishing practices. When comprehensive fisheries and biological data are available, the sustainability of fished stocks can be assessed by data-intensive methods such as formal stock assessments. However, Somalia, like the vast majority of fished stocks around the world, lacks sufficient data for such assessment. Instead, we used methods\(^1\) developed specifically for data-poor fisheries to classify the sustainability of fish stocks in Somalia at current levels of catch (foreign plus domestic).

We classified sustainability based on the ratio of current levels of fish biomass to the biomass needed to produce maximum sustainable yield, or MSY ($B/B_{MSY}$). This ratio is a common metric of sustainability used by the Indian Ocean Tuna Commission (IOTC), among others. If the ratio is greater than 1.0, the biomass of a fish stock is higher than that needed to produce MSY for the fishery. Theoretically, then, the fishery could support a higher level of fishing. If the ratio is less than 1.0, the biomass of a fish stock is below that needed to produce MSY for the fishery, and fishing levels should be reduced to improve sustainability.

Biomass is difficult to measure even in well-studied systems. In systems such as Somalia’s, which lack regular scientific surveys of marine resources, it is nearly impossible. Costello\(^3\) and colleagues developed an approach for estimating $B/B_{MSY}$ when only catch and basic biological information are available. Using information from data-rich fish stocks from around the world, they built a statistical model\(^c\) that related $B/B_{MSY}$ to various fishery metrics such as how long the fishery has existed, whether catch has peaked, and the length of the fish in question. They then applied that model to over 1,700 stocks of fishes that had never been assessed before. Their analysis did not explore stocks in Somali waters, so we applied the model they developed to the catch data we have reconstructed for Somali waters.

We limited our analysis to catch from those species groups that (a) had sufficient data for analysis and (b)
Box 4.1: The Potential for Investment in Somali Fisheries

As the political and security situations in Somalia stabilize, Somali and foreign businesspeople are seeking opportunities to invest. The Somali energy, telecommunications, and agriculture sectors are growing, and private sector investment promises to improve supply chains, create jobs, build civil society, increase civic participation, reduce poverty, and promote economic growth. Additionally, there is potential for Somalis to earn millions of dollars each year from licensing foreign fishing vessels, and this revenue could be used to expand the fisheries sector. Somalia’s small-scale fisheries sector would benefit greatly from investment in infrastructure and services, but that investment must be targeted wisely to achieve sustainability. In the course of our research, the following sectors presented some of the most promising opportunities for investors and the Somali fishing sector:

- **Cold storage**—One of the greatest challenges to expanding fisheries in Somalia is the lack of infrastructure, especially a well-developed cold chain. Cold storage at every point along the boat-to-market continuum is crucial to maintaining the quality of fish and thereby commanding high prices, especially in export markets. Progress in the cold chain is being made through the construction of freezers made from cargo containers. Increased ice-making facilities, cold storage, and freezer transport would greatly increase the value and marketability of Somali catch. In particular, a variety of freezing technologies are needed to accommodate different markets: while ice is useful for fish that will be sold domestically in short time frames, deep and flash freezers are needed to preserve fish for long time frames in the export market.

- **Fishing boats and technology**—Somali fishers are limited by the small size of their boats and lack of access to fish-finding technologies. Larger boats, navigational equipment (e.g., GPS and navigation charts), and fish-finding sonar systems would increase the ability of Somali fishers to compete with industrial and foreign vessels.

- **Sanitary processing facilities**—Somali fish products do not always adhere to the food safety and sanitary import laws of most countries, and this limits the markets to which Somalis can send fish products. After preventing spoilage through greater cold storage capacity, investment in state-of-the-art sanitary processing facilities and training in international sanitation standards would open new markets for Somali fish products. Such facilities could be built in regional hubs and serve catch from a variety of smaller supply locations.

- **Small-scale tuna fisheries**—Most Somali vessels catch fish using gillnets; this precludes catching large, highly migratory (and highly profitable) tuna such as yellowfin, and gillnets create unwanted bycatch. We believe there is great potential in an artisanal pole-and-line yellowfin tuna fishery. The Maldives have leveraged their artisanal tuna fishing practices onto a larger scale, and they market their products accordingly: pole-and-line caught tuna from the Maldives is highly desired and commands above-market prices because it is certified sustainable by the Marine Stewardship Council. Somalia has similar potential. Targeted investment into pole-and-line gear or longlines equipped with bycatch prevention measures could create a niche market for Somali tuna. Our analysis shows catch of highly migratory tuna in Somali waters is approaching the limits of sustainability, so increases in domestic harvest must be reconciled with the large amounts of tuna caught by foreign vessels. Somalis would earn greater income from a profitable artisanal tuna fishery than from licensing foreign vessels to land the same fish, but development of such a fishery will take time. However, there may be even greater potential for catch of the coastal species of tuna (e.g., frigate tuna, bullet tuna, or kawakawa). We caution that the IOTC does not yet perform sustainability analyses for these species, but Somali-led data collection initiatives could help fill this gap.

- **Fishmeal**—In Somalia, there is first-mover opportunity to develop fisheries for forage fishes and process those fish into fishmeal, a growing product on the international market for animal and aquaculture feed. Additionally, fishmeal could provide an affordable, organic, and local source of fertilizer for Somali agriculture. Our sustainability analysis shows that forage fishes (planktivores), including sardines and anchovies, are underexploited in Somali waters. To develop this opportunity, investment is needed in both the fishery itself and in building fishmeal pro-
were not highly migratory species (HMS). HMS stocks undergo more rigorous sustainability analysis by the IOTC, and we defer to and report their results for HMS below.

We used combined foreign and domestic catch estimates for dolphinfish, emperors, goatfish, jacks, clupeids, snappers, sharks, rays, groupers, and grunts (Figure 4.4). Uncertainty in catch reconstructions at the species level and limitations with the sustainability model precluded analysis of individual species. Maximum length of each fish group (calculated as an average across species in that group) was included as a biological parameter in the model. Although we have catch reconstructions for squid, shrimp, spiny lobster, and cuttlefish in Figure 4.4, the sustainability model produced by Costello et al. did not include these groups. See Appendix 6 for further methodological details.

We find 8 of the 17 fish groups we analyzed are currently fished at unsustainable levels (Figure 4.5). These include swordfish, striped marlin, emperors (including the commercially important spangled emperor, *Lethrinus nebulosus*), goatfish, snappers, sharks, groupers, and grunts (including the commercially important painted sweetlips, *Diagramma pictum*).

We urge caution when interpreting these results. First, the analysis was done on categories of catch that range from species (e.g., yellowfin tuna) to groups of families (e.g., sharks). Results found for aggregated categories do not translate to the species that make up that group,
and variation between species will occur. Second, for the non-HMS species, the analysis was based on catch reconstructions. The methodology used for these reconstructions (see Chapters 2 and 3) creates patterns in the data that are different from those that would exist in real observations of catch (i.e., higher autocorrelation). However, the creators of the sustainability model found catch underreporting and misreporting did not affect results. Third, our classification scheme creates a clear line ($B_{BMSY} = 1.0$) above which a group was classified as sustainable and below which it was classified as unsustainable. Some categories have $B_{BMSY}$ values near 1.0 and could plausibly be classified another way if data were slightly different. Likewise, some categories had $B_{BMSY}$ much greater than 1.0 suggesting high levels of sustainability, while others had $B_{BMSY}$ much lower than 1.0, suggesting immediate conservation measures are needed. Our catch estimates are not robust enough for additional interpretation.

4. CONCLUSIONS

There are reasons to be optimistic about sustainability of fisheries in Somalia. On average, fisheries in Somalia are more sustainable than in the rest of the world. In two analyses, 63% and 64% of global stocks were found to be unsustainable (with $B_{BMSY}$ below 1.0). By comparison, less than half of the categories we analyzed are unsustainable in Somali waters. None of the Somali fisheries are collapsed, while worldwide 24% are collapsed. Some of the most lucrative species, particularly yellowfin and skipjack tuna, appear to be healthy. And the species most likely to be turned into fishmeal (clupeids) also appear sustainable at current levels.

However, caution is warranted. On average, global fish stocks had comparable levels of sustainability in 1978 (66% sustainable, 44% unsustainable), but a mere 13 years later sustainability had declined such that 64% of stocks were unsustainable, a level that persists 25 years later. Somali fish stocks may have an advantage over global stocks because the history of industrial-level fishing in its waters began much later and increased more slowly. If Somali stocks follow a path similar to that taken by global stocks, we estimate more than half of stocks will be unsustainable in under a decade.

Fisheries have the potential to yield significant income, nutrition, and employment for Somalis. The strides made recently to build a foundation for management and ownership of fisheries by Somalis is a critical step towards greater sustainability in the future.
Box 4.2: Conservation of Overlooked Species

Many species with vulnerable, threatened, or endangered conservation status live in Somali waters, including whale sharks, sea turtles, cetaceans, seabirds, and sea cucumbers. These groups may be targeted or captured as bycatch in the gillnet, trawl, longline, and purse seine fisheries. Proper protection and management is hindered by a severe lack of data. Catch of these species in the Indian Ocean is frequently underreported because it is not required by individual nations, and because vessels fear the consequences of reporting illegal capture of threatened species where such laws exist. The high bycatch rates associated with gillnet vessels, deployed by the two foreign fleets with the largest presence in Somali waters (Iran and Yemen), is cause for concern.

Whale Sharks
Whale sharks (Rhincodon typus) range throughout the Indian Ocean, and tagging experiments confirm their presence in Somali waters. Targeted fisheries for this species, which is listed as Vulnerable by the International Union for Conservation of Nature, have been banned in many Indian Ocean countries, and whale sharks have been protected to promote ecotourism in the Seychelles. Unfortunately, these massive filter-feeding sharks are subject to accidental mortality in gillnet, purse seine, and driftnet fisheries.

Sea Turtles
Of the seven species of sea turtles worldwide, five live in Somali waters, all of which are protected by various international treaties. The green turtle (Chelonia mydas) and hawksbill turtle (Eretmochelys imbricata) range throughout the Western Indian Ocean and nest on northern Somali beaches. Sea turtles are extremely vulnerable to entanglement in gill nets, so they are often captured incidentally by foreign fishers and Somali fishers who keep them to sell their meat. In our survey of Somali fishers (Appendix 1), 22% of respondents reported that they had caught turtles and that they fetched between US $0.50 -$15.00 per kg. These high prices incentivize fishers to keep accidentally caught turtles rather than release them.

Seabirds
Seventeen species of seabirds live in Somalia. Worldwide, seabird populations are on the decline. Seabirds are primarily surface feeders, scanning the waves for prey in the top few meters of water. These eating habits mean they are easily enticed by baited longlines or the dead fish in gillnets. Both gears pose threats to birds which can drown if hooked on a line or entangled in a net. Unfortunately, the number of seabirds accidentally caught in the Indian Ocean is entirely unknown. We believe that with the heavy use of gillnets and longlines in Somali waters, unreported seabird mortality in this region is likely high.

Sea Cucumbers
Little is known about the size of the sea cucumber fishery or the status of their populations in Somali waters. According to our survey of Somali fishers, processors, and exporters, sea cucumbers are captured by Somali fishers for export and they fetch a high price compared to most fish species: between US $60 and $92 per kg, depending on the market. Worldwide, few sea cucumber management plans exist and those that do are undermined by a lack of knowledge. Given their high value and lack of management, sea cucumbers are poised to be overfished in Somali waters.

The recently enacted Somali Fisheries Law calls for the protection of “endangered marine animals,” prohibits fishing for endangered animals, and mandates release of accidentally caught endangered marine animals. Additionally, fishers are obligated to report quantities and types of bycatch. Upon joining the IOTC, Somalia began the process of coming into compliance with Conservation and Management Measures (CMMs). CMMs are binding resolutions with which IOTC Member nations comply, and they provide a framework for reducing bycatch and
Box 4.2: CONT'D

protecting threatened and endangered species. CMMs for the protection of whale sharks, turtles, and seabirds exist, but they do not exist for sea cucumbers. These are excellent first steps toward conserving threatened species; however, fishers, both local and foreign, need to be better informed of these regulations and their consequences, and enforcement of the law is crucial for the protection of these sensitive species. Over the next few decades, as stability in Somalia grows, the conservation of these species today is critical to ecosystem function and societal development (e.g., ecotourism) in the future.

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ROUGH SEAS

THE CAUSES and CONSEQUENCES of FISHERIES CONFLICT IN SOMALI WATERS

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ROUGH SEAS:
THE CAUSES and CONSEQUENCES of
FISHERIES CONFLICT IN SOMALI WATERS

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January 2020

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Cover Image: Two fishers prepare their boat for a night of fishing at a port in Bossaso, Puntland. Photo: Tobin Jones, United Nations.

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EXECUTIVE SUMMARY

In the Somali region, as in a growing number of places around the world, the stability of fisheries and the maritime domain more broadly are critically linked to the economic and physical security of the Somali people. As Somali waters are the gateway between the Indian Ocean and the Red and Mediterranean seas, smooth passage facilitates maritime economic commerce on a global scale. Likewise, the nutrient-rich waters around the Horn of Africa support domestic and foreign fishing fleets that harvest tens of thousands of tons of valuable fish every year. However, low capacity for enforcement of maritime laws since the civil war began in 1991 has enabled illegal fishing while undermining domestic maritime domain awareness.

Here, we investigated conflict in Somali waters in order to add to the limited but growing understanding of the factors contributing to or mitigating conflict over fisheries resources. In particular, we assessed the actors involved and motivations driving fisheries conflict in the Somali region. To do so, we collected and analyzed reports in the media of fisheries conflict in Somali waters from 1990–2018. We found three distinct periods of conflict with different defining characteristics: conflict between domestic and foreign fishers (1998–2000), conflict driven by piracy in Somali waters (2007–2010), and conflict resulting from the return of foreign fishing fleets (2014–2015).
In the Somali region, fisheries conflict emerged from unmanaged competition over fish stocks and was exacerbated by institutional instability within the Somali fishing sector. We found five significant causes of fisheries conflict: the presence of foreign fishers (whether illegal or legal), territorial disputes, illegal fishing, weak governance, and piracy. Contrary to the causes of many other fisheries conflicts around the world, declines in fish stocks was not a leading cause of conflict in Somali waters.

The Federal Government of Somalia has taken important steps towards strengthening fisheries governance and thereby reducing institutional instability. For example, they recently formally declared the boundaries of their exclusive economic zone (EEZ), joined international management efforts through the Indian Ocean Tuna Commission, provided online transparency about recent licensing of Chinese fishing vessels, and are spearheading collaborative efforts to collect fisheries catch data across the region.

Our findings have several important implications for the continued development of fisheries governance in Somali waters.

- First, weak governance can be enhanced by strong cooperation between federal and state authorities, but, more importantly, by **increasing the resources available to federal and state ministries of fisheries** for technical and institutional capacity.

- Second, the laws and regulations governing fisheries resources need to be developed more fully with the **participation of fishing communities**. At the local level, fishing communities should be integrated into the fisheries management process. Community-driven natural resources management partnerships present an opportunity to build both management capacity and government legitimacy.

- Third, the transparency around legal licensing of foreign fishing vessels should continue and be supplemented by outreach to and engagement with fishing communities about the process. **Greater information-sharing about legal foreign fishing may reduce conflict** between domestic and foreign fishing vessels.

- And fourth, **the international community must take greater responsibility for stopping illegal fishing by global fleets in Somali waters** in order to support the nascent but growing Somali fisheries sector. Given that the presence of foreign vessels is the most significant cause of fisheries conflict at this time, it is incumbent upon the nations responsible to track and report upon their own vessels while also removing vessels that are fishing illegally in Somali waters.
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I. INTRODUCTION

On December 11, 2018, the Federal Republic of Somalia issued legal fishing licenses to foreign vessels for the first time in over 20 years. Thirty-one Chinese longline fishing vessels acquired one year of legal access to tuna, sharks, and billfishes in the Somali Exclusive Economic Zone (EEZ), a region with abundant and valuable fish stocks. In exchange, the Somali government earned over $1 million in license revenue that could be reinvested into the domestic fishing sector. According to Somalia’s Fisheries Law No. 23, updated in 2014, licensed foreign vessels may only operate outside 24 kilometers from the coastline; this provision is intended to protect small-scale domestic fishers from interference and competition. Foreign boats must also declare to the government their positions and the weight and types of fish they catch. All licensed vessels are monitored using an automatic tracking system, and there have been no reports of the 31 newly licensed vessels breaking the boundary rules or clashing with domestic fishers. Despite the improvements to fisheries governance and management that a legal licensing mechanism for foreign fishing provides, segments of the Somali public protested the licensing of Chinese fishing vessels, highlighting the contentious history of foreign fishers in Somali waters. Decades of violent interactions between Somali boats and foreign fishing boats, the looming threats of overfishing and habitat damage from industrial vessels, and the legacy of piracy have entrenched hostility to foreign fishing boats. This report investigates how the Somali fishing sector arrived at this point.

Following the outset of the Somali civil war in 1991, foreign fishers began taking advantage of the anarchy in the region by illegally fishing in Somali waters. Some Somali opposition groups, such as the Somali Salvation Democratic Front (SSDF), began “arresting” these vessels. In 1996, reports surfaced of Somali fishers’ arming themselves and fighting against illegal, unreported, and unregulated (IUU) foreign vessels. The increased presence of foreign trawlers (vessels that drag large nets along the seafloor) led to more clashes and harassment. Organized civilian groups like the “National Volunteer Group” in Jubaland and the “Defenders of Somali Territorial Waters” in Galmudug patrolled to defend Somali maritime resources. Tension grew between local Somalis and organized pirate groups, increasingly controlled by warlords driven by ransom opportunities. Opportunists’ quests for profit drove piracy to grow beyond something the Somali region could extinguish alone. The Somali government’s plea for assistance brought foreign naval warship coalitions into the region. The naval vessels were also a response to foreign governments’ concerns with the attacks on cargo vessels, a significant threat to global commerce. Somali fishers alleged that the harassment they endured multiplied with the arrival of foreign warships, who denied locals access to fishing grounds, sabotaged nets, and confused their vessels for pirates. Many fishers decided to remain close to their beaches to not fall victim to mistaken identity. Finally, the new practice of bringing private contracted armed security personnel (PCASP) aboard foreign boats of all kinds served to increase tensions (see Box 4).
As warships and PCASP quelled the threat, the cost of carrying out pirate attacks increased. This deterred the armed robbery and hijackings, but an unintended consequence was renewed foreign illegal fishing in Somali waters. In 2015, 86 percent of fishers reported seeing foreign fishing vessels near their coastal village. In 2016, fishers voiced frustrations over stolen gear, the kidnapping of local fishers, toxic pollution, and terrorizing of locals. A drought in 2017 drove Somali food prices up and increased domestic dependence on fishing, but illegal vessels had already severely impacted the health of Somali fisheries.

Today, the domestic fishing sector is still wary of large, foreign boats in their waters. The small, artisanal vessels are unable to compete with the powerful, better-equipped foreign vessels, and communities are frustrated by inconsistent and—sometimes—corrupt licensing. Local fishers lack understanding of how central and local fisheries management might work, undermining the legitimacy of government policies and enforcement capacities. Neither the Somali Federal Government nor its federal member states have sufficient naval or coast guard capacity to patrol their massive EEZ. There is a concern that even licensed foreign boats may further deplete stocks, which are already targeted by illegal vessels.

While the causes and consequences of piracy in Somali waters are well known, the role of fishing in perpetuating (or even reducing) conflict in and around the Horn of Africa is less understood. To inform mitigation strategies for future fisheries conflict, we investigated the key actors and drivers involved in fisheries conflict in Somali waters and the patterns that emerge. Fisheries conflict is a complex, underreported, and under-investigated issue—most conflict occurs at the local level and affects marginalized communities. The salience of this issue will grow as competition for finite fisheries resources and the attendant risk of violent conflict also rise. Globally, fisheries are the primary source of protein for 1.5 billion people. This sizeable population is at risk of food insecurity, loss of livelihood, and heightened violent conflict if fish stocks collapse. To prevent this, we aim to understand what situations lead to violence over fisheries, and how we can best prevent that violence from occurring.

II. THE SOMALI REGION

Civil Conflict in the Somali Region

The Somali region, at a strategic location connecting Africa, the Middle East, and Asia, was under colonial rule from the 1880s to the 1950s. Northern Somalia was colonized by Great Britain in 1887 and southern Somalia by Italy in 1889. Following the merger of the British and Italian territories, the independent United Republic of Somalia was formed in 1960 and lasted until 1969, when Somalia’s second president was assassinated. At this time, Mohammed Siad Barre, the major general of the Somali army, assumed power in a coup that overthrew the Somali Republic to form the Somali Democratic Republic, a socialist state aligned with the former Soviet Union. Siad Barre was ousted by a rebellion in January 1991, marking the beginning of the Somali civil war.

From 1991 to 2006, the Somali region was without a recognized central government as clan-based militia groups fought for power. This period of anarchy and violence was ruinous to Somali infrastructure and security resources. Former British Somaliland declared independence as the Republic of Somaliland in 1991. In 1998, the Puntland region declared itself an autonomous state. Meanwhile, the central and southern parts of the country divided into competing factions. In 2006, the Transitional Federal Government (TFG) that had been operating from Kenya convened its first parliament in the Somali region, but the Islamic Courts Union (ICU), an Islamic group of sharia courts in opposition to the TFG, soon seized control of Mogadishu and most of the southern regions. The ICU brought a significant degree of lawfulness to a lawless state, garnering public support for the security...
that the courts’ infrastructure provided. In early 2007, an internationally supported Ethiopian intervention defeated the ICU, at which point it splintered into militant groups to continue their fight against the TFG. One of these groups became Al Shabaab, a jihadist extremist group that aligned with al-Qaeda in 2010. These Islamist groups maintain a presence today and continue to pose a threat to national stability.

The establishment of the Federal Government of Somalia occurred in 2012, upon the conclusion of the TFG mandate. The Federal Government of Somalia (FGS) provided Somalis with formal international representation for the first time in over two decades. Because there had not been a permanent central government since the beginning of the Somali civil war in 1991, however, other self-governing authorities predated the FGS. Somaliland, though it declared itself an independent republic in 1991, is considered by the FGS and international bodies as an autonomous region of the Federal Republic of Somalia. Puntland has considered itself an autonomous state since 1998. These conflicting jurisdictions have led to legislative confusion and tension in the fishing sector.

Fisheries in the Somali Region

In 2014, the FGS declared an EEZ according to the United Nations Convention on the Law of the Sea (200 NM from shore). At 3,333 km in length, the Somali region has the longest coastline in mainland Africa. The 2014 declaration made the Somali government responsible for surveilling fisheries practices over 0.78 million square km (an area 0.15 million sq. km larger than the Somali region’s land territory)—a daunting task for any government. The productive fishing grounds on the region’s continental shelf exacerbate this challenge. Sharing the Gulf of Aden in the north with Djibouti and Yemen, and the Arabian Sea and the Indian Ocean to the east, productive Somali waters attract fishing fleets from all over the world.

In the 1980s, fishing cooperatives were established and financially supported by the Soviet Union, but many of them stalled after the Somali civil war began in 1991. The fishing sector lost any support it was receiving from the central government, including maritime managers and enforcers, during the three decades of civil conflict. Any law enforcement capacity that the Somali region did have was unable to match the number of foreign vessels fishing in its vast maritime territory. Private companies began exploiting the market space left open by the government, prompting IUU fishing by foreign vessels to become the most significant concern for Somali fisheries management. IUU fishing is any fishing that violates the law, is not reported to legal and scientific authorities, or occurs in parts of the ocean not subject to fisheries management or regulations. In Somali waters, rampant IUU fishing is driving overfishing of stocks while depriving the Somali government of millions of dollars of revenue it might otherwise gain through licensing. Overfishing not only negatively impacts marine ecosystems; it also threatens coastal livelihoods in communities that cannot compete with foreign vessels’ efficient gear.

In Somali waters, foreign fishing vessels typically are of two kinds: those fishing for highly migratory species (HMS) and those fishing for coastal pelagic or bottom-dwelling species. HMS vessels are large, industrial longline or purse seiners from European and Asian distant water fleets or smaller gillnet vessels from Yemen or Iran (see Box 1). Industrial trawlers and coastal dhows using gillnets predominantly seek the small pelagic fishes like sardines, demersal fishes like groupers, and invertebrates like shrimp. These vessels come from countries across the globe, such as South Korea, Egypt, Greece, and Kenya. Before the buildup of piracy in Somali waters, foreign fleets took advantage of the region’s lack of governance over its maritime space to fish throughout Somali waters without licenses and without benefit to Somalis. Foreign fleets decreased their presence in Somali waters following the rise of piracy in the region in the mid-2000s, but many distant water fleets returned to Somali waters once piracy began to decline in 2014. In 2015, there were reports of vessels returning from Iran, South Korea, and China following the improved maritime security situation. Iran, Egypt, and Yemen (Box 2) were accused most commonly of overfishing and destructive bottom trawling in Puntland in 2016.

Photo: Jean-Pierre Larroque, One Earth Future.
### BOX 1. FISHING GEAR TYPES AND IMPACTS

**Purse Seine**

**Description:**
A long wall of netting that surrounds the target species. The bottom of the net has a purse line that, when pulled, closes to prevent fish from swimming downward—a natural response of fish to danger.

Purse seines target high-value, highly migratory species in the deep sea, like sharks and schooling tunas.

**Environmental Impact:**
Purse seining can result in bycatch.**

The degree of bycatch depends on how tightly the target species swim, or school, together and whether a fishing vessel sets the net on non-target indicator marine life. This high-efficiency gear, if mismanaged, can also put too much pressure on fish stocks.

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**Longline**

**Description:**
A long mainline that has shorter branch lines, or snoods, attached. Each snood has a single baited hook.

Longline vessels operate in deep water, targeting the larger, more solitary, highly migratory stocks such as sharks, swordfish, or billfishes, and the larger schooling fishes such as tuna.

**Environmental Impact:**
Longlines could be less environmentally harmful because each snood can only catch one fish. If the longline is pulled in shortly after hooking bycatch, the non-target species can be released. Unfortunately, most bycatch dies on the snood before release.

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**Gillnet**

**Description:**
A single vertical wall of netting, with floats on the top and weights on the bottom. When fish attempt to swim through, their gills get caught in the net.

Gillnets are one of the more versatile types of gear used in Somali waters. They can target highly migratory fishes (tuna, swordfish, billfish) in deep water or reef fishes close to shore.*

They are popular among artisanal fishers, and the most common gear used by Somalis.

**Environmental Impact:**
Gillnets trap whatever swims into them, so they can result in higher rates of bycatch, including of endangered species like sea turtles and mammals.

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**Trawler**

**Description:**
A net, coupled to heavy doors that keep the net open, towed along the ocean floor or through the water column.

Bottom trawlers in Somali waters operate close to shore in relatively shallow water, targeting reef fishes or demersal fishes (bottom feeders). Relatedly, midwater trawls do not contact the seafloor and target pelagic invertebrates (squid and shrimp).

Foreign bottom trawlers are the most likely to interact with Somali fishers.

**Environmental Impact:**
Bottom trawlers destroy seafloor habitats by gathering everything they encounter and harming fragile seafloor ecosystems.

Trawling is non-selective and can result in significant bycatch, including corals, sea turtles, and seafloor foraging mammals.

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*In Somali waters, fishing within 24 NM is protected by Somali fisheries law and limited to domestic, artisanal fishing. These nearshore waters overlap most of the shallow continental shelf. Deepwater fishing, where foreign-flagged vessels can be licensed, occurs outside of 24 NM, where the continental shelf drops off into the open water pelagic zone.

**Bycatch is the unintentional catch of non-target marine life while fishing for other species.
Yemen has had an increasing interest in its maritime resources since the 1970s, and with a much smaller EEZ, Yemeni fishers expanded into Somali waters to meet the onshore demand. Informal agreements developed between the Yemenis and Somalis starting in the 1990s. Yemenis would bring fuel, and eventually ice (subsidized in Yemen), and in exchange, the Yemenis had access to the local fishing grounds and were able to buy fish directly from Somali fishers at a cheaper cost.

The illegal overfishing that developed on the Somali coast caused tension to grow between Somali communities and their past trading partners. What was once a peaceful relationship declined as competition over fishing grounds escalated. Some Yemenis began to take advantage of unlicensed fishing opportunities in their neighbor’s waters, joining the armada of foreigners invading Somali fishing grounds and helping drive frustration and mobilization by fishing communities. Conflict and contention grew highest in Somaliland and Puntland, where the state governments were attempting to establish their maritime authority. Fishing grounds competition, rampant piracy, and warship harassment eventually made their way into the Yemeni EEZ.

<table>
<thead>
<tr>
<th>Year</th>
<th>Event</th>
</tr>
</thead>
<tbody>
<tr>
<td>2006</td>
<td>The Somaliland Coast Guard arrested 50 Yemeni fishers and seized their eight boats as part of a campaign to enforce territorial sovereignty in the Gulf of Aden. Yemen reported the event as a pirate attack.</td>
</tr>
<tr>
<td>2007</td>
<td>Punland signed unofficial deals with Yemen to establish coast guards, trade fish with each other, and allow Yemeni fishers in their waters. Yemenis sailed their boats to Punland and either bought Somali catch or paid a “hefty fee” to the Punland Ministry of Fisheries for a license to fish for themselves. The license included provision of an armed man to go on the vessel with the crew. Before reaching the Punland coast, Yemeni fishers risked encountering pirates who would stop their boats and seize the fishers’ diesel and food. Sometimes the pirates kidnapped them and demanded $20,000 for their release. Some Yemeni fishers were killed trying to outrun the pirates, but fishing in Somali waters was their only way to earn a living. Many Yemeni fishers belonged to the Fishery Cooperative Union (FCU) in Mukalla, the umbrella organization for fisherfolk along Hadramaut’s (Yemen’s largest state) coastline. The leader of the FCU advised fishers to not go on individual fishing trips into Somali waters.</td>
</tr>
<tr>
<td>2008</td>
<td>Yemeni media reported about 50 fishing boats had been attacked. Somali pirates hijacked two Yemeni fishing vessels, the M/V Qana’a and the M/V Falluja, near the Mait area close to the port of Aden (Yemen). Seven fishermen managed to escape and report the event. The 22 remaining fishers were held hostage. The pirates had intended to use the fishing vessels as mother ships for their attacks on other ships in the Gulf of Aden.</td>
</tr>
<tr>
<td>2009</td>
<td>Yemeni fishers in Somali territorial waters were fired upon by pirates, killing one fisherman and injuring two others. The boat managed to escape and return to the Yemeni port of Mukalla. An official report by the Yemeni government linked piracy to a US$200 million loss to their fishing industry, as Yemeni fishers stopped fishing in Yemen’s territorial waters out of fear of pirate attacks and being mistaken for pirates by international defense forces. Pirates killed Yemeni fishers for something as simple as an engine, and international forces sent aircrafts to hover over boats until they were convinced the boats were used for fishing. Many fishers were wrongly accused of piracy. Eighty-one Yemenis in six fishing boats were arrested by the Somaliland coast guard for fishing illegally near Berbera (northern coast). The commander of the Somaliland Coastal Guard said their forces doubled their efforts to combat illegal fishing. Pirates took over Yemeni fishing boats in the Gulf of Aden and the Indian Ocean, used fishers as human shields while carrying out attacks, and used Yemeni dhows as weapons storage facilities. Additionally, Yemeni fishers were attacked by international coalition forces as collateral damage in the fight against piracy or because they were mistaken for Somali pirates.</td>
</tr>
<tr>
<td>2010</td>
<td>TFG warned Punland not to make deals over its territorial waters with other federal governments. Punland complained that illegal Yemeni fishing vessels played a large role in depleting stocks in their water. One hundred thirty Yemeni fishers in nine dhows were seized by Punland security officials for illegally fishing in Punland’s waters as a part of their crackdown on illegal fishing. Yemen media reported about 50 fishing boats had been attacked. Three Yemeni fishermen were kidnapped by a gang of pirates that assaulted them and threw them into the Gulf of Aden. They were found alive on a Yemeni beach three days later. This story caused most Yemeni fishers to be too afraid to travel more than 20 miles offshore. They said their business was cut in half. They also felt their lives were threatened by international forces patrolling the waters.</td>
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III. RESEARCH APPROACH

To investigate the primary drivers and consequences of fisheries conflict in Somali waters, our team of researchers analyzed articles from news outlets for incidents in which a fisheries resource was the source of conflict in Somali waters during the period 1990–2018. Our systematic search included all reports of incidents that occurred in Somali water bodies (specifically, the Jubba and Shabelle Rivers and all marine waters extending to the 200 NM EEZ). Using NexisUni, an online archival database of news-based print publications, we created the Fisheries Conflict Database.

To be coded into our database, an incident had to meet our definition of a fisheries dispute event (FDE), which is an incident or incidents where a fisheries resource is contested, disputed, or the source of conflict, between a minimum of two actors at a discrete location. Temporal moments and places may be approximate, but events need to occur within bounded time and space. FDEs were identified and characterized using a standardized codebook that recorded the date, location, actors involved, measures of violence, and causes of conflict. Causes of conflicts, referred to as “drivers,” were sorted into 15 categories:

- **WEAK GOVERNANCE**: corruption, weak enforcement, weak institutional capacity, a lack of public participation, inadequate information, or organized crime
- **FISH STOCKS**: an actual or perceived decline in fish population(s)
- **ENVIRONMENTAL CHANGE**: changes to the natural ecosystem, excluding the health of fish populations
- **POVERTY**: limited livelihood options, lack of public health services, or a lack of public education services
- **FOOD INSECURITY**: a lack of access to a reliable source of sufficient and nutritious food (both fisheries and non-fisheries food)
- **MARGINALIZATION**: actors targeted for their social, economic, ethnic, tribal, gender, or political identity
- **GROUNDS LIMITS**: limitations on access to fishing grounds
- **OPERATIONAL SCALES**: competition between actors that operate at a different scale of fishing
- **FOREIGN FISHERS**: the presence of foreign fishers in domestic waters
- **MARKETS**: the supply or demand from transnational markets
- **GEAR EFFICIENCY**: destructive fishing practices that collect fish rapidly in high volumes (illegal), highly efficient gear types (legal), or technological advances aimed at increasing catch
- **INCREASED PRESSURE**: increased domestic market demand for seafood or an increased number of fishers at a water body
- **PIRACY**: acts of piracy (outside 24 NM) or armed robbery (inside 24 NM) by members of organized gangs and not fishing vessels. (Note: In a related study, we coded piracy in a category of maritime crime, but for clarity we use the term “piracy” here.)
- **STRATEGIC LOCATION**: the strategic importance of a fishery’s land location
- **ILLEGAL FISHING**: illegal methods of fishing, such as gear, location, species, or without license

Illegal fishing and foreign fishing often occur together in Somali waters, but their motivations for conflict should not be confused. Conflict driven by illegal fishing involves one actor’s ignoring a regulation that other actors respect, such as using banned gear, fishing during closed seasons, catching endangered species, or fishing without a license. The other actor in an illegal fishing conflict usually engages out of frustration that they are losing by following the rules. Illegal fishing vessels can be foreign or domestic. A domestic fisher might incite an illegal fishing conflict by fishing in a marine protected area. Conflict driven by foreign fishing is usually motivated by the presence of foreign fishers in domestic waters, whether or not they have permission. One foreign fishing event could include the arrest of unlicensed foreign fishers but would also apply to an attack against a licensed foreign fishing vessel motivated by locals’ anger that their government is approving licenses.
The belief that pirates operating off the Somali coastline are fishers is a common and unfortunate misconception. Media coverage and pirates’ justifications for their actions promoted this misunderstanding. Most of the coverage on the rise of piracy in the early 2000s sounded like this: “The problem of piracy in the Horn of Africa began five years ago when Somali fishermen reacted to foreign overfishing by seizing trawlers and their crews and holding them for ransom. Civil war and anarchy had left their shattered government unable to protect its fisheries. When such tactics produced money, it emboldened the pirates to go after freighters and yachts on their way to and from Europe and Asia.” The narrative developed that victims of war were trying to defend themselves when they stumbled upon an exploitative moneymaking opportunity.

While it is true that fishers organized to defend their fish stocks against illegal vessels in the 1990s, the narrative omits that the piracy this region is known for actually originated with prominent businessmen and politicians who entered the system by licensing foreign vessels as a method of extortion. Somali fishers became casualties in rivalries between warlords who wanted to issue fishing licenses. Vessels granted fishing rights in water controlled by one warlord were often targeted by rival groups who disputed control of the area. Hijack-for-ransom activities began in the early 2000s when international financing transformed piracy into an “industry” with an organized business model.

The relationship between organized piracy and coastal fishing communities is a complicated one that varies by the village. Some viewed the maritime space as a dangerous environment to operate in, getting caught between pirates and warships. On occasion, communities mobilized to suppress piracy. In 2008, the mayor of Eyl told the Puntland government that his village, and others, had stopped allowing pirates to dock near their towns. In another small community in Mudug, at least two people died in a conflict between villagers and pirates attempting to anchor a hijacked vessel. Residents of Eyl told the media they were tired of pirates’ dominating their town following a dispute in which the village prevented the pirates from relaunching a hijacked vessel as a mother ship, eventually forcing them to free the hostage fishers. Other communities viewed piracy as their country’s only option to protect resources and saw the pirates as Somali heroes. A 2009 survey found that 70 percent of coastal communities strongly supported piracy as a form of national defense of territorial waters. When foreign warships arrived in Somali waters, some communities voiced concern that their presence would impede the pirates’ ability to protect their natural resources. In 2015, with illegal foreign fishers once again causing overfishing and impacting Somali fishers’ incomes, some communities feared a return to piracy, while others threatened it.

Another source of the “pirates are fishers” narrative stems from pirates themselves: if arrested, pirates commonly claimed they are or once were fishers. Though not always the case, there are instances when acts of piracy can be considered fisheries conflict. Piracy is defined as “armed robbery” in attacks that occur within states’ EEZ boundaries. Armed robbery targeted at fishing vessels meets our definition for a fisheries conflict motivated by piracy. For example, the pirates who hijacked the Spanish fishing vessel Playa del Bakio in international waters used missiles and machine guns—far beyond the capacity of organized domestic fishers in the 1990s. Yet, the pirates aboard the Playa del Bakio explained to their hostages that the attack occurred because the foreigners were plundering their fishing waters. The men who hijacked the Indian dhow, M/V Safina al-Birsarat, held the crew hostage while they used the vessel as a mother ship to carry out hijackings. Once arrested, they claimed they were innocent fishers who did not understand why the US Navy had abducted them. That claim was often a cover for criminal behavior.

When coding events for this research, our project defers to court decisions. The United Nations established specialized anti-piracy courts in the Somali region and other nations, with prosecution assistance provided by the United Nations Development Programme (UNDP), the United Nations Office on Drugs and Crime (UNODC), and the United Nations Political Office for Somalia (UNPOS). In the M/V Safina al-Birsarat case, the suspects received piracy convictions.
IV. RESULTS

Three clusters of fisheries conflicts occurred: (1) during the years when informal groups of Somali fishers came in conflict with foreign fishers (1998–2000); (2) during the height of piracy in Somali waters (2007–2010); and (3) during the resurgence of foreign fishing in Somali waters (2014–2015) (Figure 1). The decline in conflict in 2012 was likely a result of the increased international maritime security presence during 2010–2011.


The primary drivers of fisheries conflict in Somali waters are the presence of foreign fishers, grounds limitations, illegal fishing, weak governance, and piracy (see Figure 2). Foreign fishing motivated approximately 80 percent of Somali FDEs. In the first conflict cluster, clashes between domestic fishers and foreign vessels over the locals’ fishing nets and catch were frequent. Following one such conflict in 1997, locals accused the foreigners of looting and fishing illegally in Somali waters and threatened they would destroy every foreign fishing vessel they saw in their area of operation (Ego Beach). This example also shows how grounds limitations can be a cause of conflict, because there are perceived limitations to access to fishing grounds, in the opinion of at least one of the actors (in this case, the local fishers). During the third and most recent conflict cluster, in 2014, the president of Puntland issued a declaration that illegal foreign fishing was a national disaster and directed the Puntland Maritime Police Force to take action to deter future foreign fishers. The examples from 1997 and 2014 illustrate the role of illegal fishing in causing conflict, as well. Fifty-seven percent of Somali FDEs involved vessels that...
Fishing dispute events received a violence score based on the intensity of the event, ranging from 1 to 3. Level 1 means the conflict remained verbal, and there was no physical action, such as when the mayor of Eyl arrived in Garowe in 2008 to criticize the Puntland government for not responding to earlier concerns about commercial vessels fishing illegally in Somali waters. Level 2 signifies mid-level intensity—some action was taken (such as an arrest or abduction), but there was no physical harm done to humans. One level 2 event in Somali waters was the seizure of two Egyptian vessels by the Somaliland Coast Guard on January 4, 2007. The boats had violated a previous agreement, failed to pay required fees, and had been in an area where fishing was banned. Level 3 involves physical harm (injury, sexual assault, or fatalities). For example, the 2008 hijacking of the Omani fishing vessel M/V Asmak 1 in which the engineer died in captivity was coded as a 3. Over half (54 percent) of fishing dispute events were assigned a violence score of 2 (see Figure 3). Approximately one-fourth (26 percent) of FDEs were verbal altercations (level 1), and 20 percent of events involved injury or death of an actor (level 3). Thirteen percent of FDEs involved at least one fatality (Figure 4).
The most common actors in Somali fisheries conflicts were foreign fishers, who were involved in one-third of Somali FDEs. Other frequent actors were security forces (police, military, resource security, and international security units), government (local, state, and federal), and pirates, who participated in 17 percent, 16 percent, and 14 percent of FDEs, respectively (Figure 5). Figure 6 shows that foreign fishers were the most common actors in conflict in 2009, the height of piracy. Domestic fishers were noticeably involved in the late 1990s and early 2000s, corresponding to the era when domestic and foreign fishers conflicted with each other. The next significant conflict cluster, from 2007 to 2010, was between pirates and foreign fishers. In order to understand which actors were commonly coming into conflict with each other, we categorized the pairs of actors in a dispute, also known as an “actor dyad” (Actor A versus Actor B) (Figure 7). Notable in this figure is the conflict between foreign fishers and resource security forces in the late 1990s. There were no formal resource security sectors, like marine park authorities or rangers, in the 1990s, so the sections representing resource security from 1998 to 2001 in Figure 6 signify the informal groups of fishers who considered themselves maritime coast guards in the absence of official government infrastructure. Figure 7 also reflects the anarchic state that existed in the Somali region for over a decade. Federal government actors did not get involved in fisheries conflict until 2007.
Because there can be more than one actor dyad in each event, this figure reflects difference total annual events compared to Figure 1 and Figure 7.
Fisheries conflict over the whole period was most intense in Puntland, although all areas of the coast showed periods of high intensity (Figure 8). Awdal and Jubbada Hoose, the administrative regions on the borders with Djibouti and Kenya, respectively, have higher conflict intensity than the other regions in their states. The Federal Republic of Somalia has disputed maritime borders with both neighboring nations. Individual fisheries dispute events (blue dots) on the map cluster around major fishing towns, such as Bosaso, Eyl, Hobyo, Mogadishu, and Kismayo. We also investigated the breakdown of conflict by federal member state, seen in Figure 9, to learn if there were any strong relationships between actors, drivers, and locations. Puntland was the most common location for conflict in each FDE cluster. Puntland has the most productive fishing grounds and is where piracy was most prevalent. Events that occurred in unknown locations were common during the height of piracy (the second cluster). Most of these events were hijackings of fishing vessels that received limited media coverage, so details were sparse. Foreign warships became much more prevalent in 2010, driving conflict in the central regions (Figure 9). These warships were stationed there to help disrupt piracy and escort foreign aid vessels to the Mogadishu port, but many reports during this time cited ongoing harassment directed toward domestic fishers operating in the same waters as the warships (see Box 5).
FIGURE 8. THE LOCATIONS OF FISHERIES CONFLICT IN THE SOMALI REGION FROM 1990 TO 2018. FDE violence captures specific conflict events. Regions are color coded by average fisheries conflict intensity on a scale of 1 to 3 over the 28 years we investigated: 1 signifies an inconvenience for fishing communities, 2 signifies a major problem for the communities, and 3 is assigned when fishers are afraid to fish.
FIGURE 9. THE FREQUENCY OF SOMALI FISHERIES DISPUTE EVENTS BY STATE, FROM 1990 TO 2018.

The administrative regions composing each state are as follows: Puntland, Central, Jubaland, Somaliland, and Southwest. Events were assigned to the regions on the modern map, regardless of dates of declared statehood - which ranged from 1991 to 2016. There were no fisheries conflict events found in the inland regions.

BOX 4. PRIVATE CONTRACTED ARMED SECURITY PERSONNEL

In response to hijackings and the kidnap-for-ransom method in Somali waters, commercial vessels began employing private contracted armed security personnel (PCASP) in 2010 to protect themselves during transit through the region. Before PCASP, the primary methods for combating piracy were naval operations and adherence to the suggested planning and operational measures for ship operators and masters as outlined in the shipping industry’s Best Management Practices for Protection against Somalia Based Piracy, Version 461 (these include ship protection measures such as installing barbed wire, water cannons, and other anti-boarding devices on vessels).

These two solutions provided moderate success, but the problem of piracy continued. As a result, flag states began allowing the use of professionally trained private security aboard commercial vessels transiting through the waters around the Horn of Africa and in the Western Indian Ocean. The first private security teams were made up of qualified protection personnel from British and American contractors. These highly effective teams became an integral factor in deterring piracy in the Gulf of Aden and the Indian Ocean. Reports like this one from March 2010 became frequent: “Armed private guards aboard two Spanish tuna trawlers, the Taraska and Ortube Barria, repelled a pirate attack approximately 100 NM southwest of the Seychelles. There was an exchange of gunfire, but no one was hurt and there was no damage.” However, this had repercussions for Somalis: fishers have feared being mistaken for pirates by freelance contractors since PCASP teams first arrived in their waters.

As targeted pirate attacks decreased, boat owners placed less value on their armed guards’ security training, and the PCASP labor pool expanded to include more inexperienced, thus cheaper, guards for hire. Though pirate attacks became less frequent, the regular use of PCASP became accepted practice by most vessels navigating high-risk waters. Today, fishing vessels interested in licensing opportunities in Somali, Nigerian, and Philippine waters are unwilling to sign fishing agreements without permission for private security. The expanded scope for PCASP combined with the decline in training increases the risk that interactions with fishers become dangerous for Somalis.
BOX 5. HARASSMENT BY INTERNATIONAL WARSHIPS

Pirates often disguised themselves as fishing crews while operating at sea (see Box 5), leading to cases of mistaken identities against real fishing vessels. Following the arrival of the international naval coalition in the Gulf of Aden and the Indian Ocean, Somali and Yemeni fishers began reporting harassment from warships. During 2007-2011, this problem was acute.

2007
- Fishers in Lower Jubba (the southern region) said American and French ships chased them and tore their nets.63
- Fishing families left coastal areas for fear of being caught between authorities and “those aiding pirates.” Local fishers stopped taking their boats on the water because they were afraid of being targeted by warships.64
- Somali and Yemeni fishers were afraid to fish far from the coast because marine forces arrested them and accused them of piracy.65
- Approximately 75 miles off the coast of Yemen, an Indian naval vessel approached a Yemeni fishing vessel and forced all fishers to hand over their weapons and jump into the sea. Though the fishers said they did not have any weapons, they were forced to tread water for two hours before they could climb back on board. All of their fish spoiled.66
- The French Navy stopped and questioned three fishing boats off the coast of Bari (Puntland). The French forces opened fire on the fishers, killing two men and injuring four.67
- Foreign navy warships were accused of paralyzing the coastal fishing sector and causing panic among residents.68
- Fishers in Puntland complained of harassment by foreign warships.69
- The Al Shabaab Lower Shabelle governor, Sheikh Muhammed Adballah, issued a warning to warships in Lower Shabelle (the state south of Mogadishu) waters that a special unit of fighters was mobilized to fire on warplanes and ships that harass local fishers.70
- A Russian helicopter fired at Yemeni fishers in seven boats near Qusay’ir Village (Yemen) and forced them to board the Russian destroyer RFN Marshal Shaposhnikov. The fishers were robbed of their boats, money, identification, GPS units, and clothes and sent back to shore on a single boat.71
- Members of an Indian Navy warship stopped a crew of 17 Yemeni fishers, boarded their vessel, beat 11 men, and forced 2 men to jump into shark-infested waters.72
- Yemeni fishers held a sit-in demonstration demanding the countries that destroyed their boats pay them restitution. They argued warship abuse cost them YER 30 million in damages from searches and seizures and the forces in the region are often as dangerous as the pirates themselves.73
- AMISOM (African Union’s Mission in Somalia) troops blocked fishers in Banaadir (Mogadishu) from going into the high seas by chasing and shooting at them. At least one local fisher was killed.74
- Fishers in Bari Region (Puntland) said the foreign warships sometimes deliberately ran over their fishing nets, aimed hot water at them, and sometimes arrested them over suspicions of piracy.75
- AMISOM troops denied fishers permission to fish along Mogadishu’s coast.76
- Fishers in Kismayo (the southern region) said that warships destroyed a number of their fishing nets and forced them not to fish.77
- NATO forces killed at least three Somali fishers and injured three others in an airstrike in Hobyo (the central region). The fishers complained that warplanes taking off from foreign ships often target their fishing boats.78
- Residents from Kudha and Raskamboni (the southern region) stopped fishing in areas near Kismayo out of fear and concern for their safety. Kenyan planes and other warships sunk a number of fishing boats.79
- Kenyan warships killed up to 20 Kismayo fishers.80
V. CONCLUSIONS

In the Somali region, fisheries conflict has emerged from unmanaged competition for access to fish stocks. While these events are reported more frequently in later years of our study (e.g., after 2005), there is not a clear increase in conflict events. Rather, fisheries conflict has clustered, in time, around distinct periods of foreign fishing and has been exacerbated by institutional instability. First, foreign fishing in the late 1990s resulted in conflict with domestic fishing vessels and a response by Somali fishers. Second, pirate attacks against foreign fishing vessels occurred during the mid-2000s, during the height of piracy, and resulted in the deployment of international warships. Third, in the past few years, conflict between domestic fishers and foreign vessels has resumed, and the government has responded with institutional reforms to reduce illegal fishing. The presence of foreign vessels, illegal fishing, and unclear maritime boundaries are the three primary causes of conflict in the Somali region. But in contrast to the primary drivers of fisheries conflict in Tanzania, this research shows that Somali fisheries conflict is aggravated more by institutional instability than by the health of fish stocks. And despite the attention from the media, piracy contributed to conflict less often than weak governance institutions over the past three decades.

Historically, weak fisheries governance in the Somali region has manifested as an absence of fisheries laws and regulations, poor data collection, low stakeholder participation, lack of fisheries infrastructure, and shortage of trained personnel. Our findings show this institutional instability, especially during the 1990s and 2000s, placed subsistence fishers in defensive positions without a trusted system of protections for them or the resource on which they depend. Decades of limited governance and accountability have left Somali fishing communities hesitant to rely on formal mechanisms for management. But community trust can be built when management is effective, when the distribution of benefits and sacrifices is fair, when the judicial process is efficient, and when authorities can actively enforce laws and regulations. While significant progress has been made (see below), fishing communities can be better integrated into this progress.

In Somali waters, unclear or changing maritime boundaries, overlapping jurisdiction of fisheries ministries (state versus federal), and decentralized authority among the states have made it difficult for resource users to distinguish illegal from legal fishing. From the shore or from artisanal fishing boats, Somalis have been unable to tell if a foreign vessel is properly licensed. Insufficient enforcement capacity (low surveillance, regulatory compliance, probability of detection, and severity of penalties) has enabled illicit foreign fishing in Somali waters. In the 1990s, there were 200 illegal foreign vessels fishing along the Somali coastline, some of them using prohibited methods like trawling, which destroys marine habitats. By 2005, there were approximately 700 illegal foreign vessels. The visibility of these vessels has contributed to mistrust and anger at the presence of foreign vessels in Somali waters.

But fisheries governance in the Somali region has shown changes for the better, and continued progress toward effective management and oversight can build a more stable and secure maritime and fishing environment. In the past five years, governance of Somali waters has taken important steps. The formal declaration of EEZ boundaries in 2014—while disputed by neighboring countries—
signaled to foreign fleets that the Federal Republic of Somalia is claiming domain over internationally recognized boundaries. Also in 2014, the Somali government joined the Indian Ocean Tuna Commission (IOTC), taking on the voluntary role for monitoring and reporting catch of commercially important HMS in its waters. That same year, the Federal Government of Somalia updated its national fisheries law, outlining clearer laws for fishing by both domestic and foreign fishing vessels.

More recently, the federal member states and the Federal Government of Somalia have been cooperating on mechanisms for collecting data and managing fisheries resources. Efforts to train fisheries officers, collect and analyze fisheries data, and work with local communities on mechanisms of fisheries cooperative management have attracted the attention of the international community. The creation of a formal mechanism for issuing legal licenses to foreign fishing boats—specifically, those longline and purse seine vessels targeting HMS and in compliance with IOTC mandates—can reduce confusion over what vessels are fishing legally. It also facilitates data collection by requiring logbook entries from licensed vessels. While licensing does not alleviate concerns of local communities about overfishing or competition with industrial vessels, this is an important first step in creating functional maritime domain awareness needed to reduce fisheries conflict in Somali waters. Finally, partnerships between the government and fishing communities are also growing through joint workshops, the biannual Somalia Fisheries Forum, and new initiatives on local data collection.

These growing partnerships are important for building trust in fishing communities. Compliance by fishers with laws and regulations stems from trust in the governing body. Consequently, including fishers themselves in the management process encourages effective compliance with laws governing domestic fishing. Cooperative management (also known as co-management) presents an opportunity to build both management capacity and government legitimacy because it is a community-driven fisheries management partnership between the government and resource users. Co-management provides an effective governance structure for conflict resolution and community decision-making. While co-management does not regulate foreign fishing, partnership between resource users and government can support information sharing and coordinated enforcement against illegal fishing. Fishers can bring concerns regarding illegal fishing to government authorities, rather than taking matters into their own hands.

Once issues of weak governance are improved, fisheries conflict may still result from declining fish stocks. The nets of illegal trawlers in Somali waters have entangled turtles and dolphins and destroyed sensitive habitats. The lack of data collection means the health of fish stocks in Somali waters is highly speculative. There are anecdotal reports that fishers have faced declining yields, suggesting fish stocks are declining. More research and data collection are needed to better understand and address these risks. Additionally, the adverse effects of unbridled IUU fishing have created both the perception and the reality of declining fish stocks. The perception of decline in fish stocks generates frustration and concern about sustainability. Lacking effective enforcement against IUU fishing, this also erodes trust in the government. And a real decline in fish stocks has implications for resiliency of Somali fishing communities. In 2017, for example, the town of Bendar Beyla, which had traditionally relied on livestock and fishing, had to rely exclusively on the fishery due to a drought that increased food and water prices. If fish stocks decline, even in the face of improved governance and a future with fewer illegal foreign vessels, fisheries conflict will remain a possibility.

The Somali fisheries sector would benefit from data collection, community input to management systems, and strong government support for resource sustainability.
Enhanced fisheries management measures can help prevent fisheries conflict and support institutional capacity in the Somali region. In particular, the Somali fisheries sector would benefit from data collection, community input to management systems, and strong government support for resource sustainability. In conflict and post-conflict zones like the Somali region, addressing domestic instability takes priority over issues of long-term ecological sustainability. But once the security context stabilizes, the Somali region will face threats to community resilience from overfishing and resource depletion, just like most other fishing nations around the world. Recognizing this threat, the Somali region has the opportunity to prevent the kinds of fisheries conflict driven by competition over finite marine resources by implementing cohesive, sustainable management practices before stocks are overfished.
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One Earth Future (OEF) is a self-funded, private operating foundation seeking to create a more peaceful world through collaborative, data-driven initiatives. OEF focuses on enhancing maritime cooperation, creating sustainable jobs in fragile economies, and research which actively contributes to thought leadership on global issues. As an operating foundation, OEF provides strategic, financial, and administrative support allowing its programs to focus deeply on complex problems and to create constructive alternatives to violent conflict.

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Annex 151

“Causes of maritime piracy in Somalia waters”, Marine Insight, 20 May 2018
Causes of Maritime Piracy in Somalia Waters

By Raunek I In: Maritime Piracy I Last Updated on October 13, 2019

Somalis over the years have lived under the most trying circumstances imaginable, facing acute poverty, lawlessness and anarchy. Of course, there have been a lucky few who had defected from their homeland and escaped the rigors of the civil war.

However, so far, no one has paid any heed or notice to what has transpired over the years at Somalia except for a few journalists and international aid workers. Hence, what exactly is the root cause of radicalism in Somalia? There has always been a correlation between poverty, the vicious cycle of violence and anarchy, and the same reasons make Somalia water as one of the most badly affected maritime piracy areas.

Finding the Root Cause

The inhabitants of Somalia are mostly Sunni Muslims. Those who did not defect to other lands had to endure destitution, prolonged drought, and desertification and soil erosion. Many Somalis are nomads who eek out their meager livelihood from their flocks, but natural disasters have wiped out humongous portions of their livestock, leaving them stranded with no alternative income to support their families. A tiny percentage of the population who are farmers had to witness the decrease of their yield of crops due to soil erosion, lack of fertilizers and instability.
The income gap between the minority elite and the poor have widened tremendously. In Somalia, they have the freest liberated open market economy in the world, with no central bank to control money supply, set interest rates or control inflation. Economic policies are balanced by demand and supply. Those who have ideas and resources galore are thriving entrepreneurs minting tax free profits, while the majority can hardly make both ends meet. The remittance from the Somali Dias pore Community and aid from international humanitarian organizations keep the economy going.

**Somali Sea Coast and the Business of Piracy**

Somalia has the longest coast in Africa but Somalis have never exploited the potential of their seas for various reasons. Those who had ventured out to sea were out muscled by illegal foreign fishing trawlers and they depleted the stock of fish in these territorial waters and polluted it by dumping nuclear and toxic wastes. Adversity prompted the Somalis to test new ways of making money and former fishermen joined hands with the militia and unemployed youth to hijack vessels and demand ransom. This was the start of piracy in Somalia.

These pirates of Somalia transformed this into a sophisticated business venture that makes use of modern technology and global positioning devices to track their next prey. The piracy in Somalia is a major threat to the busiest shipping lines in the world but even though super powers have joined hands to put an end to this piracy, it is a daunting task since the territorial waters are too huge to police. It is an indicator of the limitation of conventional war machine against the threats of this century.

**Irresponsible Government, Unattended People, and Eradicating Piracy**

Somalia has not had an effective central government for almost two decades now. The weak government is battling with insurgency to secure the capital and is preoccupied with internal wars and foreign lands waging a proxy war. The pirates in Somalia handle the most effective institutions in the country. They reinvest the ransom money procured from hijacking and piracy to plan out their next move. They effectively out muscle the regional government and offer a glimmer of hope to the unemployed youth of Somalia. The international community has a huge moral responsibility to find a lasting solution to the piracy in Somalia. Steps should be taken to restore authority, credibility of the central government and think of ways to create alternative employment for the youngsters through non government organizations, UN agencies, regional and local administration. The pirates of Somalia can be retrained, registered and given employment as coast guards to protect Somalia territorial waters from illegal foreign fishing trawlers. Others can be provided with fishing equipment and given preferential market access where they can sell their catch. This will help in boosting the income and prosperity of the local economy. If the root cause of this piracy is not tackled very soon, Somalia will become a country of pirates and a radical state. Radicalism cannot be rooted out by military force but the hearts and minds of the youngsters should be won by educating them, providing them a source of income and making them a part of the main stream society.
Somalia by paying them handsomely for aiding them in piracy. Piracy in Somalia is expected to grow drastically in the years to come.

Image Credits: ukchamberofshipping.com

The international community has a huge moral responsibility to find a lasting solution to the piracy in Somalia. Steps should be taken to restore authority, credibility of the central government and think of ways to create alternative employment for the youngsters through non government organizations, UN agencies, regional and local administration. The pirates of Somalia can be retrained, registered and given employment as coast guards to protect Somalia territorial waters from illegal foreign fishing trawlers. Others can be provided with fishing equipment and given preferential market access where they can sell their catch. This will help in boosting the income and prosperity of the local economy.

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About Raunek

Raunek Kantharia is a marine engineer turned maritime writer and professional blogger. After a brief stint at the sea, he founded Marine Insight in 2010. Apart from managing Marine Insight, he also writes for a number of maritime magazines and websites.
Annex 152

“Somali fishermen struggle to compete with foreign vessels”, *VOA News*, 20 May 2018
Each morning, fishermen in the northern Somali port city of Bosaso pull in their catch of tuna, marlin, and more.

The waters off northern Somalia are some of the richest in Africa. As businessmen and women on the beach haggle over the shining piles of fresh fish, the daily catch looks like a rich haul.

But all is not well here for local fishermen. Many of them complain about larger, foreign boats that enter Somali waters, outfishing the locals.

WATCH: Somali Fishermen Struggle to Compete with Foreign Vessels
“Now there is illegal fishing, fish stealing, and so on,” explains boat captain Mohammed Elias Abdiqadir. He said such foreign fishing boats come from Iran, while others in Bosaso accused Yemenis of fishing in Somali waters.

"We don’t have a powerful government who can stop these illegal fishermen who are creating problems," said Abdiqadir.

Foreign boats in Somali waters have been a problem for years. Some of them operate with no license at all. Others buy permits from Somali authorities, though at times under questionable circumstances.

From protectors to pirates

A decade ago, Somali fishermen took up arms against the foreign boats, hoping to retake their waters from outsiders, but some of the Somali vigilantes then became pirates, hijacking commercial vessels plying the waters off the Horn of Africa.

At one point, pirate gangs were seizing more than 40 vessels per year and holding hundreds of sailors hostage for ransom.
An international naval effort has mostly stamped out the pirate menace, and Somalia has started to build fledgling local navies, including the Puntland Maritime Police Force, which patrols the waters off Bosaso.

But neither has managed to rid the area of foreign boats.

Abdiqani says part of the problem is that the foreign vessels are larger and have better technology than the local crafts, which are mostly small, fiberglass skiffs.

“They fish in the deep ocean, and they have long nets and better tools than us,” he said.

Until the foreign boats are completely gone, many experts say the threat of a return of piracy will remain, as out-of-work young men seek economic opportunities in criminality.

Last year, for instance, pirates launched a string of attacks on commercial vessels off Puntland's long coastline.

Puntland Maritime Police Force on patrol off the coast of Bossaso in northern Somalia in late March, 2018. The PMPF has been tasked with fighting piracy, illegal fishing, and other criminal activity. (J. Patinkin/VOA)

Somalia's fledgling fish industry

But the challenges for Somalia's fishing industry do not only lie offshore.

Fishermen use old fishing technology. Bosaso's port needs more modern facilities to prepare fish in a sanitary environment to export. And there's yet to be a strong supply chain for exporting Somali fish abroad.
But a new program by the United Nations Food and Agriculture Organization hopes to give these parts of Somalia's fledgling fishing industry a boost.

On the outskirts of Bosaso, women have been trained to process fish meat into a dried fish product to be sold in inland Somalia.

The women, dressed in bright yellow aprons, work on sanitary tables, where they butcher fresh fish steaks and slice them into fine strips to dry.

Despite attracting flies, the bright sun naturally cures and disinfects the flesh.

All the fish the women process have been caught by local youth, who themselves were trained by the FAO in deep-sea fishing techniques, and given larger, better-equipped boats that can reach the most profitable species.

The women receive payment, and also get to take home fresh fish each day to feed their families. They also can stay near home to work, instead of searching for employment in the center of Bosaso town.

Women slice fresh fish in thin strips to dry for eventual sale as part of a Food and Agriculture Organization program to boost Somalia's fishing industry, in late March 2018. (J. Patinkin/VOA)

“This job works for me fine, because my home is here," explains Daawo Sheikh Mahamoud, who recently started working at the fish processing station. "Before, my kids were neglected and neighbors used to care for them for me, but now I can take care of them while doing the work in the morning."
Michael Savins, an Australian fisheries and boatbuilding expert who designed the program, says it employs more than 100 people, including fishermen at sea and processors on land. He hopes the number will increase to 500 by the end of this year.

The idea, he explains, is to employ local Somalis throughout the entire value chain, and eventually start selling Somali fish internationally.

"There would be nothing better than the youth from the community catching the fish with good handling and good quality and so forth on board, and landing those fish back into their community for processing," Savins explained. "Then we'd have a really good benefit, a real holistic approach, for each community, self sustained you might say, with capture, processing, and marketing."

While Somalia struggles to take control of its waters, programs like this one could help keep Somali youth from going back to piracy.

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**Somali Forces Shoot and Kill Iranian Sailor in Indian Ocean**

Somali regional officials say the Iranian captain of a fishing boat was killed and another sailor was injured after security forces opened fire during an operation in the Indian Ocean. Officials said the shooting occurred after Puntland Maritime Police Forces spotted two
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“Kenya targets ‘fish thieves’ with new coastguard”, *CGTN Africa*, 20 November 2018
Kenya targets ‘fish thieves’ with new coastguard

By Dinah Matengo  - November 20, 2018

Kenya’s President Uhuru Kenyatta has launched the country’s first coastguard to protect and monitor its territorial waters. The new government service will guard against illegal fishing, which according to President Kenyatta, costs Kenya $100 million every year, trafficking.

At the event, Mr. Kenyatta said foreign vessels trawling Kenyan waters were a major concern. He later tweeted about the need to guard against foreign vessels who “steal our fish”.

Many African countries complain that foreign trawlers come into their waters and steal their fish.

President Uhuru Kenyatta commissioned marine craft MV KSGS Doria in Mombasa. During the launch and commissioning, he said the new vessel was a fulfillment of his administration in recovering Kenya’s lost dream in protecting its vast resource potential in its ocean waters.

Until now, Kenya’s maritime security depended solely on the Navy. Authorities say it will now be free to focus on security and military affairs.

The Kenyan Navy has often undertaken joint anti-drug operations with other security forces in the coastal city of Mombasa. In 2014 on President Kenyatta’s orders, it destroyed a ship alleged to have been carrying illegal drugs worth $12.6m (£9.8m).

The coast guard will also patrol and secure territorial waters against drug smuggling and piracy.

Piracy off the coast of Somalia, usually for ransom, reached its peak in 2011 but has reduced significantly in recent years, in part because of extensive international military patrols as well as support for local fishing communities.

Some Somali fishermen turned to piracy after their livelihoods were destroyed by illegal fishing from foreign trawlers, who benefited from the lack of a functioning coastguard in Somalia following years of
conflict.

This new force launches with plenty of optimism, but just one boat. That’s hardly enough to patrol Kenya’s coastline which stretches over 621 miles (1,000km).

And there’s Lake Victoria, where Kenyan fishermen have long complained of harassment from Ugandan forces on contested waters.

To succeed where the maritime police failed, the Kenya Coast Guard will need political backing and resources.
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Somali Perspectives on Piracy and Illegal Fishing

Discussions of Somali piracy typically have focused on how piracy has affected the international community, but have rarely incorporated the local perspective. OBP conducted a series of interviews along the Somali coast in order to give a voice to residents’ attitudes towards piracy, and bring to light local perceptions of the current situation, including in traditional piracy hotspots.

Summary

Essential findings from interviews with Somalis living near the coast were as follows:

- Lack of economic opportunity was identified as the principal driver of pirate recruitment
- Illegal fishing by foreign vessels was characterized as the fundamental grievance that sparked piracy and provides ongoing justification for it
- Locals resent the international navies, believing they are in Somali waters specifically to protect illegal foreign fishing
- Attitudes towards naval forces are much more positive in areas where they have established direct, cooperative relationships with coastal communities
- There is widespread agreement that without changes to the underlying conditions, piracy will return

Background

The rise of piracy off the coast of Somalia captured the world’s attention in 2010. Years later, the origins, drivers, current threat and future outlook of Somali piracy remain disputed. Furthermore, the discussion has generally not included the perspective of Somalis themselves. This is an important gap: not only do locals have a unique vantage point to assess the situation, no one else can speak with authority to the motivations of those who turned pirate, or might do so someday.

In order to begin filling this gap, OBP and its partners surveyed coastal residents. Most interviews were conducted by an OBP partner in the state of Galmudug—the historical center of Somali piracy, the area from which most remaining pirate groups deploy, and where piracy hostages are still held.
Participants were drawn from community leaders, women's groups, government, youth groups, business associations, and local fishers.

Current State of Piracy

“I don’t think pirates can re-organize themselves for the time being to capture ships”.

Maryan, Community Chairlady

All those interviewed agree that pirate activity has greatly diminished since its peak. Pirate groups have been displaced from many communities and forced into small patches of territory, for which the Somalis interviewed credit international navies and community pressure. Most, though not all, respondents feel that pirates are currently incapable of hijacking and holding hostage commercial vessels.

Drivers

Some questions can be meaningfully answered only from a local perspective. What are the drivers of piracy? Why do youths become pirates?

Without exception, every respondent specifically cited one or more of the following: unemployment, lack of education, poverty, and hunger. Notably, all reasons given were exclusively economic in nature; ideological, nationalistic, or clan-based concerns were never mentioned. According to those interviewed, piracy is strictly a response to a lack of economic opportunity.

Illegal Fishing

One additional, overriding driver of piracy was pointed to by every single respondent, and generally characterized as the fundamental grievance: illegal fishing. The perceived impact of illegal fishing can hardly be overstated, and the topic dominated responses in a large majority of interviews.

“Illegal fishing and extreme poverty are the main factors that made fishermen and youths get involved in piracy as an alternative way of getting their daily bread.”

Nor, Fisher

According to coastal residents, extensive illegal fishing inflicts damage in several ways. Most obviously, “foreign trawlers” directly compete for fish with local communities, including those where fishing is the traditional, and only, livelihood. Depleted stocks may deny locals not only scarce income, but food.

“Last night 20 families in Lebed did not have dinner. Their livelihood depends on fishing and they will not find in the sea what they put in it. The Lebed community is not in a position to take action against [the foreign trawlers].”

Nor, Fisher

The trawlers not only compete with locals for catch within fisheries, but seek to deny them access outright, with aggressive, armed guards serving as a powerful deterrent. Locals generally cannot identify the originating states of the foreign fishing vessels or the nationalities of their crews, because it is too dangerous to approach them on the water. This prevents residents from fishing in areas where trawlers are operating, which may be the richest fishing grounds.

“Lot of the illegal fishing, they have a gun...I asked some fishers [what country the illegal trawlers come from]. They say, we didn’t come near to them. We have to be far away.”

Abdi, Development Worker

These fears are grounded in tales of trawlers confronting local fishing vessels without provocation, endangering fishers and destroying their equipment. The most commonly reported form of this was trawlers stealing or cutting locals’ fishing nets. Aside from the physical danger, the economic impact is significant: replacing a single net might cost a fisher a month’s income or more, and some report having several nets destroyed in a single encounter.

“There is a lot of attacking [of] small boats. And sometimes they destroy also nets, fishing nets.”

“I talk to communities there, they say, “We don’t know what we can do.” They are hopelessly. Can see ships illegally fishing, and sometimes they say, every day they destroys, destroy our net. They don’t, they don’t care. And trash our community.”

Abdi, Development Worker

There is little doubt amongst Somalis that conflicts like these provided the original impetus for what became the piracy phenomenon. In the local telling, illegal fishing, and the economic damage it inflicted, left traditional fishing communities so angered and impoverished that they began attacking the illegal
fishing vessels, acting as a sort of militia coast guard. However, criminal gangs subsequently saw the profit potential and started hijacking more valuable commercial ships unconnected to illegal fishing.

"Hunger, unemployment, and illegal fishing are the main factors which made our youth get involved in piracy. The only job they have is fishing and their fishing nets were destroyed or taken by trawlers. That is why most of the fishermen turned into pirates."

Ali, Fisher

"The main factor that made them get involved in piracy was that their fishing equipment was destroyed or taken away by the trawlers. Initially [piracy] was a popular uprising against illegal fishing, but later it was taken over by gangs who changed the whole course."

Mahdi, Government Official

International Navies

On the basis of such stories of abuse and attacks, coastal residents express resentment and hostility towards illegal fishing vessels—and this resentment often extends to the international community's most visible presence along the coast, the warships deployed on counter-piracy operations. Most respondents expressed the belief that the international naval forces are in Somali waters specifically to protect foreign trawlers.

"I see the international navies have a hidden agenda, which is to support those looting our resources."

Yusuf, Fisher

"The international navies in our sea are there for their interest. They say we are guarding your sea, but the reality is they are engaged in the exploitation of our resources in the sea. They are protecting those trawlers in our sea. If we decided to act against those, they would defend them."

Qamar, Midwife

This is not to say that Somalis do not recognize the effectiveness of the navies in halting piracy—a development for which many respondents expressed approval or gratitude. However, the very success of international navies against piracy increases resentment against ongoing illegal fishing.

"They apprehend pirates and hand them over to foreign countries for trial. We are very satisfied that they arrested pirates, but why don't they apprehend those doing illegal fishing in our sea?"

Nor, Fisher

"They capture pirates but they don't capture those taking or destroying our fishing nets. When fishing season comes, you can see tens of the trawlers are in our sea taking our marine resources and no one will help us against them."

Yusuf, Fisher

Sentiments towards the international navies were not universally or exclusively negative. Attitudes were much more positive or nuanced in those areas where interactions between naval forces and local communities extended beyond counter-piracy, and perceived protection of trawlers. Conducting trainings, providing medical care, donating practical items like outboard motors, and other such activities help counter the perception that the navies are there to hurt rather than help Somalia.

"As the Hobyo community, we have a good relationship with the international navies, particularly those from Denmark. We call them if we receive information that pirates are heading to Hobyo. When pirates see that international navy helicopters are patrolling around Hobyo they go back to Elhur. They also provided medical check-ups to 100 Hobyo residents."

Sharif, Businessman

"I have been cooperating with the international navies, particularly those from Denmark, for the past three years. Because of the relation we have with them, piracy on the ground was weakened and they left Hobyo to Elhur coastal village and Hararhere district, which is under Alshabab control. It would be very good if their mandate included illegal fishing and toxic dumping."

Mohamud, Government Official

Outlook

A central question, for both Somalis and the international community, is of course: what is the future of piracy in Somalia? On the one hand, everyone agrees that piracy against large merchant vessels has been suppressed. The naval forces, with both ships and helicopters, simply make operations too difficult. On the other hand, though, there is equally widespread agreement that without changes in the underlying conditions—most importantly rampant illegal fishing—piracy will return. The only item for debate is whether that resurgence will wait for the departure of the navies.

"Pirates may reorganize themselves if poverty and illegal fishing are not addressed."

Qamar, Midwife

"They are now in hibernation, but they may re-organize themselves for two reasons. The first is widespread unemployment among youth in the coastal areas. The second is the IUU fishing in the coastal area, which has made life difficult for those who depend on fishing."

Mahdi, Government Official
"I don't think they can re-organize themselves for the time being as long as the international navies are present in our sea."

Ali, Fisher

"When piracy was in its highest in 2012, the IUU fishing was the lowest and that time our fishermen were getting their enough daily catch, but now, the piracy is its lowest and the IUU fishing is its highest, and our fishermen don't get any fish because the trawlers take or destroy their fishing nets. That is why they are on the verge of another popular uprising against the trawlers, which may again turn into piracy."

Mahdi, Government Official

Solutions

All respondents emphasized that piracy can only be eliminated permanently by addressing its root causes through development projects—an economic solution to an economic problem. Highlighting again the economic importance of fishing specifically and productive employment opportunities more generally, respondents in coastal areas consistently requested or recommended the provision of fishing boats, gear, and associated equipment like freezer and dock facilities.

"Coastal communities should receive development projects aimed at improving their living conditions such as boats, fishing equipments, freezers, basic education, and vocational trainings."

Mohamed, Former Government Official

"The international community should provide development projects to promote their living standard and deter youth from piracy."

Sharif, Businessman

Conclusion

Across many interviews, respondents paint a remarkably consistent picture. The piracy phenomenon began as an armed response to illegal fishing. This "popular uprising" was subsequently hijacked by criminal gangs interested strictly in profit, who attacked other, unrelated vessels. Nonetheless, so long as illegal fishing persists and curtails already-scarce economic opportunities, particularly employment for coastal youths, the potential for piracy will remain. International navies have been effective at treating the symptoms, by making pirate operations untenable, but can be maintained only at great cost and do nothing to address the underlying condition. Somali piracy has been suppressed, not solved.

Ominously, so long as this remains the case, a resurgence of piracy off the coast of Somalia cannot be ruled out—and indeed is seen as an inevitability by many locals.

"I believe the international navies represent a temporary solution for the piracy problem. The international community spent billions of dollars in the sea while they did not spend one dollar on the ground to address the root causes of the piracy which are poverty, unemployment, and illegal fishing. I'm sure piracy will come again if they leave."

Mohamed, Former Government Official
Interviews were conducted in Somali or English. Responses given in Somali have been translated, while those in English—not the respondents’ native language—are transcribed exactly.

What respondents describe as “illegal fishing” might be better characterized as IUU fishing—that is, illegal, unreported, or unregulated fishing. The uncertainty of the regulatory situation and applicable legal regime in the various Somali regions and the EEZ undeniably blurs the lines between these categories. However, for clarity this article adopts the terminology of those interviewed. Whether they are technically correct about the legal status of a given fishing boat (for example, some vessels may in fact possess a license to fish, but obtained it from an issuer whose licensing authority is questionable), the perception of illegality by Somalis is unambiguous.

While trawlers are in fact only one particular type of fishing vessel, the term was commonly used in interviews to describe any large, industrial fishing ship; that colloquial rather than technical usage is maintained here.

Respondents indicated that an individual fisher can earn approximately $200 to $400 per month—when the fishing is good—while a single net reportedly costs $270 to $370, depending on quality.

Top image - Somali Dhow in harbor. Photo by Jean-Pierre Larroque / One Earth Future Foundation
“Somalia threatened by illegal fishermen after west chases away pirates”, The Guardian, 31 October 2015
Somalia threatened by illegal fishermen after west chases away pirates

Flotillas from Yemen, Iran and South Korea are breaching international maritime law and plundering the country’s rich fishing grounds

Catrina Stewart in Eyl

Sat 31 Oct 2015 23.30 GMT
Five years ago, the isolated outpost of Eyl was Somalia’s most notorious pirate lair. Perched above the crashing waves of the Indian Ocean, the ramshackle town played host to wheeling and dealing pirate kingpins who would roar through the rutted streets in tinted 4x4s as captured ships languished in the shallow waters.

Eyl had become a byword for everything that was wrong with Somalia: a place of anarchy where a civil war and two decades of fighting had destroyed even the most basic institutions of a functioning state, a place where the gun and ransom dollars ruled. The lawless and deadly mayhem was captured in the 2012 film *A Hijacking* in which a Danish freight vessel was captured by pirates and its captain murdered.

Pirate-hunting western warships belatedly dispatched to the region as part of Nato, US and European Union forces to pacify the pirates and end the hijacking and hostage-taking of western ships and their crews, seem to have won the battle.

Five years later, Eyl is a very different place. The pirates have gone, leaving the outpost to its fate. As with pretty much everywhere else in Somalia, there is an air of neglect with its historic buildings in disrepair. A tiny fort on the beach serves as a reminder that Eyl was once famous for something else - Sayyid Mohammed Abdullah Hassan, the revered 19th-century jihadi and national poet, better known to British forces fighting him in the early 20th century as the Mad Mullah.

Unfortunately for the local population, as the pirates have departed, other aggressors have returned. While the world has shifted its attention elsewhere, marauding flotillas from countries such as Yemen, Iran and South Korea - in flagrant breach of international maritime law - have begun to plunder Somalia’s rich fishing grounds, plunging the local fishermen who hold up the town’s economy into financial ruin.
Overfishing, which devastated the livelihoods of coastal communities a decade ago, is regarded as the principal reason for the initial outbreak of piracy. The waters off Somalia’s 1,880-mile coastline are among the richest fishing grounds in the world, teeming with shark, tuna, sardines, snapper and lobster. The illegal fishermen, their rusty tubs flying flags of convenience and protected by armed Somali brigands from further up the coast, chase off local fishermen who come too close - ramming their boats, shooting at them or sabotaging their gear. It’s a deadly fight that has raged largely unseen and unreported.

Among fishermen on Eyl’s sweeping beach, the mood towards the foreign fishing fleets is bitter. Musa Mahamoud, a lithe and fit-looking 55-year-old, points to the latest provocation - his fishing nets, slashed at sea.

Many Somalis want Nato and EU frigates to do more to tackle the illegal fishermen in the absence of any Somali capability to do so. While the Gulf-funded Puntland Maritime Police Force, based in Bosaso, has notched up some successes against unlicensed boats in the Red Sea, an Eyl detachment is still awaiting speedboats.

“Nato came because of the piracy, but the cause of piracy is the illegal fishing,” says Wa’is, the Eyl official. “If Nato can chase away the pirates, then why not the illegal fishermen?”

It is a view echoed by Abdullahi Jama Saleh, Puntland’s counter-piracy minister, who accuses the west of having “a mandate to catch the little thief, but not the big one”.

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For Mahamoud, it is just a small step back to the life he used to lead, sourcing resources and weapons for the pirates. Both the Nato and EU mandates expire at the end of 2016, and western officials say member states are applying pressure to redeploy the warships to the Mediterranean and elsewhere. “If Nato goes, we will attack them,” says Mahamoud, eyes blazing as he rails against the western warships seen to be protecting the illegal fishermen. “We will kill and be killed.”

Somalia’s modern-day piracy began when impoverished fishermen extorted money from unlicensed foreign fishing vessels. It evolved into a multimillion dollar criminal enterprise that at its height saw a $9.5m ransom paid for the release of the South Korean tanker, Samho Dream. In early 2011, pirates were holding more than 700 captives.

“When things got out of hand, anyone would go anywhere,” says Asha Abdikarim, who runs a small hotel on Eyl’s shore. “A foreign vessel was a foreign vessel.” She, for one, is thankful that the pirates left. “There were very heavily armed, there was lots of shooting, lots of qat [a mild narcotic],” she recalls. “We had no peace.”

Now, says Faisal Wa’is, a frustrated Eyl official, nothing has changed. “We are back to square one,” he says. “The illegal fishermen are back, and … I am afraid that piracy may come back.”
“Illegal fishing is gouging from the nascent Somali economy a source of revenue that could help build much-needed infrastructure, provide healthcare and education to those who go without, and restore arid lands to grazing pastures,” says Degan Ali, executive director of Adeso, an African NGO working with coastal communities in Somalia.

While the international donors have attempted to develop Somalia’s fisheries industry, which has the potential to be a huge coastal employer, navigating the myriad vested interests has sunk even the most localised of projects. A UN-funded ice plant in Eyl, enabling fishermen to freeze their catch for export, has lain idle for more than a year since construction was completed amid wrangling over who should control it.

The pirates still attract broad sympathy in Somalia. Those caught were tried in foreign lands and later repatriated to Somalia to serve terms ranging from two to 24 years. But most of those incarcerated in Puntland’s prisons in Bosaso and Garowe are the foot soldiers. The pirate kingpins are still at large, easily able to elude the weak authorities that are believed to have benefited from the trade.

In March, pirates seized two Iranian dhows off central Somalia – one later escaped – and a UN report last month named notorious pirate Mohamed Osman Mohamed “Gafanje” as the mastermind behind the attack.

“The thing people forget is that the pirates haven’t gone away, they are still holding 50 hostages, most of those victims from illegal fishing boats,” says John Steed from Ocean Beyond Piracy. “They could easily go back to taking vessels again.”

Whether the threat is enough to convince the west to continue bearing the cost of a substantial naval presence in the Indian Ocean is far from clear. A hasty departure could make the situation worse. Saleh, the counter-piracy minister, says Somalis know that the penalties would be severe if caught. “They will be more lethal this time,” he says. “They know there is no mercy for them. Before they were after money, now it’s a matter of survival. It’s do or die.”

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Annex 156

“Somalia: when illegal fishing threatens national and regional economy”, *Ressources Magazine*, July 2020
Somalia: When illegal fishing threatens national and regional economy

par ÉLODIE VERMEIL

The stakes: to understand, through data assessed for the first time, how the phenomenon of illegal fishing destabilizes the country and the sub-region, and the need to put in place strong enough maritime regulations to counter this phenomenon.

Estimated at USD 300 million according to official figures, the annual losses caused by illegal fishing in Somalia are almost double the annual earnings from this potentially lucrative sector (USD 135 million, or about 2% of the national GDP). An alarming situation aggravated by the chronic instability of the country, which deprives thousands of Somalis of a crucial livelihood.

Official State data indicate that in recent years, more than 1,000 foreign vessels have reportedly entered Somalia’s exclusive economic zone and engaged in unreported and unregulated fishing. An alarming observation that the investigation carried out jointly by the NGOs Global Fishing Watch and Trygg Mat Tracking between January 2019 and 24 April this year corroborates, noting the presence of more than 200 vessels flying mostly Iranian flags – but also some from India, Pakistan and Sri Lanka – operating without any authorization along one of the longest (3,333 kilometers) and least protected coasts of continental Africa. According to Duncan Copeland, chief analyst at Trygg Mat Tracking, « the number of boats is enormous, beyond the capacity of any national monitoring programme » and the situation, if unchecked, could eventually « deplete fish stocks ». This illegal activity would allow more than 132,000 tons of fish – 56 per cent of the total catch in Somalia’s exclusive economic zone – to be caught, especially since the State is struggling to carry out maritime patrols due to limited resources.

While this smuggling phenomenon is seriously damaging the Somali economy, the fact that since 2001 the country has continued to face international maritime piracy, illegal boarding of vessels and trafficking of all kinds has had a rebounding impact on the economy of the entire region. According to Malian economic analyst Aboudramane Coulibaly, this situation can be explained, among other things, by the decades of instability Somalia has experienced since the removal of President Siyaad Barre in 1991, the absence of state authority, as well as persistent insecurity with the resistance of the Shebabs.

« What would be desirable is for the current political transition in Somalia to be able to call on the international community for preventive joint patrols in the different maritime zones. It is time for international criminal justice to investigate cases of this type of maritime crime, which is costing billions not only in the Horn of Africa, particularly in Somalia and Djibouti, but also in the coastal states of the Gulf of Guinea and as far as Angola, » he said.

At the end of June, after 112 Iranian vessels engaged in contraband fishing were identified by the authorities, Somali Fisheries Minister Abdullah Warsame said in a statement that « the presence of Iranian vessels in Somali waters is an ongoing concern. Illegal, unreported and irregular fishing in Somali waters seriously threatens food security, economic development and Somalia’s sovereignty, » recalling that all foreign-flagged vessels must obtain a certificate of authorization. As a sign that the authorities intend to move the lines, a file to this effect has been submitted to the Indian Ocean Tuna Commission. The countries concerned, including Iran, have 60 days to investigate and take action.
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“Kenya strives to end illegal fishing, ramp up seafood production”, *Seafood Source*,
22 August 2019
Kenya has launched a new Coast Guard Service (CGS) to fight rampant illegal fishing and help the country increase its own seafood yields.

The CGS was launched by Kenyan President Uhuru Kenyatta in November 2018 with the mandate of fighting illegal fishing in Kenya’s territorial waters in addition to supporting the war against terrorism, piracy, and human and drug trafficking. With intensified patrols of the East African country’s high seas, Kenya’s marine fish stocks increased by 155,000 metric tons by July 2019, according to government statistics.

Kenya is one of many countries in Africa that has yet to fully exploit its huge offshore fishery potential because of the significant losses occasioned by illegal, unlicensed and unregulated (IUU) fishing. The Kenya Marine and Fisheries Research Institute, an agency under the Ministry of Agriculture, Livestock and Fisheries, estimates the country’s marine fisheries have the potential to produce of 150,000 to 300,000 metric tons (MT) of fish every year, but a mere 9,000 MT was produced in 2015, earning the country USD 13 million (EUR 11.7 million) in total fish exports. The institute estimates the country is losing an estimated USD 100 million (EUR 90.2 million) every year to transnational and organized criminal networks engaged in IUU fishing.

“IUU fishing undermines resource conservation, threatens food security and livelihoods, destabilizes vulnerable coastal regions and ecosystems due to limited law enforcement capabilities and is linked to other serious crimes including labor associated crimes, money laundering, fraud, human trafficking, drugs and arms dealing,” the institute said in a recent report.

The CGS is one of the latest course-changing moves Kenya has made since the 2009 signing of the agreement on the Ports States Measures Agreement (PSMA) to Prevent, Deter and Eliminate Illegal, Unreported and Unregulated Fishing at the 2009 FAO Conference. However, Kenya has yet to ratify the agreement, as was initially expected by 2017, although
the State Department of Fisheries and the Blue Economy has put together a team to oversee the country’s ratification of
the agreement.

Prior to launching of the CGS, analysts warned overfishing from commercial, artisanal, subsistence, and recreational
fishing activities remained a major threat to achieving a sustainable fishing industry in Kenya with artisanal fisheries
listed as “a key source of pressure on finfish and shark populations along the Kenya coast.”

“Direct exploitation for local consumption of shark meat is substantial and shark oil products are processed locally from
the liver, while shark teeth and jaws are sold to tourists,” Kenya Institute of Public Policy Research and Analysis (Kippra)
said in a statement. “Kenya represents an important transshipment point for shark fins within the Western Indian Ocean
thus, demand for Kenya’s shark fins, particularly from Asia, is a major driver of overfishing.”

Previously, Kenya had embraced other African fisheries management initiatives, including the South West Indian Ocean
Fisheries Commission and the Indian Ocean Tuna Fisheries Commission, upon which the Coast Guard Service will build
on to ensure sustainable development and enhanced governance of the country’s marine fishery resources, in addition
to its work to curb IUU fishing.

Meanwhile, total fish output in Kenya increased from 135,000 MT in 2017 to 148,300 MT in 2018.

Kenya’s latest national economic survey indicates catches of fresh-water fish increased from 111,800 MT in 2017 to
124,100 MT in 2018, with Africa’s biggest fresh-water lake, Lake Victoria, accounting for 66.1 percent of the total fish
landed, with an output of 98,200 MT in 2018.

Landings of marine fish increased by 4.1 percent to 24,200 MT with the government report attributing the continued low
share of marine fish landings “to lack of technology and inadequate facilities necessary for fishing in deep waters.”

In his address launching the Coast Guard Service, President Kenyatta said he is committed to increasing the country’s
investment in its seafood sector.

“Maritime resources contribute to only 2.5 per cent of our GDP, yet if they were fully exploited they would bring the
country more than triple that amount, o er jobs and even livelihoods to thousands,” he said.

Photo courtesy of Kenya Coast Guard Service

Shem Oirere
Contributing Editor
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Annex 158

“Fish stocks double after launch of Kenya coast guard services”, *Nation Africa*,
14 July 2019 (updated 29 June 2020)
Fish stocks double after launch of Kenya Coast Guard Services

Sunday, July 14, 2019 — updated on June 29, 2020

Mombasa

By NATION TEAM

What you need to know:
According to records in Liwatoni, Mombasa County, the stock has increased by 155,000 tonnes after the KCGS and international security teams stopped illegal fishing vessels.

More than 400,000 tonnes of fish have landed at Liwatoni Fisheries Complex since the facility was reopened and KCSG launched in November.

Early this week, President Uhuru Kenyatta said a number of vessels flying the Kenyan flag are operating in the country's waters.

“I launched the coast guard to secure Kenya's territorial waters and protect the country from threats that emanate from the sea. I am pleased to say that even before the rehabilitation of the fisheries complex is completed, some 12 Kenyan vessels are utilising the facility,” he said.

DAILY PATROLS

Mr Kenyatta said the service has maintained daily patrols of Kenya's waters to guard against illegal, unregulated and unreported
fishing, provide safety to seafarers and prevent drug smuggling and the illegal movement of people and goods.

"We should ensure that we land at least 30 per cent of fish caught in our waters. This will be achieved by recovering and securing gazetted landing sites for the benefit of the fishing community," he added.

The government has set aside funds to support the development of designated ports in the Coast to facilitate landing by deep sea fishing vessels.

The money will also be used to develop aquaculture technology.

The fish landing sites under construction are Kichwa cha Kati and Ngomeni in Kilifi County, Gazi, Kibuyuni and Vanga in Kwale and two markets in Malindi and Mombasa.

According to the 2018 Kenya Economic Survey, the total quantity of fish landed declined from 147,700 tonnes in 2016 to 135,100 in 2017.

This was partly attributed to improper and destructive practices and illegal fishing.

ECONOMIC ZONE

Kenya's stocks are also exploited by vessels from distant water fishing nations which access the country's exclusive economic zone upon paying a fee to the Fisheries Department.

The department's resources are constrained and it lacks proper training and enforcement capacity for monitoring and controlling the activities of the foreign vessels.

The government has identified a number of blue economy projects in order to fight hunger but illegal, unreported and unregulated fishing is a setback to the industry.

Illegal, unreported and unregulated fishing depletes stocks,
corrodes the marine environment and decreases aquatic and marine biodiversity, scientists say.

The Food and Agriculture Organisation estimates that nearly a third of fish resources are overexploited or extinct.

More than half of the global stocks are fully exploited and have reached their maximum fishing capacity.

Only 15 per cent of fish stocks worldwide are under-exploited. However, these are predominantly low value species.

The decline of fish stocks has necessitated the introduction of conservation measures.

**OVERFISHING**

Globally, more than Sh2.3 trillion is lost to illegal, unreported and unregulated fishing every year. Out of this, Kenya loses Sh10 billion.

“The sea cucumber is a rare species. It is very expensive but is being overexploited, leading to the reduction of the species. Regulations are needed for it to recover,” Kenya Marine and Fisheries Research Institute director James Njiru said.

Tuna and sharks are among the species that are declining mainly due to overfishing.

In its latest study, KMFRI says tuna and tuna-like resources globally are valued at more than $42 billion, with the Indian Ocean contributing about 20 to 25 per cent of the total.

In 2003, the Indian Ocean Tuna Commission plot of geographical distribution of main tuna species in the South West Indian ocean showed that Kenya lies in the upwelling region of the ocean and supports the second most productive tuna fishing grounds after Somalia.

*Reported by Allan Olingo, Antony Kitimo and Siago Cece*
Annex 159

An Exploration of FEDERAL FISHERIES MANAGEMENT AGENCIES in Eastern Africa

February | 2017

Paige M. Roberts
Laura C. Burroughs
Robert H. Mazurek

SECURE FISHERIES
Advancing Sustainable Fisheries
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For all figures included in this document, only the agencies discussed have been represented.

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Cover: Somali Fair Fishing; photo by Jean-Pierre Larroque
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APPENDIX 5B. Full text of the Fisheries Act, 2014 from the Seychelles. Published October 27, 2014 in the Supplement to Official Gazette.
INTRODUCTION

For coastal countries in the Western Indian Ocean region, fisheries are a vital component of their economies and local livelihoods. Ensuring fisheries sustainability requires strong national-level governance through legislation and a management agency. Fisheries management agencies in the region use a variety of organizational structures, but all have common mandates to create regulations on fisheries and enforce those regulations. This document outlines the structure and functions of fisheries management agencies from five countries in the region: Mozambique, Eritrea, Tanzania, Kenya, and the Seychelles. It focuses primarily on federal-level management of commercial fishing and offshore resources. Local artisanal fishing in these countries is managed separately, often at the district or community level, so this document only briefly touches on those systems.

This document is not comprehensive. Rather, it identifies the most important elements of fisheries management agencies and shows examples of ways to incorporate those into a national agency structure. Exploring the similarities and differences among these countries’ systems highlights the ways they have created agencies to suit their individual needs. By showcasing different models in one document, other countries and the international community currently developing fisheries management agencies may be able to incorporate some of the strategies covered here, while also understanding the potential difficulties.

It is relevant to note that although these countries have a thorough legal outline of their fisheries management systems, they may currently lack the capacity or political will to fully implement those systems. Some of the management agencies were created very recently, so in some cases people to fill each outlined position have yet to be identified and appointed. Additionally, full implementation often takes time and financial resources. While the guiding documents are forward-thinking and aspirational, some of the management protocols are not currently being followed in practice. Thus, the descriptions here are general and largely based on the laws and the vision each country has for its ideal fisheries management structure.
REGIONAL EXAMPLES OF FISHERIES MANAGEMENT AGENCIES

Sustainable marine fisheries are crucial to coastal states’ economic and food security. Maintaining sustainable fisheries and effectively using them to increase local and national revenue requires an agency with a stable and well-organized management structure, determined by strong fisheries legislation. There are many different models of fisheries management working to support fisheries and allow a sustainable level of catch. Each model has the same essential components, but the entity in charge, the power structure, and the connection to the central government varies by country.

In this document, we choose five example countries from eastern Africa and examine their fisheries management organizations and how they handle related duties. Our goal is to inform the governments of the Western Indian Ocean region and the international community about different structures in order to foster a better understanding of and cooperation among the agencies of these countries. We hope that by comparing different systems, previously unrealized benefits of an alternative system can be incorporated into another country’s agency. No single system is perfect, and a country in the region may learn something from another system that will strengthen its ability to fairly and efficiently manage its fisheries. The countries we highlight are:

1) Mozambique, which manages everything through a single government agency;
2) Eritrea, which similarly manages its fisheries through a single government agency, but has an additional advisory panel of stakeholders outside the agency;
3) Tanzania, which uses a geographic distinction to allow a branch of the overarching government agency to manage off-shore fisheries separately from inland and coastal fisheries;
4) Kenya, which distributes management duties across multiple government organizations; and
5) Seychelles, which has a semi-autonomous fishing authority under a government agency.

ESSENTIAL COMPONENTS OF FISHERIES MANAGEMENT AGENCIES

In eastern Africa, many countries have created agencies under the federal government to manage their fisheries and enforce fisheries laws and regulations. Though each country has a unique design based on its specific needs, there are common functions of all federal fisheries management agencies that are essential for effective management. These functions are:

1) Creation of fisheries regulations and management measures;
2) Licensing of fishing vessels;
3) Catch and effort data collection and analysis, including an observer program;
4) Monitoring, control, surveillance, and enforcement;
5) Fisheries crime prosecution;
6) Participation in regional fisheries management organizations; and
7) Research science.

Fisheries management agencies must fulfil numerous responsibilities. The foremost duty of any fisheries management agency is the creation and implementation of regulations and adaptive management measures with the goal of long-term sustainability of fish stocks and associated marine habitats. The most successful management measures balance the needs of fishers with the ability of fish stocks and the environment to support those needs. The fisheries management agency must also consider the economic and food security needs of local fishers and other stakeholders, the capacity of the fisheries to sustain increased pressure from foreign fishers, and the data collection and scientific analyses of fish stocks and important habitats. Finally, the management entity must be responsive to new information on marine resources and
changes in regional fisheries management measures. It therefore requires the flexibility to modify regulations in response to new information.

The most direct means of ensuring long-term sustainability of fisheries is by managing the amount of fish removed from a country’s waters, including catch limits and gear restrictions. To control catch levels, management agencies utilize strict fishing vessel licensing requirements, especially of foreign vessels. In most places, an assessment of the total amount of fisheries resources available is completed and the amount of fish that can be sustainably removed is determined. This provides an estimate of the ideal total allowable catch (often referred to as TAC), and informs a baseline from which allocation to domestic fishers should first be made. The level of domestic, small-scale fishing is often managed at a provincial or district level, with oversight by the national management agency.

The remainder of the allowable catch is then either available for removal by foreign vessels that receive licenses from the fisheries management agency or preserved to act as a buffer in case of the mismanagement of these resources. In a successful licensing regime, the list of licensed vessels is made publicly available through accessible outlets such as newspapers or the authority’s website. This is critical for stopping illegal fishing because the public listing allows anyone who encounters a boat on the water or in port to determine the vessel’s legal status. Licenses are issued for a fee, and license revenue is typically used to support the functions of the fisheries management agency with surplus used to invest in fishing infrastructure or associated projects.

The next step in managing fishing in a country’s waters requires documentation of the amount of fish caught. All vessels fishing in the exclusive economic zone (EEZ) of a country are required to report their catch to the fisheries management agency. There are different reporting methods available, ranging from written logbooks to automated electronic reporting. All data, including the amount (total weight), species composition, and location of catch, are reported to the management agency. These data are then analyzed and used to determine if the level of fishing is appropriate and sustainable for that area and species.

Confirmation of the accuracy of these catch reports is done by on-board observers. These are professionals trained by the management agency who work on fishing vessels and collect biological data about the catch. Observers are required on a specified proportion of licensed vessels fishing for highly migratory species. This proportion is determined by regional fisheries management organizations (RFMOs), such as the Indian Ocean Tuna Commission (IOTC).

Beyond vessel licensing and documenting catch amounts, a fisheries management agency must: 1) have the capacity to fight illegal, unregulated, and unreported (IUU) fishing; 2) be responsible for monitoring, control, and surveillance (MCS) of their EEZ; and 3) enforce national and international fishing laws. Ideally, this involves technologically advanced equipment such as vessel monitoring systems (VMS) to track any vessel fishing in the EEZ.

There is substantial MCS coordination among Western Indian Ocean countries. The countries with the highest MCS capacities, such as Mozambique, monitor their own waters and those of nearby countries that lack the advanced technology necessary to track vessels. Enforcement includes patrols on the water by authorized officers that have powers to board and inspect vessels suspected of IUU fishing. Enforcement also extends into ports where similar inspections occur.

If evidence of a fisheries crime is found, many fisheries management agencies have a department to handle prosecutions. At a minimum, the fisheries management agency is able to levy fines and revoke licenses of suspect vessels. Some countries will take additional steps and prosecute these crimes in court and/or confiscate fishing vessels. Some of these confiscated vessels have even been repurposed as patrol boats.

Furthermore, it is the duty of the fisheries management agency to participate in relevant RFMOs. These may be based on geography (i.e., the South West Indian Ocean Fisheries Project) or on species management (i.e., the IOTC). The officials of the fisheries management agency should participate in meetings of these RFMOs as they can represent the best interests of their country’s fisheries sector and have the power to incorporate regional mandates into their country’s regulations.
A research science branch is the final key component of a fisheries management agency. Although in some cases they are a separate entity from the fisheries management agency itself, research science and analysis must form the basis of fisheries policies. The science program can hold the catch data records and perform assessments of sustainable catch levels. Science departments also perform surveys and experiments that inform fisheries policies, such as the establishment of total allowable catch and marine protected areas.

COMMON CHALLENGES FOR FISHERIES MANAGEMENT

Each of the countries we discuss shares the same challenges for fisheries management that are pervasive in the region. These include:

- Each country has a constituency of small-scale fishers whose interests must be prioritized.
- The fisheries management agency of each country must determine the level of domestic and foreign fishing based on the needs of their economy and environmental sustainability.
- The waters of each country support valuable populations of highly migratory species such as tuna, billfish, and mackerel that pass through their EEZs, forcing them to coordinate regionally through RFMOs to manage those stocks and the fishing pressure on them.
- Most countries in this region are waging a battle against IUU fishing and are building their capacity to monitor their EEZs. Fisheries management agencies are therefore tasked with creating a transparent system of licensing foreign vessels that does not disadvantage local fishers.
- Each example country has recently reviewed and adapted its fishing laws to consider regional and international interests and incorporate new fisheries science and MCS technology.

Overall, maintaining sustainable fisheries is crucial to the future food and economic security of every country bordering the Western Indian Ocean.
The most centralized system for fisheries management by the government is exclusively through one body, such as a ministry. In Mozambique, the Ministry of Sea, Inland Waterways and Fisheries was established by a presidential decree, a document that can be amended by future presidential decrees (the last revision was in 2015; see Appendix 1 for the full text). The Ministry is funded through a combination of external donor support, federally appropriated money, and license fees, which go toward ministerial functions and fishery development programs.

Ministerial duties are outlined in another presidential decree and in the current fisheries law, Fisheries Law no. 22/2013, which was passed by Parliament. Under this system, the Minister is appointed by the President, and all final decisions go through him or her. The Minister appoints directors and oversees the departments and directorates that handle all matters of fisheries management. The departments and directorates are separated into two sections: the legal and policy-making branch, and the implementation branch. Much of local implementation is carried out by Provincial Directorates. This ensures decisions and projects serve to benefit the economic and food security of the people of Mozambique, an important overarching goal of the Ministry.

Creation of Fisheries Regulations and Management Measures

According to Mozambican law, regulations and plans for fisheries and aquaculture use the best scientific information available to adhere to principles of 1) conservation of aquatic species and habitats, 2) sustainability, 3) food safety, and 4) reduced poverty. The regulations are drafted by the Department of Law with the input of scientists. They are then accepted or rejected by the Ministry.

Regulations on catch are drafted in consultation with the scientists at the Fisheries Research Institute (Instituto Nacional de Investigação Pesqueira), which is a department of the Ministry. Regulations and procedures on licensing, monitoring of fishing vessels, observers, and enforcement official authorizations are created when necessary by the departments or directorates responsible for each activity.

Licensing

In Mozambique, the territorial sea up to three nautical miles is reserved for subsistence and small-scale fishing, scientific research, and recreational and sport fishing.

All fishing vessels must be registered and pay a fee, as determined by the government, except those associated with subsistence fishing.
Small-scale fishing is governed using a co-management format in which local fishing communities form fishing associations to manage their resources at the local level, in cooperation with provincial government officials. Industrial fishing vessels may operate within the EEZ but outside of the three nautical mile boundary reserved for small-scale fishing. National and foreign owners of industrial vessels obtain licenses from the National Fisheries Administration (Administração Nacional das Pescas), which is responsible for regulatory controls. Requirements to obtain a license are outlined in the Fisheries Law and vary based on the resource a vessel is exploiting. Access fees are reduced for vessels that agree to land their catch in Mozambique. Fees from licenses are transferred to the Fisheries Development Fund (Fundo de Fomento Pesqueiro), which manages and distributes funds among ministerial departments. A portion of these resources is then directed toward investment in public, private, or research projects. The Fisheries Development Fund is the main financial body of the Ministry and is also responsible for distributing income from private or international aid agency donations. The National Fisheries Administration makes license information available by request. Additionally, as a member of the IOTC, Mozambique provides a list of vessels authorized to fish for highly migratory species, which the IOTC publishes on its website. The Ministry has been collecting catch and effort data from industrial vessels fishing in Mozambican waters since the early 1980s. The Fisheries Research Institute (Instituto Nacional de Investigação Pesqueira) collects and analyzes catch data from vessel master logbooks via an Electronic Reporting System (ERS). The data are entered into an ERS system on board the vessel and immediately transmitted to the Fisheries Monitoring Center, then to the Research Institute. Analyses and recommendations by the Fisheries Research Institute inform the regulations put forth by the Minister. The Ministry supplements the logbook data with data from observers on board industrial vessels. Data from artisanal fishing operations are gathered at the provincial level and used to locally manage those fisheries.

**Catch and Effort Data Collection and Analysis, Observer Program**

The Ministry has been collecting catch and effort data from industrial vessels fishing in Mozambican waters since the early 1980s. The Fisheries Research Institute (Instituto Nacional de Investigação Pesqueira) collects and analyzes catch data from vessel master logbooks via an Electronic Reporting System (ERS). The data are entered into an ERS system on board the vessel and immediately transmitted to the Fisheries Monitoring Center, then to the Research Institute. Analyses and recommendations by the Fisheries Research Institute inform the regulations put forth by the Minister.

**Monitoring, Control, Surveillance, Enforcement**

MCS is handled by the Fishery Monitoring Center, a branch of the National Directorate of Fisheries Surveillance (Direcção Nacional da Fiscalização das Pescas). The fishery law mandates all national and foreign industrial fishing vessels must be equipped with a Vessel Monitoring System (VMS) to track their fishing activities within the EEZ (and on the high seas for Mozambique-flagged vessels). Mozambique has developed its capacity for electronic monitoring of vessels substantially over the past few years, and it is a regional MCS hub for the waters of the South Africa Development Community (SADC). The National Directorate of Fisheries Surveillance works closely with South Africa and Tanzania to monitor the Mozambique Channel to ensure the safety and legality of transiting and working vessels. The Ministry is similarly responsible for at-sea patrols and is actively working to expand its fleet. In 2015, it acquired 30 patrol ships to supplement its previous two. This greatly improved the Ministry’s capacity to control fishing in Mozambican waters and pursue vessels suspected of illicit activities. The ministry, in partnership with the European Union, created programs to train the control officers in proper practices of boarding, inspections, and electronic surveillance. The fisheries law further establishes the duties of enforcement officials who have a wide range of authorizations. They enforce both national and international laws and are allowed to inspect vessels at sea or in port. Vessels are subject to inspection if they are suspected of 1) having improper documentation, 2) carrying illegal or unreported catches on board, 3) using unauthorized gear, or 4) maintaining unsanitary conditions making the seafood on board unfit for human consumption. The officials are authorized to seize any offending vessels, gear, or catch. These confiscations can be used as evidence to levy fines against the people responsible including captains, vessel owners, or fishing rights holders.
Fisheries Crime Prosecution

Under the Ministry there is a Legal Office to handle prosecutions of fisheries crimes. The Minister has administrative rights and is able to impose sanctions and fines on vessels shown to be fishing illegally by the National Directorate of Fisheries Surveillance.30

Regional Fishery Management Organization Participation

The Ministry acts on behalf of the country of Mozambique in many regional fisheries management organizations. These include the Indian Ocean Tuna Commission (IOTC)31 and the South African Development Community (SADC). They were previously involved in the South West Indian Ocean Fisheries Project (SWIOFP) and the Agulhas and Somali Current Large Marine Ecosystem (ASCLME) before these projects ended.32 As part of these organizations, Mozambique is helping the region to sustainably manage its highly migratory species stocks, maintain a healthy ecosystem to support fishing (artisanal and industrial), and is able to share data and MCS information with other countries that are part of these extensive networks.

Research Science

The Fisheries Research Institute conducts fishery-independent surveys of marine resources, focusing on the most economically valuable fish and invertebrate species. Species studied include many types of tuna, scad, mackerel, shrimp, small pelagic fishes, and spiny lobsters. Separate studies on artisanal fisheries have also been conducted.33 Scientists at the Fisheries Research Institute use these data in combination with fishery-dependent catch and effort data to help determine sustainable catch levels and create regulations to be passed by the Minister.

Considerations and Implications for This System

There are benefits in the simplicity of a ministry-led system. The organizational structure is logical and simple. With only one governing body, it is obvious where citizens and outside organizations should take issues related to fisheries. Additionally, it is clear who controls licensing and revenues, and therefore it is the purview of only one institution to decide how to use them, rather than complicating the flow of money among multiple institutions.

In Mozambique, the language included in its laws and regulations indicate the Ministry prioritizes the food and economic security of its people whose survival depends on fishing. The government leaves many decisions up to the coastal populations through their system of co-management in which the provincial governments and fishing communities cooperatively manage the resources. This likely empowers citizens and increases the likelihood that the decisions will benefit them and their communities.

However, there are five potential drawbacks to this system:

1. There is no official mechanism outlined in the law for the inclusion of all stakeholders in creating management plans and advising the Ministry. The Minister’s expertise alone may not reach into every area that needs to be managed, so the formal inclusion of additional stakeholders would diversify the experience and knowledge of the decision maker. In many other countries (i.e. Eritrea and Kenya), an official fisheries advisory council is in place to guide decisions to be made by the Ministry.

2. Without an advisory council, this system lacks a formal oversight mechanism to which the Ministry is held accountable.

3. Concentration of decision-making power at the ministerial level risks emphasis on those fisheries that have the largest economic impact nationally, often at the expense of smaller, less valuable fisheries that are nonetheless important sources of food security and ecosystem sustainability.

4. Concentrating final decision-making and approvals in the authority of one Minister can create a bottleneck leading to slower decision-making.

5. Subordinate institutions may face reduced autonomy and an inability to act separately from the Ministry when their needs diverge.
Notes (Mozambique)


6. Oceanic Développement, MegaPesca Lda., Ex-post and ex-ante evaluations


8. Decreto Presidencial n.° 1/2015, Title I, Article 5

9. Decreto Presidencial n.° 1/2015, Section VI, Article 51

10. Decreto Presidencial n.° 1/2015, Section III, Article 27

11. Decreto Presidencial n.° 1/2015 Section III, Article 30, Article 35


15. Ibid.


18. Oceanic Développement, MegaPesca Lda., Ex-post and ex-ante evaluations

19. Doherty et al., Marine fisheries

20. Decreto Presidencial n.° 1/2015, Section 6, Article 54


22. Ibid.


24. Ibid.

25. Oceanic Développement, MegaPesca Lda., Ex-post and ex-ante evaluations

26. Ibid.

27. Decreto Presidencial n.° 1/2015, Title III, Chapter I, Article 72

28. Decreto Presidencial n.° 1/2015, Title III, Chapter I, Article 76

29. Decreto Presidencial n.° 1/2015, Title III, Chapter I, Article 87


32. Oceanic Développement, MegaPesca Lda., Ex-post and ex-ante evaluations

Eritrea manages its fisheries under the Ministry of Marine Resources, but with the addition of stakeholder advisors. Though it has been called many different names, the government agency in charge of fishing related matters is the Ministry of Marine Resources. It was established in 1991 by Fisheries Proclamation No. 104/1998 (see Appendix 2 for the full proclamation text), which has since been repealed by the Fisheries Proclamation No. 104/2014 (full text unavailable). The Ministry of Marine Resources has complete jurisdiction over Eritrea’s marine and aquatic resources. Eritrea also established the Fisheries Advisory Council (FAC) to help guide decisions of the Ministry and more broadly represent the interests of various stakeholders in the fisheries sector.

The FAC consists of government and industry representatives including:

1) An officer of the Ministry to ensure the Proclamation is adhered to;
2) A representative of the department responsible for ports and maritime transport;
3) A Navy representative;
4) A representative of the department responsible for economic development and investment;
5) A representative of the Research and Training Division of the Ministry;
6) An elected representative of the artisanal fishing community;
7) An elected representative for operators of foreign fishing vessels;
8) An elected representative of Eritrean commercial fishing vessels when applicable.

While the FAC is under the authority of the Ministry, it has a mandate to operate outside the Ministry and evaluate policies. The FAC conducts meetings, establishes internal procedures, and elects a chairperson. It can also involve relevant individuals from outside the Ministry and FAC to assist in decision-making.

Eritrea’s Ministry is similar to that of Mozambique in that it has sole control over Eritrea’s marine management and contains departments under it, the Fisheries Development Department and the Fisheries Regulatory Services Department, to fulfill its duties. For the purposes of this document, we focus on the added role of the FAC.

Creation of Fisheries Regulations and Management Measures

The primary function of the FAC is to advise the Ministry on fisheries management and development plans that prioritize conservation and sustainability. The Ministry outlines a management plan and licensing program using resource assessments conducted by the Research and Training Division of the Ministry. The FAC provides input on the drafted management plan.
The Fisheries Proclamation established various conservation measures including 1) protected areas and species, 2) limitations on gear and fishing practices, and 3) closed seasons. Eritrea enforces limitations on fishing practices and species exploitation, such as trawling, spear fishing, and the export of live corals.

Eritrea is developing marine protected areas. The Minister consults with the FAC in the establishment of protected areas in addition to owners and residents of adjoining land, appropriate local government councils, and the authorities responsible for other uses of the area.

### Licensing

A licensing program is central to the management of Eritrea’s marine resources. The Ministry uses a licensing program that limits the number of licenses given to national and foreign vessels. The FAC provides guidance on the management plan, which includes the licensing program. Artisanal fishers operate under open access licensing.

The FAC does not have jurisdiction over licensing agreements outside of fisheries management and development plans.

### Catch and Effort Data Collection and Analysis, Observer Program

The Fisheries MCS Division of Eritrea also collects catch and effort data through their Inspectors. They relay data to the Information Management Unit of the Ministry of Fisheries where it is stored and analyzed for distribution to the public and policy makers. The FAC is not involved in these activities.

The Ministry also has an observer program, but the FAC is not involved in it.

### Monitoring, Control, Surveillance, Enforcement

Following the creation of the Ministry of Fisheries, Eritrea established the Fisheries Monitoring, Control, and Surveillance (MCS) Division of Eritrea. It covers both artisanal and industrial fisheries. It was originally composed of former military personnel, but was slowly populated by trained recruits from the Hirgigo Training Center and students from the College of Marine Sciences and Technology. The MCS Division includes a group of trained inspectors who gather onboard information including fish caught, gear, and fishing operations, and assess that vessel equipment is up to standard. Two or three inspectors are required on board any industrial fishing vessel.

The Minister also appoints a group of Authorized Officers who are tasked with enforcement. They are entitled to stop and board fishing vessels without warrant. They also have power of search and seizure for vessels, gear, and other relevant items. Eritrea’s enforcement system is similar to that of Mozambique. The FAC is not involved in MCS or enforcement.

### Fisheries Crime Prosecution

Fisheries crime prosecution is a high priority of the Ministry. The 1998 legislation outlines various offenses and resulting penalties. There are a wide variety of offenses, from improper stowage of fishing gear to fishing protected species. Penalties depend on the severity of the offense, ranging from fines to forfeiture of vessels or licenses. The legislation also instructs fisheries crime prosecution by delineating admissible evidence and burden of proof.

### Regional Fishery Management Organization Participation

Eritrea is a member (Contracting Party) of the Indian Ocean Tuna Commission (IOTC).
Research Science

Marine research is conducted through the Research and Training Division (RTD) of the Ministry. The RTD collects data on the marine ecosystem and fish stocks. It also promotes sustainability through environmental awareness campaigns and training programs. Training programs teach fishers a variety of skills and train women on nutrition.30 The Minister must authorize all fisheries research within Eritrean waters.31 While there is a representative of the RTD of the Ministry in the FAC, the FAC does not perform or consult on research.

Considerations and Implications for This System

The Eritrean system of the Fisheries Advisory Council to support Ministry decisions has similar benefits as a Ministry-only system, such as a simple power structure and income generation and redistribution (see Ministry Only: Mozambique). However, with the incorporation of the Fisheries Advisory Council, Eritrea resolves many of the concerns about a Ministry-only system. Because the Ministry must consult the FAC on fisheries management plans, it ensures the incorporation of different perspectives and interests, including those of artisanal fishers, who are often overlooked. Immediate access to these advisors also benefits the Ministry, as it decreases the burden of data collection. The FAC provides the Ministry with information and advice on all relevant fisheries issues, from economics to scientific research. Finally, the potential for Eritrean citizens’ trust in the Ministry and respect for its policies is increased through stakeholder involvement in the FAC. Since the implementation of this management structure, strong adherence to fisheries management plans has been displayed in Eritrea.32

Incorporation of such a wide array of stakeholders may also have drawbacks. Each group represented in the FAC may have different, opposing interests in fisheries management plans. For example, a policy that benefits the commercial fishing industry could be harmful to artisanal fishers. This could create divides and risks stalemate within the advisory council. Also, reaching agreement and creating recommendations could take more time than in systems with a unilateral decision maker.
Notes (Eritrea)

2. Fisheries Proclamation, Part II, Art. 6
3. Ibid.
5. Fisheries Proclamation, Part III, Art. 7
6. Fisheries Proclamation, Part III, Art.13
7. Fisheries Proclamation, Part III, Art. 12
8. Fisheries Proclamation, Part III, Art. 9
11. Fisheries Proclamation, Part III, Art. 13
12. Fisheries Proclamation, Part III, Art. 7
13. FAO, The State of Eritrea
14. Fisheries Proclamation, Part III, Art. 7
16. FAO, The State of Eritrea
18. The International Fund for Agricultural Development, The State of Eritrea Fisheries Development
19. Ghebremariam and Ghebretensae, Fisheries Status
20. Fisheries Proclamation, Part II, Art. 4
21. Fisheries Proclamation, Part VI, Art. 29
22. Fisheries Proclamation, Part VI, Art. 35
23. Fisheries Proclamation, Part VI, Art. 36
24. Fisheries Proclamation
25. Fisheries Proclamation, PartVI, Art. 37
26. Fisheries Proclamation, PartVI, Art. 38
27. Fisheries Proclamation, PartVI, Art. 42
28. Fisheries Proclamation, PartVI , Art. 44
31. Fisheries Proclamation, Part III, Art. 11
Tanzania manages both its inland and marine fisheries through the Ministry of Livestock and Fisheries Development. A branch of the Ministry, The Deep Sea Fishing Authority (DSFA), manages Tanzania’s marine resources between the boundary of its territorial sea, 12 nautical miles from the coast, and its EEZ, 200 nautical miles from the coast. The DSFA was created through the Deep Sea Fishing Authority Act of 2009 (see Appendix 3 for the full legislation text).

The Ministers of Livestock and Fisheries Development from mainland Tanzania and Zanzibar have the ultimate authority over the DSFA and are responsible for nominating candidates for the positions of Director General and Deputy Director General. The candidates are submitted to the President of Tanzania for approval; it is required that one come from mainland Tanzania and the other from Zanzibar to equally represent both regions’ interests. Together with the department directors, they form the Directorate General.

The DSFA consists of two other main bodies besides the Directorate General: the Executive Committee and the Technical Advisory Committee. The Executive Committee provides another connection between the Ministry and the DSFA. Their main purpose is to approve the budget and future objectives of the DSFA. Many of the decisions of the Director General must be approved by the Executive Committee. The Technical Advisory Committee consists of the fisheries Directors from mainland Tanzania and Zanzibar as well as other experts and stakeholders including scientific researchers, economists, lawyers, and members of fishing industry. The Technical Advisory Committee may make policy proposals and provide fisheries advice.

Creation of Fisheries Regulations and Management Measures

The DSFA governs Tanzania’s marine fisheries resources under principles of sustainability and creates fisheries policies based on stock assessments. If necessary, the Director General may also place restrictions on fishing gear or fishing methods and put policies in place to restore fish stocks.

Licensing

The DSFA licenses domestic and foreign fishing vessels and individuals conducting scientific research. The licenses are issued by the Director General. A vessel must first go through a licensing application process, after which the DSFA inspects the vessel, issues an approval letter, and the vessel owner pays a license fee. Both foreign and domestic licenses generate
Catch and Effort Data Collection and Analysis, Observer Program

The Statistics Section of the DSFA is responsible for collecting, processing, and analyzing catch and effort data. This is a requirement of both the Authority and the regional fisheries management organizations (RFMOs) to which Tanzania belongs. Specifically, the Statistics Section is required to collect catch data, licensing data (such as vessel and fishing information), perform analyses, produce reports, and disseminate information.

The Director General appoints a group of observers. Observers are trained and equipped by the DSFA prior to boarding a fishing vessel. They are responsible for collecting information on harvesting, handling, and processing of catch while on board a vessel. Furthermore, observers collect biological data and take samples or photos of catch. To supplement observer data, captains of licensed vessels are required to keep logbooks containing fish catch information. The captain must surrender their logbook to anyone authorized by the Director General.

Monitoring, Control, Surveillance, Enforcement

The largest responsibility of the DSFA is MCS. The Deep Sea Fishing Authority Act of 2009 provides a thorough mandate of MCS responsibilities. The DSFA has a vessel monitoring operation center with current Vessel Monitoring System (VMS) technology approved by the Director General.

There are three main units in charge of executing the DSFA’s MCS responsibilities:

1) A Surveillance Unit composed of a group of enforcement officers established by the Director General and the Executive Committee.
2) A group of inspectors who are allowed to stop and board fishing vessels to inspect the vessel itself, documentation, gear, crew, and catch. In the case of a suspected offense, inspectors may seize a vessel, its gear, documents, and other relevant items, or order the captain to dock the vessel.
3) Authorized Officers composed of officers from the DSFA as well as enforcement officials from other government groups such the Defense Force, Police Force, and fisheries officers of the Ministry.

The Compliance Section of the DSFA also covers MCS duties. It is responsible for overseeing licensed vessels, ensuring compliance with DSFA regulations, conducting pre-license inspections, executing air and sea patrols, and overseeing VMS tracking.

Fisheries Crime Prosecution

Punishment for violation of the DSFA regulations is severe. Violators are fined at least one billion TZS (approximately 450,000 USD), face at least 20 years imprisonment, and must forfeit their vessel or relevant gear. Relevant cases are submitted to law enforcement and the attorney general for prosecution.

Regional Fishery Management Organization Participation

The DSFA is authorized to enter into fishing agreements and contracts with other governments or international organizations. It complies with the Indian Ocean Tuna Commission (IOTC).

Research Science

Though much of the fisheries research in Tanzania focuses on the Lake Victoria region and inland fisheries, the Tanzania Fisheries Research Institute (TAFIRI) also conducts research on marine resources. TAFIRI is a separate institute under the
Ministry, but it forms part of the Technical Committee of the DSFA. All scientific recommendations made by the DSFA come directly from TAFIRI.\textsuperscript{21}

**Considerations and Implications for This System**

By granting the DSFA jurisdiction beyond 12 nautical miles but within Tanzania’s EEZ, Tanzania created a clear geographical distinction between the DSFA and the Ministry. This system minimizes overlap of jurisdictions and responsibilities between the two groups. However, the DSFA benefits from remaining under the auspices of the Ministry and maintaining their connection through the Executive Committee. The system also allows for the full incorporation of the islands of Zanzibar which is crucial to maintaining the Authority’s effectiveness.

The incorporation of the Ministry and Zanzibar into the DSFA may have drawbacks in terms of coordination and cooperation. The DSFA must answer to the Ministry, which removes some of their autonomy. The connection with the Ministry may also blur responsibilities between the Ministry and the DSFA, or create coordination issues. This could pose a problem for revenue sharing decision-making, as the Ministry may have different interests when deciding where revenue should be used. The incorporation of Zanzibar may also provide coordination issues, as it is a nearly autonomous region and has different laws and procedures from mainland Tanzania.\textsuperscript{22}

The geographic distinction allows the DSFA to focus on MCS while leaving the management of artisanal and local fishing to the Ministry. A strong MCS system is a crucial component to controlling fishing in Tanzania’s offshore waters. The DSFA’s founding legislation thoroughly documents the different groups and procedures required for MCS. This detailed planning and prioritization of MCS is imperative to protect Tanzanian waters and fight IUU fishing.

In most cases, such ambitious provisions for MCS, enforcement, and licensing require a large staff. According to a World Bank workshop report, this was a challenge in Tanzania as the DSFA only consisted of eight employees in 2011. While DSFA was able to meet their internally established goal for observations of vessel catch and effort, they did not have the capacity to meet their licensing revenue expectations in 2011.\textsuperscript{23} Though the DSFA has been able to function in subsequent years without adding personnel, a country with a larger area to police would need more people to thoroughly cover its jurisdiction.

Finally, the penalties for regulatory violations are severe compared to other countries. The harsh punishments imposed by the DSFA are not necessarily appropriate for minor fisheries crimes. Thus, these crimes may go unaddressed and unpunished.\textsuperscript{24} It would be beneficial to create different tiers of punishment to fit fisheries crimes of varying degrees of severity.
Notes (Tanzania)


15. Deep Sea Fishing Authority Act, 2009, Part V.31,32


18. NFDS, POSEIDON, COFREPECHE and MRAG, 2014.21


22. NFDS, POSEIDON, COFREPECHE and MRAG, 2014.20

23. Corsi, Anna. 2

24. NFDS, POSEIDON, COFREPECHE and MRAG, 2014.21
Many Government Departments: Kenya

Kenya’s marine fisheries management structure is relatively new and is currently evolving. Until 2013, marine fisheries were managed by the Ministry of Fisheries Development that also handled the much larger inland fisheries sector. With the election of a new President in 2013 and his issuance of Executive Order No. 1 (see Appendix 4a for the full executive order text), the entire structure of fisheries management, including names of ministries and departments, changed drastically.

The marine sector is now managed under the Ministry of Agriculture, Livestock and Fisheries, but many government organizations and sub-sections of the Ministry are responsible for different areas of policy creation and implementation. The President appoints the head of the Ministry, the Cabinet Secretary. Fisheries management provisions were outlined in the Fisheries Act Chapter 378 passed by Parliament in 1991 and revised in 2012 (see Appendix 4b for the full legislation text) and further updated by the Fisheries Management and Development Act No. 35 (see Appendix 4c for the full legislation text) passed in September 2016.

Under the Ministry, the President established the State Department of Fisheries and the Blue Economy (SDF & BE) to separate fisheries management from livestock and agriculture. The SDF & BE is the executive arm mandated to oversee the exploration, exploitation, utilization, management, and development of the country’s fisheries. Within the SDF & BE there are further divisions such that marine and coastal fisheries are managed separately from inland fisheries, aquaculture, and quality assurance. The Principal Secretary of the SDF & BE is appointed by the President with parliamentary approval.

The Fisheries Management and Development Act of 2016 details fisheries laws with an emphasis on conservation and management based on ecological sustainability and improving fishing community livelihoods by maximizing the economic value of the fisheries. It also creates new government agencies including the Kenya Fisheries Advisory Council, Kenya Fisheries Service, Kenya Fish Marketing Authority, and the Inter-Agency Monitoring, Control and Surveillance Unit. Further relevant details about these groups are within the sections below.

The Kenya Fisheries Advisory Council has a similar structure and function to that of Eritrea’s (see Ministry with an Advisory Council: Eritrea, p. 9). The council consists of the Cabinet Secretaries responsible for fisheries, interior, transportation and infrastructure, treasury, and foreign affairs and international trade. It also has representatives from a university or research institution, consumer federation, the Council of Governors, and the fishing industry. The Cabinet Secretary is in the process of appointing each representative as of the time of this writing. The council is tasked with providing advice and reviewing matters related to fisheries including policies, management plans, intergovernmental agreements, and allocation of fisheries resources.

Alongside the Ministry and fisheries agencies, there are many other agencies that are involved in aspects of fisheries management, from other ministries and government departments to the military. Any institution that has jurisdiction
over a matter that could be fisheries-related has some influence in that area. For example, because fish live in water, the Ministry of Water and Irrigation and the Ministry of Environment and Natural Resources are involved in fish habitat protection. When enforcement is necessary on the water, the Kenya Fisheries Service can request patrols from the Kenya Navy. There is coordination and communication among the involved groups to effectively manage issues that may span multiple agencies.5

Creation of Fisheries Regulations and Management Measures

The Ministry of Agriculture, Livestock and Fisheries creates fisheries policies, and the SDF & BE is the executive arm in charge of implementation.6 The Fisheries Act contains the broad duties of the Ministry for managing fisheries. The details of fisheries management are discussed in regulations that are published in the Kenya Gazette after approval by the Cabinet Secretary.7

According to the Fisheries Management and Development Act of 2016, the Kenya Fisheries Service can make any regulations regarding many areas of fisheries management, including: 1) management and conservation plans, 2) access to and allocation of fisheries resources for domestic or international use, 3) collecting and analyzing data on fishing activities, 4) marketing of fish and fish products including import and export restrictions, 5) raising revenues from fishing and facilitating investment in commercial fisheries, and 6) coordinating monitoring, control, and surveillance. The Cabinet Secretary approves regulations created by the Kenya Fisheries Service.8

Kenya’s small-scale artisanal fisheries have been managed by a system of Beach Management Units (BMUs) since 2006, after decades of high exploitation decimated fish populations. BMUs are a system of co-management in which the fishers have a say in the regulation of the fisheries important to their communities and livelihoods. Each county has a network of BMUs with fisheries officers that report to the district and the Director-General of the Kenya Fisheries Service. Additionally, co-management is encouraged between the BMUs and county governments to create bylaws for the fishers to sustainably manage the resources.9 Local management of small-scale fisheries has been successful in Kenya, resulting in an increase in fish biomass and diversity.10

Licensing

All fishing vessels must be licensed in order to fish in Kenyan waters. The Director-General of the Kenya Fisheries Service is responsible for vessel registrations and for establishing and maintaining a database of licensed vessels.11 Local vessels are prioritized and foreign vessels are allotted licenses if it is determined that there are excess resources after local exploitation levels are considered.12 Detailed requirements to obtain a license are described in the Fisheries Management and Development Act of 2016.13

Catch and Effort Data Collection and Analysis, Observer Program

Most of the coastal catch and effort data collected are from the small-scale sector through the BMUs. Kenya Marine and Fisheries Resources Institute (KMFRI), the research science branch of the Ministry (see “Research Science” section below) conducts stock assessments and looks at fish population dynamics to inform management.14

The Kenya Fisheries Service collaborates with KMFRI to place observers on commercial fishing vessels. The Kenya Fisheries Service collects and maintains the data from these vessels and uses it to make management decisions.15,16

Monitoring, Control, Surveillance, Enforcement

MCS capacity in Kenya is low. The Kenya Port Authority had a vessel monitoring system (VMS), but as of February 2016, it is not functional.17 The Kenya Navy is tasked with conducting patrols for suspicious fishing vessels. It does not conduct regular patrols, but will do so at the request of the Kenya Fisheries Service.18 The Marine Police, a branch of the Kenya
Police Service, is mandated to protect fishing vessels and ports, but its jurisdiction is limited to within 12 nautical miles of shore. The new Fisheries Management and Development Act of 2016 created an inter-agency MCS unit composed of members of a variety of agencies under the national government. This will allow the variety of agencies involved in MCS and enforcement to cooperate and effectively track and catch illicit fishing vessels.

The Fisheries Management and Development Act of 2016 defines authorized officers as any official under the Kenya Fisheries Service, including inspectors and naval or other armed forces officers. The powers of officers include stopping, boarding, and inspecting a vessel, vehicle, or premises suspected of being used for fishing offences. The officers can confiscate catch, gear, documents, and the vessel or vehicle. They can also arrest any person suspected of fisheries crimes. As of 2014, two officers were trained for port inspections. However, Kenya is set to open the Fisheries Crimes Law Enforcement Academy in Nairobi in order to train more enforcement officers and crack down on IUU fishing in Kenyan waters.

Fisheries Crime Prosecution

The system of prosecution in Kenya is unique among the other countries in the region. The Fisheries Act gives the Attorney General the power to allow an authorized fisheries officer to conduct prosecutions for offenses under the Fisheries Management and Development Act of 2016. In that capacity, the authorized officer has the same powers as a public prosecutor.

The penalty for a fishing violation could be time in jail, a fine, or both. The penalties vary with the severity of the crime committed and are determined during administrative proceedings. Fisheries crimes are brought to court, and crimes involving a foreign vessel are brought to the High Court. Further details about penalties for convictions of fisheries crimes are outlined in the Fisheries Management and Development Act of 2016. They include forfeiture of property and monetary penalties.

Regional Fishery Management Organization Participation

Kenya is a member (Contracting Party) of the Indian Ocean Tuna Commission (IOTC) and the South West Indian Ocean Fisheries Commission (SWIOFC).

Research Science

The Kenya Marine and Fisheries Resources Institute (KMFRI) is a semi-autonomous research institute under the Ministry. In addition to stock assessments, KMFRI conducts fishery-independent research on commercially and ecologically important fish species. Their goal is to provide information to inform sustainable exploitation, management, and conservation of Kenya’s aquatic resources, both in marine and freshwater environments. They are involved in projects to reduce post-harvest mortality of captured fish, develop new aquaculture methods, survey the chemical and physical processes in the marine environment, and survey socioeconomics in coastal fishing communities.

Considerations and Implications for This System

Kenya is still modifying its coastal fisheries management after many years of focusing on the inland fisheries. One benefit of having many organizations with some level of involvement in coastal fisheries is that there are more human resources to draw upon. It is useful to be able to deploy agents from other organizations when the Ministry needs additional support. Splitting the areas of fisheries governance among different organizations allows each group to specialize. When a multifaceted issue arises, it is useful to be able to consult multiple perspectives from a variety of government organizations to find creative solutions. Effective communication and coordination among the groups is crucial to realizing this benefit and will be aided by the Kenya Fisheries Advisory Council once it is created and implemented.
However, there are potential drawbacks to the system in Kenya.

1) The fisheries laws in Kenya have changed dramatically over the past few years. The number of recent changes could lead to confusion among Kenyan fishers and foreign vessels about which laws and systems have changed and the legality of their current activities. It could also cause confusion among enforcement officers and the international community if they are not properly trained in the procedures under the new law.

2) A system that involves many autonomous organizations is complicated and it is difficult to know who handles certain tasks.

3) Having many organizations working on similar issues creates the potential for mission overlap, or the risk of items falling through the cracks, especially if there is not adequate communication among the groups.

4) With many people in positions of power, but managing the same issue, any process that spans multiple government agencies could be bogged down in bureaucracy and micromanagement by the Cabinet and Principle Secretaries.

5) The Kenyan system places a comparatively large amount of power in the hands of the Director-General of the Kenya Fisheries service. The D-G is accountable to the Board of Directors and the Cabinet secretary under this system, but is also solely responsible for collecting license fees. Institutionalized accountability and oversight are therefore imperative.
Notes (Kenya)


6. POSEIDON et al., Ex ante evaluation.

7. Ibid.


9. Fisheries Management and Development Act, Part V.


11. Fisheries Management and Development Act, Part X.

12. Fisheries Act, Part IV.

13. Part X Section 88.


15. Fisheries Management and Development Act, Part IX.


18. POSEIDON et al., Ex ante evaluation.

19. Ibid.


22. Fisheries Management and Development Act, Part XIII.

23. POSEIDON et al., Ex ante evaluation.


25. Fisheries Management and Development Act, Part XVI.

26. Ibid.

27. Fisheries Management and Development Act, Part XVII.


SEYCHELLES

Semi-Autonomous Fishing Authority: Seychelles

The Republic of the Seychelles has a unique model among eastern African countries. The majority of fisheries management responsibilities reside within the Seychelles Fishing Authority (SFA), a government body under the Ministry for Fisheries and Agriculture. Though still under the Ministry like the Tanzania Deep Sea Fishing Authority, the SFA maintains the autonomy to manage fisheries with minimal interference by the federal government.

The SFA was established in 1984 with the passage of the Seychelles Fishing Authority (Establishment) Act, which was updated in 2012 (see Appendix 5a for the full text of the act). The SFA is a corporate body that operates similarly to a business. The duties of the SFA and fishing regulations for the country are outlined in the Fisheries Act, originally passed in 1986 and updated in 2014 (see Appendix 5b for the full text of the act).

The SFA is led by a Board of Directors including a Chairman, all appointed by the President. Under the Board of Directors, the SFA is divided into four implementation divisions: 1) Fisheries Management, 2) Fisheries Economics and Information, 3) Monitoring, Control and Surveillance, and 4) Research. The CEO manages the daily affairs of the SFA and is part of the Special Advisors to the President, thereby providing a link between the President’s office and the SFA. The CEO attends meetings of the Board of Directors, but has no voting rights.

The SFA is connected to the federal government through the President-appointed Minister of Fisheries and Agriculture. The Minister’s most important task is to establish fishing agreements with other countries, intergovernmental organizations, and foreign vessel owner associations. Without an agreement, a foreign vessel cannot be licensed to fish in Seychelles waters. This allows the Minister and SFA to control the allocation of fishing rights and ensure fisheries exploitation is held at sustainable levels. To expand this assurance to the entire region, the Minister forms agreements with states or regional organizations to harmonize surveillance and enforcement measures.

The Minister also establishes the outlines of fisheries policies and gives final approval for management plans and scientific proposals. Those policies and decisions are informed by the work of the SFA, which develops the specifics of the management plans and handles all other fishing related activities.
Creation of Fisheries Management Measures and Regulations

The Fisheries Act gives the SFA complete authority to manage the marine resources of the Seychelles. The Fisheries Management Department of the SFA sets a management plan that takes into account the current state of the ecosystem and socioeconomic climate, while promoting sustainability and conservation of important marine habitats. It sets harvest controls based on the recommendations of the Indian Ocean Tuna Commission (IOTC). It also creates the licensing requirements for industrial fisheries based on consultation with scientists, local fishers, industrial fishers, and other Indian Ocean States. Management plans are approved by the Minister and made publicly available.

The SFA develops management plans for their domestic fisheries. The artisanal fishing sector in the Seychelles is small relative to the industrial sector. As such, there are few regulations for local fishers. Some restrictions are placed on 1) catch of vulnerable species such as turtles and sharks, 2) gear including bottom trawls, spear-fishing, and nets for shark fishing, 3) fishing season for sea cucumbers and lobsters, and 4) fishing area. However, there are no limits on catch levels for artisanal fishers.

Licensing

The fishing vessel licensing requirements in the Seychelles are extensive and thoroughly outlined in the Fisheries Act. All vessels must be licensed to fish in Seychelles waters, with the majority of requirements aimed at the foreign vessels, which are responsible for nearly all of the catch in Seychelles waters. In addition to completing an application and paying a fee, a vessel applying for a license and its owner must not have engaged in or supported IUU fishing activities in Seychelles waters or elsewhere. The SFA coordinates with regional fisheries management organizations (RFMOs), other licensing authorities, and international organizations to confirm the legitimacy of vessels applying for licenses. Additionally, foreign vessels must be represented in an agreement between their state and the Minister of Fisheries and Agriculture of the Seychelles. License fees and limits on the number of fishing vessels allowed are detailed in the agreement. The SFA is responsible for enforcing the terms of that agreement.

All licensed fishing vessels are subject to regulations imposed by the SFA. These include restrictions on gear, fishing area, closed periods, target species, and bycatch. There are requirements for the vessel itself including proper communication, vessel monitoring, and position fixing equipment. There are also mandatory catch reporting requirements. Licensed vessels that fish in Seychelles waters are encouraged to land their catch in Port Victoria, Seychelles, and purchase their supplies there. This regulation was created in 2010 to bolster the economy in Victoria. The revenue this earns for fishing-related industries such as tuna processing and canning has allowed the sector to grow and has increased their capacity.

Licenses are processed by the Fisheries Control Unit, a subsection of the Monitoring, Control, and Surveillance Section of the SFA. The Fisheries Control Unit keeps detailed records of licensed vessel information and makes these records publicly available on their website and in local newspapers. Also, as a member of the IOTC, the SFA provides a list of vessels authorized to fish for highly migratory species, which the IOTC publishes on their website. License revenue, in addition to federal funds, is used by the SFA to maintain its operations. Aid or grants received from other countries or international organizations are invested into fishing-related infrastructure, businesses, or projects.

Catch and Effort Data Collection and Analysis, Observer Program

The Fisheries Economics and Information Section of the SFA collects catch and effort data from licensed fishing vessel logbooks and publishes their analyses for distribution to government, non-government, international, and industry organizations. Reporting of these data is mandatory and must include composition, amount, and location of catch on a daily basis. Data are collected in port from vessels landing their catch in the Seychelles. Vessels that do not land in the Seychelles must report the quantity of fish on board by species and vessel position during fishing to the SFA upon entering or leaving Seychelles waters.
In order to comply with IOTC resolutions, the SFA maintains an observer program to monitor the licensed vessels fishing for highly migratory species such as tuna and billfish. They collect biological data on catch within and outside the Seychelles EEZ and submit their reports to the IOTC. The SFA is working to expand their observer capacity to increase coverage of the fishing fleet.

**Monitoring, Control, Surveillance, Enforcement**

The Monitoring, Control, and Surveillance (MCS) Section of the SFA ensures fishing vessel compliance with national, regional, and international laws and regulations within the Seychelles’ exclusive EEZ. Vessels registered to the Seychelles but fishing outside its waters are also monitored by the SFA to ensure compliance with international regulations. The Fisheries Monitoring Center (FMC), a subsection of the MCS Section, maintains a satellite based vessel monitoring system (VMS) to track licensed fishing vessels.

Additionally, the Seychelles is part of the Regional Fisheries Surveillance Project. It is an MCS hub for other southwest Indian Ocean countries to help patrol and monitor their waters. Physical patrols of Seychelles waters are conducted by the SFA in coordination with the Seychelles Coast Guard.

The Fisheries Act outlines in great detail the enforcement measures pursuant to international conservation and management guidelines. Fishery officers are authorized by the Minister and include public service, defense, or drug enforcement officers deemed necessary to assist in enforcement matters. They act under the jurisdiction of the SFA. The Fisheries Act clearly states the legal abilities of fisheries officers both on land and on the water. It also describes the proper procedures for officers to follow regarding seizure and detention of vessels or items suspected in illegal fishing. These officers are trained in the fisheries law, inspection procedures, and operation of VMS.

Officers may stop, board, search, and inspect any vessel in Seychelles waters as well as vessels on the high seas that are either flagged to the Seychelles or signatories of an international agreement to which the Seychelles is a party. When searching a vessel, an officer may inspect and confiscate anything related to an infraction of the Fisheries Act including: 1) the vessel itself, 2) documents such as licenses, logbooks, and other fishing records, 3) records from the crew, 4) electronic devices used for communication or tracking of the vessel, 5) fish catch or fish products, 6) fishing gear, and 7) any other item that could be used as evidence of fishing crimes. Fishery officers can also search any person, vehicle, or facility on land that is associated with suspect fishing businesses. The broad jurisdiction of fishery officers allows them to collect all the evidence necessary to effectively prosecute fisheries crimes.

**Fisheries Crime Prosecution**

While evidence of illegal fishing is collected by the fishery officers under SFA jurisdiction, prosecutions of fisheries crimes are handled by the Attorney General of the Seychelles. Once convicted, minimum fines for fishing crimes are conferred based on the Fisheries Act, which also outlines the reasons for cancellation or revocation of a fishing license.

**Regional Fishery Management Organization Participation**

The Seychelles is an active member of the IOTC. They were also a leader in the South West Indian Ocean Fisheries Project (SWIOFP) in which they spearheaded regional collaboration on licensing conditions for highly migratory species. They also belonged to the Agulhas and Somali Current Large Marine Ecosystem (ASCLME). However, SWIOFP and ASCLME projects have ended.

**Research Science**

The Research Division of the SFA conducts fishery-independent scientific research and stock assessments for fish species with the highest commercial value. Their projects are aimed at developing appropriate management strategies and
improving fishing techniques. They receive financial and research grants from regional and international organizations which help them maintain ongoing projects, a research vessel, and two laboratory facilities.  

**Considerations and Implications for This System**

There are many benefits to a semi-autonomous fishing authority. The system is structured to accommodate the needs of the fishing sector without being hindered by excessive government bureaucracy. Though the SFA is under the Ministry, it has the ability to manage the fisheries of the Seychelles based on the best scientific and regional knowledge available. Overall, the SFA is a strong model because its specific duties and budget are separate from those of the Ministry, so the two do not compete for funds or jurisdiction.

The Seychelles Fisheries Act is detailed and well organized. It incorporates many IOTC resolutions, making it easy to create compliant access agreements for tuna vessels that adhere to sustainability standards of the region.

Depending on the perspective, there are potential benefits or drawbacks resulting from fishing license revenue being handled solely by the SFA and not the central government. This system benefits the fishing sector in that all the revenue is invested into management and development of the fishing sector. This also means that the revenue is not used for other development or socio-economic programs within the country. In the case of the Seychelles, which is economically dependent on fishing and has a very small total population, this may not be a problem. In other countries with a variety of developing economic sectors, there could be objections to using all the fishing revenue for fishing-related projects when other sectors are also in need of investment and support.
Notes (Seychelles)

5. Seychelles Fishing Authority website. www.sfa.sc
6. Seychelles Fishing Authority (Establishment) Act 2014
7. Fisheries Act, 2014, Part II, Sub-part 2
11. Fisheries Act, 2014, Part II, Sub-part 1
13. Fisheries Act 2014 Part III
15. NFDS et al., Ex post evaluation
18. NFDS et al., Ex post evaluation
19. Fisheries Act, 2014, Part II, Sub-part 1
20. NFDS et al., Ex post evaluation
22. Fisheries Act 2014 Part III, Sub-Part 2
25. Seychelles Fishing Authority website. www.sfa.sc
27. Seychelles Fishing Authority website. www.sfa.sc
28. Fisheries Act 2014, Part V
29. Bergh, Comprehensive Review
30. Fisheries Act 2014, Part V, Sub-Part 1
31. Fisheries Act 2014, Part VI
32. Fisheries Act 2014, Part III, Sub-Part 8
34. Seychelles Fishing Authority, Annual Report 2013
35. NFDS et al., Ex post evaluation
37. NFDS et al., Ex post evaluation
APPENDICES for
AN EXPLORATION OF FEDERAL FISHERIES MANAGEMENT AGENCIES IN EASTERN AFRICA


APPENDIX 1B: Full text of the Lei n. 22/2013 from Mozambique. Published November 1, 2013 in Boletim da República No. 88. (in Portuguese)


APPENDIX 3: Full text of The Deep Sea Fishing Authority Act (Cap. No. 388) from Tanzania. Published March 6, March 2009 in Government Notice No. 48.


APPENDIX 4C. Fisheries Management and Development Act No. 35 of 2016

APPENDIX 5A. Full text of the Seychelles Fishing Authority (Establishment) Act, consolidated to 30 June 2014. Published in the Official Gazette.

APPENDIX 5B. Full text of the Fisheries Act, 2014 from the Seychelles. Published October 27, 2014 in the Supplement to Official Gazette.
Annex 160

“Coral bleaching response and monitoring in the Kiunga marine national reserve”, Reef Resilience Network, 16 June 2014
Kenya – Disturbance Response

Jun 16, 2014

Coral Bleaching Response and Monitoring in the Kiunga Marine National Reserve

Location

Kiunga, Kenya, Western Indian Ocean

The challenge

Kiunga Marine National Reserve (KMNR) is located at the northernmost stretch of the Kenyan coastline at the confluence of two major ocean currents (the north-flowing East African coastal current and the south-flowing Somali current), which creates nutrient-rich upwelling. The reserve covers 250km and provides a refuge for sea turtles and dugongs. The coral reefs found within KMNR are comprised
mainly patch reefs, with fringing reef in the northern part. Seagrass beds form the most extensive wildlife habitat in the KMNR. Mangroves also provide critical habitat for various species, serving as forage and resting areas for sea turtles and nursery grounds for juvenile fishes. These mangrove-dominated environments equate to approximately 30% – 40% of Kenya's mangrove stock.

The primary goal of the reserve is to safeguard the biodiversity and integrity of physical and ecological processes of KMNR, for the health, welfare, enjoyment and inspiration of present and future generations. Although resilience principles were not initially taken into consideration during the design of the reserve in 1979, they have since played a major role in the management of the reserve. The 1998 mass bleaching event triggered interest in the effects of climate change, and subsequently resilience principles were incorporated into the management plan.

Climate change, El Niño Southern Oscillation (ENSO) related events, and overfishing are a threat to this area. Kiunga reefs are ecologically marginal due to a natural barrier provided by major rivers separating them from other Kenyan reefs, and to
influence of high nutrients from upwelling off Somalia. The Kiunga reef system has not recovered from the 1998 bleaching event as quickly as other reefs along the Kenyan coast.

Numerous factors have made management of the reserve challenging. Due to the area’s proximity to the Somali border, it is difficult to enforce management schemes and patrol the area. The local community does not have a strong appreciation for sustainable resource exploitation in an area of constant lawlessness. The World Wildlife Fund (WWF) and Kenya Wildlife Service (KWS) are working to promote environmental education and awareness programs that co-manage natural resources with the local community. The area’s remoteness also makes management challenging because of logistics, high operational costs, and the difficulty of recruiting and retaining skilled and dedicated personnel.
Actions taken

To address the issues of management capacity, WWF and KWS have partnered with conservation and research organizations to carry out regular monitoring to both share costs and attract expertise. With the assistance of partners, the goal has been to reduce impacts (such as fishing) by encouraging sustainable gear and practices, thus improving the reefs ability to withstand natural disturbances.

Currently, coral reef resilience monitoring is being implemented due to the development of an International Union for Conservation of Nature (IUCN) methodology. In 1998, the ENSO-related bleaching event generated a partnership between Coastal Oceans Research and Development in the Indian Ocean (CORDIO) East Africa, United Nations Environment Programme (UNEP), Kenya Marine and Fisheries Research Institute (KMFRI), and Kenya Wildlife Service (KWS) for monitoring. These partners focused on monitoring bleaching (using a Global Coral Reef Monitoring Network methodology), while a wider team of 20 local fishermen monitored other coral reef ecological indicators such as fish, invertebrate and benthic populations, as well as the use of fishing gear. In 2006, a monitoring partnership with KWS began monitoring coral disease. In 2008, monitoring of coral reef resilience began in partnership with IUCN, CORDIO and KWS. Indicators that are being monitored include coral size class, herbivorous fish populations, coral condition and other wider resilience indicators such as oceanographic, anthropogenic and ecological factors. These various monitoring programs have guided management interventions by forming the benchmark for a zoning plan, and by enhancing co-management of natural resources due to increased participation and knowledge of fishermen in the
How successful has it been?

The integration of resilience principles in the management of the KMNDR has improved management of resources due to increased knowledge of the reserve and its resources. Additionally, co-management has been enhanced and relationships with the local community have improved. Lastly, the level of awareness of coral reef conservation within the local fishing communities has increased. This has changed the attitude of fishermen, who now recognize the importance of conserving their environment for the future and are now less likely to use destructive fishing gear.

Lessons learned and recommendations

- Functional partnerships between government agencies and NGOs are critical for effective management and cost reduction.
- Community buy-in is critical to establishing resource ownership and raising awareness/knowledge of environmental/climate change issues within the local community.
- It is recommended that resilience studies and principles be understood and communicated among scientists, resource managers, and resource users.
- It is critical to reduce the human impacts on reserves to provide a foundation for resource managers to better mitigate against the impacts of climate change.
- Raising the profile of climate change is critical so that managers can help the community understand the real and present threat to natural resources.
- Working to increase community understanding of
the importance of taking a resilience-based approach to management is critical to management success.

Funding summary
MacArthur Foundation
United States Agency for International Development (USAID-GCP)
Swedish International Development Cooperation Agency (SIDA)
United Nations Environment Program (UNEP)
World Wildlife Fund (WWF)

Lead organizations
WWF Regional Office for Africa
Coastal Oceans Research and Development - Indian Ocean East Africa (CORDIO)

Partners
Kenya Wildlife Service (KWS)
Kenya Marine and Fisheries Research Institute (KMFRI)
Kenya Department of Fisheries CORDIO
International Union for Conservation of Nature (IUCN)
UNEP
WWF

Resources
Kiunga Marine National Reserve

Natural resource dependence, livelihoods and development: Perceptions from Kiunga, Kenya
Annex 161
Annual Return of Soma Oil & Gas Exploration Limited, UK Companies House,
11 August 2014
Company Name: SOMA OIL & GAS EXPLORATION LIMITED

Company Number: 08619726

Date of this return: 22/07/2014

SIC codes: 09100

Company Type: Private company limited by shares

Situation of Registered Office: 6 DUKE STREET
2ND FLOOR
LONDON
ENGLAND
SW1Y 6BN
The address for an alternative location to the company's registered office for the inspection of registers is:

C/O CAPITA COMPANY SECRETARIAL SERVICES
40 DUKE'S PLACE
LONDON
ENGLAND
EC3A 7NH

The following records have moved to the single alternative inspection location:

- Register of members (section 114)
- Register of directors (section 162)
- Register of secretaries (section 275)
- Records of resolutions and meetings (section 358)

Officers of the company

**Company Secretary**

Type: Person

Full forename(s): PETER

Surname: DAMOUNI

Former names:

Service Address recorded as Company's registered office
Company Director 1

Type: Person
Full forename(s): LORD MICHAEL
Surname: HOWARD OF LYMPNE
Former names: HOWARD

Service Address recorded as Company's registered office

Country/State Usually Resident: UNITED KINGDOM

Date of Birth: 07/07/1941  Nationality: BRITISH
Occupation: COMPANY DIRECTOR

Company Director 2

Type: Person
Full forename(s): HASSAN
Surname: KHAIRE

Service Address recorded as Company's registered office

Country/State Usually Resident: KENYA

Date of Birth: 15/04/1968  Nationality: NORWEGIAN
Occupation: REGIONAL DIRECTOR
Company Director 3

Type: Person

Full forename(s): ROBERT ALLEN

Surname: SHEPPARD

Former names:

Service Address recorded as Company's registered office

Country/State Usually Resident: USA

Date of Birth: 17/02/1949             Nationality: AMERICAN

Occupation: NONE

Company Director 4

Type: Person

Full forename(s): MR BASIL

Surname: SHIBLAQ

Former names:

Service Address recorded as Company's registered office

Country/State Usually Resident: UNITED KINGDOM

Date of Birth: 02/01/1944             Nationality: BRITISH

Occupation: EXECUTIVE DEPUTY CHAIRMAN
Company Director 5

Type: Person
Full forename(s): PHILIP EDWARD CHARLES

Surname: WOLFE

Former names:

Service Address recorded as Company's registered office

Country/State Usually Resident: UNITED KINGDOM

Date of Birth: 18/06/1968    Nationality: BRITISH
Occupation: NONE
### Statement of Capital
(Share Capital)

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<td>Amount unpaid per share</td>
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**Currency:** GBP

**Prescribed particulars**

VOTING RIGHTS - SHARES RANK EQUALLY FOR VOTING PURPOSES. ON A SHOW OF HANDS EACH MEMBER SHALL HAVE ONE VOTE AND ON A POLL EACH MEMBER SHALL HAVE ONE VOTE PER SHARE HELD.

DIVIDEND RIGHTS - EACH SHARE RANKS EQUALLY FOR ANY DIVIDEND DECLARED.

DISTRIBUTION RIGHTS ON A WINDING UP - EACH SHARE RANKS EQUALLY FOR ANY DISTRIBUTION MADE ON A WINDING UP.

REDEEMABLE SHARES - THE SHARES ARE NOT REDEEMABLE.

### Statement of Capital (Totals)

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<td>Total aggregate nominal value</td>
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</table>

### Full Details of Shareholders

The details below relate to individuals / corporate bodies that were shareholders as at 22/07/2014 or that had ceased to be shareholders since the made up date of the previous Annual Return.

A full list of shareholders for the company are shown below

**Shareholding:** 1000 ORDINARY shares held as at the date of this return

**Name:** SOMA OIL & GAS HOLDINGS LIMITED

### Authorisation

**Authenticated**

This form was authorised by one of the following:

Director, Secretary, Person Authorised, Charity Commission Receiver and Manager, CIC Manager, Judicial Factor.
Annex 162

Seismic Option Agreement between the Government of the Federal Republic of Somalia and Soma Oil & Gas Exploration Limited, a wholly owned subsidiary of Soma Oil & Gas Holdings Limited, 6 August 2013
SEISMIC OPTION AGREEMENT

Dated 6 August 2013

(1) GOVERNMENT OF THE FEDERAL REPUBLIC OF SOMALIA REPRESENTED BY HE ABDIRIZAK OMAR MOHAMED, MINISTER OF NATIONAL RESOURCES

(2) SOMA OIL & GAS EXPLORATION LIMITED, A WHOLLY OWNED SUBSIDIARY OF SOMA OIL & GAS HOLDINGS LIMITED REPRESENTED BY THE RIGHT HONOURABLE THE LORD HOWARD OF LYMPNE CH, QC
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SEISMIC OPTION AGREEMENT

Dated 6 August 2013

Between:

(1) The Government of the Federal Republic of Somalia represented for the purpose of this agreement by the Minister of National Resources (the "Government"); and

(2) Soma Oil & Gas Exploration Limited, a wholly owned subsidiary of Soma Oil & Gas Holdings Limited represented by The Right Honourable The Lord Howard of Lympne CH, QC, incorporated under the laws of England and Wales and having its registered office at 1 Finsbury Circus, London, EC2M 7SH, United Kingdom ("Soma").

RECITALS

Whereas:

(A) Soma is an English incorporated company established to assist the Federal Republic of Somalia in their quest to exploit their natural resources with an emphasis on oil and gas.

(B) The Government has the mandate to develop the natural resources of Somalia as directed by and in accordance with the Petroleum Law of Somalia 2008.

(C) Soma wishes to assist the Government to accelerate revenue growth and develop employment prospects for the Federal Republic of Somalia by mapping Somalia’s energy resources, identifying areas of prospectivity and if required conducting additional exploration activities in the Exploration Area.

(D) This Agreement provides for Soma to conduct seismic surveying across the Exploration Area within the Federal Republic of Somalia’s lands and territorial waters with the agreement and at the direction of the Government, in accordance with Reconnaissance Authorisation to be entered into between the Government and Soma. Onshore and offshore areas to be prioritised for surveying will be agreed with the Government. Soma intends to conduct such seismic surveying onshore as is feasible within existing security and political constraints. Where such work is not feasible, Soma proposes to collate such data as is available and prepare a comprehensive analysis of this information for the Government.

(E) Soma will give and copy all Data collected to the Government and create Data Rooms. All Data collected by Soma will be placed at the disposal of the Government in Data Rooms to be established in Mogadishu and London. Full rights to the use and exploitation of all Data will rest with the Government. Soma will have the exclusive right to use Data pertaining to production sharing agreements granted to it but a copy of such Data will be provided the Government.

(F) The scope of the seismic programme will be agreed with the Government. When that programme has been agreed projected costs can be determined.
(G) Soma has set no upper limit on the funds it will deploy to complete the seismic programme. The company guarantees to spend a minimum of US$15 million in conducting the seismic programme.

(H) The Exploration Programme will be completed within two (2) years of the date hereof.

(I) In conducting seismic surveying in The Federal Republic of Somalia, Soma will engage the services of the most experienced and reliable contractors to complete the work.

(J) As consideration to be provided by the Government to Soma in return for the services provided by Soma, Soma will have the right to identify areas where Data collected indicates potential prospectivity. For areas which are available to be granted by the Government without the direct participation of the governments of Federal Member States or holders of prior rights, Production Sharing Agreements on mutually agreed terms will be negotiated with Soma or a Soma nominee reasonably acceptable to the Government and who is suitably qualified to conduct exploration activities in Somalia. For areas which are within the boundaries of Federal Member States or holders of prior rights and where Soma expresses an interest in conducting exploration operations, the Government may initiate a process with a view to negotiating and awarding a petroleum agreement once the Government has clarified its jurisdiction to do so.

(K) Each Production Sharing Agreement shall be in accordance with the Petroleum Law of Somalia 2008 and will provide that the contractor shall conduct exploration activity including drilling within the boundaries of the contract area during the initial exploration phase. Assuming the Exploration Programme identifies sufficient prospective areas and Soma applies for PSAs for these areas, PSAs having an area of 60,000 km² will be awarded, complying with the requirements of the Petroleum Law of Somalia 2008.

Now it is hereby agreed as follows:

1 Definitions and Interpretation

In this Agreement, unless inconsistent with the context or otherwise specified:

1.1 The following expressions have the following meanings:

"Affected Area" means any area notified by Soma to the Government in accordance with Clause 5.2;

"Business Day" means a day, other than a Saturday, a Sunday or a bank or public holiday on which banks are generally open for business in London;

"Centre" has the meaning given to it in Clause 29.3;

"Condition" means the condition set out in Clause 4.1;

"Confidential Information" has the meaning given to it in Clause 11.1;

"Consequential Loss" means:
(a) consequential or indirect loss under English law; and

(b) loss and/or deferral of production, loss of product, loss of use, loss of revenue, profit or anticipated profit (if any), in each case whether direct or indirect to the extent that these are not included in (a), and whether or not foreseeable at the effective date of commencement of the Agreement;

"Corrupt Practices Laws" means: (i) the Laws relating to combating bribery and corruption, and/or the principles described in the Convention on Combating Bribery of Foreign Public Officials in International Business Transactions, signed in Paris on December 17, 1997, which entered into force on February 15, 1999, and the Convention's Commentaries; and (ii) the laws relating to combating bribery and corruption in Soma's place of incorporation, principal place of business, and/or place of registration as an issuer of securities, and/or in the countries of Soma's ultimate parent company's place of incorporation, principal place of business, and/or place of registration as an issuer of securities;

"Data" means:

(a) the seismic, geographical, geological, geophysical and any other data or interpretative information acquired or collected during and as a result of the execution of Exploration Services during the Exploration Programme; and

(b) all interpreted and catalogued information arising from (a) above,

but it shall not include any Excluded Data;

"Data Room" means the physical or electronic locations where the Data will be provided to the Government which, in the case of its physical location, shall be located in both London and Mogadishu;

"Dollars" or "$" means the lawful currency of the United States of America;

"Evaluation Area" means the portion of the Exploration Area to be agreed between Soma and the Government which will be evaluated by the seismic survey and (if relevant) reprocessing of existing seismic data which Soma will conduct as described in Schedule 1(b); and which will exclude any onshore areas of Federal Member States;

"Excluded Data" means:

(a) the seismic, geographical, geological, geophysical and any other data or information acquired or collected during and as a result of the execution of Exploration Services during the Exploration Programme; and

(b) all interpreted and catalogued information arising from (a) above,

collected or created in relation to any Production Sharing Agreement area applied for and awarded in accordance with Clause 2.2.1;

"Exclusivity Period" has the meaning given to it in Clause 12.2;

"Exploration Area" means the onshore and offshore areas within Somalia which are
a) not within the boundaries of a Federal Member State; and

(b) not the subject of a prior grant of petroleum rights by the Government or a predecessor of the Government, other than prior grants which the grantee has acknowledged to have terminated or which have been terminated by the Government other than pursuant to Part VIII of the Petroleum Law 2008;

"Exploration Programme" means the schedule of works that form Soma’s obligations as set out in Schedule 1;

"Exploration Services" means those services to be undertaken by Soma (or any Subcontractor as the case may be) necessary to complete the Exploration Programme;

"Federal Member States" means those regional member states who have at the time of this Agreement agreed to adhere to the Provisional Constitution and have accepted to be part of the Federal Republic of Somalia;

"Force Majeure" means the occurrence, continuation and consequences of an event which, by exercise of reasonable diligence, Soma is unable to prevent or control that falls within one or more of the following categories:

(a) act of God;

(b) riot, war (including civil war), invasion, act of foreign enemies, hostilities (whether war is declared or not), acts of terrorism, rebellion, revolution, insurrection of military or usurped power;

(c) expropriation, confiscation, requisitioning or commandeering of all or part of Soma’s or Subcontractors’ employees, personnel and equipment by any government;

(d) explosion, fire, flood, earthquake, catastrophic weather conditions or other natural calamities;

(e) strikes or industrial disputes at a national or regional level, or by labour not employed by Soma or Subcontractors and which affect a substantial or essential part of the Exploration Services;

(f) changes to, or introduction of, any general or local Statute, Ordinance, Decree, Law, regulation or bye-law of any duly constituted authority whether at local, regional or national level which affect a substantial or essential part of the Exploration Services; and

(g) any other act, event, or circumstance, or force, beyond the reasonable control of Soma and its Subcontractors including events or circumstances relating to security situations and/or status affecting the Exploration Services;

"IBA Rules ISM" has the meaning given to it in Clause 29.2;

"Intellectual Property Rights" means all patents, rights to inventions, utility models, copyright and related rights, trademarks, service marks, trade, business and
domain names, rights in trade dress or get-up, rights in goodwill or to sue for passing off, unfair competition rights, rights in designs, rights in computer software, database rights, semi-conductor topography rights, moral rights, rights in any confidential information (including know-how and trade secrets) and any other intellectual property rights, in each case whether registered or unregistered and including all applications for and renewals or extensions of such rights, and all similar or equivalent rights or forms of protection in any part of the world;

"Minimum Funding Commitment" means the aggregate amount of US$15,000,000 (fifteen million Dollars);

"Notice of Application" means the notice of application of areas in respect of which Soma requests that Production Sharing Agreements be given in the agreed form set out in Schedule 4;

"Notice of Completion" means the notice of completion of the Exploration Programme to be given by Soma in the form set out in Schedule 3;

"Parties" means the parties to this Agreement;

"Production Sharing Agreement" or "PSA" means the production sharing agreement to be entered into in relation to areas which are the subject of a Notice of Application, which production sharing agreement shall be in the form set out in Schedule 2, and which shall be compliant with the Petroleum Law of Somalia 2008 or any amendment or successor to it;

"Reconnaissance Authorisation" means a document which provides the reconnaissance authorisations envisaged under the Petroleum Law of Somalia 2008 (or any amendment or successor to such law) in a form which complies with the Petroleum Law of Somalia 2008 (or any amendment or successor to such law) but is acceptable to Soma. For the avoidance of doubt, subject to compliance with the Petroleum Law of Somalia 2008 (or any amendment or successor to such law) the provisions of any such reconnaissance authorisations shall not conflict with the terms of this Agreement or any Production Sharing Agreement including (without limitation) any simple conflict of the terms or the imposition of any additional material duty or liability on Soma or (so far as relevant) its qualified nominee. In the event of any such conflict the terms of this Agreement and/or (as the case may be) the Production Sharing Agreement shall prevail;

"Somalia" means the Federal Republic of Somalia and all its on-shore territory and off-shore territory extending at least as far as its exclusive economic zone;

"Subcontractors" means all parties employed directly or indirectly by Soma for the performance of all (or any part thereof) of the Exploration Services;

"Suspension Notice" means a notice as referred to in Clause 5.2 and as appears at Schedule 5; and

1.2 All references to Clauses and Schedules are, unless otherwise expressly stated, references to Clauses of and schedules to this Agreement. The Schedules form part of this Agreement and shall have the same force and effect as if expressly set out in the body of this Agreement.
1.3 The headings and Recitals in this Agreement are inserted for convenience only and shall be of no legal effect in construing this Agreement.

1.4 Any document expressed to be "in the agreed form" means a document in a form approved by the Parties.

1.5 In the event of any ambiguity, inconsistency or conflict between the provisions of the main body of this Agreement and the Schedules and the Annexes, the provisions of the main body shall prevail.

1.6 This Agreement and the terms herein precede any of the terms of the Production Sharing Agreement.

1.7 Unless the context otherwise requires, reference to the singular shall include the plural and vice versa, reference to any gender shall include all genders, and references to persons shall include natural persons, bodies corporate, unincorporated associations and partnerships.

1.8 References to any statute or statutory provision shall be construed as references to that statute or those provisions as at the date of this Agreement.

2 Soma's Obligations and Rights

2.1 Subject to the terms of this Agreement, Soma's obligations shall be to:

2.1.1 undertake the Exploration Programme as outlined in Schedule 1;

2.1.2 complete the Exploration Programme within a reasonable period to be agreed with the Minister, but not later than two (2) years from the date hereof;

2.1.3 subject to the provisions of Clause 9, provide the Data generated by the Exploration Programme to the Government in the Data Rooms;

2.1.4 serve a Notice of Completion in the form provided at Schedule 3 on the Government upon completion of the Exploration Programme; and

2.1.5 apply and incur an amount equivalent to not less than the Minimum Funding Commitment in undertaking the Exploration Programme by not later than the second anniversary of this Agreement.

2.2 Subject to the terms of this Agreement, Soma's rights shall be to:

2.2.1 at any time not earlier than determination of the Evaluation Area and not later than twelve (12) months following the Notice of Completion, to serve a Notice of Application in the form provided at Schedule 4 on the Government to apply for one or more Production Sharing Agreements to be awarded and granted to it or its qualified nominee by the Government, in respect of a portion of the Evaluation Area where the Exploration Programme has identified an area of potential prospectivity that justifies further exploration work;
2.2.2 by no later than 90 days from any Notice of Application for any portion of the Evaluation Area, to be awarded and granted by the Government the Production Sharing Agreement or Production Sharing Agreements applied for in any Notice of Application, provided that:

(a) Assuming the Exploration Programme identifies sufficient prospective areas and Soma applies for PSAs for these areas, PSAs having an area of 60,000 km² (or such lesser area as Soma may apply for in its discretion) will be awarded;

(b) The size of the contract area of each Production Sharing Agreement shall not exceed 5,000 km²; and

(c) Each Production Sharing Agreement shall comply with the requirements of the Petroleum Law of Somalia 2008, and shall provide that the contractor shall conduct exploration activity including drilling of an exploration well within the boundaries of the contract areas during the initial exploration phase (provided always that Soma shall not be obligated to drill more than one well in relation to any two offshore contiguous areas in such initial exploration phase),

The parties acknowledge that the scope and extent of the Exploration Programme will need to be adequate to justify the award of PSAs over an area of 60,000 km², and this will require an expenditure that is greater than the Minimum Funding Commitment;

2.2.3 following reasonable consultation with the Government and in compliance with the Voluntary Principles on Security and Human Rights, provide adequate security measures on its behalf and/or on behalf of its Subcontractors (as the case may be) in relation to activities and operations undertaken pursuant to this Agreement including (without limitation) the provision of armed security; and

2.2.4 recover all direct costs and expenses incurred under this Agreement and paid to arm’s length third parties for the conduct of the Exploration Services as recoverable costs under any Production Sharing Agreements awarded to Soma pursuant to this Agreement and the Production Sharing Agreement shall expressly provide for such recovery.

3 Government’s Obligations and Rights

3.1 Subject to the terms of this Agreement, the Government’s obligations shall be to:

3.1.1 seek the satisfaction of the Condition in accordance with Clause 4;

3.1.2 provide in accordance with Clause 5 unlimited access to the Exploration Area to Soma and its Subcontractors directly or indirectly employed by Soma as is necessary to complete the Exploration Programme;

3.1.3 assist in accordance with Clause 16 with the provision and on-going validity of any visas, licences, permits or consents necessary to complete the
Exploration Programme including issuing Reconnaissance Authorisations in relation to the agreed Exploration Programme;

3.1.4 by no later than 90 days from the relevant Notice of Application for any portion of the Evaluation Area, to award and grant to Soma or its nominee those Production Sharing Agreements applied for by Soma in accordance with Clause 2.2.1, on the terms set out in Schedule 2; and

3.1.5 promptly provide any additional approval which is required to the change of Control where the requisite conditions have been met under Clause 14.4.

3.2 Subject to the terms of this Agreement, the Government's right shall be to be provided with the Data subject to the provisions of Clause 9.

3.3 On request, Soma shall make such of its books and accounts which are relevant to enable the Government to assess compliance by Soma with its obligations under Clause 2.1.5 and this Agreement generally.

3.4 At any time following the Exclusivity Period, the Government shall be entitled to notify Soma of any portions of the Evaluation Area which have been requested by third parties to be the subject of a production sharing agreement. If these areas are the subject of a seismic evaluation in the Exploration Programme and such evaluation has been neither commenced nor completed, then within twelve months following the Government's notice to Soma, Soma shall complete the evaluation and either deliver a Notice of Application for such areas (or any portion thereof) or advise the Government that it elects not to deliver a Notice of Application for such area. If these areas are the subject of seismic evaluation in the Exploration Programme and such evaluation has been completed, then within three months following the Government's notice to Soma, Soma shall either deliver a Notice of Application for such areas (or any portion thereof) or advise the Government that it elects not to deliver a Notice of Application for such area. For the avoidance of doubt, seismic evaluation of an area has been completed when the seismic data outlined in the Exploration Programme in Schedule 1(b), (c) or (d) has been acquired by Soma but not necessarily processed.

4 Condition

4.1 This Agreement is conditional upon the approval of the Council of Ministers to the transactions and the rights to be granted to Soma contemplated by this Agreement.

4.2 If the approval of the Council of Ministers is subject to any conditions which are not acceptable to Soma, Soma may terminate this Agreement for failure of the Condition.

4.3 The Government undertakes to request the approval of the Council of Ministers required by Clause 4.1.

4.4 If the Condition (to the extent not waived in accordance with the terms of this Agreement) has not been fulfilled within 3 months of the date of this Agreement then this Agreement shall terminate with effect from that date.
4.5 If this Agreement terminates in accordance with Clause 4.4 then the obligations of the Parties shall automatically terminate.

4.6 The Government shall by notice keep Soma advised of the progress towards satisfaction of its obligations under Clause 4.1.

5 Access to the Exploration Area

5.1 The Government agrees that Soma and its Subcontractors shall have unlimited and unrestricted access to the Evaluation Area at all times throughout the Exploration Programme and the Government shall do all within its power and control to ensure that its agencies, departments, municipalities, ministers, officers and agents render all possible assistance including the provision of adequate security for personnel and equipment in the Exploration Area and issue all required licences and permits required by Soma, its representatives, agents and Subcontractors to be able to conduct the Exploration Services including without limitation the necessary Reconnaissance Authorisations.

5.2 When Soma is unable to access, or unable to commence or is prevented or hindered in the execution of the Exploration Services in any part of the Exploration Area (an "Affected Area") as a result of:

5.2.1 the Government’s failure or delay in complying with Clause 5.1 above;

5.2.2 Soma’s determination that the security situation within the Affected Area has, subsequent to the date of this Agreement, changed such that this has or will increase the risk of physical harm to its employees, representatives or agents, or those of its Subcontractors; or

5.2.3 a Force Majeure event, which has prevented execution of the Exploration Area in the Affected Area for a period in excess of seven (7) days,

then Soma may serve upon the Government a suspension notice in the form prescribed in Schedule 5 (a "Suspension Notice"). No Suspension Notice may be served in respect of the period in Clause 2.2.2 following completion of the Exploration Programme and prior to a Notice of Application.

5.3 Upon service of a Suspension Notice on the Government, Soma shall be entitled to suspend execution of the Exploration Programme in the Affected Area until the date upon which the event or events cited in the Suspension Notice have ceased the prevention of such activities. Such suspension shall not curtail Soma’s obligations in respect of Exploration Services to be undertaken in respect of those areas not being an Affected Area(s).

5.4 Where six (6) months have elapsed since receipt by the Government of a Suspension Notice and the events described therein continue to prevent or hinder execution of the Exploration Services, the Government agrees that the Exploration Programme shall be amended automatically to exclude Exploration Services in the Affected Area, without any modification or alteration of the other terms of this Agreement, including without limitation the continued obligation to conduct Exploration Services up to the Minimum Funding Commitment.
6 Government Assistance

6.1 In any circumstances whatsoever (including where a Force Majeure event has occurred) and in any area whatsoever (including any Affected Area in respect of which a Suspension Notice has been served and any territory beyond Somalia), the Government shall, in the event that any property, employees, agents, representatives of Soma or any Subcontractors are threatened with seizure or seized, render all assistance to:

6.1.1 prevent the seizure of that property or those persons; and
6.1.2 procure the release of that property or those persons if seized.

7 Subcontractors

Soma shall be entitled to sub-contract the provision of the Exploration Services or any part thereof to any person or persons subject always to the Government (acting reasonably) being satisfied that such person or persons has the necessary financial and technical competence and capabilities to undertake and perform such services.

In carrying out its activities pursuant to this Agreement, Soma and its Subcontractors shall act as a reasonable and prudent operator in accordance with the highest standards in the international petroleum industry and the guidelines and manuals of the International Association of Geophysical Contractors (IAGC).

8 Creation of Data Rooms

8.1 Soma shall at the reasonable direction of the Government create Data Rooms in London and Mogadishu containing 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 as Soma may acquire within the Exploration Area. To the extent that there is a physical Data Room in Mogadishu the Government shall be entitled to retain professional advisors to manage and catalogue the Data in that physical Data Room.

8.2 Soma shall ensure that the Government has access to the Data Rooms in accordance with Clause 9.

8.3 With effect from the expiry of the Exclusivity Period, the Government shall at all times be entitled to retain professional advisors to manage, catalogue and market the Data in the Data Rooms.

9 Provision of the Data

9.1 Soma shall deliver the Data to the Data Rooms continuously within a reasonable time from the collection or creation of any Data.

9.2 The Government shall have uninhibited access to the Data Rooms during normal office hours.

9.3 All Intellectual Property Rights in the Data collected or created by Soma or on Soma's behalf shall be the property of Soma until the Data is provided to the
Government in the Data Rooms; provided that, Soma may not sell or licence such Data to any other person.

9.4 Upon delivery of any Data into the Data Rooms, title to all Intellectual Property Rights in that Data shall pass to the Government. All Data delivered by Soma is on an "as is" basis and Soma shall have no responsibility or liability to the Government or any third party for the quality, accuracy, completeness or correctness of the Data.

9.5 Soma acknowledges that, upon the expiry of any Production Sharing Agreement applied for and awarded in accordance with Clause 2.2.1 and 2.2.2:

9.5.1 the operator of that Production Sharing Agreement at the time of its expiry shall provide any Excluded Data to the Government; and

9.5.2 title to all Intellectual Property Rights in that Excluded Data shall pass to the Government.

9.6 The Government shall at all times have access to, and the right to copy, reproduce or otherwise make use of any Data; provided that, except as expressly provided in this Agreement, the Government's rights in relation to any Excluded Data shall be as set forth in and shall be limited to any rights expressly reserved to the Government in the relevant Production Sharing Agreement.

9.7 No third party shall be entitled to rely against Soma on the quality, accuracy, completeness or usefulness of any Data, Enhanced Data or Excluded Data acquired pursuant to this Agreement.

9.8 The Government acknowledges that pursuant to this Agreement Soma will be making make substantial investment in the obtaining, verification, selection, coordination, development, presentation and supply of the Data. However, the benefits to Soma of such investment shall be limited to the right to send a Notice of Application in accordance with this Agreement, and Soma shall not have the right to market the Data.

9.9 From the date of service of each Notice of Application in accordance with Clause 2.2.1 above, Soma may remove any Data related to the Production Sharing Agreement(s) identified in the Notice of Application (being those Production Sharing Agreements that Soma applies for in accordance with its right under Clause 2.2.1) and that Data shall become Excluded Data. The rights of the Government in relation to Excluded Data shall be governed by the Production Sharing Agreement.

10 Warranties

10.1 Except as expressly stated in this Agreement, all warranties, conditions and terms whether express or implied by statute, common law or otherwise are hereby excluded to the extent permitted by law.

10.2 Without limiting the effect of Clause 9 Soma does not warrant that:

10.2.1 The supply of the Data or use of the Data Room will be free from interruption;

10.2.2 The Data and Data Room will run on any computer or I.T. system;
10.2.3 The Data is accurate, complete, reliable, secure, useful, fit for any purpose or timely; or

10.2.4 The Data has been tested for use by the Government or any third party or that the Data will be suitable for or be capable of being used by the Government or any third party.

10.3 The Government acknowledges and accepts that the Data provided in the Data Room is supplied "as is". Soma will ensure that representations made by its Subcontractors regarding the quality and standard of care related to the acquisition of Data will be given for the benefit of the Government.

10.4 Soma is a corporation with the technical and financial capability to conduct the Exploration Programme and the Exploration Services or has the ability to procure them, and to fund the Minimum Funding Commitment.

10.5 Soma will conduct the Exploration Programme and the Exploration Services at no cost to the Government.

10.6 In carrying out its activities pursuant to this Agreement, Soma and its Subcontractors shall:

10.6.1 act as a reasonable and prudent operator in accordance with the highest standards in the international petroleum industry and the guidelines established by the International Association of Geophysical Contractors (IAGC);

10.6.2 comply with the Petroleum Law of Somalia 2008 and its rules and regulations from time to time;

10.6.3 maintain adequate insurance for all reasonable risks, including without limitation, against third party damage, pollution, marine and hull;

10.6.4 indemnify and hold the Ministry harmless from any loss or claim arising from any act or omission of Soma and its Subcontractors in performing the Exploration Programme; and

10.6.5 conduct its activities in accordance with the terms of this Agreement, the Exploration Programme approved by the Government and the technical specifications provided in the Exploration Programme.

10.7 Neither Soma nor any person acting on behalf of it has offered, promised or paid any consideration or benefit, whether directly or indirectly, to any official of the Government in connection with this Agreement or otherwise to obtain or retain business in Somalia. Soma, its directors, officers, shareholders, Affiliates, Subcontractors and persons acting on their behalf shall not, during the term of this Agreement, offer, promise or pay any consideration or benefit, whether directly or indirectly, to any official of the Government in connection with this Agreement or otherwise to obtain or retain business in Somalia.

11 Confidentiality

11.1 Subject to Clause 11.2 and Clause 9, each Party shall, and shall ensure that its respective affiliates, officers, employees, agents and professional and other advisers and the Subcontractors shall, treat as strictly confidential and not disclose or use the
Data received or obtained as a result of entering into this Agreement (the "Confidential Information").

Clause 11.1 shall not prevent disclosure or use of any Confidential Information where such disclosure or use is:

11.2.1 required or requested by law or any competent statutory or regulatory body or any recognised stock exchange on which the shares of Soma are listed;

11.2.2 required for the purpose of any judicial proceedings arising out of this Agreement;

11.2.3 made to a tax authority in connection with the tax affairs of the disclosing Party or a company connected with a disclosing Party;

11.2.4 made to a person proposing to provide, or secure the provision of funding (whether by way of equity investment, loan or otherwise) to Soma or insure anything required for the Exploration Programme or to any person (or their respective advisers) having so provided, or secured such funding or insured anything required for the Exploration Programme;

11.2.5 made to a person proposing to acquire any of the then issued share capital or debt instruments of Soma by way of transfer or to acquire any of Soma's share capital by subscription;

11.2.6 in connection with a listing of the issued share capital or debt instruments of Soma (including information made available to any underwriter, sponsor or broker involved in the listing);

11.2.7 made to any shareholder of or investor in (whether by way of equity investment, loan or otherwise) Soma or to any member of its group in connection with the re-structuring of Soma, its group or any member thereof;

11.2.8 made to professional advisers on a need-to-know basis and on the basis that each such professional adviser is made fully aware of the terms of this Clause 11 and adheres to the terms of this Clause 11 in relation to Confidential Information as if it were a party to the provisions hereof;

11.2.9 in respect of information which is or becomes publicly available (other than by breach of this Agreement);

11.2.10 is disclosed or sold by the Government in connection with the promotion or award of petroleum rights in Somalia;

11.2.11 is to be used by the Government to conduct petroleum activities in Somalia;

or

11.2.12 is required to be disclosed pursuant to the Petroleum Law of Somalia 2008 or any other present legislation in Somalia;

provided that prior to disclosure or use of any Confidential Information pursuant to Clauses 11.2.1 to 11.2.6, the disclosing Party shall consult with the other Party...
(where practicable) and take into account the reasonable comments of the other Party.

11.3 Each Party shall indemnify and keep indemnified the other against all actions, claims, demands, proceedings, damages, costs, charges and expenses whatsoever in respect of any breach by that Party of this Clause 11.

11.4 The Parties acknowledge the transparency and publication obligations of the Petroleum Law of Somalia 2008, and the Government's actions and intention (and Soma’s resulting obligations) to comply with them and the principles of the Extractive Industry Transparency Initiative.

11.5 Soma will consult with the Government in relation to any press release in relation to the terms of this Agreement where applicable.

12 Exclusivity

12.1 In consideration for Soma incurring costs in connection with its obligations under this Agreement the Government agrees and undertakes to Soma not to, directly or indirectly, initiate, accept or engage in any discussions with any third party with a view to entering into transactions similar to those which are contemplated by this Agreement in relation to the Exploration Area within the Federal Republic of Somalia for the duration of the Exclusivity Period. Nothing in this Clause 12.1 shall prevent Soma from negotiating with seismic contractors in relation to activities that may be conducted after the Exclusivity Period in relation to areas which are outside of the Evaluation Area. Seismic activities which fall outside of the Evaluation Area may include work beyond the Evaluation Area to enhance the overall data collection and processing undertaking.

12.2 For the purposes of Clause 12.1, the Exclusivity Period shall be for a period of eight (8) months from the date of this Agreement.

12.3 During the Exclusivity Period Soma shall commence the Exploration Programme in accordance with its obligations under Clause 2.1.1.

13 Indemnities

13.1 Except as provided in this Clause 13, each Party shall be individually responsible for its actions, deeds, omissions or breaches of obligation with respect to a third party or parties and shall bear full and sole responsibility for said acts, omissions or negligence and the consequences of any damage that it or they may cause, subject to the each Party's right of indemnifications provided herein.

13.2 The Government shall defend, indemnify and hold Soma harmless from and against any and all claims, demands, proceedings, loss actions, liabilities, judicial awards and costs, including reasonable legal costs, or/and expenses however arising by reason of:

13.2.1 injury to, illness or death of the Government’s officers, employees or contractors; and/or
13.2.2 loss of or damage to Government's property or any affecting the Exploration Area,
arising out of or in consequence of the performance of this Agreement irrespective of
the negligence or wilful misconduct or breach of duty (statutory or otherwise) on the
part of Soma.

13.3 Soma shall indemnify and hold the Government harmless from and against any
action, liability, judicial awards and costs, including reasonable legal costs, or
expenses howsoever arising by reason of:

13.3.1 injury to, illness or death of Soma's personnel; and/or
13.3.2 loss of or damage to Soma's property,
arising out of or in consequence of the performance of this Agreement irrespective of
the negligence, wilful misconduct or breach of duty, whether statutory or otherwise,
on the part of the Government.

13.4 The Government shall indemnify and hold Soma harmless from and against any
action, liability, judicial or arbitration claims, proceedings, judgments or awards and
costs, including reasonable legal costs, or expenses arising by reason of:

13.4.1 claims by any third party government or quasi-government entity or any
third party company that the Exploration Services infringe upon any rights,
licences or concessions which they may assert that they have over any part
or parts of the Exploration Area; and
13.4.2 claims by any third party in relation to or caused by any deficiency or
inaccuracy in any of the Data, Enhanced Data or Excluded Data;
arising out of or in consequence of the performance of this Agreement, and more
particularly, the Exploration Services irrespective of the negligence or wilful
misconduct or breach of duty whether statutory or otherwise on the part of Soma.

13.5 Soma shall indemnify and hold the Government harmless from and against any
action, liability, judicial or arbitration claims, proceedings, judgments or awards and
costs, including reasonable legal costs, or expenses arising by reason of damage to
or pollution arising out of or emanating from any hydrocarbon reservoir within the
Exploration Area, arising out of or in consequence of the performance of this
Agreement, and more particularly, the Exploration Services.

14 Assignment

14.1 Soma may not assign, encumber, dispose of or otherwise transfer its rights under
this Agreement, including its rights to apply for Production Sharing Agreements and
enter into Production Sharing Agreements, without the prior written consent of the
Government which shall not be unreasonably withheld or delayed in relation to
parties who demonstrate reasonable and adequate technical and financial capacity.

14.2 If there is a change of Control of Soma (within the meaning of the Petroleum Law of
Somalia 2008), the rights of Soma under this Agreement shall be subject to prior
approval by the Government (which approval shall not be unreasonably withheld or
delayed), and if a change in Control occurs without the approval of the Government, this Agreement shall terminate.

14.3 For the purposes of this Agreement, change in Control includes a Person ceasing to be in Control (whether or not another Person becomes in Control), and a Person obtaining Control (whether or not another Person was in Control).

14.4 For the avoidance of doubt the Government hereby approves any change of Control to the extent that it occurs as a result of Soma or a member of its group raising capital by way of a private placement with private, institutional or other financial investors that does not involve material change in the management of Soma or by way of an initial public offering ("IPO") including (without limitation) a reverse takeover that does not involve material change in the management of Soma.

14.5 Attached as Schedule 6 is a list of the current officers, directors and shareholders of Soma and Soma Oil & Gas Holdings Limited.

14.6 In exercising its discretion regarding the consent to or approval of any assignee of this Agreement, assignment of the right to apply for Production Sharing Agreements or enter into Production Sharing Agreements or a change of Control of Soma:

14.6.1 it shall be reasonable for the Government to reject a person who is not acting in material compliance with an existing material agreement with the Government or any law or regulation of the Government (including without limitation the Petroleum Law of Somalia 2008);

14.6.2 a person shall be considered (a) technically qualified to be an operator of a Production Sharing Agreement for an onshore block if it or an Affiliate is currently producing 5000 BOEPD at some other onshore location, and (b) qualified to be an operator of a Production Sharing Agreement for an offshore block if it or an Affiliate is currently producing 5000 BOEPD at some other offshore location;

14.6.3 a person shall be considered financially qualified to hold an interest in a Production Sharing Agreement if its debt is rated BBB- or better by Standard & Poors or an equivalent rating from another recognized rating agency; and

14.6.4 a person shall be considered financially and technically qualified to hold an interest in a Production Sharing Agreement if it is a holder of an agreement awarded by the Government for similar block in Somalia and it is not in material default of its obligations under the applicable agreement, or it was qualified to bid for a similar block in the most recent bid round conducted by the Government.

The qualification requirements of 14.6.2, 14.6.3 and 14.6.4 above shall not be exclusive, and a person may be considered qualified based on other reasonable criteria established by the Government.

15 Capacity and Authority

The Government warrants and undertakes to Soma that, following fulfilment of the Condition, it has the right, power and authority to perform its obligations under this
Agreement. Soma warrants and undertakes to the Government that it has the right, power and authority to perform its obligations under this Agreement.

16 Immigration Controls, Local Materials, Local Office, Imports and Releases from Customs

16.1 Immigration Controls

16.1.1 So long as Soma and its Subcontractors comply with the applicable laws of Somalia relating to immigration and subject to Clause 16.1.2 below, the Government will expeditiously upon application of Soma grant all work permits, employment passes, visas and other permits, required under the laws of Somalia by individuals employed by Soma or its Subcontractors and their respective dependents.

16.1.2 The Government shall be entitled to refuse an application, or expel a person previously admitted to Somalia, to protect the national security interest or public health and safety of Somalia.

16.2 Local Materials and Local Office

16.2.1 Soma and its Subcontractors shall incorporate as much locally produced material, equipment and supplies as reasonably possible in the delivery of the Exploration Services. To the extent that locally produced material, equipment and supplies are not available which meet suitable technical and safety specifications and can be supplied in a timely manner having regard to Contractor’s operational obligations, Soma and its Subcontractors shall be entitled to import without restriction all plant, equipment and machinery required for the Exploration Services.

16.2.2 Soma intends, as soon as practicable following the date of this Agreement, to establish a local office to be located in Mogadishu to assist Soma to expedite and achieve and perform its rights and obligations under this Agreement. The Government undertakes to assist Soma establish such office including by way of granting all necessary licences and authorisations required for such establishment including in relation to personnel, both local and ex-patriate, proposed to staff and operate from such office.
16.3 Imports

All plant, machinery and equipment required to provide the Exploration Services by Soma and/or its Subcontractors (including that plant, machinery and equipment as may be required in order to fulfill and satisfy Soma's obligations and rights under Clauses 2 and 7) may be freely imported by Soma without incurring liability for customs duties or any other levies in Somalia. Soma and/or its Subcontractors shall be entitled to export without restriction all items of plant, equipment and machinery required to provide the Exploration Services at any time without incurring liability for customs duties or any other levies in Somalia.

16.4 Releases from Customs

The Government shall ensure that all plant, machinery and equipment imported for use in the Exploration Programme shall be cleared for the release from Somalian customs and removal by Soma and/or its Subcontractors or their agents as soon as possible and not more than fifteen (15) Business Days following delivery by Soma and/or its Subcontractors of written notice to the Government of a delay in the release by Somalian customs of such machinery and equipment.

17 Economic Stabilisation

The rights and interests accruing to Soma (or its assignees) under this Agreement shall not be amended, modified or reduced without the prior consent of Soma. In the event that the Government or other state authority invokes any present or future law, treaty, intergovernmental agreement, decree or administrative order which contravenes the provisions of this Agreement or adversely or positively affects the rights or interests of Soma hereunder, including, but not limited to, any changes in tax legislation, regulations, administrative practice, or jurisdictional changes pertaining to the Exploration Area or any other rights granted to Soma under the terms of this Agreement then the terms of this Agreement shall be adjusted to re-establish the economic equilibrium of the Parties, and if the rights or interests of Soma have been adversely affected, then the Government shall indemnify Soma (and its assignees) for any disbenefit, deterioration in economic circumstances, loss or damages that ensue therefrom and the Government shall within the full limits of its authority use all reasonable lawful endeavours to ensure that it shall take appropriate measures to resolve promptly in accordance with the foregoing principles any conflict or anomaly.

It is acknowledged that the provisions of this Clause do not affect:

(a) The rights or powers of the Government to enact legislation, including legislation to replace the Petroleum Law of Somalia 2008;

(b) The obligation of Soma to comply with rules and regulations which may be enacted pursuant to the Petroleum Law of Somalia 2008 or any successor or replacement legislation;

(c) Future laws, rules or regulations pertaining to the standard of performance of petroleum operations, health, safety and the...
environment that are consistent with the industry standard from
time to time; and

(d) Future laws, rules or regulations pertaining to (i) local content and
local supply of goods and services which meet suitable technical
and safety specifications and can be supplied in a timely manner
having regard to Contractor's operational obligations and (ii) local
employment and training.

18 Termination

18.1 Either Party may terminate this Agreement by notice in any of the following
circumstances:

18.1.1 in the case of Soma only, if the Government is in material breach of any of
its obligations under this Agreement;

18.1.2 in the case of the Government only, if Soma is in material breach of any of
its obligations under this Agreement; or

18.1.3 by either Party, if periods of Force Majeure have lasted for a cumulative
period of twenty four months.

18.2 If this Agreement terminates in accordance with Clause 18.1 then the obligations of
the Parties shall automatically terminate save that:

18.2.1 the rights accruing to Soma in relation to a Notice (or Notices) of Application
issued by it in accordance with Clause 2.2.1 and the obligation of the
Government to award and grant in accordance with Clause 3.1.4 shall
survive and subsist notwithstanding termination of this Agreement; and

18.2.2 in the case of termination pursuant to Clause 18.1.1 the Government shall
indemnify and keep indemnified Soma against:

(a) all costs, claims, charges, damages and expenses incurred by
Soma in performing its obligations under this Agreement to the
date of such termination; and

(b) all costs, claims, charges, damages and expenses incurred by
Soma in relation to its Subcontractors and/or in relation to the
early termination of any contract between Soma and such
Subcontractors as a result of the termination of this Agreement.

18.3 The continued validity of any Production Sharing Agreement issued pursuant to this
Agreement is contingent on the performance by Soma of Exploration Programme and
Exploration Services (and the delivery to the Government of the related Data) up to
an amount equal to the Minimum Funding Commitment.

18.4 If a competent authority has reasonably determined (in a proceeding applying due
process):

18.4.1 that this Agreement or any Reconnaissance Authorisation or Production
Sharing Agreement has been obtained by Soma or any person or
Subcontractor acting on behalf of Soma, in violation of Corrupt Practices Laws; or

18.4.2 that a permit, approval, consent or waiver in connection with this Agreement or any Reconnaissance Authorisation or Production Sharing Agreement or petroleum operations has been obtained by Soma or any person or Subcontractor acting on behalf of Soma, in violation of Corrupt Practices Laws;

then, on not less than thirty (30) days’ prior notice to Soma, the Government may terminate this Agreement and any Reconnaissance Authorisation or Production Sharing Agreement issued pursuant to it. Any final determination, judgment, sanction, or conviction (not subject to further appeal on the issue), including under a consent order in which there is a finding or admission of guilt, of a judicial or regulatory authority in England or Somalia or elsewhere having jurisdiction over Somalia or an Affiliate of such Somalia, will be conclusively determinative. Unless the Government has cancelled a notice of termination, this Contract will be terminated as of end of such thirty (30) day notice period.

19 **Force Majeure**

19.1 **Force Majeure Relief**

19.1.1 Subject to the further provisions of this Clause 19, a Party shall not be liable for any failure to perform an obligation under this Agreement to the extent such performance is prevented, hindered or delayed as a result of Force Majeure.

19.1.2 Notwithstanding Clause 19.1.1, failure by a Party to pay money shall not constitute Force Majeure.

19.2 **Procedure**

A Party claiming Force Majeure shall:

19.2.1 notify the other Party as soon as reasonably practicable of the event or circumstance concerned, and of the extent to which performance of its obligations is prevented, hindered or delayed thereby;

19.2.2 keep the other Party fully informed as to the actions taken, or to be taken, by it to overcome the effects thereof, and, from time to time, provide it with such information and permit it such access, as it may reasonably require for the purpose of assessing such effects and the actions taken or to be taken; and

19.2.3 resume performance of its obligations as soon as reasonably practicable after the event or circumstance no longer exists.

19.3 **Consultation**

The Parties shall consult with each other and take all reasonable steps to minimise the losses of either Party and to minimise any overall delay or prejudice to the Exploration Services as a result of Force Majeure.
19.4 Third Parties

Where a Party enters into an agreement in relation to this Agreement with a third party, a failure by the third party to perform an obligation under that agreement shall be Force Majeure affecting that Party only if performance of that obligation was prevented, hindered or delayed by events or circumstances which (if the third party were party to this Agreement in the capacity of the Party concerned) would (in accordance with the provisions of this Clause 19) be Force Majeure affecting it.

19.5 Extension of Time

If Force Majeure materially prevents, hinders or delays Exploration Services for more than three (3) consecutive months, the Parties shall discuss, in good faith, amendments regarding the term of, and the periods of time in which Exploration Services are to be carried out under, this Agreement.

20 Interest in Areas outside of the Exploration Area

20.1 The Government and Soma acknowledge that the Exploration Services and any possible Production Sharing Agreements which are applied for by Soma or its nominee may only occur in relation to the Exploration Area within Somalia. Following completion of the Regional Evaluation described in Schedule 1, if Soma is interested in conducting exploration activity in any portions of onshore or offshore Somalia which are outside the Exploration Area, it shall so advise the Government in writing of its areas of interest (each such area being an “Area of Interest”). The Government shall seek to discuss the interest of prior rights holders and Federal Member States (or both if applicable) to ascertain whether exploration services may be conducted by Soma in any Area of Interest.

20.2 If such discussions lead to the opportunity to conduct exploration services within any Area of Interest, the Government and Soma shall negotiate extensions or amendments to this Agreement to allow such exploration activities to occur.

20.3 Nothing in this Clause 20 shall:

20.3.1 Create any obligation on the Government to negotiate access for exploration services in any Area of Interest, or to award rights to conduct exploration services to Soma or any other person;

20.3.2 Represent a request by Soma to conduct activities in Areas of Interest where third parties have prior rights, it being recognized that any expression of interest by Soma is entirely contingent on such areas first being available for award of a Reconnaissance Authorisation or Production Sharing Agreement by the Government; and

20.3.3 Require Soma to conduct any exploration services in any Area of Interest which becomes available, except where a mutually agreed amendment or extension of this Agreement is negotiated and accepted by Soma and the Government.
21 Notices

21.1 Any notice or other communication to be given under this Agreement shall be in writing in English and shall be delivered by hand, fax, e-mail with confirmed receipt, registered post or by courier (using a generally recognised international courier service), to each Party required to receive the notice or communication at its address as set out below:

21.1.1 Government (represented by the Minister of National Resources):

Address: The Ministry of National Resources
Jamal Abdinasir Road
Mogadishu
Federal Republic of Somalia

Fax: [*]

For the attention of: His Excellency Abdirizak Omar Mohamed

E-mail: [∗]

21.1.2 Soma:

Address: 1 Finsbury Circus
London EC2M 7SH
United Kingdom

Fax: +44 (0)207 329 7100

For the attention of: The Right Honourable The Lord Howard of Lympne CH, QC Chairman
Mr Basil Shiblaq Executive Director

E-mail:
mhoward@somaoilandgas.com
bshiblaq@somaoilandgas.com

21.2 Any notice or other communication shall be effective upon receipt and shall be deemed to have been duly received:

21.2.1 at the time of delivery if delivered by hand, registered post or courier;

21.2.2 at the time of transmission in legible form, if sent by fax; and
21.2.3 at the time of transmission, if sent by e-mail, provided that the recipient at any time replies to confirm receipt,

Provided that where such delivery or transmission occurs after 5 p.m. (in the country of the recipient as given in its address in Clause 21.1) on a Business Day or on a day which is not a Business Day, service shall be deemed to occur at 9 a.m. on the next following Business Day.

21.3 A Party may change the address, e-mail address, fax number and the relevant addressee for the purpose of Clause 21.1 of the person for whose attention notices are to be addressed by serving a notice on the other in accordance with this Clause 21.

22 Entire Agreement

22.1 This Agreement, and the documents referred to in it, constitute the entire agreement and understanding of the Parties and supersede any previous agreement between the Parties in relation to its subject matter.

22.2 Each of the Parties acknowledges and agrees that in entering into this Agreement, and the documents referred to in it, it does not rely on, and shall have no right or remedy in respect of, any agreement, representation, warranty, statement, assurance or undertaking of any nature whatsoever (other than those expressly set out in this Agreement (which excludes for the avoidance of doubt the Recitals) and the documents referred to in it) made by or given by any person prior to the date of this Agreement and all conditions, warranties or other terms implied by statute or common law are excluded to the fullest extent permitted by law. Nothing in this Clause 22 shall limit or exclude any liability for fraud.

23 Limitation of Liability

23.1 Neither party excludes or limits liability to the other party for:

23.1.1 fraud or fraudulent misrepresentation; or

23.1.2 any matter in respect of which it would be unlawful for the parties to exclude liability.

23.2 Subject to Clause 23.1, Soma shall not in any circumstances be liable whether in contract, tort (including for negligence and breach of statutory duty howsoever arising), misrepresentation (whether innocent or negligent), restitution or otherwise, for:

23.2.1 any Consequential Loss;

23.2.2 any loss or corruption (whether direct or indirect) of the Data or other information;

23.2.3 loss (whether direct or indirect) of anticipated savings or wasted expenditure (including management time); or

23.2.4 any loss or liability (whether direct or indirect) under or in relation to any other contract.
23.3 Clause 23.2 shall not prevent claims, which fall within the scope of Clause 23.4, for:

23.3.1 direct financial loss that are not excluded under any of the categories set out in Clause 23.2.1 to Clause 23.2.4; or

23.3.2 tangible property or physical damage.

23.4 Subject to Clause 23.1, Soma's total aggregate liability in contract, tort (including negligence and breach of statutory duty howsoever arising), misrepresentation (whether innocent or negligent), restitution or otherwise, arising in connection with the performance or contemplated performance or for any claims arising after the expiry of or termination of this Agreement or any collateral contract shall in all circumstance be limited to US$15,000,000.

23.5 Notwithstanding any provision to the contrary elsewhere in the Agreement but subject to Clause 23.1 the Government shall save, indemnify, defend and hold harmless Soma from the Government's own Consequential Loss and Soma shall save, indemnify, defend and hold harmless the Government from Soma's own Consequential Loss, arising from, relating to or in connection with the performance or non-performance of this Agreement.

24 Counterparts

This Agreement may be executed in any number of counterparts with the same effect as if the signatures on the counterparts were upon a single engrossment of this Agreement provided that this Agreement shall not be effective until all the counterparts have been executed.

25 Rights of Third Parties

No term of this Agreement is enforceable under the Contracts (Rights of Third Parties) Act 1999 by a person who is not a Party hereto.

26 Further Assurance

On or after the date hereof, the Parties shall, at their own cost and expense (except as may be provided by this Agreement), execute and do (or procure to be executed and done by any necessary party) all such deeds, documents, acts and things as may from time to time be necessary to give full effect to this Agreement.

27 Costs and expenses

Soma shall pay its own costs and expenses incurred in the negotiation, preparation, execution, implementation and enforcement of this Agreement.

28 Governing Law

28.1 The terms and conditions of this Agreement and any non-contractual obligations arising from or in connection with it shall be governed by and construed in accordance with the laws of England and Wales.
29. Dispute Resolution

29.1 Any dispute which arises between the Government and Soma out of or relating to this Agreement shall, if possible, be settled through good faith negotiations. Upon a dispute arising, either Party shall notify the other Party in writing, describing the dispute and requesting the commencement of good faith negotiations.

29.2 If the dispute has not been settled through good faith negotiations within a period of ninety days (or any other period subsequently agreed in writing between the Parties) from the date on which it was raised in writing by either Party, the Parties shall seek, through written request by either Party to the other, settlement of the dispute by mediation through the IBA Rules for Investor-State Mediation (the "IBA Rules ISM"). The sole mediator shall be designated pursuant to Article 4 of the IBA Rules ISM and the Secretary-General of the Permanent Court of Arbitration in the Hague, Netherlands shall act as Designating Authority for the purposes of Article 4(6) of the IBA Rules ISM.

29.3 If the dispute has not been settled through mediation within a period of ninety days from the written request for mediation (or any other period subsequently agreed in writing between the Parties), the Parties hereby consent to submit the dispute to the International Centre for Settlement of Investment Disputes (the "Centre") for settlement by arbitration pursuant to the Convention on the Settlement of Investment Disputes between States and Nationals of Other States.

29.4 Any Arbitral Tribunal constituted pursuant to this Agreement shall consist of three arbitrators, two appointed by each Party, and the third arbitrator, who shall be President of the Tribunal, appointed by agreement of the Party-appointed arbitrators. The Party-appointed arbitrators shall be authorised to consult with their respective appointing Party during the selection of the President of the Tribunal. If the Party-appointed arbitrators are unable to agree on a President of the Tribunal within 60 days after the appointment of the second arbitrator, the Secretary-General of the Centre shall act as appointing authority.

29.5 It is hereby stipulated that the transaction to which this Agreement relates is an investment.

29.6 The Government hereby waives any right of sovereign immunity as to it and its property in respect of the enforcement and execution of any award rendered by an Arbitral Tribunal constituted pursuant to this Agreement.

29.7 The physical venue for the mediation and the arbitration proceedings shall be outside of the territory of the Federal Republic of Somalia.
This Agreement has been executed on the date first stated on page 1.

Signed by the Federal Republic of Somalia by its Minister of National Resources, HE Abdirizak Omar Mohamed:

Signature of authorised representative

HE Abdirizak Omar Mohamed

Signed by The Right Honourable The Lord Howard of Lympne CH, QC on behalf of Soma Oil & Gas Exploration Limited, a wholly owned subsidiary of Soma Oil & Gas Holdings Limited

Signature of authorised representative

The Right Honourable The Lord Howard of Lympne CH, QC
Schedule 1
Exploration Programme

At the date hereof, Soma acknowledges that the Exploration Area is not subject to Force Majeure.

(a) Regional Evaluation

The regional evaluation may consider any part of Somalia including (for the avoidance of doubt) areas which are not part of the Exploration Area.

Such evaluation will be initiated as soon as possible following execution of this Agreement and will involve the gathering of all relevant existing data, the conversion of such data onto a digital platform and the analysis and assessment of such data in order to assist determining the scope of the seismic programme.

Soma will provide the Government and its nominated representatives with interactive monthly updates during the compilation of the evaluation. The Data Rooms will be updated at no less regularly than monthly intervals.

When the regional evaluation is completed Soma will make it available to the Government in the Data Rooms in the form of a written report and a powerpoint presentation. Soma will also provide an interactive workshop or seminar to the Government and its nominated representatives to explain the findings of the completed regional evaluation following its completion.

The regional evaluation will be completed not later than six (6) months from the date of this Agreement.

(b) Scope of Seismic Programme

Following completion of the regional evaluation and not later than eight (8) months from the date of this Agreement, Soma and the Government will in good faith agree: (i) the scope of the 2D seismic programme, and (ii) the onshore and offshore areas which such 2D seismic programme will evaluate, and any onshore or offshore areas in respect of which Soma will reprocess existing seismic data (collectively, the "Evaluation Area"). With respect to the inclusion of any offshore area in the Evaluation Area, a programme of acquiring new seismic data either alone or in combination with reprocessing existing data shall be necessary, unless reprocessing of existing seismic data alone is considered to be sufficient by the parties.

Soma will provide the Government with its detailed written proposal for the 2D seismic programme and the Evaluation Area and the Government shall have thirty (30) days from the delivery of such proposal (the "Seismic Programme Proposal") within which to indicate in writing whether it approves the Seismic Programme Proposal and, to the extent that it does not agree with the Seismic Programme Proposal, to provide details of what revisions are required to obtain the Government's approval and why. The Government will respond in a similar time frame to any revised Seismic Programme Proposal. A failure by the Government to respond within the stipulated time frame to a Seismic Programme Proposal shall be treated as an approval by the Government of a Seismic Programme Proposal.
(c) **Seismic Survey and Processing**

(i) Subject to there being no logistical or insurance impediments and vessels being available on normal industry terms then Soma undertakes to commence the seismic survey as soon as possible following agreement of the seismic programme. Soma will provide the Government with daily (written and/or electronic) reports during the acquisition phase and weekly (written and/or electronic) reports during the processing phase. Soma will make the completed information in relation to the seismic survey available to the Government in the Data Room.

(ii) For the avoidance of doubt and having advised the Government, although the focus of the seismic survey shall be to evaluate the Evaluation Area only, there may be included in work to be conducted in the seismic survey areas which may not be within the Evaluation Area in order to enhance the overall data collection and processing undertaking for the purposes of assessing the prospectivity of the Evaluation Area.

(d) **Processed Data Report**

As soon as possible following completion of the seismic survey Soma shall deliver to the Government a fully processed and quality controlled data report following acquisition of such data. The report will be delivered as soon as possible following delivery of the fully processed data. Soma will provide the Government with (written and/or electronic) monthly updates during the compilation of the report. The completion of the Exploration Programme shall occur within two years of the date of this Agreement.
Schedule 2
Form of Production Sharing Agreement
Production Sharing Agreement

Initialled on behalf of Government of the Federal Republic of Somalia:

[Signature]

Initialled on behalf of Soma Oil & Gas Exploration Limited:

[Signature]

[Month], [Date], [Year]

- between -

Government of the Federal Republic of Somalia

- and -

Soma Oil & Gas Exploration Limited

Block [●]
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Annex A - Contract Area Description

Annex B - Accounting Procedure
PRODUCTION SHARING AGREEMENT

This Production Sharing Agreement is entered into this day of ..

[Note to Draft Production Sharing Agreement: This PSA has been written on the basis of an offshore block. If the subject block is entirely or principally an onshore block, {brackets} denote revisions that would apply to this Agreement]

BETWEEN:

(1) THE MINISTER OF PETROLEUM, on behalf of the Government of the Federal Republic of Somalia (the "Government")

- and -

(2) SOMA OIL & GAS EXPLORATION LIMITED, a body corporate, duly established pursuant to the laws of England & Wales, whose registered office is at 1 Finsbury Circus, London, EC2M 7SH, United Kingdom, (the "Contractor")

(each referred to individually as a "Party" or collectively as the "Parties").

WHEREAS:

(A) The development of Petroleum to bring the greatest benefit for the people of Somalia is a strategic policy of the Government;

(B) The Government wishes to encourage investment in Petroleum in the Federal Republic of Somalia and has the power to enter into petroleum contracts within Somalia;

(C) The Government wishes to promote Petroleum Operations in the Contract Area and Contractor desires to join and assist the Government in exploring for, developing and producing Petroleum in the Contract Area; and

(D) Contractor has the financial capability, and the technical knowledge and technical ability, to carry on the Petroleum Operations in a manner wholly consistent with this Agreement;

NOW THEREFORE, it is agreed:

1 INTERPRETATION

1.1 Definitions

In this Agreement:

"Accounting Records" means the accounts, books and records referred to in Section 1.2 of Annex B;

"Affiliate" means, in respect of a person, a person that Controls, is Controlled by, or is under common Control with, that person and for the purposes of this definition "Control" means as herein defined;

"Agreement" means this Production Sharing Agreement;

"
"Appraise" or "Appraisal" means any appraisal activities, including appraisal wells, the purpose of which at the time such activity is commenced is to appraise and evaluate the extent or the volume of Petroleum reserves contained in a Discovery, and all related activities;

"Appraisal Costs" has the meaning given in Section 2.2 of Annex B;

"Associated Gas" means Natural Gas, commonly known as gas-cap gas, which overlies and is in contact with significant quantities of Crude Oil in a Reservoir, and solution gas dissolved in Crude Oil in a Reservoir;

"Available Petroleum" means Petroleum produced pursuant to this Agreement that is not utilised by the Contractor pursuant to its right under paragraph 7.1.1 and Available Crude Oil and Available Natural Gas shall have the same meaning in relation to Crude Oil and Natural Gas;

"Calendar Year" means a period of twelve (12) months commencing on January 1 and ending on December 31;

"Capital Costs" has the meaning given in Section 2.3 of Annex B;

"Commercial Discovery" means a discovery of Petroleum that Contractor declares commercial as contemplated in Section 4.10;

"Commercial Production" occurs on the first day of the first period of thirty (30) consecutive days of regular production delivered for sale as part of the approval of, or amendment to, a Development Plan;

"Committee" has the meaning given in Section 16.1;

"Contract Area" means the area specified in Annex A, but excluding any part which has been relinquished under Section 3;

"Contract Year" means a period commencing on the Effective Date, or on any anniversary of it, and ending immediately before the next anniversary of it;

"Control" means, in relation to a person, the power of another person to secure:

(a) by means of the holding of shares or the possession of voting power in or in relation to the first person or any other person; or

(b) by virtue of any power conferred by the articles of association of, or any other document regulating, the first person or any other person,

that the affairs of the first person are conducted in accordance with the wishes or directions of that other person;

"Cost Recovery Statement" means the Cost Recovery Statement referred to in Section 7 of Annex B;

"Crude Oil" means crude mineral oil and all liquid hydrocarbons in their natural state or obtained from Natural Gas by condensation or extraction;

"Crude Oil Field" means:
(a) a single Reservoir; or

(b) multiple Reservoirs all grouped on, or related to, the same geographical structure, or stratigraphic conditions;

from which Crude Oil and Associated Gas may be produced;

"Decommission" and "Decommissioning" means, in respect of the Contract Area or a part of it, as the case may be, to abandon, decommission, transfer, remove and/or dispose of structures, facilities, installations, equipment and other property, and other works, used in Petroleum Operations in the Contract Area, to clean up the area and make it good and safe, and to protect the environment;

"Decommissioning Cost" means each and all cost or costs reasonably and properly incurred by the Contractor relating directly or indirectly to undertaking Decommissioning;

"Decommissioning Costs Reserve" means each and all cost or costs that the Contractor reasonably and properly anticipates and forecasts shall be incurred by the Contractor relating directly or indirectly to undertaking Decommissioning and for which it has made financial reserve;

"Decommissioning Plan" means a plan of works, and an estimate of expenditures therefor, for Decommissioning, including environmental, engineering and feasibility studies in support of the plan;

"Decommissioning Security Agreement" means an agreement between the Government and Contractor as mentioned in Section 4.14 and sub-paragraph 4.11.4(d);

"Development" means any development, including design, construction, installation and drilling operations and all related activities;

"Development Work Program and Budget" means the Development Work Program and Budget referred to in Section 4.12;

"Development Area" has the meaning given in Section 4.10;

"Development Plan" means a development plan for a Development Area, as referred to in Section 4.11;

"Discovery" means a discovery of Petroleum in a Reservoir in which Petroleum has not previously been found that is recoverable at the surface in a flow measurable by conventional petroleum industry testing methods;

"Effective Date" has the meaning given in paragraph 2.3.1;

"Exploration" means any exploration activities, including geological, geophysical, geochemical and other surveys, investigations and tests, and the drilling of shot holes, core holes, stratigraphic tests, exploration wells and other drilling and testing operations for the purpose of making a Discovery, and all related activities;

"Exploration Costs" has the meaning given in Section 2.1 of Annex B;

"Exploration Work Program and Budget" has the meaning in paragraph 4.6.2;
"Field" means a Gas Field or a Crude Oil Field from which Petroleum may be produced;

"Field Export Point" means the point at which Petroleum produced pursuant to this Agreement, having gone through field level separation, is made ready for sale, further processing or transportation or such other point as designated in an approved Development Plan;

"Force Majeure" has the meaning given in paragraph 20.1.1;

"Gas Field" means:

(c) a single Reservoir; or

(d) multiple Reservoirs grouped on, or related to, the same geographical structure, or stratigraphic conditions; from which Non-Associated Gas may be produced;

"Gas Retention Area" has the meaning given in Section 3.5;

"Good Oil Field Practice" means such practices and procedures employed in the petroleum industry worldwide by prudent and diligent operators under conditions and circumstances similar to those experienced in connection with the relevant aspect or aspects of the Petroleum Operations, principally aimed at ensuring:

(e) conservation of petroleum and gas resources, which implies the utilization of adequate methods and processes to maximize the recovery of hydrocarbons in a technically and economically sustainable manner, with a corresponding control of reserves decline, and to minimize losses at the surface;

(f) operational safety, which entails the use of methods and processes that promote occupational security and the prevention of accidents;

(g) environmental protection, that calls for the adoption of methods and processes which minimise the impact of the Petroleum Operations on the environment;

"Government" means the Federal Government of Somalia, acting through the Ministry or other agency, from time to time, responsible for the administration of Petroleum activities in Somalia;

"Ineligible Costs" has the meaning given in Section 2.7 of Annex B;

"Joint Operating Agreement" means, if there is more than one person comprising Contractor, any agreement or contract among all of such persons with respect to their respective rights or obligations under the Agreement, as such agreement or contract may be amended or supplemented from time to time;

"Law" means the Petroleum Law, as enacted by the Somali Parliament as Law No. XGB/712/08, dated 06/08/2008, as amended, varied, modified or replaced from time to time, and the Regulations made and directions given under it;

"LIBOR Rate" means a rate per annum equal to one (1) month term, LIBOR (London Interbank Offer Rate) for United States Dollar deposits, as published in London by the Financial Times or, if not so published, then as published in New York by The Wall Street Journal, current from day to day;
"Loan Facility" means any overdraft, loan or other financial facility or accommodation (including any acceptance credit, bond, note, bill of exchange or commercial paper, finance lease, hire purchase agreement, trade bill, forward sale or purchase agreement, or conditional sale agreement, or other transaction having the commercial effect of a borrowing);

"Ministry" means the Ministry of National Resources of the Government, or such other ministry as may be designated by the Government to be responsible for the administration of Petroleum activities in Somalia;

"Miscellaneous Receipts" has the meaning given in Section 2.6 of Annex B;

"Natural Gas" means all gaseous hydrocarbons, including wet mineral gas, dry mineral gas, casing head gas and residue gas remaining after the extraction of liquid hydrocarbons from wet gas, but not Crude Oil;

"Non-Associated Gas" means Natural Gas which is not Associated Gas;

"Operating Costs" has the meaning given in Section 2.4 of Annex B;

"Operator" means, where there is more than one person comprising Contractor, the person appointed from time to time to organize and supervise Petroleum Operations; and where there is only one person comprising Contractor, the Contractor shall be the Operator;

"Petroleum" means:

(h) any naturally occurring hydrocarbon, whether in a gaseous, liquid, or solid state;

(i) any mixture of naturally occurring hydrocarbons, whether in a gaseous, liquid or solid state; or

(j) any mixture of one or more naturally occurring hydrocarbons, whether in a gaseous, liquid or solid state, as well as other substances produced in association with such hydrocarbons;

"Petroleum Operations" means any activity authorised by the Government hereunder, and includes:

(k) the exploration for, development and production of Petroleum in the Contract Area, and the export of that Petroleum from the Contract Area;

(l) the construction, installation and operation of structures, facilities, installations, equipment and other property, and the carrying out of other works, necessary for the purposes mentioned in paragraph (a) above;

(m) Decommissioning; and

(n) the marketing of Petroleum produced from the Contract Area;

"Production" means any production or export activities, but not Development;

"Production Statement" means the monthly Production Statement referred to in Section 5.1 of Annex B;
"Quarter" means a period of three months beginning on January 1, April 1, July 1 or October 1 of each Calendar Year;

"Recoverable Costs" has the meaning given in Section 6;

"Regulations" means all rules, policies, directives, authorizations, codes and guidelines under the Law, as may be amended or revised from time to time;

"Reservoir" means a porous and permeable underground formation containing an individual and separate natural accumulation of producible hydrocarbons (oil and/or gas) that is confined by impermeable rock and/or water barriers and is characterized by a single natural pressure system;

"Royalty" means the "Oil Royalty" and the "Gas Royalty" as such expressions are defined in Section 7;

"Security" means:
(o) a standby letter of credit issued by a bank;
(p) an on-demand bond issued by a surety corporation;
(q) a corporate guarantee; or
(r) any other financial security reasonably acceptable to the Government,
and issued by a bank, surety or corporation reasonably acceptable to the Government;

"Seismic Option Agreement" means the Seismic Option Agreement dated August _, 2013 between the Government and the Contractor in relation to the undertaking of certain seismic exploration activity by the Contractor in Somalia;

"Somalia" means the Federal Republic of Somalia;

"State-Owned Contractor" means a contractor incorporated under the laws of Somalia that is wholly or partially owned, whether directly or indirectly, by the Government;

"Tax" means any income tax, duty, levy or other charge, whether imposed by the federal government of the Republic of Somalia or by the Government, but excluding any value added tax;

"United States Dollars" or "US$" means the lawful currency of the United States of America;

"Value of Production and Pricing Statement" means the Value of Production and Pricing Statement referred in Section 6 of Annex B; and

"Work Program and Budget" means a work program for Petroleum Operations and budget therefor approved in accordance with this Agreement.

1.2 Headings

As used herein, headings are for convenience only and do not form a part of, and shall not affect the interpretation of, this Agreement.
1.3 Further Interpretation

In this Agreement, unless the context otherwise requires:

1.3.1 the words "including" and "in particular" shall be construed as being by way of illustration or emphasis only, and shall not be construed as, nor shall they take effect as, limiting the generality of any preceding words;

1.3.2 a reference to an Article, Section, paragraph, sub-paragraph or Annex is to an Article, Section, paragraph, sub-paragraph or Annex in or to this Agreement;

1.3.3 a reference to an agreement (including this Agreement) or instrument, is to the same as amended, varied, novated, modified or replaced from time to time;

1.3.4 "person" includes a corporation or other legal entity, even if without juridical personality;

1.3.5 the singular includes the plural, and vice versa;

1.3.6 any gender includes the other;

1.3.7 an agreement includes an arrangement, whether or not having the force of law;

1.3.8 a reference to the consent or approval of the Government means the consent or approval, in writing, of the Government and in accordance with the conditions of that consent or approval;

1.3.9 "law" includes the Law, the Regulations, and any other applicable legislation;

1.3.10 "contiguous area" means a block, or a number of blocks each having a point in common with another such block; and

1.3.11 where a word or expression is defined, cognate words and expressions shall be construed accordingly;

and this Agreement shall inure to the benefit and burden of the Parties, their respective successors and permitted assigns.

1.4 Annexes

If there is a conflict, the main body of this Agreement prevails over an Annex.

1.5 Joint and Several Liability

If there is more than one person comprising Contractor, the obligations and liabilities of each person comprising Contractor under this Agreement (except the State-Owned Contractor, if any) are the obligations and liabilities of them all except the State-Owned Contractor, jointly and severally.
1.6 Operator

1.6.1 If there is more than one person comprising Contractor, then one of them shall be appointed as the Operator. The appointment of an Operator by Contractor shall be subject to prior approval by the Government, which approval shall not be unreasonably withheld or delayed.

1.6.2 Except with the prior approval of the Government as required under paragraph 1.6.1, Contractor shall not permit any person to exercise any function of an Operator.

1.6.3 For all purposes of this Agreement, the Operator shall represent Contractor, and the Government may deal with, and rely on, the Operator. The obligations, liabilities, acts and omissions of the Operator are, additionally, the obligations, liabilities, acts and omissions of Contractor.

1.6.4 The Operator shall be registered to carry on business in Somalia, and shall operate under this Agreement from an office located in Somalia.

1.6.5 Any change in Operator shall be subject to the prior approval of the Government which approval shall not be unreasonably withheld or delayed.

2 SCOPE AND TERM

2.1 Scope

2.1.1 This Agreement, and the rights, interests and benefits of Contractor, and the obligations and liabilities of the Government, under it, are subject to the Law. Contractor shall, at all times and in regard to all things, comply with its obligations under the Law. No provision of this Agreement shall excuse a Contractor from so complying.

2.1.2 Subject to this Agreement, Contractor shall:

(a) have the exclusive right to carry on Petroleum Operations in the Contract Area at its sole cost, risk and expense;

(b) provide human, financial and technical resources for Petroleum Operations which, in its reasonable opinion, are required for such Petroleum Operations and to meet its obligations under this Agreement; and

(c) share in Petroleum from the Contract Area.

2.1.3 Nothing in this Agreement constitutes a transfer to Contractor of Petroleum before it has been produced.

2.1.4 Contractor is not authorised to carry on Petroleum Operations in any part of Somalia outside the Contract Area other than in accordance with its rights under any other production sharing arrangements or agreements that it may enter into with the Government.
2.1.5 This Agreement does not authorise Contractor to process Petroleum beyond the Field Export Point and no expenditure in respect of further processing shall be a Recoverable Cost.

2.2 Conditions Precedent

2.2.1 This Agreement is conditional on:

(a) [the appointment of an Operator in accordance with Section 1.6;][this would apply only if there is more than one person comprising Contractor]; and

(b) Contractor providing the Government with Security (in form and content reasonably satisfactory to the Government) for the performance of Contractor’s minimum work and expenditure obligations in accordance with Sections 4.1, 4.2 and 4.3.

2.2.2 If the conditions set out in paragraph 2.2.1 are not fulfilled before the ninetieth (90th) day after the date of this Agreement, this Agreement shall terminate and be of no further force or effect.

2.3 Effective Date and Term

2.3.1 The effective date of this Agreement is the date on which all of the conditions precedent set out at Section 2.2 have been satisfied (“Effective Date”).

2.3.2 This Agreement shall terminate on the first to occur of:

(a) all of the Contract Area being relinquished pursuant to Section 3;

(b) the Parties mutually so agreeing;

(c) termination pursuant to Section 2.4; or

(d) termination pursuant to paragraph 2.2.2.

2.4 Grounds for Termination

The Government may terminate this Agreement:

2.4.1 forthwith, if:

(a) Contractor is insolvent, is adjudged bankrupt or makes any assignment for the benefit of its creditors, or is adjudged to be unable to pay its debts as the same fall due;

(b) an order is made by a court having competent jurisdiction, or an effective resolution is passed, for the dissolution, liquidation or winding up of Contractor;

(c) a receiver is appointed or an encumbrancer takes possession of a majority of the assets or undertaking of Contractor; or
(d) Contractor ceases or threatens to cease to carry on its business or execution is forced against all or a majority of Contractor's property and is not discharged within thirty (30) days.

2.4.2 on ninety (90) days' notice to Contractor if Contractor is in material default under this Agreement and does not, within that ninety (90) days, commence steps to remedy the default, and proceed continuously to remedy the default to the satisfaction of the Government;

2.4.3 as provided in Section 21; and

2.4.4 if a competent authority has reasonably determined (in a proceeding applying due process):

(a) that this Agreement or any reconnaissance authorisation has been obtained by the Contractor or any person or acting on behalf of the Contractor, in violation of Corrupt Practices Law; or

(b) that a permit, approval, consent or waiver in connection with this Agreement or any reconnaissance authorisation or petroleum operations has been obtained by the Contractor or any person acting on behalf of the Contractor, in violation of Corrupt Practices Laws;

then, on not less than thirty (3) days' prior notice to the Contractor, the Government may terminate this Agreement and any reconnaissance authorisation issued pursuant to it. Any final determination, judgement, sanction, or conviction (not subject to further appeal on the issue), including under a consent order in which there is a finding or admission of guilt, of a judicial or regulatory authority in England or Somalia or elsewhere having jurisdiction over Somalia or an Affiliate of such Somalia, will be conclusively determinative. Unless the Government has cancelled a notice of termination, this Contract will be terminated as of end of such thirty (30) day notice period.

2.5 Surviving Obligations

Termination of this Agreement for any reason, in whole or in part, shall be without prejudice to rights and obligations expressed in the Law or this Agreement to survive termination, or to rights and obligations accrued thereunder prior to termination, including Decommissioning, and all provisions of this Agreement reasonably necessary for the full enjoyment and enforcement of those rights and obligations shall survive termination for the period so necessary.

3 RELINQUISHMENT OF AREAS

3.1 Periodic Relinquishment of Exploration Area

3.1.1 Contractor shall relinquish:

(a) at the end of the fourth (4th) {third (3rd)} Contract Year, not less than twenty five percent (25%) of the original Contract Area excluding any portion of the Contract Area that, in the reasonable
opinion of Contractor, is potentially part of a Reservoir that is subject to a Discovery and save always that such four (4) year period shall be automatically extended for the period of any event of Force Majeure that may affect the Contract Area; and (b) at the end of the sixth (6th) Contract Year, not less than a further twenty-five percent (25%) of the original Contract Area excluding any portion of the Contract Area that, in the reasonable opinion of Contractor, is potentially part of a Reservoir that is subject to a Discovery and save always that such six (6) year period shall be automatically extended for the period of any event of Force Majeure that may affect the Contract Area.

3.1.2 At the end of any Contract Year, and subject to paragraph 3.1.3, Contractor may relinquish some, or all, of the Contract Area. Any area so relinquished will be credited against the next relinquishment obligation of Contractor under paragraph 3.1.1.

3.1.3 Contractor shall consult with and give not less than thirty (30) days' notice to the Government of the areas which, at any time, it wishes to relinquish. Except with the consent of the Government, (a) those relinquished areas must form one discrete area; and (b) the areas not relinquished must form one or more discrete areas; all of sufficient size and convenient shape to enable Petroleum Operations to be conducted thereon.

3.1.4 If Contractor does not relinquish a portion of the Contract Area at the time and in the manner required by this Section 3.1, all of the Contract Area shall be deemed relinquished at the end of the Contract Year concerned.

3.2 Final Relinquishment of Exploration Area

3.2.1 At the end of the eighth (8th) Contract Year, Contractor shall relinquish all of the Contract Area other than such part thereof as is a Development Area save always that such eight (8) year period shall be automatically extended for the period of any event of Force Majeure that may affect the Contract Area.

3.2.2 If, at the end of the eighth (8th) Contract Year, a Discovery has been made but there has been insufficient time for Contractor to Appraise it, the obligation of Contractor under paragraph 3.2.1 shall be deferred: (a) in relation to such area as Contractor may propose and the Government may determine to be reasonably necessary for Appraisal of the Discovery; (b) for such period as is reasonably necessary to permit Contractor to Appraise (or to complete the Appraisal of) the Discovery; and
(c) as a consequence of that Appraisal, for Contractor to decide whether to declare a Commercial Discovery and, if it does so, for the Government to declare a Development Area in respect of it.

3.3 Relinquishment of Development Area

3.3.1 Except with the consent of the Government, a Development Area shall be deemed to be relinquished on the first to occur of:

(a) production from the Development Area ceasing permanently or for a continuous period of twelve (12) months (or, if because of Force Majeure, twenty four (24) months or such greater period as determined by the Government, in consultation with Contractor under Section 20.5); and

(b) the twenty-fifth (25th) anniversary of the date on which the Commercial Production occurred in respect of the Development Area subject to any renewal or extension of this Agreement in relation to such Development Area as may be agreed between the Parties.

3.3.2 Without the consent of the Government, Contractor may not otherwise relinquish all or any part of a Development Area.

3.4 Termination of Agreement and Continuing Obligations in respect of Relinquished Area

3.4.1 This Agreement shall terminate in respect of a part of the Contract Area which is relinquished.

3.4.2 Relinquishment of all or a part of the Contract Area is without prejudice to the obligations of Contractor to Decommission.

3.5 Gas Retention Area

3.5.1 If the Appraisal of a Discovery of Non-Associated Gas demonstrates that the Discovery, although substantial, is not then, either alone or in combination with other Discoveries, commercially viable, but is likely to become so within five (5) years from the date of the Appraisal, the Government may, at the request of Contractor, declare a Gas Retention Area in respect of it for that period.

3.5.2 This Section 3 (but not Section 3.3) applies to and in respect of a Gas Retention Area as if it were a Development Area for as long as, during that period, Contractor diligently seeks to make it commercially viable, and to reasonably demonstrate to the Government that it is doing so.

3.5.3 The Gas Retention Area consists of a single or multiple contiguous areas that encompass the Gas Fields, plus a reserve margin sufficient to cover the probable and possible extent of the Gas Fields, but the Government may exclude deeper formations in which no Discovery has been made. The Government, at any time and from time to time, and whether of its own volition or at the request of Contractor, may:
(a) increase;
(b) decrease; or
(c) vary the depth within the Contract Area of;

a Gas Retention Area as may be required to ensure that it encompasses the Gas Field. Contractor shall relinquish any part of the Contract Area removed from a Gas Retention Area as a consequence of such decrease or other variation if it occurs after the time for the relinquishment provided for in Section 3.2.1.

3.5.4 The Gas Retention Area shall be deemed to have been relinquished on the earlier of:

(a) expiry of the period mentioned in paragraph 3.5.1; and

(b) Contractor ceasing to meet its obligations under paragraph 3.5.2,

unless Contractor declares a Commercial Discovery in respect of it and the Government declares a Development Area as a consequence thereof.

4 WORK PROGRAMS AND BUDGET

4.1 Commitment in Initial Period

4.1.1 the Initial Period shall be a period of four (4) {three (3)} years;

4.1.2 in the Initial Period Contractor shall undertake minimum 2D seismic exploration in relation to an area equivalent to twenty (20) per cent. of the total square kilometre size of the Contract Area subject always to Contractor’s right to satisfy such obligation by conversion of 2D seismic to 3D seismic at a conversion rate of 10:1;

4.1.3 all seismic exploration activity conducted under the Seismic Option Agreement relevant to the Contract Area shall be deemed performance (in whole or part) by Contractor of its obligation(s) under this Section 4.1;

4.1.4 subject to Section 4.1.5 below, in the Initial Period Contractor shall drill no less than one well in the Contract Area through to a horizon depth appropriate to the assessed target depth of the reservoir following seismic surveying and analysis to be agreed between the Parties;

4.1.5 Contractor shall be obligated to drill one well only in the Initial Period in relation to any two offshore contiguous areas which are subject to production sharing agreements as may be awarded to it by the Government. {delete 4.1.5 for onshore blocks}

4.2 Commitment in Second Period

4.2.1 the Second Period shall be a period of two (2) years;

4.2.2 subject to Section 4.2.3 below, in the Second Period Contractor shall drill no less than one Exploration well in the Contract Area through to a horizon
depth appropriate to the assessed target depth of the reservoir following seismic surveying and analysis to be agreed between the Parties;

4.2.3 Contractor shall be obligated to drill one well only in the Second Period in relation to any two offshore contiguous areas which are subject to production sharing agreements as may be awarded to it by the Government. {delete 4.2.3 for onshore blocks}

4.3 Commitment in Third Period

4.3.1 the Third Period shall be a period of two (2) years;

4.3.2 subject to Section 4.3.3 below in the Third Period Contractor shall drill no less than one Exploration well in the Contract Area through to a horizon depth appropriate to the assessed target depth of the reservoir following seismic surveying and analysis to be agreed between the Parties;

4.3.3 Contractor shall be obligated to drill one well only in the Third Period in relation to any two offshore contiguous areas which are subject to production sharing agreements as may be awarded to it by the Government. {delete 4.3.3 for onshore blocks}

4.4 Performance of Exploration Work Program and Budget

4.4.1 If any well forming part of the Exploration Work Program and Budget provided for in this Section 4 is abandoned for any reason other than a reason specified in paragraph 4.4.2 before reaching the defined objectives of such well, Contractor shall drill a substitute well. In this event, the first, second or third Exploration period, as the case may be, shall be extended by a period of time equal in length to the time spent in preparing for and drilling the substitute well, including mobilisation and demobilisation of the drilling rig, if applicable.

4.4.2 Unless otherwise agreed by the Government, any well which forms part of the Exploration Work Program and Budget provided for in this Section 4 shall be drilled to such depth as is necessary for the evaluation of the geological formation established by the available data as the target formation and which Good Oil Field Practices would require Contractor to attain, unless before reaching such depth:

(a) a formation stratigraphically older than the deepest target formation is encountered;

(b) basement is encountered;

(c) further drilling would present an obvious danger, such as but not limited to the presence of abnormal pressure or excessive losses of drilling mud;

(d) impenetrable formations are encountered;

(e) Petroleum-bearing formations are encountered which require protecting, thereby preventing planned depths from being reached;
4.4.3 Where a well which forms part of the Exploration Work Program and Budget provided for in this Section 4 results in a Discovery and Contractor informs the Government pursuant to Section 4.9 that the Discovery merits Appraisal, that well will be deemed to have met its objective and to have satisfied Contractor's obligations in respect of that well.

4.5 Consequences of Non-Performance

4.5.1 If, in a Contract Year, Contractor carries out less Exploration than is required of it under the Exploration Work Program and Budget, the Government may:

(a) require payment by way of damages of the estimated cost of the Exploration not carried out; or

(b) require that the shortfall be added to the Exploration Work Program and Budget to be carried out in the next Contract Year.

The Parties agree that the amount payable under this paragraph 4.5.1 is a reasonable estimate of the loss which would be suffered by the Government.

4.5.2 If, in a Contract Year, Contractor carries out more Exploration than is required of it under the Exploration Work Program and Budget, the excess shall be credited against Exploration to be carried out in the following Contract Year and, to the extent in excess of that Exploration, shall be further carried forward.

4.5.3 For the purposes of the provisions of this Section 4, Section 6 and Annex B, and except with the consent of the Government, no work in a Development Area will be regarded as Exploration except in respect of a formation deeper than the Field concerned and in which no Discovery has been made.

4.6 Work Programs and Budgets

4.6.1 Subject to Section 4.7, Contractor shall carry out Petroleum Operations substantially in accordance with Work Programs and Budgets approved by the Government. Such an approval by the Government is without prejudice to any other obligations or liabilities of Contractor under this Agreement or the Law.

4.6.2 Within sixty (60) days after the Effective Date, Operator shall deliver to the Government a proposed Exploration Work Program and Budget detailing the Petroleum Operations for Exploration to be performed for the remainder of
the current Contract Year and, if appropriate, for the following Contract Year. Within thirty (30) days of such delivery, the Government shall indicate whether it approves the Work Program and Budget, and if not, what revisions are required in order to obtain the Government's approval of the Work Program and Budget. The Government shall respond in a similar time frame to any revised Work Program and Budget provided by Contractor. A failure of the Government to respond within the stipulated time frame to a proposed Work Program and Budget submitted by Contractor shall be treated as an approval by the Government of such Work Program and Budget. The Government shall approve any Work Program and Budget which complies with the activity and expenditure requirements of this Agreement, and reflects a suitable Exploration program having regard to Good Oil Field Practices.

4.6.3 On or before the 1st day of November of each Calendar Year other than the Calendar Year on which the Effective Date occurs, Operator shall deliver to the Government its proposed Work Program(s) and Budget(s) detailing the Petroleum operations to be performed for the following Calendar Year. The Work Program(s) and Budget(s) shall include, as applicable: an Exploration Work Program and Budget during the Exploration phase of this Agreement; following a Discovery, an Appraisal Work Program and Budget; following a Commercial Discovery and approved Development Plan, a Development Work Program and Budget, and if appropriate, a Production Work Program and Budget. Within thirty (30) days of such delivery, the Government shall indicate whether it approves the relevant Work Program and Budget, and if not, what revisions are required in order to obtain the Government's approval of the Work Program and Budget. The Government shall respond in a similar time frame to any revised Work Program and Budget provided by Contractor. A failure of the Government to respond within the stipulated time frame to a proposed Work Program and Budget submitted by Contractor shall be treated as an approval by the Government of such Work Program and Budget. The Government shall approve any Work Program and Budget which complies with the activity and expenditure requirements of this Agreement, and reflects a suitable Exploration program having regard to Good Oil Field Practices.

4.7 Emergency and Other Expenditures Outside Work Programs and Budgets

4.7.1 Without further approval by the Government, the total of all over-expenditures under a Work Program and Budget for any Contract Year shall not exceed the lesser of two million United States Dollars (USD$2,000,000) or five percent (5%) of the total expenditures in that Work Program and Budget.

4.7.2 Contractor shall promptly inform the Government if they anticipate (or should reasonably anticipate) that any such limit in paragraph 4.7.1 will be exceeded and seek, in the manner provided in this Section 4, an amendment to the appropriate Work Program and Budget.
4.7.3 In determining whether to approve the over-expenditures contemplated at paragraph 4.7.1, the Government shall consider whether such increases are necessary to complete the program of works, provided that such increase is not the result of any failure of Contractor to fulfil its obligations under this Agreement.

4.7.4 Nothing in Section 4.6 or paragraph 4.7.1 precludes or excuses Contractor from taking all necessary and proper measures for the protection of life, health, the environment and property if there is an emergency (including a fire, explosion, Petroleum release, or sabotage; incident involving loss of life, serious injury to an employee, contractor or third party, or serious property damage; strikes and riots; or evacuation of the Operator's personnel). As soon as reasonably practicable, the operator will inform the Government of the details of the emergency and of the actions it has taken and intends to take.

4.7.5 Where overexpenditures incurred by Contractor will be carried forward to reduce Contractor's expenditure obligations in a subsequent year of the Exploration period, the restriction in paragraph 4.7.1 (and the provisions of paragraphs 4.7.2 and 4.7.3 accordingly) shall not apply.

4.8 Exploration

4.8.1 Contractor shall submit annually, for the approval of the Government, the Exploration Work Programs and Budgets required by Sections 4.1, 4.2 and 4.3 for each Contract Year in accordance with the provisions of paragraphs 4.6.2 and 4.6.3.

4.8.2 From time to time, Contractor may submit, for the approval of the Government, amendments to the Exploration Work Program and Budget.

4.8.3 Contractor is not obliged to carry out more Exploration in a Contract Year than is required by Sections 4.1, 4.2 and 4.3.

4.8.4 If Contractor expends in any Contract Year an amount in excess of its minimum Exploration obligation in that year, its minimum Exploration obligation in a subsequent year may be reduced by the amount of the overexpenditure.

4.9 Discovery and Appraisal

4.9.1 Contractor shall notify the Government of a Discovery and shall provide the Government with such information in respect of it as the Law requires.

4.9.2 As soon as reasonably practicable after a Discovery is made, Contractor shall advise the Government whether or not, having regard to paragraph 4.9.5, the Discovery merits Appraisal.

4.9.3 At such time and in such manner as the Government requires, Contractor shall submit, for the approval of the Government, an Appraisal Work Program and Budget for each Contract Year.
4.9.4 From time to time Contractor may submit, for the approval of the Government, amendments to the Appraisal Work Program and Budget.

4.9.5 An Appraisal Work Program and Budget for a Calendar Year will be such as would be undertaken by a person seeking diligently to Appraise (in accordance with this Agreement) a Discovery with a view to determining if it is, either alone or in combination with other Discoveries, a Commercial Discovery.

4.10 Commercial Discovery

4.10.1 Contractor may, at any time and having regard to paragraph 4.10.2, declare that a Commercial Discovery has been made.

4.10.2 The declaration is to be made in such manner, and be accompanied by such supporting data and information, as the Government requires, and as the State-Owned Contractor requires to make its election under Section 8.1, including Contractor's proposal as to that part of the Contract Area to be declared a Development Area.

4.10.3 The Government shall declare a single contiguous area or multiple contiguous areas encompassing the Fields in which the Commercial Discovery has been made, to be a Development Area or Development Areas, but may exclude deeper formations in which no Discovery has been made.

4.10.4 The Government, at any time and from time to time, may:

(a) increase;
(b) decrease; or
(c) vary the depth within the Contract Area of;

a Development Area as may be required to ensure that it encompasses the Field concerned, but not, unless the Government and Contractor otherwise agree, after the first Development Plan in respect of the Development Area has been approved. Contractor shall relinquish any part of the Contract Area removed from a Development Area as a consequence of such decrease or other variation, if it occurs after the time for the relinquishment provided for in paragraph 3.2.1.

4.11 Development Plan

4.11.1 Not more than twelve (12) months after the declaration of a Development Area, and in the manner required by the Government, Contractor shall submit, for the approval of the Government, a Development Plan for the Development Area.

4.11.2 From time to time, and in like manner, Contractor may submit, for the approval of the Government, amendments to the Development Plan.

4.11.3 A Development Plan will be such as would be undertaken by a person seeking diligently to develop and produce (in accordance with this
Agreement) the Petroleum in the Development Area in the long term, best interests of the Parties.

4.11.4 Except with the consent of the Government, and without prejudice to the generality of paragraph 4.11.1, a Development Plan shall include:

(a) a description of the proposed reservoir development and management program;

(b) details of:

(i) the geological and the reservoir work done, together with the production profiles simulated, in order to reach the best depletion alternative;

(ii) the production, treatment and transportation facilities to be located in Somalia;

(iii) facilities for transporting the Petroleum from the Contract Area and Somalia; and

(iv) facilities, wherever located, which are connected to any such facilities as aforesaid and which (or the operation of which) might affect the integrity, management or operation thereof;

(c) the production profiles for all hydrocarbon products, including possible injections for the life of the Development, the proposed commencement of Production and rates of Petroleum production, and the level of Production and of deliveries which Contractor proposes, should constitute the start of Commercial Production;

(d) the Decommissioning Plan, in such detail as the Government reasonably requires, including a calculation of the Decommissioning Costs, the annual Decommissioning Costs Reserve, and Contractor’s proposal for the Decommissioning Security Agreement;

(e) an environmental impact statement, and proposals for environmental management covering the life of the Development;

(f) Contractor’s proposals for ensuring the safety, health and welfare of persons in or about the proposed Petroleum Operations;

(g) Contractor’s proposals for:

(i) the use of Somali goods and services;

(ii) training and employment of Somali nationals resident in Somalia; and

(iii) processing Petroleum in Somalia;
(h) the estimated capital expenditure covering the feasibility, fabrication, installation, commissioning and pre-production stages of the Development;

(i) an evaluation of the commerciality of the Development, including a full economic evaluation;

(j) Contractor’s proposal for financing of the Development;

(k) such other data and information (including in respect of insurance to be obtained by Contractor, and buyers and shippers of Petroleum) as the Law requires and as the Government otherwise reasonably requires.

4.11.5 In determining whether to approve a Development Plan or an amendment to it properly submitted by Contractor, the Government shall give consideration to a Decommissioning Security Agreement concluded in respect of the Development Area.

4.11.6 The Government shall approve the Development Plan proposed by Contractor or recommend revisions to it within 90 days after receipt. Failure of the Government to respond within 90 days shall mean that the Government has approved the Development Plan. If the Government recommends revisions, it shall specify its reasons for the requested revisions. Contractor shall respond to the revision request within 30 days after receipt following which the Government shall approve the Development Plan or propose revisions within 30 days of receipt.

4.12 Development Work Programs and Budgets

4.12.1 At such time and in such manner as the Law requires, and as the Government otherwise requires, Contractor shall submit, for the approval of the Government, a Development Work Program and Budget for each Development Area for each Contract Year in accordance with the provisions of paragraph 4.6.3. At any time and from time to time, Contractor may submit, for approval, amendments to it.

4.12.2 A Development Work Program and Budget for a Contract Year shall be substantially in accordance with the Development Plan for the Development Area.

4.13 Decommissioning

4.13.1 Contractor shall submit to the Government, for its approval, pursuant to sub-paragraph 4.11.4(d), a Decommissioning Plan for the Development Area and a schedule of provisions for the Decommissioning Costs Reserve.

4.13.2 The Decommissioning Plan shall be revised and resubmitted to the Government for its approval at such times as are reasonable having regard to the likelihood that the Decommissioning Plan (including cost estimates thereunder) may need to be revised.
4.13.3 The Government may give opportunity to persons likely to be affected to make representations to it in respect of the Decommissioning Plan.

4.13.4 Contractor shall carry out the Decommissioning substantially in accordance with the terms of the Decommissioning Plan.

4.13.5 Estimates of the monies required for the funding of the Decommissioning Plan shall be charged as Recoverable Costs beginning in the Calendar Year following the Calendar Year in which Commercial Production first occurs. The amount charged in each Calendar Year shall be calculated as follows:

(a) The total Decommissioning Costs at the expected date of Decommissioning shall first be calculated.

(b) There shall be deducted from such total Decommissioning Costs the provisions for Decommissioning Costs made, and taken as Recoverable Costs, in all previous Calendar Years.

(c) The residual Decommissioning Costs, resulting from the calculations under sub-paragraphs 4.13.5(a) and 4.13.5(b), shall then be discounted to the Calendar Year in question at the forecast LIBOR Rate for each Calendar Year remaining until the Calendar Year of Decommissioning.

(d) The discounted total of residual Decommissioning Costs shall then be divided by the total number of Calendar Years remaining prior to the Calendar Year of Decommissioning itself, including the Calendar Year in question.

(e) The resultant amount shall be the addition to the Decommissioning Costs Reserve for the Calendar Year in question.

(f) It is the intention of this provision that the total accumulated provision allowed, including interest calculated to the Calendar Year of Decommissioning at the LIBOR Rate, will equal the total Decommissioning Costs.

(g) If the amount in sub-paragraph 4.13.5(e) is a negative amount, then such amount shall be treated as a reduction of Recoverable Costs for the Calendar Year in question.

4.13.6 Notwithstanding any provision of this Agreement and, if applicable, the Decommissioning Security Agreement, the Contractor and/or Operator (as the case may be) shall have no obligation, responsibility or liability in respect of Decommissioning in relation to any part or parts of the Contract Area which:

(a) have attached or maintained upon them structures, facilities, installations, equipment and other property and other works relating to petroleum or other commercial or industrial operations conducted by persons other than Contractor and/or Operator and which are not (and have not been) used by Contractor and/or Operator; or
(b) have attached or maintained upon them structures, facilities, installations, equipment and other property and other works relating to petroleum or other commercial or industrial operations which the Government requires the Contractor and/or Operator to retain following relinquishment under or upon expiry or termination of this Agreement.

4.14 Decommissioning Security

4.14.1 Security pursuant to the Decommissioning Security Agreement shall be provided in an amount equal to the sum of provisions for Decommissioning Costs made, and taken as Recoverable Costs, in all previous years together with interest on such Recoverable Costs calculated to the end of the previous Calendar Year at the LIBOR Rate.

4.14.2 Failure of Contractor to provide Security and otherwise to fulfil its obligations under the Decommissioning Security Agreement, shall be a breach of this Agreement.

5 CONDUCT OF WORK

5.1 Proper and Workmanlike Manner

5.1.1 Contractor shall carry out Petroleum Operations, and shall procure that they are carried on, in a proper, efficient and workmanlike manner, and in accordance with the Law, this Agreement and Good Oil Field Practice. In carrying out its geological and geophysical activities pursuant to this Agreement, Soma and its Subcontractors shall act in accordance with the highest standards in the international petroleum industry and the guidelines and manuals of the International Association of Geophysical Contractors (IAGC).

5.1.2 In particular, Contractor shall carry on Petroleum Operations, and procure that they are carried on, in such a manner as is required by paragraph 5.1.1 to:

(a) protect the environment and ensure that Petroleum Operations result in minimum ecological damage or destruction;

(b) ensure the safety, health and welfare of persons in the Contract Area or affected by Petroleum Operations;

(c) manage the resources in a way which has long-term benefits to the Somali Republic and Contractor;

(d) maintain in safe and good condition and repair, the Contract Area and all structures, facilities, installations, equipment and other property, and other works, used or to be used in Petroleum Operations;

(e) on the earlier of:

(i) termination of this Agreement; and
(ii) when no longer required for Petroleum Operations;

and, in either case:

(iii) except with the consent of the Government; or

(iv) unless this Agreement otherwise provides;

abandon, decommission, remove or dispose of the property and other works mentioned in sub-paragraph 5.1.2(d), clean up the Contract Area and make it good and safe, and protect and restore the environment;

(f) control the flow and prevent the waste or escape of Petroleum, water or any product used in or derived by processing Petroleum;

(g) prevent the escape of any mixture of water or drilling fluid with Petroleum;

(h) prevent damage to Petroleum-bearing strata in or outside the Contract Area;

(i) except with the consent of the Government, keep separate:

(i) each Reservoir discovered in the Contract Area; and

(ii) such of the sources of water discovered in the Contract Area as the Government directs;

(j) prevent water or any other matter entering any Reservoir through wells in the Contract Area, except when required by, and in accordance with, the Development Plan and Good Oil Field Practice;

(k) minimise interference with pre-existing rights and activities;

(l) remedy in a timely fashion any damage caused to the environment; and

(m) following reasonable consultation with the Government and in compliance with the Voluntary Principles on Security and Human Rights, provide adequate security measures on its behalf and/or on behalf of its Subcontractors (as the case may be) in relation to activities and operations undertaken pursuant to this Agreement including (without limitation) the provision of armed security.

5.2 Access to Contract Area

5.2.1 Subject to Law and to this Agreement, Contractor may enter and leave the Contract Area at any time for the purposes of Petroleum Operations.

5.2.2 Except with the consent of the Government, Contractor shall ensure that persons, equipment and goods do not enter the Contract Area without meeting the lawful entry requirements of Somalia, and shall notify the Government of all persons, vessels, aircraft, vehicles and structures
entering or leaving the Contract Area for the purposes of Petroleum Operations.

5.3 Health, Safety and the Environment

5.3.1 Contractor shall employ in regard to:

(a) health, safety and welfare of persons in or affected by Petroleum Operations; and

(b) the protection of the environment (including the marine environment and the atmosphere and the prevention of pollution);

such standards, practices, methods and procedures, and shall do (and where applicable refrain from doing) all such other things, as are the most stringent of such standards, practices, methods, procedures and things as:

(c) are employed by others exploring for, developing or producing Petroleum in Somalia, with due and proper consideration for special circumstances;

(d) are employed by Contractor or any of its Affiliates in a comparable place in comparable circumstances, with due and proper consideration for special circumstances; and

(e) are otherwise required by the Law or this Agreement;

in order to reduce the risks to personnel and the environment so they are as low as reasonably practicable.

5.3.2 Within three (3) months of the Effective Date Contractor shall submit to the Government, for its approval, plans in all respects in compliance with paragraph 5.3.1. The plans shall be reviewed annually and amended from time to time as may be necessary to ensure its continuing compliance with paragraph 5.3.1, but not so that any standard, practice, method, procedure or thing shall thereby become less stringent without the consent of the Government.

5.3.3 Notwithstanding anything elsewhere contained in this Agreement Contractor shall clean up pollution caused as a direct result of Petroleum Operations to the reasonable satisfaction of the Government.

5.4 Goods, Services and Employment

Contractor shall:

5.4.1 give preference to the acquisition of goods and services produced, supplied or sold by Somali nationals which meet suitable technical and safety specifications and can be supplied in a timely manner having regard to Contractor's operational obligations;

5.4.2 with due regard to occupational health and safety requirements give preference in employment in Petroleum Operations to Somali nationals; and
5.4.3 within thirty (30) days of the end of each Calendar Year, submit to the Government a report demonstrating compliance with the above obligations of this Section 5.4.

5.5 Flaring

Except as is permitted pursuant to the Law, Contractor shall not flare Natural Gas.

5.6 Operator and its Sub-Contractors

5.6.1 If more than one person comprises Contractor, then the Operator, and only the Operator, may carry out Petroleum Operations, and may do so by itself, its agents and sub-contractors. If there is only one person comprising Contractor, then the Contractor, and only the Contractor, may carry out Petroleum Operations, and may do so by itself, its agents and sub-contractors.

5.6.2 This Section 5.6 does not relieve Contractor of any obligation or liability under this Agreement, and the carrying out of Petroleum Operations by its agents or sub-contractors does not relieve the Operator (or Contractor) of any obligation or liability under this Agreement.

6 RECOVERABLE COSTS

6.1 Generally

6.1.1 Contractor's accounts shall be prepared and maintained in accordance with Annex B.

6.1.2 Only costs and expenses incurred by the Contractor in carrying out Petroleum Operations are Recoverable Costs, but without prejudice to any other provision of this Agreement which would result in any such cost or expense not being a Recoverable Cost.

6.2 Recoverable Costs

In any Calendar Year, Recoverable Costs are, subject as further provided in Annex B, the sum of those of the following that are not Ineligible Costs:

6.2.1 the sum of:
   (a) recoverable Exploration Costs;
   (b) recoverable Appraisal Costs;
   (c) recoverable Capital Costs; and
   (d) recoverable Operating Costs;

6.2.2 Decommissioning Costs Reserve allowable in that year; and

6.2.3 Recoverable Costs in the previous Calendar Year, to the extent in excess of the value of Contractor's share of Petroleum under Section 7.1 in that previous Calendar Year,
7 Sharing of Petroleum

7.1 Allocation of Petroleum

7.1.1 Petroleum Required for Petroleum Operations

Contractor shall have the right to use free of charge Petroleum produced from the Contract Area to the extent reasonably required for Petroleum Operations under the Agreement.

7.1.2 Measurement Point

All Available Crude Oil and Available Natural Gas shall be measured at the applicable Field Export Point(s) as set forth in this Section 7.1.

7.1.3 (a) Oil Royalty

Contractor shall pay and the Government shall be entitled to a royalty (the "Oil Royalty") in cash on the quantity of Available Crude Oil calculated as follows:

<table>
<thead>
<tr>
<th>Production (BOPD), Oil Royalty Rate, expressed as a percentage of the Field Price of Crude Oil</th>
<th>Oil Price (US$/BBL)</th>
</tr>
</thead>
<tbody>
<tr>
<td>On the first 25,000</td>
<td>&lt; $35</td>
</tr>
<tr>
<td>On production in excess of 25,000, and up to 50,000</td>
<td>2%</td>
</tr>
<tr>
<td>On production in excess of 50,000, and up to 100,000</td>
<td>4%</td>
</tr>
<tr>
<td>On production in excess of 100,000</td>
<td>6%</td>
</tr>
</tbody>
</table>

(b) Gas Royalty

Contractor shall pay and the Government shall be entitled to a royalty (the "Gas Royalty") in cash on the quantity of Available Natural Gas calculated as follows:

<table>
<thead>
<tr>
<th>Production (mscf/d), Gas Royalty Rate, expressed as a percentage of the Field Price of Available Natural Gas</th>
<th>Gas Price (US$/mmbtu)</th>
</tr>
</thead>
<tbody>
<tr>
<td>On the first 100,000</td>
<td>&lt; $3.50</td>
</tr>
<tr>
<td>On production in excess of 100,000, and up to 200,000</td>
<td>2%</td>
</tr>
<tr>
<td>On production in excess of 100,000, and up to 200,000</td>
<td>4%</td>
</tr>
</tbody>
</table>
7.1.4 Cost Recovery

Contractor shall recover its Recoverable Costs to the extent of and out of the following maximum limits per month of all Available Crude Oil (excluding Oil Royalty Oil) produced from each Development Area ("Cost Recovery Oil") and Available Natural Gas (excluding Gas Royalty) produced from each Development Area ("Cost Recovery Gas"):

(a) Cost Recovery Oil

The amount of Cost Recovery Oil in a month shall be 50%.

(b) Cost Recovery Gas

The amount of Cost Recovery Gas in a month shall be 60%.

7.1.5 Allocation of Cost Recovery Oil and Gas

Each month Contractor shall have the right to take and dispose of that quantity of Cost Recovery Oil and Cost Recovery Gas which, when valued at Field Price, equals the amount of total Recoverable Costs incurred in such month plus those Recoverable Costs which have not been recovered in prior months. Any Recoverable Costs which are not recovered in a month shall be carried forward and shall be recoverable out of Cost Recovery Oil and Cost Recovery Gas in subsequent months until fully recovered, but not after termination of this Agreement.

7.1.6 Excess Cost Recovery Oil and Gas

If Contractor recovers all of its Recoverable Costs out of Cost Recovery Oil and Cost Recovery Gas in a month, then any excess of Cost Recovery Oil and Cost Recovery Gas in that month shall be treated as Profit Oil or Profit Gas in that month, and allocated in accordance with paragraph 7.1.7. Where there is both Available Crude Oil and Available Natural Gas produced in such a month, recovery of Recoverable Costs shall occur on a pro rata basis with respect to the revenues from Available Crude Oil and Available Natural Gas.

7.1.7 Profit Oil

Available Crude Oil produced in a month which is not Cost Recovery Oil shall be referred to as "Profit Oil". Profit Oil from each Development Area in a month and any excess Cost Recovery Oil referred to in paragraph 7.1.6 shall be allocated to Contractor in accordance with the following table.
On the first 25,000 50% 50%
On production in excess of 25,000 and up to 50,000 45% 55%
On production in excess of 50,000 and up to 100,000 40% 60%
On production in excess of 100,000 and up to 150,000 35% 65%
On production in excess of 150,000 30% 70%

7.1.8 Additional Profit Share

In any Month in which the price of Brent crude oil quoted on the international market exceeds $150 per barrel, the Government’s share of Profit Oil in paragraph 7.1.7 for Available Crude Oil produced in that Month shall be increased (and the Contractor’s share decreased) by five percentage points at each production tranche. In any Month in which the price of Brent crude oil quoted on the international market exceeds $200 per barrel, the Government’s share of Profit Oil in paragraph 7.1.7 for Available Crude Oil produced in that Month shall be increased (and the Contractor’s share decreased) by ten percentage points at each production tranche.

7.1.9 Natural Gas

Natural Gas terms and conditions, including profit splits, will be negotiated between the Parties and agreed within 12 months from the Effective Date.

7.1.10 Local Community Benefit

Contractor shall pay to the Government for the use and benefit of the population of the Somali people within the vicinity of the Petroleum Operations, an amount of US$200,000 per annum, payable within thirty (30) days after the Effective Date, and at the commencement of each Contract Year thereafter such payment to be acknowledged as a contribution by the Contractor (in a manner reasonably required by the Contractor) as part of its corporate social responsibility.

7.2 Option of Government

7.2.1 Unless the Government elects otherwise pursuant to paragraph 7.2.2, Contractor shall take and receive, and dispose of, in common stream with its own share and on terms no less favourable to the Government than Contractor receives for its own share, all of Somalia’s share of Petroleum.

7.2.2 The Government may make an election to take and separately dispose of Somalia’s share of Petroleum. Unless Contractor otherwise agrees, which
agreement will not be unreasonably withheld, the Government may not so elect other than:

(a) in respect of all of Somalia's shares of Crude Oil for and throughout each Calendar Year, on not less than ninety (90) days prior written notice to Contractor before the start of the Calendar Year concerned, and

(b) in respect of Somalia's share of Natural Gas, on not less than ninety (90) days prior written notice to the Contractor before the start of the Calendar Year concerned.

7.3 Lifting

7.3.1 Subject to this Agreement, Contractor may lift, dispose of and export from Somalia its share of Petroleum and retain the proceeds from the sale or other disposition of that share.

7.3.2 Contractor and the Government shall, from time to time, make such agreements between them as are reasonably necessary, in accordance with Good Oil Field Practice and the commercial practices of the international petroleum industry, for the separate lifting of their shares of Petroleum.

7.4 Title and Risk

7.4.1 Petroleum shall be at the risk of Contractor until it is delivered at the Field Export Point. Without prejudice to any obligation or liability of Contractor as a consequence of a failure of Contractor to comply with its obligations under this Agreement (including Section 5.1), Petroleum which is lost after it is recovered at the wellhead, and before it is delivered at the Field Export Point, shall be deducted from Contractor's Recoverable Costs under Section 6.2.

7.4.2 Title in Contractor's share of Petroleum shall pass to it when (and risk therein shall remain with Contractor after) it is delivered at the Field Export Point.

7.4.3 Title in the Government's share of Petroleum taken by Contractor pursuant to paragraph 7.2.1 shall pass to Contractor when (and risk therein shall remain with Contractor after) it is delivered at the Field Export Point.

7.4.4 Contractor shall defend, indemnify and hold harmless the Government from all claims and demands asserted in respect of Petroleum where the risk is with Contractor.

7.5 Payments

7.5.1 Unless the Government has made an election under paragraph 7.2.2, Contractor shall pay to the Government an amount equal to the Government's share of all amounts received by Contractor for the Petroleum within seventy-two (72) hours of receipt of such amounts.
7.5.2 In the event that Contractor has not received payment for Petroleum within sixty (60) days of sale of Production, it nonetheless will make a provisional payment to the Government of the estimated value of the Government's share of such Petroleum.

8 STATE PARTICIPATION

8.1 Election

8.1.1 The Government may, within sixty (60) days of a declaration under Section 4.10, elect to participate in the Development of Petroleum through one or more State-Owned Contractor(s).

8.1.2 The election under paragraph 8.1.1 shall specify the percentage of the participation, up to a maximum of twenty per cent (20%).

8.1.3 {The following provisions apply to onshore blocks only} {At least one-third of the participation right of the State-Owned Contractor shall be offered to a State-Owned Contractor which is controlled by the regional government of Somalia in the region where the Contract Area is located. At least two-thirds of the participation right of the State-Owned Contractor shall be offered to the Somalia Petroleum Corporation as established by the Petroleum Law. If the State-Owned Contractor of the regional government elects not to participate in the Development of Petroleum under this Agreement, then Somalia Petroleum Corporation may elect to take its permitted share of the participation. If Somalia Petroleum Corporation elects not to participate in the Development of Petroleum under this Agreement, then the State-Owned Contractor of the regional government may elect to take its permitted share of the participation.}

8.2 Participation

8.2.1 From the date of the election under paragraph 8.1.1, the State-Owned Contractor shall contribute, in the percentage specified under paragraph 8.1.2, to expenditures under an approved Development Work Program and Budget. The State-Owned Contractor shall have no obligation to pay for any Petroleum Costs incurred prior to the date of its election under paragraph 8.1.1, or for any costs relating to activities other than under the Development Work Program and Budget and the Production activities and other Petroleum Operations that occur pursuant to the relevant Development Plan.

8.2.2 Contractor agrees to revise the Joint Operating Agreement to take into account the election under paragraph 8.1.1.

9 SUPPLY OF CRUDE OIL TO SOMALI DOMESTIC MARKET

9.1 Domestic Market Obligation

9.1.1 Notwithstanding paragraph 7.3.1, if, in the event of essential regional demand declared by the Government, it is necessary to limit exports of Crude Oil, the Government may, with thirty (30) days advance written
notice, require Contractor to meet the needs of the local market with Crude Oil that it has produced and received pursuant to this Agreement.

9.1.2 Contractor’s participation referred to in [paragraph 9.1.1] in proportion to other oil producers in Somalia will be made, each month, in proportion to its participation in the national production of Crude Oil in the preceding month.

9.2 Calculation of Regional Supply Obligation

9.2.1 Contractor’s obligation to supply Crude Oil for domestic purposes shall be calculated in any Calendar Year as follows:

(a) the total quantity of Crude Oil produced from the Contract Area is multiplied by a fraction the numerator of which is the total quantity of Crude Oil to be supplied pursuant to [paragraph 9.1.1] and the denominator is the entire Somalia production of Crude Oil from all Contract Areas;

(b) twenty-five (25) percent of the total quantity of Crude Oil produced from the Contract Area is calculated;

(c) the lower quantity computed under either sub-paragraph 9.2.1(a) or sub-paragraph 9.2.1(b) is multiplied by the percentage of Production from the Contract Area to which Contractor is entitled as provided under Section 7 of this Agreement.

9.2.2 The quantity of Crude Oil computed under sub-paragraph 9.2.1(c) shall be the maximum quantity to be supplied by Contractor in any Calendar Year pursuant to this Section. Deficiencies, if any, shall not be carried forward to any subsequent Calendar Year. If for any Calendar Year, Recoverable Costs exceed the difference of total sales proceeds from Crude Oil produced and saved hereunder minus the Petroleum as provided under Section 7.1.1 hereof, Contractor shall be relieved from this supply obligation for such Calendar Year.

9.2.3 The price at which such Crude Oil shall be delivered and sold under this Section shall be the price as determined under Section 10.2.

9.2.4 Contractor shall not be obliged to transport such Crude Oil beyond the Field Export Point, but upon request by the Government, Contractor shall assist in arranging transportation and such assistance shall be without cost or risk to Contractor.

10 VALUATION OF PETROLEUM

10.1 Point of Valuation

Petroleum is valued f.o.b. (free on board), or equivalent, at the Field Export Point.

10.2 Value of Crude Oil

The value of Crude Oil,
10.2.1 sold f.o.b. (or equivalent) at the Field Export Point in an arm’s length transaction is the price payable for it;

10.2.2 sold other than f.o.b., or equivalent, at the Field Export Point in an arm’s length transaction is the price payable for it, less such fair and reasonable proportion of such price that relates to the transportation and delivery of the Petroleum downstream of the Field Export Point; or

10.2.3 sold other than as mentioned in paragraphs 10.2.1 and 10.2.2 is the fair and reasonable market price thereof having regard to all relevant circumstances.

10.3 Value of Natural Gas

The value of Natural Gas is the price payable under applicable natural gas sales contracts or as otherwise may be provided in the Development Plan or in this Agreement, with such fair and reasonable adjustments as required to reflect the point of valuation in Section 10.1.

11 PAYMENTS

11.1 Fees

Contractor shall pay to the Government fees and other payments as provided for in the Law, in accordance with the Law.

12 PROVISION OF GOODS AND SERVICES

12.1 Notice

12.1.1 Except with the consent of the Government, Contractor shall draw to the attention of suppliers who are Somali nationals, in such manner as the Government reasonably agrees, all opportunities for the provision of goods and services for Petroleum Operations.

12.1.2 Subject to all and any relevant confidentiality provisions and undertakings Contractor shall provide the Government, for information, with the full financial details of all contracts for goods and services, irrespective of the amount of the expenditure involved.

12.2 Other Information to be Provided

12.2.1 Subject to all and any relevant confidentiality provisions and undertakings Contractor shall submit to the Government copies of all contracts for the supply of goods and services promptly after their execution.

12.2.2 Subject to all and any relevant confidentiality provisions and undertakings from time to time, if requested by the Government, Contractor shall, within sixty (60) days after such request, submit to the Government, details of goods and services actually procured both from suppliers based inside and outside Somalia.
13 TITLE TO EQUIPMENT

13.1 Property

13.1.1 Except with the consent of the Government, and subject to paragraph 13.1.2, all structures, facilities, installations, equipment and other property, and other works, used or to be used in Petroleum Operations, shall be and remain the property of the Government while so used or held for use.

13.1.2 Paragraph 13.1.1 does not apply to property leased to Contractor, or leased by or belonging to third parties providing services, but without prejudice to Section 12.

14 CONSULTATION AND ARBITRATION

14.1 Any dispute which arises between the Government and Contractor out of or relating to this Agreement shall, if possible, be settled through good faith negotiations. Upon a dispute arising, either Party shall notify the other Party in writing, describing the dispute and requesting the commencement of good faith negotiations.

14.2 If the dispute has not been settled through good faith negotiations within a period of ninety days (or any other period subsequently agreed in writing between the Parties) from the date on which it was raised in writing by either Party, the Parties shall seek, through written request by either Party to the other, settlement of the dispute by mediation through the IBA Rules for Investor-State Mediation (the "IBA Rules ISM"). The sole mediator shall be designated pursuant to Article 4 of the IBA Rules ISM and the Secretary-General of the Permanent Court of Arbitration in the Hague, Netherlands shall act as Designating Authority for the purposes of Article 4(6) of the IBA Rules ISM.

14.3 If the dispute has not been settled through mediation within a period of ninety days from the written request for mediation (or any other period subsequently agreed in writing between the Parties), the Parties hereby consent to submit the dispute to the International Centre for Settlement of Investment Disputes (the "Centre") for settlement by arbitration pursuant to the Convention on the Settlement of Investment Disputes between States and Nationals of Other States.

14.4 Any Arbitral Tribunal constituted pursuant to this Agreement shall consist of three arbitrators, two appointed by each Party, and the third arbitrator, who shall be President of the Tribunal, appointed by agreement of the Party-appointed arbitrators. The Party-appointed arbitrators shall be authorised to consult with their respective appointing Party during the selection of the President of the Tribunal. If the Party-appointed arbitrators are unable to agree on a President of the Tribunal within 60 days after the appointment of the second arbitrator, the Secretary-General of the Centre shall act as appointing authority.

14.5 It is hereby stipulated that the transactions to which this Agreement relates is an investment.

14.6 The Government hereby waives any right of sovereign immunity as to it and its property in respect of the enforcement and execution of any award rendered by an Arbitral Tribunal constituted pursuant to this Agreement.
14.7 The physical venue for the mediation and the arbitration proceedings shall be outside of the territory of the Federal Republic of Somalia.

15 **FINANCIAL AND TECHNICAL DATA, RECORDS AND REPORTS**

15.1.1 The Contractor shall keep logs and records of the drilling, deepening, plugging or abandonment of boreholes and wells, in accordance with good international petroleum industry practice and containing particulars of:

(a) the strata and sub-soil through which the borehole or well was drilled;

(b) the casing, tubing and down-hole equipment and alterations thereof, inserted in a borehole or well;

(c) petroleum, water, workable mineral or mine workings encountered; and

(d) any other matter related to the Petroleum Operations that is reasonably required by the Minister.

15.1.2 The Contractor shall record, in an original or reproducible form of good quality, and on seismic tapes where relevant, all geological and geophysical information and data relating to the Contract Area obtained by the Contractor and shall deliver a copy of that information and data, the interpretations thereof and the logs and records of boreholes and wells, to the Minister, in a reproducible form, as soon as practicable after that information, those interpretations and those logs and records come into the possession of the Contractor.

15.1.3 The Contractor may remove, for the purpose of laboratory examination or analysis, petrological specimens or samples of petroleum or water encountered in a borehole or well and, as soon as practicable shall, without charge, give the Minister a representative part of each specimen and sample removed, but no specimen or sample shall be exported from Somalia without prior notification to the Minister.

15.1.4 The Contractor shall keep records of any supply information concerning the Petroleum Operations, reasonably requested by the Minister, if the data or information necessary to comply with the request is readily available.

15.2 **Reports**

Contractor shall provide the Government with such reports as are mentioned in Annex B and as the Government otherwise directs.

15.3 **Confidentiality of Data and Information**

The Government shall not publicly disclose or make available, other than as required by the Law or for the purpose of the resolution of disputes under this Agreement, any data or information mentioned in Section 15.1 until the earlier of:

15.3.1 five (5) years after it was acquired by Contractor; and
15.3.2 this Agreement ceasing to apply in respect of the matter at or in respect of which such data or information was acquired.

15.4 Trade Secrets

15.4.1 The Government shall not publicly disclose or make available, other than as required by the Law or for the purpose of the resolution of disputes under this Agreement, any data or information submitted to it by Contractor, which:

(a) is a trade secret of, or data and information the disclosure of which would, or could reasonably be expected to, adversely affect, Contractor in respect of its lawful business, commercial or financial affairs; and

(b) was clearly marked as such when it was submitted to the Government.

15.4.2 Data and information of the types described in Section 15.1 pertaining to the Contract Area and operations in the Contract Area shall not be considered to be within the trade secrets, data or information contemplated by Section 15.4.1.

15.4.3 Without prejudice to sub-paragraph 15.4.1(a):

(a) the Government may, at any time and from time to time, serve notice on a Contractor requiring it to show cause, within the time specified for the purpose in the notice but not less than 14 days, why the data and information which it has marked pursuant to sub-paragraph 15.4.1(b) should still be considered a trade secret or why its disclosure would be reasonably expected to adversely affect Contractor; and

(b) if Contractor does not show cause within that time, the data and information shall no longer be a trade secret or other such information for the purposes of this Section 15.4.

15.5 Public Announcement

Except with the consent of the Government (such consent not to be unreasonably withheld or delayed), or as required by law or the rules of a recognised stock exchange, an Operator or Contractor shall not make any public statement about this Agreement or the Petroleum Operations. In the event that a public statement is to be made in accordance with the foregoing provision of this Section 15.5, in no event shall such a public statement state or imply that the Government approves or agrees with its contents.

16 MANAGEMENT OF OPERATIONS

16.1 Constitution of Committee

For the purpose of this Agreement there will be a committee consisting of [●] representatives from the Government, one of whom shall be the chairman, and the same number of representatives from Contractor, and if there is more than one person comprising Contractor,
at least one representative from each such person, as nominated by the Government and Contractor, respectively. For each of its representatives, the Government and Contractor may nominate an alternate to act in the absence of the representative.

16.2 Meetings

16.2.1 The Committee will meet at least twice in each Calendar Year in the Government's offices or such other place as the Parties may agree upon the chairman giving thirty (30) days' notice thereof. There shall be at least one meeting of the Committee in each Calendar Year for each of the following purposes:

(a) examining the Work Programs and Budgets for the following Calendar Year which Contractor is required to submit under Section 4; and

(b) reviewing any proposed or agreed amendments to a Work Program and Budget; reviewing the progress of Petroleum Operations under the current Work Programs and Budgets; and discussing any other matter relating to Petroleum Operations.

16.2.2 Contractor or the Government may request a meeting of the Committee at any time by giving written notice to the chairman. Such notice shall include a full description of the purpose of the meeting. The chairman shall thereupon call such meeting by giving thirty (30) days' notice thereof.

17 THIRD PARTY ACCESS

17.1 Third Party Access

17.1.1 Contractor shall provide for third party access to the structures, facilities, installations, equipment and other property within the Contract Area on reasonable terms and conditions.

17.1.2 Contractor shall use all reasonable efforts to negotiate a satisfactory agreement for third party access, and where mutual agreement cannot be reached, the Government shall set the terms for such third party access in accordance with internationally accepted principles.

18 AUDIT

18.1 Independent Audit

The Government may require, at Contractor's cost, an independent audit (starting, except in the case of manifest error or fraud, within twenty four (24) months after the end of the Calendar Year, and concluding within twelve (12) months of this start) of Contractor's books and accounts relating to this Agreement for any Calendar Year. The Government may require only a single independent audit in respect of any Calendar Year. Contractor shall forward a copy of the independent auditor's report to the Government within sixty (60) days following the completion of the audit.
18.2 Government Audit

The Government may, upon reasonable notice, inspect and audit (by itself or as it directs), and at its own cost, Contractor's books and accounts relating to this Agreement for any Calendar Year (starting within twenty four (24) months after the end of the Year, and concluding within twelve (12) months of this start). The Government may only conduct a single audit in respect of any Calendar Year.

18.3 Exceptions

18.3.1 All audit exceptions shall be raised by the Government within six (6) months after receipt of the independent auditor's report by the Government or completion of the audit by the Government (or as it directed), as the case may be, failing which Contractor's books and accounts shall be conclusively deemed correct except in the case of manifest error or fraud.

18.3.2 Contractor shall fully respond to an audit exception within sixty (60) days of its being raised, failing which the exception shall be deemed accepted.

18.3.3 Adjustments required among the Parties as a consequence of an audit shall be made promptly.

18.4 Contractor to Assist

Contractor shall assist and cooperate, to all reasonable extent, with audits.

18.5 Affiliates

The foregoing provisions of this Section 18 apply in respect of Affiliates of Contractor where applicable. Contractor shall use its best endeavours to procure that its Affiliates comply with them (at Contractor's expense in regard to an audit as mentioned in Section 18.1).

19 INDEMNITY AND INSURANCE

19.1 Indemnity

Contractor shall defend, indemnify and hold harmless the Government from all claims of whatsoever nature which are brought against the Government by any third party directly or indirectly in respect of Petroleum Operations, and all costs, expenses and liabilities incurred by the Government as a consequence thereof save for claims against the Government where the Government has elected to take its share of Petroleum in accordance with paragraph 7.2.2. The Government shall give Contractor prompt notice of any such claim and shall not settle it without the prior consent of Contractor.

19.2 Insurance

19.2.1 Contractor shall take out and maintain insurance on a strict liability basis in respect of its obligations under Section 19.1 and in respect of such other matters as the Government requires (including in respect of pollution), for such amounts as the Government requires from time to time and otherwise as required by Good Oil Field Practice.

19.2.2 All such insurances shall name the Government as co-insured, and shall contain waivers of subrogation in its favor.
20 FORCE MAJEURE

20.1 Force Majeure Relief

20.1.1 Subject to the further provisions of this Section 20, a Party shall not be liable for any failure to perform an obligation under this Agreement to the extent such performance is prevented, hindered or delayed by events or circumstances which are beyond its reasonable control and the effects of which could not (including by reasonable anticipation) and cannot reasonably be avoided or overcome by it including events or circumstances relating to security situations and/or status affecting Petroleum Operations ("Force Majeure").

20.1.2 Notwithstanding paragraph 20.1.1, the following shall not constitute Force Majeure:

(a) failure by a Party to pay money; and
(b) in the case of Contractor, any failure to deliver and maintain Security or to obtain and maintain insurance as required by this Agreement.

20.2 Procedure

A Party claiming Force Majeure shall:

20.2.1 notify the other Party as soon as reasonably practicable of the event or circumstance concerned, and of the extent to which performance of its obligations is prevented, hindered or delayed thereby;

20.2.2 keep the other Party fully informed as to the actions taken, or to be taken, by it to overcome the effects thereof, and, from time to time, provide it with such information and permit it such access, as it may reasonably require for the purpose of assessing such effects and the actions taken or to be taken; and

20.2.3 resume performance of its obligations as soon as reasonably practicable after the event or circumstance no longer exists.

20.3 Consultation

The Parties shall consult with each other and take all reasonable steps to minimise the losses of either Party and to minimise any overall delay or prejudice to Petroleum Operations as a result of Force Majeure.

20.4 Third Parties

Where a Party enters into an agreement in relation to this Agreement with a third party, a failure by the third party to perform an obligation under that agreement shall be Force Majeure affecting that Party only if performance of that obligation was prevented, hindered or delayed by events or circumstances which (if the third party were party to this Agreement in the capacity of the Party concerned) would (in accordance with the provisions of this Section 20) be Force Majeure affecting it.
20.5 Extension of Time

If Force Majeure materially prevents, hinders or delays Petroleum Operations for more than three (3) consecutive months, the Parties shall discuss, in good faith, amendments regarding the term of, and the periods of time in which Petroleum Operations are to be carried out under, this Agreement.

21 RESTRICTIONS ON ASSIGNMENT AND CHANGE IN CONTROL

21.1 Assignment

21.1.1 Except with the consent of the Government (such consent not to be unreasonably withheld or delayed), no assignment or other dealing by Contractor in respect of this Agreement shall be of any force or effect.

21.1.2 Paragraph 21.1.1 includes any assignment, transfer, conveyance, novation, merger, encumbering or other dealing in any manner whatsoever or howsoever (whether legally, beneficially or otherwise, and whether conditionally or not) by Contractor of:

(a) this Agreement, or all or any part of its rights, interests, benefits, obligations and liabilities under it;

(b) Petroleum which has not then been, but might be, recovered in the Contract Area, or any proceeds of sale of such Petroleum; and

(c) anything whereby this Agreement, that Petroleum or any of those rights, interests and benefits would, but for this Section 21.1, be held for the benefit of, or be exercisable by or for the benefit of, any other person.

21.1.3 Paragraph 21.1.1 does not apply to an agreement for the sale of Crude Oil under which the price therefor is payable (or such Crude Oil is exchanged for other Petroleum) after title thereto has passed to Contractor.

21.1.4 Paragraph 21.1.1 does not apply to any encumbrance granted by Contractor. For the purposes of the foregoing, encumbrance includes any mortgage, charge, pledge, hypothecation, lien, assignment by way of security, title retention, option, right to acquire, right of pre-emption, right of set off, counterclaim, trust arrangement, overriding royalty, net profits interest, or any other security, preferential right, equity or restriction, any agreement to give or to create any of the foregoing.

21.2 Change in Control

21.2.1 Except with the consent of the Government, if:

(a) there is a change in control of Contractor;

(b) within thirty (30) days after Contractor has advised the Government in reasonable detail of the change in control, the Government serves notice on Contractor that it will terminate this Agreement unless such a further change in control of Contractor as
is specified in the notice takes place within the period specified in the notice; and

(c) that further change in control does not take place within that period; the Government may terminate this Agreement.

21.2.2 Paragraph 21.2.1 does not apply if the change in control is the result of:

(a) an acquisition of shares and/or other securities listed on a recognised stock exchange;

(b) a capital or other raising of funds undertaken including on a recognised stock exchange; or

(c) an issue and/or transfer of shares and/or securities by way of private placement or otherwise.

21.2.3 For the purposes of paragraph 21.2.1, "change in control" includes a person ceasing to be in Control of Contractor (whether or not another person becomes in Control), and a person obtaining Control (whether or not another person was in Control) of Contractor.

21.3 Exceptions

21.3.1 Sections 21.1 and 21.2 do not apply to any assignment or change of control where the acquiring party is an Affiliate of the Contractor, provided that:

(a) Contractor shall provide to the Government documentary evidence of the Affiliate relationship; and

(b) the assignor shall continue to be liable for the performance of the obligations of the assignee under this Agreement.

21.3.2 When submitting a request to the Government for consent to any assignment or change of control, the Government shall be provided with evidence of the financial and technical capabilities of the assignee.

21.3.3 In exercising its discretion regarding the consent to or approval of any assignee of this Agreement, or a change of Control of Contractor;

(a) it shall be reasonable for the Government to reject a person who is not acting materially in compliance with a material existing agreement with the Government or any law or regulation of the Government (including without limitation the Petroleum Law of Somalia 2008);

(b) a person shall be considered (i) technically qualified to be an operator of a Production Sharing Agreement for an onshore block if it or an Affiliate is currently producing 5000 BOEPD at some other onshore location, and (ii) technically qualified to be an operator of a Production Sharing Agreement for an offshore block if it or an Affiliate is currently producing 5000 BOEPD at some other offshore location;
(c) a person shall be considered financially qualified to hold an interest in a Production Sharing Agreement if its debt is rated BBB- or better by Standard & Poors or an equivalent rating from another recognized rating agency; and

(d) a person shall be considered financially and technically qualified to hold an interest in a Production Sharing Agreement if it is a holder of an agreement awarded by the Government for similar block in Somalia and it is not in material default of its obligations under the applicable agreement, or it was qualified to bid for a similar block in the most recent bid round conducted by the Government.

21.3.4 The qualification requirements of sub-paragraphs 21.3.3(b), (c) and (d) above shall not be exclusive, and a person may be considered qualified based on other reasonable criteria established by the Government.

21.4 Change of Operator

21.4.1 No assignment or change of control shall be effective to transfer to the assignee the function of Operator under this Agreement, without the written consent of the Government (such consent not to be unreasonably withheld or delayed).

21.4.2 When submitting a request to the Government for consent to any change of Operator, the Government shall be provided with evidence of the financial and technical capabilities of the assignee.

22 RENTAL, BONUSES AND OTHER PAYMENTS

22.1 Signature Bonus

Within thirty (30) days of the Effective Date the Contractor shall pay an amount of US$500,000 to the account of the Government.

22.2 Production Bonus

Within thirty (30) days of the date on which cumulative production of Crude Oil equals the amount specified below, Contractor shall pay to the account of the Government the amount specified below:

<table>
<thead>
<tr>
<th>Cumulative Production (BBL of Available Crude Oil)</th>
<th>Production Bonus (US$)</th>
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<tr>
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<td>150,000,000</td>
<td>$3,000,000</td>
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<tr>
<td>200,000,000</td>
<td>$5,000,000</td>
</tr>
</tbody>
</table>

For the purposes of this Section 22.2, 6 mmscf of Available Natural Gas shall be equivalent to 1 barrel of Available Crude Oil.
22.3 Rental

During the Exploration period, Contractor shall pay to the Government as rental for the Contract Area an amount equal to US$10 per square kilometer of the Contract Area as at the Effective Date and as at January 1 of each subsequent Calendar Year. Payment shall be made within thirty (30) days after the Effective Date, and at the commencement of each Calendar Year thereafter.

For any area which is part of a Development Area, Contractor shall pay to the Government as rental an amount equal to US$100 per square kilometer of the Development Area. Payment shall be made within thirty (30) days after approval of the Development Plan for such Development Area, and at the commencement of each Calendar Year thereafter. The rental applicable during the Exploration period shall not apply to any lands which are part of a Development Area.

22.4 Training Fee

Each year during the term of this Agreement, Contractor shall pay to the Government as a training fee an amount equal to US$50,000. Payment shall be made within thirty (30) days after the Effective Date, and at the commencement of each Calendar Year thereafter.

22.5 Payment Mechanism

All payments due from the Contractor to the Government under this Agreement and any payments due from the Government to the Contractor pursuant, without limitation and by way of illustration, to any indemnification provided in this Agreement by the Government to the Contractor, shall be made in US Dollars, unless otherwise agreed, and within thirty (30) days after the end of the month in which the obligation to make the payment is incurred to a bank specified by the Party to whom the payment is due.

22.6 Late Payment

Any amount not paid in full when due shall bear interest, at a rate per annum equal to LIBOR Rate, plus, to the extent that the same shall be permitted by applicable law, two (2) percentage points, on and from the due date for payment until the amount, together with interest thereon, is paid in full.

23 Obligations of Government

23.1 Commitments

The Government shall:

23.1.1 upon request by Contractor, such request to be supported by a suitable map or plan, make available to Contractor such land as may reasonably be required for the conduct of Petroleum Operations. Contractor shall pay a reasonable compensation to the owner/user of such land. Such compensation shall be treated as Petroleum Costs;

23.1.2 permit free access for Contractor to the Contract Area and to structures, facilities, installations, equipment and other property within the Contract Area and existing roads and bridges leading to it;

Annex 162
23.1.3 permit use of raw water available within and in the vicinity of the Contract Area for the purpose of Petroleum Operations free of charge (however, all installations for off-take, treatment and distribution of water shall be the responsibility of Contractor); and to allow usage of all other utilities at the same charges payable by other citizens of Somalia;

23.1.4 allow use of Petroleum produced by Contractor from the Field for Petroleum Operations free of charge;

23.1.5 permit use of existing wells and facilities within the Contract Area for Petroleum Operations in accordance with the approved Development Plan;

23.1.6 assist Contractor in obtaining all permits, visas, approvals, consents, customs clearances, authorizations, rights of way, easements, licenses and renewals thereof from any government agencies in Somalia;

23.1.7 ensure Contractor has the unrestricted right to import all equipment, supplies and materials necessary or desirable for the conduct of Petroleum Operations, and the unrestricted right to export all such equipment, supplies and materials which were imported on a temporary basis with all such imports and exports exempt from import and export duties, fees and taxes; provided that any equipment, supplies and materials that were imported and not leased or rented by Contractor may only be exported with the approval of the Government, and if such approval is given, with an appropriate credit to Recoverable Costs for the remaining value of such equipment, supplies and materials;

23.1.8 ensure Contractor has the unrestricted right to hire and grant entry into Somalia persons who are nationals from foreign countries to assist in the conduct of Petroleum Operations, provided that such foreign nationals abide by the provisions of applicable law; such persons to be exempt from Taxes and fees for entry and exit; and

(a) allow unrestricted access to transportation downstream of the Field Export Point for Petroleum produced from the Contract Area; grant all approvals as may be necessary or desirable to permit Contractor to construct pipelines and facilities downstream of the Field Export Point so as to permit production from the Contract Area to have access to export markets; to use best efforts to assist Contractor to obtain approvals from other governments in Somalia whose approval may be needed for the construction, ownership and operation of any such pipelines and facilities; and

(b) allow unrestricted access to present and future transportation systems downstream of the Field Export Point to allow marketing of Petroleum from the Contract Area.

23.2 Stability

23.2.1 The Government shall take no action which prevents or impedes the due exercise and performance of rights and obligations of the Parties. The Government guarantees the stability of terms and conditions of this
Agreement, and the Tax and fiscal framework in effect in Somalia at the date of this Agreement and will not introduce or alter the terms and conditions of the Agreement or the Tax and fiscal framework in a manner which would negatively affect the economic balance of this Agreement or adversely affect Contractor including introducing any capital gains tax that may apply in relation to the acquisition (in whole or part) of the Contractor and/or the assignment or other transfer of this Agreement. Should any changes occur to the terms and conditions of this Agreement, or the Tax and fiscal framework in effect on the Effective Date, the Government shall, at Contractor's election, either:

(a) amend the fiscal features of this Agreement, including without limitation the production sharing provisions of Section 7, so as to restore the fiscal balance of this Agreement and grant to Contractor the same benefits under this Agreement as it was to receive as though the terms and conditions of this Agreement, or the Tax and fiscal framework, had not been changed; or

(b) allow the costs and expenses associated with such altered terms and conditions of the Agreement or altered Tax and fiscal framework to be included as Recoverable Costs.

23.2.2 If any Tax becomes applicable to Contractor or to Petroleum Operations, the Government shall assume, pay and discharge, in the name and on behalf of Contractor, Contractor's obligations in relation to such Tax out of Royalty Oil, Royalty Gas, Local Community Benefit or Government's share of the Available Petroleum. The Government acknowledges that payment by the Contractor of the Local Community Benefit and the Government's share of Petroleum (or, if the Government has elected to take its share in kind, delivery by the Contractor of the Government's share of Available Petroleum at the Field Export Point) constitutes payment of Contractor's such Taxes. Whenever the provisions of this Section apply, the Government shall furnish to Contractor the proper official receipts evidencing the payment of Contractor's Taxes. Such receipts shall be issued by the proper authorities and shall state the amount and other particulars customary for such receipts.

23.2.3 It is acknowledged that the provisions of this Clause do not affect:

(a) The rights or powers of the Government to enact legislation, including legislation to replace the Petroleum Law of Somalia 2008;

(b) The obligation of Soma to comply with rules and regulations which may be enacted pursuant to the Petroleum Law of Somalia 2008 or any successor or replacement legislation;

(c) Future laws, rules or regulations pertaining to the standard of performance of petroleum operations, health, safety and the environment that are consistent with the industry standard from time to time; and
(d) Future laws, rules or regulations pertaining to (i) local content and local supply of goods and services which meet suitable technical and safety specifications and can be supplied in a timely manner having regard to Contractor's operational obligations and (ii) local employment and training.

23.3 Foreign Exchange

23.3.1 Contractor shall have the right to open, maintain, and operate foreign exchange bank accounts both in and outside of Somalia and local currency bank accounts inside Somalia.

23.3.2 Contractor shall have the right to transfer all funds received in and converted to foreign exchange in Somalia to bank accounts outside Somalia, subject only to the payment of taxes, fees, duties or imposts of general application in Somalia.

23.3.3 Contractor shall have the right to hold, receive and retain outside Somalia and freely use all funds received and derived from Petroleum Operations without any obligation to repatriate or return the funds to Somalia, including but not limited to all payments received from export sales of the Contractor's share of Petroleum and any sales proceeds from an assignment of their interest in this Agreement.

23.3.4 Contractor shall have the right to import into Somalia funds required for Petroleum Operations in foreign exchange and to export freely any funds held in Somalia to outside bank accounts.

23.3.5 Contractor shall have the right to pay outside of Somalia for goods, works and services of whatever nature in connection with the conduct of Petroleum Operations without having first to transfer to Somalia the funds for such payments.

23.3.6 Whenever such a need arises Contractor shall be entitled to purchase local currency with foreign exchange and convert local currency into foreign exchange, according to prevailing rules.

23.3.7 Contractor and its Affiliates and foreign subcontractors shall have the right to pay outside Somalia the principal and interest on loans used for funding Petroleum Operations without having to first transfer to Somalia the funds for such payment.

23.3.8 Contractor shall have the right to pay wages, salaries, allowances and benefits of foreign employees working in Somalia in foreign exchange partly or wholly outside of Somalia.

24 OTHER PROVISIONS

24.1 Notices

24.1.1 Any notices required to be given by any Party to another Party shall be served in accordance with the Law.
24.1.2 All notices to be served on a Contractor shall be addressed to its office.

24.2 Language

This Agreement has been drawn up in the Somali and English languages and three (3) originals of each text have been prepared for signature by the Government and Contractor. Both the Somali and English text are binding. However, the English text will prevail in the case of conflict.

24.3 Applicable Law

This Agreement shall be governed by and construed in accordance with the laws of Somalia.

24.4 Third Party Rights

Unless specifically provided in this Agreement the Parties do not intend that any term of this Agreement (including Section 17), be enforceable by any person who is not a Party to this Agreement.

24.5 Amendments/Modification

This Agreement shall not be amended or modified in any respect, unless the Parties agree in writing.

24.6 Entire Agreement

This Agreement sets out the entire agreement and understanding of the Parties in connection with the subject matter of this Agreement and supersedes any other prior agreements, understanding or arrangements whether written or otherwise relating thereto.

IN WITNESS WHEREOF, the Parties have executed this Agreement.

For the Government

BY: ______________________________

* ______________________________

BY: ______________________________

* ______________________________

BY: ______________________________

SOMA OIL & GAS EXPLORATION LIMITED
Annex A - Contract Area Description
Annex B - Accounting Procedure

1 GENERAL PROVISIONS

1.1 Purpose and Definitions

1.1.1 The purpose of this Annex B is to further define the manner in which the costs and expenses of Petroleum Operations will be recorded, Recoverable Costs will be determined, and Contractor's books and accounts will be prepared and maintained, and ancillary matters.

1.1.2 A reference to an Article or paragraph is to an Article or paragraph of this Annex B unless the contrary is stated.

1.1.3 A reference to an Article of the Agreement is to an article of the Agreement to which this Annex B is attached.

1.2 Accounting Records

1.2.1 Contractor shall maintain complete accounts, books and records, on an accrual basis, of all costs, expenses and revenues of, or relating to, Petroleum operations, and the sale or other disposition of Petroleum, on an accurate basis and in accordance with generally accepted accounting procedures and standards of the international petroleum industry.

1.3 Language and Units of Account

1.3.1 The International System of Units (metric units) and barrels shall be employed for measurements and quantities under this Agreement.

1.3.2 The Accounting Records, and all reports to the Government, will be in one of the official or second languages of Somalia which for the avoidance of doubt includes English.

1.3.3 The Accounting Records, and all reports to the Government, will be in United States Dollars. Costs and revenues in another currency will be translated at the exchange rate set on the day the cost is incurred, or the revenue realised, at a time and by a financial institution designated by Contractor and approved by the Government.

1.3.4 Exchange gains or losses will be credited or charged to the Accounting Records.

2 CLASSIFICATION AND ALLOCATION

2.1 Exploration Costs

Exploration Costs are those costs, whether of a capital or operating nature, which directly relate to Exploration and are incurred in respect of activities carried out substantially in accordance with an approved Exploration Work...
Program and Budget, but without prejudice to Section 4.7 of the Agreement, including costs of:

2.1.1 drilling wells (and related abandonment and site remediation thereof);

2.1.2 surveys, including labour, materials and services (including desk studies and analysis of survey data) used in aerial, geological, geochemical, geophysical and seismic surveys, and core hole drilling;

2.1.3 auxiliary or temporary facilities;

2.1.4 workshops, power and water facilities, warehouses, site offices, access and communication facilities;

2.1.5 floating craft, automotive equipment, furniture and office equipment;

2.1.6 if approved by the Government, employee and welfare housing, recreational, educational, health and meals facilities, and other similar costs necessary for Exploration; and

2.1.7 costs relating to seismic activities undertaken by Contractor pursuant to the Seismic Option Agreement.

2.2 Appraisal Costs

Appraisal Costs are those Exploration Costs that directly relate to Appraisal.

2.3 Capital Costs

Capital Costs are:

2.3.1 in respect of a Development Area, and before the start of Commercial Production from it, those costs, whether of a capital or operating nature, which directly relate to the Exploration, Appraisal or Development of it; and

2.3.2 in respect of a Development Area, and after the start of Commercial Production from it, those costs of a capital nature which directly relate to the Development of it, or to the production of Petroleum from it;

and are incurred in respect of activities carried out substantially in accordance with an approved Work Program and Budget, but without prejudice to Section 4.7 of the Agreement, including costs of:

2.3.3 workshops, power and water facilities, warehouses, site offices, access and communication facilities;

2.3.4 production facilities, wellhead production tubing, sucker rods, surface pumps, flow lines, gathering equipment, storage facilities,
all other equipment, treating plants and equipment and secondary recovery systems;

2.3.5 pipelines and other facilities for transporting Petroleum produced in the Contract Area to the Field Export Point;

2.3.6 movable assets and subsurface drilling and production tools, equipment and instruments, and miscellaneous equipment;

2.3.7 floating craft, automotive equipment, furniture and office equipment; and

2.3.8 if approved by the Government, employee and welfare housing, recreational, educational, health and meal facilities, and other similar costs necessary for the Development.

2.4 **Operating Costs**

Operating Costs are, in respect of a Development Area and after the start of Commercial Production from it, those costs of an operating nature which directly relate to the Development thereof, or to the production of Petroleum therefrom, and are incurred in respect of activities carried out substantially in accordance with an approved Development Work Program and Budget, but without prejudice to Section 4.7 of the Agreement.

2.5 **Decommissioning Costs Reserve**

Decommissioning Costs Reserve is the amount determined in accordance with paragraph 4.13.5 of the Agreement.

2.6 **Miscellaneous Receipts**

Miscellaneous Receipts are:

2.6.1 all monies received by Contractor, other than for the sale or other disposal of Petroleum from a Development Area, which are directly related to the conduct of Petroleum operations, including:

(a) amounts received from the sale or other disposal of Petroleum from production testing activities undertaken in Exploration and Appraisal wells;

(b) amounts received for the disposal, loss, or destruction of property, the cost of which is a Recoverable Cost;

(c) amounts received by the Contractor under an insurance policy, the premiums of which are Recoverable Costs, in respect of damage to or loss of property;

(d) amounts received as insurance (the premiums of which are Recoverable Costs), compensation or indemnity in respect of Petroleum lost or destroyed prior to the Field Export Point;
(e) amounts received from the hiring or leasing of property, the cost of which is a Recoverable Cost;

(f) amounts received from supplying information obtained from Petroleum operations;

(g) amounts received as charges for the use of employee amenities, the costs of which are Recoverable Costs; and

(h) amounts received in respect of expenditures which are Recoverable Costs, by way of indemnity or compensation for the incurring of the expenditure, refund of the expenditure, or rebate, discount or commission in respect of the expenditure; and

2.6.2 the value of property, the cost of which is a Recoverable Cost, when that property ceases to be used in Petroleum operations;

2.7 Ineligible Costs

Ineligible Costs are:

2.7.1 interest (or any payment in the nature of, in lieu of, or having the commercial effect of, interest) or other cost under, or in respect of, a Loan Facility;

2.7.2 foreign exchange and currency hedging costs;

2.7.3 costs relating to formation of corporations or of any partnerships or joint venture arrangements, other than in respect of a unitisation as required by the Law;

2.7.4 payments of dividends or the cost of issuing shares;

2.7.5 repayments of equity or loan capital;

2.7.6 payments of private overriding royalties, net profits interests and the like;

2.7.7 all expenditure (including professional fees, publicity and out-of-pocket expenses) incurred in connection with the negotiation, signature or ratification of this Agreement and payments associated with the acquisition of an interest under the Agreement;

2.7.8 payments of Tax under the taxation law of Somalia and the Republic of Somalia, and all other Taxes on income, profit or gain wherever arising;

2.7.9 payments of administrative accounting costs, and other costs indirectly associated with Petroleum operations;

(a) except with the consent of the Government, costs incurred in respect of Petroleum after it has passed the Field Export Point;
(b) costs incurred as a result of non-compliance by a Contractor with the law or the Agreement, including costs incurred as a result of any negligent act or omission, or wilful misconduct, of a Contractor, its agents or subcontractors, including any amount paid in settlement of any claim alleging negligence or wilful misconduct, whether or not negligence or misconduct is admitted or whether such sum is stated to be paid on an ex-gratia or similar basis;

(c) payment of compensation or damages under this Agreement;

(d) costs relating to the settlement of disputes, which are not approved in advance by the Government, including all costs and expenses of arbitration or litigation proceedings under this Agreement;

(e) Decommissioning Costs actually incurred which have been taken into account for the purposes of determining the Decommissioning Costs Reserve;

(f) payments under Section 11 of the Agreement;

(g) audit fees and accounting fees (excluding fees and expenses incurred for the conduct of audit and accounting services required by the Agreement) incurred pursuant to the auditing and accounting requirements of any law and all costs and expenses incurred in connection with intragroup corporate reporting requirements (whether or not required by law);

(h) except with the consent of the Government and in accordance with the conditions of the consent, any expenditure in respect of the hiring or leasing of structures, facilities, installations; equipment or other property, or of other works if such costs have been included as Recoverable Costs;

(i) except with the consent of the Government, costs, including donations, relating to public relations or enhancement of the Party's corporate image and interests;

(j) costs associated with local offices and local administration, including staff benefits, which are excessive;

(k) costs which are not adequately supported and documented;

(l) except with the consent of the Government, but subject to Section 4.7 of the Agreement, costs not included in a budget for the relevant year;
(m) costs not falling within any of the above items which are stated elsewhere in this Agreement not to be recoverable (including in paragraph 2.1.5 of the Agreement, or costs incurred without the consent or approval of the Government (where such is required).

2.8 Other Matters

2.8.1 The methods mentioned in this Article 2.8 will be used to calculate Recoverable Costs.

2.8.2 Depreciation is not a Recoverable Cost.

2.8.3 General and administration costs, other than direct charges, allocable to Petroleum Operations shall be determined by a detailed study, and, subject to approval by the Government, the method determined by such a study shall be applied each Calendar Year consistently.

2.8.4 Inventory levels shall be in accordance with Good Oil Field Practice. The value of inventory items not used in Petroleum operations, or sold, the cost of which has been recovered as an Operating Cost, shall be treated as Miscellaneous Receipts. The cost of an item purchased for inventory shall be a Recoverable Cost at such time as the item is incorporated in the works.

2.8.5 Where the cost of anything, or a receipt (or value) in respect of anything, relates only partially to the carrying out of Petroleum Operations, only that portion of the cost or the receipt (or value) which relates to the carrying out of Petroleum Operations will be a Recoverable Cost or assessed as a Miscellaneous Receipt. Where any cost or related receipt (or value) relates to more than one of Exploration, Appraisal, Capital and Operating Costs, or to more than one Development Area, the cost or related receipt (or value) will be apportioned in an equitable manner.

3 COSTS, EXPENSES AND CREDITS

Subject as otherwise provided in the Agreement, the following costs, charges and credits shall be included in the determination of Recoverable Costs.

3.1 Surface Rights

All direct costs necessary for the acquisition, renewal or relinquishment of surface rights acquired and maintained in force for the purposes of the Agreement.

3.2 Labour and Associated Labour Costs

3.2.1 Costs of Contractor's locally recruited employees based in Somalia. Such costs shall include the costs of employee benefits and state benefits for employees and levies imposed on Contractor as an employer, transportation and relocation costs within Somalia of the
employee and such members of the employee's family (limited to spouse and dependent children) as required by law or customary practice therein. If such employees are also engaged in other activities, the cost of such employees shall be apportioned on a time sheet basis according to sound and acceptable accounting principles.

3.2.2 Costs of salaries and wages including bonuses of Contractor's employees directly and necessarily engaged in the conduct of the Petroleum Operations, whether temporarily or permanently assigned, irrespective of the location of such employees, it being understood that in the case of those personnel only a portion of whose time is wholly dedicated to Petroleum Operations under the Agreement, only that pro-rata portion of applicable salaries, wages, and other costs as delineated in paragraphs 3.2.3, 3.2.4, 3.2.5, 3.2.6 and 3.2.7 shall be charged and the basis of such pro-rata allocation shall be specified.

3.2.3 Contractor's costs regarding holiday, vacation, sickness and disability benefits and living and housing and other customary allowances applicable to the salaries and wages chargeable under paragraph 3.2.2.

3.2.4 Expenses or contributions made pursuant to assessments or obligations imposed under the laws of Somalia which are applicable to Contractor's cost of salaries and wages chargeable under paragraph 3.2.2.

3.2.5 Contractor's cost of established plans for employees' group life insurance, hospitalisation, pension, stock purchases, savings, bonus and other benefit plans of alike nature customarily granted to Contractor's employees, provided however that such costs are in accordance with generally accepted standards in the international petroleum industry, applicable to salaries and wages chargeable to Petroleum Operations under paragraph 3.2.2.

3.2.6 Reasonable transportation and travel expenses of employees of Contractor, including those made for travel and relocation of the expatriate employees, including their families and personal effects, assigned to Somalia whose salaries and wages are chargeable to Petroleum Operations under paragraph 3.2.2.

Actual transportation expenses of expatriate personnel transferred to Petroleum Operations from their country of origin shall be charged to the Petroleum Operations. Transportation expenses of personnel transferred from Petroleum Operations to a country other than the country of their origin shall not be charged to the Petroleum Operations. Transportation cost as used in this section shall mean the cost of freight and passenger service, meals, hotels, insurance and other expenditures related to vacation and transfer travel and authorised under Contractor's standard personnel.
policies. Contractor shall ensure that all expenditures related to transportation costs are equitably allocated to the activities which have benefited from the personnel concerned.

3.2.7 Reasonable personal expenses of personnel whose salaries and wages are chargeable to Petroleum Operations under paragraph 3.2.2 and for which expenses such personnel reimbursed under Contractor's standard personnel policies. In the event such expenses are not wholly attributable to Petroleum Operations, the Petroleum Operations shall be charged with only the applicable portion thereof, which shall be determined on an equitable basis.

3.3 Transportation and Employee Relocation Costs

The cost of transportation of employees, equipment, materials and supplies other than as provided in Article 3.2 necessary for the conduct of the Petroleum Operations along with other related costs, including import duties, customs fees, unloading charges, dock fees, and inland and ocean freight charges.

3.4 Charges for Services

For purposes of this Article 3.4, Affiliates which are not wholly owned by Contractor or Contractor's ultimate holding company shall be considered third parties.

3.4.1 Third Parties

The actual costs of contract services, services of professional consultants, utilities, and other services necessary for the conduct of the Petroleum operations performed by third parties other than an Affiliate of Contractor.

3.4.2 Affiliates of Contractor

(a) Professional and Administrative Services Expenses: cost of professional and administrative services provided by any Affiliates of Contractor for the direct benefit of Petroleum Operations, including services provided by the production, exploration, legal, financial, insurance, accounting and computer services, divisions other than those covered by paragraph 3.4.2(b) or Article 3.6 or paragraph 3.8.2 which Contractor may use in lieu of having its own employees. Charges shall reflect the cost of providing the services and shall not include any element of profit and shall be no less favourable than similar charges for other operations carried on by Contractor and its Affiliates. The charge-out rate shall include all costs incidental to the employment of such personnel. Where the work is performed outside the home office base of such personnel, the daily rate shall be charged from the date such personnel leave the home office base where they usually work up to their return
thereto, including days which are not working days in the location where the work is performed, excluding any holiday entitlements derived by such personnel from their employment at their home office base.

(b) Scientific or Technical Personnel: cost of scientific or technical personnel services provided by any Affiliate of Contractor for the direct benefit of Petroleum Operations, which cost shall be charged on a cost of service basis and shall not include any element of profit. unless the work to be done by such personnel is covered by an approved Work Program and Budget, Contractor shall not authorise work by such personnel.

(c) Equipment and Facilities: use of equipment and facilities owned and furnished by Contractor's Affiliates, at rates commensurate with the cost of ownership and operation; provided, however, that such rates shall not exceed those currently prevailing for the supply of like equipment and facilities on comparable terms in the area where the Petroleum Operations are being conducted. The equipment and facilities referred to herein shall exclude major investment items such as (but not limited to) drilling rigs, producing platforms, oil treating facilities, oil and gas loading and transportation systems, storage and terminal facilities and other major facilities, rates for which shall be subject to separate agreement with the Government.

3.5 Communications

Costs of acquiring, leasing, installing, operating, repairing and maintaining communication systems including radio and microwave facilities between the Contract Area and Contractor's base facility in Somalia.

3.6 Office, Storage and Miscellaneous Facilities

Net cost to Contractor of establishing, maintaining and operating any office, sub-office, warehouse, data storage, housing or other facility in Somalia directly serving the Petroleum Operations.

3.7 Ecological and Environment

3.7.1 Costs incurred in the Contract Area as a result of legislation for archaeological and geophysical surveys relating to identification and protection of cultural sites or resources.

3.7.2 Costs incurred in environmental or ecological surveys required by this Agreement or regulatory authorities.

3.7.3 Costs to provide or have available pollution containment and removal equipment.
3.7.4 Costs of actual control and cleanup of oil spills, and of such further responsibilities resulting therefrom as may be required by applicable laws and regulations.

3.7.5 Costs of restoration of the operating environment.

3.8 **Material Costs**

Costs of materials and supplies, equipment, machines, tools and any other goods of a similar nature used or consumed in Petroleum Operations subject to the following:

3.8.1 Components of costs, arm's length transactions - except as otherwise provided in paragraph 3.8.3, material purchased by Contractor in arm's length transactions in the open market for use in the Petroleum Operations shall be valued to include invoice price less trade and cash discounts plus purchase and procurement fees plus freight and forwarding charges between point of supply and point of shipment, freight to port of destination, insurance, taxes, customs duties, consular fees, excise taxes, other items chargeable against imported materials and, where applicable, handling and transportation expenses from point of importation to warehouse or operating site.

3.8.2 Accounting - such material costs shall be charged to the Accounting Records and books in accordance with the "First in, First out" (FIFO) method.

3.8.3 Material purchased from or sold to Affiliates of Contractor or transferred from other activities of Contractor to or from Petroleum Operations shall be valued and charged or credited at the prices specified in paragraphs 3.8.3(a), 3.8.3(b) and 3.8.3(c).

(a) New material, including used new material moved from inventory (Condition "A"), shall be valued at the current international net price which shall not exceed the price prevailing in normal arm's length transactions in the open market.

(b) Used material (Conditions "B", "C" and "D"):

(i) Material which is in sound and serviceable condition and is suitable for re-use without reconditioning shall be classified as Condition "B" and priced at seventy-five per cent (75%) of the current price of new material defined in paragraph 3.8.3(a);

(ii) Material which cannot be classified as Condition "B", but which after reconditioning will be further serviceable for its original function, shall be classified as Condition "C" and priced at not more
than fifty per cent (50%) of the current price of new material as defined in paragraph 3.8.3(a); the cost of reconditioning shall be charged to the reconditioned material provided that the value of Condition "C" material plus the cost of reconditioning does not exceed the value of Condition "B" material;

(iii) Material which cannot be classified as Condition "B" or Condition "C" shall be classified as Condition "D" and priced at a value commensurate with its use by Contractor. If material is not fit for use by Contractor it shall be disposed of as junk.

(c) Material involving erection costs shall be charged at the applicable condition percentage of the current knocked-down price of new material as defined in paragraph 3.8.3(a).

(d) When the use of material is temporary and its service to the Petroleum Operations does not justify the reduction in price as provided for in paragraph 3.8.3(b), such material shall be priced on a basis that will result in a net charge to the accounts under this Agreement consistent with the value of the service rendered.

(e) Premium prices - whenever material is not readily obtainable at published or listed prices because of national emergencies, strikes or other unusual causes over which Contractor has no control, Contractor may charge Petroleum Operations for the required material at Contractor's actual cost incurred in providing such material, in making it suitable for use, and in moving it to the Contract Area; provided notice in writing is furnished to the Government of the proposed charge prior to charging Petroleum Operations for such material and the Government shall have the right to challenge the transaction on audit.

(f) Warranty of material furnished by Contractor - Contractor does not warrant the material furnished. In case of defective material, credit shall not be passed to Petroleum Operations until adjustment has been received by Contractor from the manufacturers of the material or their agents.

3.9 **Rentals, Duties and Other Assessments**

All rentals, levies, charges, fees, contributions and other charges of every kind and nature levied by any Somali governmental authority in connection
with the Petroleum Operations and paid directly by Contractor (save where the contrary is expressly provided in this Agreement).

3.10 **Insurance and Losses**

Insurance premiums and costs incurred for insurance provided that such insurance is customary, affords prudent protection against risk and is at a premium no higher than that charged on a competitive basis by insurance companies which are not Affiliates of Contractor. Except in cases of failure to insure where insurance coverage is required pursuant to this Agreement, actual costs and losses incurred shall be allowable to the extent not made good by insurance. Such costs may include repair and replacement of property resulting from damages or losses incurred by fire, flood, storm, theft, accident or other cause.

3.11 **Legal Expenses**

All reasonable costs and expenses resulting from the handling, investigating, asserting, defending, or settling of any claim or legal action necessary or expedient for the procuring, perfecting, retention and protection of the Contract Area, and in defending or prosecuting lawsuits involving the Contract Area or any third party claim arising out of the Petroleum Operations, or sums paid in respect of legal services necessary for the protection of the joint interest of the Government and Contractor shall be allowable. Such expenditures shall include, attorney's fees, court costs, costs of investigation, and procurement of evidence and amounts paid in settlement or satisfaction of any such litigation and claims. Where legal services are rendered in such matters by salaried or regularly retained lawyers of Contractor or an Affiliate of Contractor, such compensation shall be included instead under Article 3.2 or paragraph 3.4.2 as applicable.

3.12 **Claims**

Expenditures made in the settlement or satisfaction of any loss, claim, damage, judgement or other expense arising out of or relating to Petroleum Operations.

3.13 **Training Costs**

All costs and expenses incurred by Contractor in the training of its employees engaged in Petroleum Operations, and such other training as is required by this Agreement.

3.14 **General and Administrative Costs**

The costs described in paragraph 2.8.3.
3.15 **Other Expenditures**

Other reasonable expenditures not covered or dealt with in the foregoing provisions of Article 3 which are necessarily incurred by Contractor for the proper, economical and efficient conduct of Petroleum Operations.

3.16 **Duplication**

There shall be no duplication of charges and credits.

4 **INVENTORIES**

Inventories of property in use in Petroleum Operations shall be taken at reasonable intervals but at least once a year with respect to movable assets and once every three years with respect to immovable assets. Contractor shall give the Government at least thirty (30) days written notice of its intention to take such inventory and the Government shall have the right to be represented when such inventory is taken. Contractor shall clearly state the principles upon which valuation of the inventory has been based. Contractor shall make every effort to provide to the Government a full report on such inventory within thirty (30) days of the taking of the inventory. When an assignment of rights under this Agreement takes place, Contractor may, at the request of the assignee, take a special inventory provided that the costs of such inventory are borne by the assignee.

5 **PRODUCTION STATEMENT**

5.1 **Production Information**

From the start of production from the Contract Area, Contractor shall submit a monthly Production Statement to the Government showing the following information separately for each producing Development Area and in aggregate for the Contract Area:

5.1.1 the quantity of Crude Oil produced and saved;
5.1.2 the quality characteristics of such Crude Oil produced and saved;
5.1.3 the quantity of Natural Gas produced and saved;
5.1.4 the quality characteristics of such Natural Gas produced and saved;
5.1.5 the quantities of Crude Oil and Natural Gas used for the purposes of carrying on drilling and production operations and pumping to field storage;
5.1.6 the quantities of Crude Oil and Natural Gas unavoidably lost;
5.1.7 the quantities of Natural Gas flared and vented;
5.1.8 the size of Petroleum stocks held at the beginning of the month in question;
5.1.9 the size of Petroleum stocks held at the end of the month in question;
5.1.10 the quantities of Natural Gas reinjected into the Reservoirs; and
5.1.11 in respect of the Contract Area as a whole, the quantities of Petroleum transferred at the Field Export Point.

All quantities shown in this statement shall be expressed in both volumetric terms (barrels of Crude Oil and cubic meters of Natural Gas) and in weight (metric tonnes).

5.2 Submission of Production Statement

The Production Statement for each month shall be submitted to the Government no later than ten (10) days after the end of such month.

6 VALUE OF PRODUCTION AND PRICING STATEMENT

6.1 Value of Production and Pricing Statement Information

Contractor shall, for the purposes of Section 7 of the Agreement, prepare a Value of Production and Pricing Statement providing calculations of the value of Crude Oil and Natural Gas produced and saved during each Quarter. This Value of Production and Pricing Statement shall contain the following information:

6.1.1 the quantities and the price payable in respect of sales of Natural Gas and Crude Oil delivered to third parties during the Quarter in question; and

6.1.2 the quantities and price payable in respect of sales of Natural Gas and Crude Oil delivered during the Quarter in question, other than to third parties.

6.2 Submission of Value of Production and Pricing Statement

The Value of Production and Pricing Statement for each Quarter shall be submitted to the Government not later than twenty-one (21) days after the end of such Quarter.

7 COST RECOVERY STATEMENT

7.1 Quarterly Statement

Contractor shall prepare with respect to each Quarter a Cost Recovery Statement containing the following information:

7.1.1 Recoverable Costs carried forward from the previous Quarter;

7.1.2 Recoverable Costs for the Quarter in question;

7.1.3 Credits under the Agreement for the Quarter in question;

7.1.4 Total Recoverable Costs for the Quarter in question (paragraphs 7.1.1 plus 7.1.2 less 7.1.3);

7.1.5 quantity and value of Contractor's share of Petroleum under Article 7 of the Agreement in the Quarter in question; and

Annex 162
7.1.6 amount of Recoverable Costs to be carried forward into the next Quarter (paragraph 7.1.4 less paragraph 7.1.5).

7.2 Preparation and Submission of Cost Recovery Statements

7.2.1 Provisional Cost Recovery Statements, containing estimated information where necessary, shall be submitted by Contractor on the last day of each Quarter.

7.2.2 Final Quarterly Cost Recovery Statements shall be submitted within thirty (30) days after the end of the Quarter in question.

7.3 Annual Statement

An Annual Cost Recovery Statement shall be submitted within ninety (90) days after the end of each Calendar Year. The annual statement shall contain the categories of information listed in Article 7.1 for the Calendar Year in question, separated into the Quarters of the Calendar Year in question, and showing the cumulative positions at the end of the Calendar Year in question.

8 STATEMENTS OF EXPENDITURE AND RECEIPT

8.1 Quarterly Statement

The Operator shall prepare with respect to each Quarter a Statement of Expenditure and Receipts. The statement will distinguish between Exploration, Appraisal, Capital and Operating Costs and will identify major items within these categories. The statement will show the following:

8.1.1 actual expenditures and receipts for the Quarter in question;

8.1.2 cumulative expenditure and receipts for the Calendar Year in question;

8.1.3 latest forecast cumulative expenditures at the Calendar Year end;

8.1.4 variations between budget forecast and latest forecast and explanations thereof.

The Statement of Expenditure and Receipts of each Quarter shall be submitted to the Government no later than fifteen (15) days after the end of such Quarter.

8.2 Annual Statement

Contractor shall prepare a final end-of-year statement. The statement will contain information as provided in the production statement, Value of Production and Pricing Statement, Cost Recovery Statement and Statement of Expenditure and Receipts, but will be based on actual quantities of Petroleum produced and costs incurred. This statement will be used to make any adjustments that are necessary to the payments made by Contractor under this Agreement. The final end-of-year statement of each Calendar Year shall be submitted to the Government no later than the fifteenth day of March following the end of each Calendar Year.
Year shall be submitted to the Government within ninety (90) days of the end of such Calendar Year.
Schedule 3
Form of Notice of Completion of Exploration Programme

[Headed paper of Soma Oil & Gas Exploration Limited]

To: The Minister responsible for National Resources
    The Government of the Federal Republic of Somalia

Date: [*]

Dear Sir

We refer to the agreement relating to the Seismic Option Agreement dated [*] August 2013 made between the Government of the Federal Republic of Somalia and Soma Oil & Gas Exploration Limited, a wholly owned subsidiary of Soma Oil & Gas Holdings Limited (the "Agreement"). Terms not defined in this notice shall have the meaning given to them in the Agreement.

We hereby notify you that the Exploration Programme has been completed in accordance with the terms of the Agreement. This notice constitutes the Notice of Completion referred to in the Agreement.

Yours faithfully

For and on behalf of Soma Oil & Gas Exploration Limited, a wholly owned subsidiary of Soma Oil & Gas Holdings Limited

We hereby acknowledge receipt of this notice

For and on behalf of The Federal Republic of Somalia
Schedule 4
Form of Notice of Application of Production Sharing Agreements

[Headed paper of Soma Oil & Gas Exploration Limited]

To: The Minister responsible for National Resources

The Government of the Federal Republic of Somalia

Date: [●]

Dear Sir

We refer to the agreement relating to the Seismic Option Agreement (the "Agreement") dated [●] August 2013 made between the Government of the Federal Republic of Somalia (the "Government") and Soma Oil & Gas Exploration Limited, a wholly owned subsidiary of Soma Oil & Gas Holdings Limited ("Soma"). Terms not defined in this notice shall have the meaning given to them in the Agreement.

This notice is the Notice of Application referred to in the Agreement.

We hereby apply for the following areas to be awarded and granted by the Government of the Federal Republic of Somalia pursuant to the terms of the Agreement:

Area:

[Soma to insert area descriptions at time of application]

Soma confirms that, in respect of each Area, it is prepared to commit to the terms the Production Sharing Agreement in the form attached to the Agreement (the "PSA"), including its minimum commercial terms. Soma also confirms that:

(A) no Area exceeds 5000 km², and each Area conforms to the graticulation determined by the Government pursuant to the Petroleum Law of Somalia 2008;

(B) the aggregate of all Areas which are or have been the subject of an application under the Agreement does not exceed 60,000 km²;

(C) each Area is presently considered to be adequately secure to permit petroleum operations to be undertaken;

(D) the health, safety and welfare of persons involved in or affected by Petroleum Operations will be as set forth in the PSA;

(E) provisions in respect of protecting the environment, preventing, minimising and remedying pollution, and other environmental harm from the Petroleum Operations will be as set forth in the PSA;

(F) provisions in respect of training of, and giving preference in employment in the Petroleum Operations to, nationals of Somalia will be as set forth in the PSA;

(G) provisions in respect of commitments to benefit the local community in the Authorised Area and to minimise and mitigate any adverse effects of Petroleum Operations in the Authorised Area will be as set forth in the PSA; and
provisions in respect of the acquisition of goods and services from Persons based in Somalia will be as set forth in the PSA.

Yours faithfully

For and on behalf of Soma Oil & Gas Exploration Limited, a wholly owned subsidiary of Soma Oil & Gas Holdings Limited

We hereby acknowledge receipt of this notice

For and on behalf of The Federal Republic of Somalia
Schedule 5
Form of Suspension Notice

[Headsed paper of Soma Oil & Gas Exploration Limited]

To: The Minister responsible for National Resources
The Government of the Federal Republic of Somalia

Date: [●]

Dear Sir

We refer to the agreement relating to the Seismic Option Agreement dated [●] August 2013 made between the Government of the Federal Republic of Somalia and Soma Oil & Gas Exploration Limited, a wholly owned subsidiary of Soma Oil & Gas Holdings Limited (the "Agreement"). Terms not defined in this notice shall have the meaning given to them in the Agreement.

This notice is a Suspension Notice as referred to in the Agreement.

We write to advise you of the following:

(I) Affected Area: [description]

(J) Event or Incident: [description]

As a result of the above we are prevented or hindered from executing the Exploration Programme in the Affected Area and thus, in accordance with Clause 5.3 of the Agreement, we have, from the date of this notice, suspended such Exploration Services in the Affected Area.

Yours faithfully

For and on behalf of Soma Oil & Gas Exploration Limited, a wholly owned subsidiary of Soma Oil & Gas Holdings Limited

We hereby acknowledge receipt of this notice

For and on behalf of The Federal Republic of Somalia
Schedule 6
Description of Soma and Soma Oil & Gas Holdings Limited

(A) The current directors and officers, and shareholders of Soma Oil & Gas Holdings Limited are:

Directors and Officers

<table>
<thead>
<tr>
<th>Name</th>
<th>Position</th>
</tr>
</thead>
<tbody>
<tr>
<td>Lord Howard of Lympne CH, QC</td>
<td>Non-Executive Chairman</td>
</tr>
<tr>
<td>Robert Sheppard</td>
<td>Chief Executive Officer</td>
</tr>
<tr>
<td>Basil Shiblaq</td>
<td>Executive Director</td>
</tr>
<tr>
<td>Hassan Khaire</td>
<td>Non-Executive Director</td>
</tr>
<tr>
<td>Chief Financial Officer has been selected</td>
<td>Chief Financial Officer</td>
</tr>
</tbody>
</table>

Shareholding

<table>
<thead>
<tr>
<th>Name</th>
<th>Ordinary Shares</th>
</tr>
</thead>
<tbody>
<tr>
<td>Lord Howard of Lympne CH, QC</td>
<td>7,000,000</td>
</tr>
<tr>
<td>Robert Sheppard</td>
<td>2,000,000</td>
</tr>
<tr>
<td>Soma Oil &amp; Gas Limited BVI*</td>
<td>77,500,000</td>
</tr>
<tr>
<td>Hassan Khaire</td>
<td>2,000,000</td>
</tr>
<tr>
<td>Kalyra Investments Limited**</td>
<td>10,000,000</td>
</tr>
<tr>
<td>Chief Financial Officer elect</td>
<td>1,500,000</td>
</tr>
</tbody>
</table>

Total Ordinary Shares in issue 100,000,000

*Soma Oil & Gas Limited BVI is wholly owned by B Shiblaq and I Shiblaq
**The beneficial owner of Kalyra Investments Limited is a private investor of British nationality

(B) The current directors and officers of Soma Oil & Gas Exploration Limited, a 100% owned subsidiary of Soma Oil & Gas Holdings Limited are:

<table>
<thead>
<tr>
<th>Name</th>
<th>Position</th>
</tr>
</thead>
<tbody>
<tr>
<td>Lord Howard of Lympne CH, QC</td>
<td>Non-Executive Chairman</td>
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<td>Executive Director</td>
</tr>
<tr>
<td>Hassan Khaire</td>
<td>Non-Executive Director</td>
</tr>
<tr>
<td>Chief Financial Officer elect</td>
<td>Chief Financial Officer</td>
</tr>
</tbody>
</table>

Soma Oil & Gas Exploration Limited is wholly owned by Soma Oil & Gas Holdings Limited.
Annex 163

“Soma Oil & Gas Unlocking Somalia’s Potential: Company Presentation”, Soma Oil & Gas, 7 October 2013
Unlocking Somalia’s Potential
Disclaimer

This presentation may contain forward-looking statements which are made in good faith and are based on current expectations or beliefs, as well as assumptions about future events. By their nature, forward-looking statements are inherently predictive and speculative and involve risk and uncertainty because they relate to events and depend on circumstances that will occur in the future. You should not place undue reliance on these forward-looking statements, which are not a guarantee of future performance and are subject to factors that could cause the actual information to differ materially from those expressed or implied by these statements. The Company undertakes no obligation to update any forward-looking statements contained in this presentation, whether as a result of new information, future events or otherwise.

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Company Overview

► Focussing on offshore Somalia
  - Soma Oil & Gas is focused on exploring for hydrocarbons offshore in the Federal Republic of Somalia
  - Led by a Board and Management team with extensive experience in oil and gas, finance and international politics

► First Mover in the last offshore frontier in Africa
  - Located in East Africa, one of the most active oil and gas regions globally and one of the most popular with investors
  - Access to acreage with highest resource potential
  - Limited exploration has been conducted to date in Somalia, but the acreage is likely to be highly prospective

► A geopolitical inflection point
  - Somalia has been on a path to greater stability since the election of President Hassan Sheikh Mohamud in September 2012.
  - Government is first to gain international recognition following two decades of state failure and enjoys particularly strong support from the UK, US, EU, UN and African Union

► Signed unique Seismic Option Agreement
  - Commits Soma Oil & Gas to invest in the gathering and digitisation of all available geological information, the reprocessing of existing seismic data
  - Acquisition and processing of new seismic data offshore Somalia
  - In return, Soma Oil & Gas has the right to apply for concession areas of up to 60,000 km2 based on an agreed form template Production Sharing Agreement
Rationale for Hydrocarbon Exploration Offshore Somalia

► Highly under-explored due to historic security issues – all PSCs in force majeure since 1990-91
  - Only 6 offshore wells along entire 1,800 km length of the eastern offshore basin
  - Only 1 offshore well in Soma Oil & Gas offshore area of interest, drilled by Esso in 1982 in shallow water
  - Deep water entirely unexplored; existing seismic mainly limited to WDs less than 1,000m, while Soma Oil & Gas Area of Interest extends to 3,000m WD

► Hydrocarbon plays – source and reservoir rocks – proven in adjacent sedimentary basins
  - Jurassic plate reconstruction places Somalia offshore immediately next to Madagascar where Jurassic sources are proven
  - USGS estimate undiscovered resources of 16 billion barrels of oil and 260 tcf gas in three provinces bordering South Somalia offshore – Tanzania/Kenya, Madagascar and Seychelles
  - Tullow Oil, Eni, BG, Ophir Energy, Anadarko and Statoil have added considerable value from recent finds in East Africa
  - Recent bids for Cove Energy demonstrate the level of interest in the region

► Recent aggressive acreage licensing by Anadarko, Total and Eni in adjacent Kenya offshore
  - Likely to indicate strong technical interest in southern parts of Somalia offshore
- Present day positioning of continents and age of ocean crust

Mid Jurassic Plate Reconstruction

Mid Jurassic plate reconstruction places Somalia immediately opposite northeast Madagascar and Seychelles during the critical period of hydrocarbon source rock deposition.
USGS estimate total undiscovered resources of 16 billion barrels of oil and 260 tcf gas in provinces bordering Soma Oil & Gas Area of Interest in Somalia offshore waters.

- Plate reconstruction to Jurassic – time of deposition of hydrocarbon source rocks – emphasises the relevance of the adjacent data.
South Somalia Offshore vs North Sea

Somalia offshore area of interest is comparable in size to productive areas of North Sea.
Hydrocarbons in South Somalia & Adjacent Areas

Historic Drilling in South Somalia

- Most wells date from 1956 to 1970
- Only 8 exploration wells since 1970
- Last well: 1990

Galcaio-2 (1962)
- Oil shows, U. Jurassic

El Hamurre-1 (1961)
- Oil shows, Eocene

Gira-1 (1956)
- Oil shows U. Cretaceous

Calub & Hilala Fields
- 2.7 Tcf

Duddamai-1 (1959)
- Gas shows

Coriole-1 (1960)
- 2 MMcf/d + 100 bopd
- 36 API from Palc.
- 2 bopd from Eocene

Afgooye Discovery (1965)
- 353 MMboe
- 4 MMcf/d + 42 bopd from U. Cret & Palc

Merca-1 (1958)
- Gas shows & Bitumen in Eocene

Meregh-1 1982 (Esso)
- Only well in Soma Offshore Area of Interest

Offshore oil slick
Industry Activity in Offshore Kenya

Recent Offshore Kenya Licensing
- Anadarko L-5, 7, 11, 12 PSC, 2009
  Total farmin for 40% in 2012
- Total L-22; PSC, Sept. 2011
- Eni L-21, 23, 24. PSC, July 2012

Early Drilling Results
- Oil and gas shows in many wells

Recent Offshore Kenya Drilling

- Pomboo-1, Woodside 2007, WD >2000m, Reservoir present but no shows
- Kubwa-1, Anadarko 2013, WD >2000m. Non commercial oil shows in reservoir quality sands
- Mbawa-1, Apache 2012, WD 1000m, Cretaceous gas discovery
- Kiboko-1, Anadarko 2013, WD c. 2500m, result not known
Seismic Option Agreement

► Soma Oil & Gas will undertake an Exploration Programme in Somalia lasting for 18 - 24 months including:
  ▪ Gathering and digitisation of all available geological information and the reprocessing of seismic data
  ▪ The acquisition and processing of new 2-D seismic data over an agreed Evaluation Area offshore Somalia
  ▪ Data will be assembled in a Dataroom for the Somali Ministry of National Resources

► In consideration for the Exploration Programme Soma Oil & Gas has the right to apply for concession areas of up to an aggregate of 60,000 km² under 12 individual PSAs of 5,000 km² each

Signing of the Seismic Option Agreement

Lord Howard of Lympne CH, QC with Robert Sheppard during the signing of the Seismic Option Agreement in Mogadishu on August 6, 2013

Soma Oil & Gas signs SOA

Somali Minister of National Resources Abdirizak Omar Mohamed shakes hands with Lord Howard of Lympne CH, QC after signing the Seismic Option Agreement in Mogadishu on August 6, 2013
In Summary

► Inflection Point of Growing Prospectivity & Political Stability
  ▪ Potential hydrocarbon revenues to support the infrastructure of the government thereby enhancing stability
  ▪ Underpinning economic growth to help move on from the international aid cycle

► Positive impact of the Oil & Gas Sector in Somalia
  ▪ Employment and training
  ▪ Encourage other companies to explore for hydrocarbons in Somalia

► Social benefits to Somalia
His Excellency Mr. Rafael Dario Ramirez Carreno  
Chair  
Security Council Committee pursuant to resolutions 751 (1992) and 1907 (2009) concerning Somalia and Eritrea  
335 East 46th Street  
New York, N.Y. 10017

17 August 2015

Your Excellency,


I am writing as Chairman of Soma Oil & Gas Holdings Limited, and its wholly owned subsidiary Soma Oil & Gas Exploration Limited (“Soma” or the “Company”), the UK-registered oil and gas exploration company focused on Somalia, in response to allegations made in a leaked report by the Somalia and Eritrea Monitoring Group (the “Monitoring Group”).

Background to Soma Oil & Gas

Since 2013 the Company has been working with the Federal Government of the Republic of Somalia (the “Federal Government”) to revive the country’s nascent oil and gas industry. When the Federal Government decided to resume exploration activity and open up the country’s hydrocarbon industry, there were twelve international oil companies (“IOCs”) that had declared force majeure over their Somali licences as a result of the civil war. These IOCs were resisting requests to return to the country to explore for hydrocarbons. In contrast, Soma was willing to engage with the Federal Government to open up Somalia’s oil and gas industry and demonstrate that it was possible to operate successfully in the country. Thus began the journey to rebuild Somalia's economy by developing an industry that has the potential to deliver substantial economic growth for a country that is desperately in need of trade and employment opportunities for its people and revenue for its government.

Seismic Option Agreement (SOA)

A SOA was signed by Soma and the Federal Government on the 6th August 2013 in a public ceremony in Mogadishu, attended by media. The agreement committed Soma to carry out a work programme that included seismic surveying, collation and analysis of data relating to uncontested areas under the jurisdiction of the Federal Government in Somalia’s offshore waters. Under the terms of the SOA, the Company was obliged to invest at least
US$15 million over a two year Exploration Programme. To date the Company has already spent over US$41 million directly on the Exploration Programme and intends to invest hundreds of millions of dollars should Production Sharing Agreements (“PSAs”) be granted in the future.

As of 31 July 2015, Soma delivered the Notice of Completion of the Exploration Programme, as per its obligations under the terms of the SOA. In the next few weeks, Soma will provide the Federal Government with processed 2D seismic data acquired during the seismic programme of 2014. The Ministry will be able to use the data provided by Soma without restrictions as it continues to seek to revive its oil industry. Soma is proud to have completed the Exploration Programme under the terms of the SOA within just two years of signing the agreement.

During this critical period, we have seen transformational progress in the reopening of the oil and gas sector in Somalia. Firstly, the IOCs, including Royal Dutch Shell plc and Exxon Mobil Corp, have re-engaged with the Federal Government about reactivating dormant licences in the country. Secondly, the Federal Government has taken significant steps to develop a sustainable model for revenue sharing amongst the semi-autonomous regions. It has undertaken not to sign any PSAs with any company until a revenue sharing agreement is in place. This alone represents significant progress for the Federal Government and the autonomous states as they seek to establish the revenue sharing agreement that will promote stability amongst Somalia’s regions through shared economic recovery by the development of its oil and gas sector.

**Capacity Building Arrangements**

*Allegations from the Monitoring Group*

As you will be aware, the UK’s Serious Fraud Office (the “SFO”) is investigating an allegation that has been made against the Company in regard to the Capacity Building Arrangements (the “CBA”) signed by Soma and the Federal Government. This allegation is widely reported by the media to have stemmed from the Monitoring Group which in its most recently leaked report incorrectly claims that payments to the Federal Government by Soma were “improper, unlawful and give rise to a conflict of interest”.

The Company is cooperating fully with the SFO on its investigation and stands by its statements of the 1st and 3rd August 2015, which have been published on the Company’s website, that it is confident that there is no basis to the allegations. The Company has asked the SFO to accelerate its investigation and seek a swift resolution of the issue.

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1 Appendix 1 is a press release from the Ministry of Petroleum & Mineral Resources and Shell published on 21 June 2014 stating that the Minister of Petroleum & Mineral Resources travelled to Shell’s headquarters in The Hague to hold discussions with Shell and ExxonMobil in regard to recommencing exploration and development activities in Somalia. This meeting took place on 13 June 2014 less than two weeks after Soma had successfully completed its seismic acquisition survey offshore Somalia.
Correspondence & Cooperation with the Monitoring Group

Soma has been in direct correspondence with the Monitoring Group since July 2014, prior to the publication of its 2014 report and has been cooperating fully with its enquiries. I would like to reiterate what has already been stated by the Company that we believe that the Monitoring Group has fundamentally misunderstood the nature, purpose and destination of payments under the terms of the CBA signed by Soma and the Federal Government. Soma is gravely concerned that the serious allegations against the Company may stem from a basic misunderstanding of the CBA and the oil industry.

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. It was at this stage that, at the request of the Federal Government, Soma entered into an agreement to assist the Ministry to put in place the necessary resources to do so and that the agreed sum would be offset against the training fees and rental obligations under any future PSAs. It is entirely commonplace for countries to request oil and gas companies or other institutions to support capacity building in early stage oil and gas jurisdictions. I attach a memorandum by Akin Gump that describes the history and precedents for Capacity Building in the oil and gas industry.  

Critically, in regard to the CBA, Soma has retained the law firm DLA Piper since July 2013 as its Anti-Bribery & Corruption adviser and specifically received legal advice from them in regards to the CBA and the creation of the Dataroom in Mogadishu to ensure transparency and legitimacy in all of its dealings with the Federal Government. DLA Piper has continued to advise the Company to ensure all of Soma’s activities have been entirely proper and lawful. It is also worth noting that Soma is a corporate supporter of the Extractive Industries Transparency Initiative (“EITI”) and is actively supporting the Federal Government in its ambition to become an EITI compliant country.

The Company is preparing a detailed rebuttal of the allegations that the Monitoring Group has made against it. I would also welcome the opportunity to meet you to answer these allegations and to begin a dialogue to ascertain how our investment and commitment to the country can be further leveraged, through collaboration with the UN, to maximise the positive social and economic impact of Soma’s work in-country.

Yours faithfully,

The Rt. Hon. Lord Howard of Lympne, CH QC  
Chairman, Soma Oil & Gas

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2 Appendix 2 is a memorandum by Akin Gump that describes the expansive history and precedents of Capacity Building in the Oil & Gas Industry.
APPENDIX 1

Federal Republic of Somalia hold discussions with Shell and ExxonMobil in The Hague

Saturday, June 21, 2014

On Friday 13 June 2014, His Excellency Minister Daud Mohamed Omar, Minister of Petroleum and Mineral Resources of the Federal Republic of Somalia visited the headquarters of Shell in The Hague, The Netherlands. This is the first meeting between Minister Omar and Shell.

The Minister was in The Hague at the invite of Shell EP Somalia B.V. ("Shell") who was awarded a concession for five blocks (Blocks M3-M7)* offshore Somalia in 1988. Mobil Exploration Somalia Inc. ("ExxonMobil") subsequently joined the concession as a 50% joint venture partner. The parties have now begun discussions with the Ministry with the aim to convert the existing concession (which has been under force majeure since 1990) to a Production Sharing Agreement (PSA) as called for by the 2008 Petroleum Law.

The Federal Republic of Somalia has welcomed these initial engagements with Shell and ExxonMobil. The joint venture partners will continue discussions on areas of cooperation and the potential for exploring and developing hydrocarbon resources offshore Somalia. It is the parties’ hope that these discussions will help pave the way towards the long term development of a sustainable oil and gas industry for Somalia, a key building block in the rebuilding of its economy.

Minister Daud Mohamed Omar said: “We are encouraged by the work that Shell and ExxonMobil are doing, and are keen to discuss the way forward on their offshore blocks. It is our hope that the joint venture will soon be able to start exploration and development activities in the country, and we believe these discussions are the first step in this process. I would hope to welcome Shell and ExxonMobil to visit Mogadishu in the near future.”

Shell Vice President of Exploration for Sub Saharan Africa, Alastair Milne said: “I am pleased that the Federal Government of Somalia clearly recognises the rights of existing concession holders such as Shell and ExxonMobil, and I am delighted that progress is being made in relation to our acreage.”

ENDS

For further information contact:


+25261-5522003
+25261-8474935
*Blocks M3-M7 cover an area of 60,000km² offshore Somalia in the Indian Ocean.
MEMORANDUM

Date: 17 August 2015

To: Robert Sheppard
   Philip Wolfe
   Soma Oil and Gas

From: John LaMaster

Re: Capacity Building in the Oil & Gas Industry

1. **Background**

1.1 Soma Oil & Gas (Soma) has entered into a letter agreement dated 25 April 2014 with the Minister of Petroleum and Mineral Resources (the Ministry) of the Government of the Federal Republic of Somalia (the Government) regarding Capacity Building Arrangements, and a letter agreement dated 28 April 2015 with the Government regarding Additional Capacity Building Arrangements (collectively, the Capacity Building Arrangements).

1.2 Under the Capacity Building Arrangements, Soma agrees to pay the “salary costs” of certain “staff, consultants and advisors” of the Ministry, together with the “cost of office equipment, transportation and other working tools” needed by the Ministry. These payments are to be set-off against the obligations to pay rent and training fees under the terms of Production Sharing Agreements to be entered into by Soma in the future.

1.3 The UN Somalia and Eritrean Monitoring Group and the Serious Fraud Office have alleged that the payments contemplated by the Capacity Building Arrangements are improper. You have asked our advice regarding the usual and customary practice regarding capacity building arrangements in the oil & gas industry.

1.4 Akin Gump Strauss Hauer & Feld LLP (Akin Gump) has represented clients in the oil & gas industry for 70 years. Our clients include independent producers, major multinational and state-owned oil companies, national governments, lenders, investment banks, private equity funds, underwriters, issuers, energy service companies, processing, operations, transportation and pipeline companies and refining and petrochemical companies. We have represented these clients throughout the entire oil & gas value chain, from exploration and production activity through pipelines, LNG, refining and petrochemicals. This memorandum draws on the collective experience of the 198 lawyers at Akin Gump who have experience in the oil & gas industry.

2. **Summary Conclusion**

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

2.2 Capacity building has been a long-standing feature of the oil & 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 (IOC) to engage in capacity building of local persons and governments.

2.3 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 & gas industry. An early stage oil & gas jurisdiction is likely to place more extensive capacity building requirements on IOCs than a more developed oil & gas producing jurisdiction. As a result, an aspect of capacity building that may look unusual or unconventional in one jurisdiction may be necessary in another jurisdiction.

2.4 Capacity building by IOCs is typically mandated by legislation and/or by contract.

2.5 Depending on the existing capacity already in place, capacity building in the oil & gas industry can take many forms, ranging from training and education, to technology transfer, to the building of legal and institutional frameworks.

2.6 Paragraph 3.9 of this memorandum sets forth a variety of examples of capacity building provisions in various jurisdictions under legislation and in contracts. These include mandated payments directly to governmental institutions for specified purposes, such as development of government institutions and logistics for the oil and gas industry, which can often be spent at the government’s discretion. There are also examples of capacity payments directed towards training of government personnel, which is a nearly universal requirement in the oil & gas industry.

2.7 The pervasiveness of capacity building in the oil & gas industry, and the commonality of the goals of such capacity building, can be demonstrated by two recent World Bank projects that are described in paragraph 3.12.

3. Discussion

What is ‘capacity building’?

3.1 Capacity building is typically defined as the development and strengthening of human and institutional resources. It involves an analysis of what is preventing people and governments from realizing their development goals, and implementing processes to help them achieve those development goals.

3.2 The United Nations Conference on Environment and Development held in Rio de Janeiro in June 1992 adopted two conventions regarding sustainable development. One of those Conventions, Agenda 21 (the Agenda 21 Convention), adopted the following definition of “capacity building”:

“The ability of a country to follow sustainable development paths is determined to a large extent by the capacity of its people and its institutions as well as by its ecological and geographical conditions. Specifically, capacity-building encompasses the country's human, scientific, technological, organizational, institutional and resource capabilities. A fundamental goal of capacity-building is to enhance the ability to evaluate and address the crucial questions related to policy choices and modes of implementation among development options, based on an understanding of environmental potentials and limits and of needs as perceived by the people of the
country concerned. As a result, the need to strengthen national capacities is shared by all countries.”

Capacity building in the oil & gas industry generally

3.3 Capacity building has been a long-standing feature of the oil & 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 often been incumbent upon IOCs to engage in capacity building of local persons and governments. Oftentimes this capacity building is carried out in parallel with public entities such as the United Nations and the World Bank.

3.4 To build capacity effectively, it is first essential to understand what capacity is already in place. This will obviously vary widely from jurisdiction to jurisdiction.

3.4.1 At one end of the spectrum, developed countries with long-standing oil & gas industries such as the United States, the United Kingdom and Norway, will already have fully-developed oil & gas capacity across the full spectrum of technical, legal, institutional and other relevant capabilities.

3.4.2 On the other end of the spectrum, developing countries without established oil & gas industries may have little or no capacity. Countries such as Kenya, Tanzania and Mozambique have recently had their first material oil & gas discoveries, and they are rapidly developing the necessary technical, legal, institutional and other relevant capabilities.

3.4.3 Somalia sits at the far end of this spectrum because as a result of the civil war there has been no oil & gas exploration activity for over a decade. Most of the technical, legal, institutional and other relevant capabilities that existed prior to the civil war have dissipated. As a result, Somalia can be viewed as a country with minimal existing capability.

3.4.4 In summary, it is never enough to say “this is how it is done everywhere else” because no two jurisdictions are exactly the same. An aspect of capacity building that would look unusual or unconventional in one jurisdiction may be necessary in another jurisdiction.

3.5 Capacity building in the oil & gas industry has benefits for both host countries and IOCs. Host countries will seek capacity building in order to develop their domestic oil & gas industry and otherwise develop their wider economy. From the perspective of the IOCs, capacity building will give the host country the ability to perform more efficiently its interfaces with the IOC. In host countries with a national oil company (NOC), capacity building can also enable the NOC to perform more capably its interfaces with the IOC, whether as a regulator or a co-venturer or both. Ultimately, from an IOC perspective capacity building is a form of sustainable development that leads to a more stable investment environment and reduces the IOC’s political risk.

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2 Martyn David, Upstream Oil and Gas Agreements, at 75 (1996).

Specific types of capacity building in the oil & gas industry

3.6 Depending on the existing capacity already in place, capacity building in the oil & gas industry can take many forms, including the following:

3.6.1 The most common type of capacity building is the provision of training and education. Petroleum laws and upstream petroleum agreements in most host countries include provisions requiring IOCs to provide training for nationals of the host country. Oil & gas exploration and exploitation requires highly skilled technical workers, such as geologists and geophysicists, as well as legal and financial specialists. The purpose of the training is two-fold. First, the IOC is typically obligated under the petroleum laws or upstream petroleum agreements to employ nationals of the host country, and it is necessary to train persons for these positions. Second, it is often necessary to train the staff of the local ministry of oil & gas and/or the NOC in order that they can perform their regulatory, oversight and other functions, which the IOC needs to have performed in a competent manner. Although training may be the most common form of capacity building, there are many other aspects of capacity building in the oil & gas industry.

3.6.2 Another common aspect of capacity building in the oil & gas industry is the transfer of technology. The oil & gas industry is a highly technical and complex industry, involving a range of technologies from geo-sciences such as geology, geophysics, geochemical, gravity and magnetic work and interpretations, to oilfield services such as drilling wells, laying pipelines and general operations and maintenance. An example of a technology transfer is the transfer to the Ministry of the seismic data acquired and processed by Soma and the establishment of a data room repository to accept and retain that data. Of course, the transfer of this technology to the host country is not useful without the training of host country nationals as described above. The Agenda 21 Convention described technology transfer as follows:

“There is a need for favourable access to and transfer of environmentally sound technologies, in particular to developing countries, through supportive measures that promote technology cooperation and that should enable transfer of necessary technological know-how as well as building up of economic, technical, and managerial capabilities for the efficient use and further development of transferred technology. Technology cooperation involves joint efforts by enterprises and Governments, both suppliers of technology and its recipients. Therefore, such cooperation entails an iterative process involving government, the private sector, and research and development facilities to ensure the best possible results from transfer of technology. Successful long-term partnerships in technology cooperation necessarily require continuing systematic training and capacity-building at all levels over an extended period of time.”

3.6.3 A further aspect of capacity building is the fostering of an appropriate legal and institutional framework by which the host country may best achieve successful exploration and exploitation. This includes a regulatory body such as the Ministry to manage, oversee and regulate

4 Id. At 382.
the oil & gas industry. This requires a wide range of skillsets. On the technical side, the regulatory body will need geoscientific capabilities in order to assess exploration activities such as minimum work programs and development programs. On the legal side, the regulatory body will need to administer the relevant petroleum law, prepare and enforce oil & gas regulations, and work with IOCs with respect to upstream petroleum agreements such as production sharing contracts and concessions. On the financial side, the regulatory body will need to be able to collect and distribute oil & gas revenues. Strengthening the regulatory institutions can also improve transparency by creating standard policies and procedures that should be followed in specified circumstances. In a country like Somalia, which has minimal existing capabilities, the development of these capabilities requires more than just the training and technology transfers referred to above. In this context, in our experience it is appropriate that these additional forms of support include payment of salaries at a time when the regulatory body has no revenue from oil & gas activities, as well as providing office space and office equipment.

How is capacity building implemented in the oil & gas industry?

3.7 Capacity building by IOCs is typically mandated by legislation and/or by contract. In some host countries, the petroleum law or the petroleum regulations will provide for capacity building. This is particularly seen in developed petroleum jurisdictions, such as Nigeria and Angola. Alternatively, or in addition to legislative requirements, capacity building may also be required under the contractual provisions of a host country’s model production sharing contract (PSC), concession or equivalent upstream petroleum agreement (collectively referred to as a UPA). The model form of the UPA will be prescribed by the government. Examples of capacity building provisions under legislation and in UPAs are detailed in paragraph 3.9 below.

3.8 The implementation of the types of capacity building described at paragraph 3.6 take several forms under the relevant legislative and contractual provisions. Capacity building will require active engagement by IOCs for purposes of training, technological transfer and knowledge sharing. Very commonly, there is an additional requirement for the IOC to provide monetary funds to the host government in order that the government may implement its own capacity building programs. This is typically structured as the payment of a specific monetary amount either at the outset of IOC operations and/or on an annual basis for the duration of operations. The payment may be stipulated as for a particular purpose, such as a contribution to a training fund. In other cases, it is described broadly as for purposes of development, or as financial assistance. In the vast majority of cases, this is payment directly to a government, a ministry or other government-affiliated body, via a bank account controlled by that government party. It is at the discretion of the government to then apportion funds. In some, but not all, cases, the IOC may be notified of, and may have audit rights regarding, this process. In our view, it is not unusual that the government of an early-stage oil and gas jurisdiction without an institutional or logistical infrastructure may require an IOC to make monetary contributions for the purpose of it putting this infrastructure in place.

Examples of capacity building payments for institutional / logistical development

3.9 The examples included in this paragraph detail specifically the use of capacity building payments for the development of government institutions and logistics for the oil and gas industry.

Kurdistan Region, Iraq

3.9.1 The Kurdistan model PSC requires an IOC to provide multiple capacity building payments to the government, which are in addition to other provisions which deal with expenditure for purposes of training of personnel. The following three provisions, in particular,
exemplify the wide scope of capacity building payments. Notably, the capacity building bonus is a up-front capacity building payment to the government without a defined purpose:

Recruitment of personnel: “For the first [ ] ([ ] Contract Years, the CONTRACTOR shall provide up to [ ] Dollars (US$[ ])) in advance each Contract Year to the GOVERNMENT for the recruitment or secondment of personnel, whether from the Kurdistan Region other parts of Iraq or Abroad, to the Ministry of Natural Resources. The selection of such personnel shall be at the discretion of the Minister of Natural Resources. Such costs shall be considered Petroleum Costs and shall be recovered in accordance with the provisions of Articles 1 and 25.”

Logistical assistance: “Before the end of the first Contract Year, the CONTRACTOR shall provide to the GOVERNMENT in kind technological and logistical assistance to the Kurdistan Region petroleum sector, including geological computing hardware and software and such other equipment as the Minister of Natural Resources may require, up to the value of [ ] Dollars (US$[ ]). The form of such assistance shall be mutually agreed by the Parties and any costs associated therewith shall be considered Petroleum Costs and shall be recovered by the CONTRACTOR in accordance with the provisions of Articles 1 and 25.”

Capacity building bonus: “A capacity building bonus of [ ] Dollars (US$[ ]) (“Capacity Building Bonus”) shall be payable to the GOVERNMENT by the CONTRACTOR within thirty (30) days of the Effective Date.”

Tanzania

3.9.2 The Tanzanian model PSC requires the IOC to make annual payments to the government for capacity building. The PSC specifically provides for capacity building in terms of both the training of government and NOC (TPDC) personnel and also the development of government resources. For example, the payment may be used to “purchase for the Government and TPDC advanced technical books, professional publications, technical software, scientific instruments, technical software or other equipment required by the Government and TPDC.”

Liberia

3.9.3 The Liberian model PSC includes detailed provisions in relation to capacity building, which include annual payments by the IOC for training, social and welfare programs, and the development of university programs. These payments are required to be paid by an IOC into a general revenue account maintained by the ministry of finance.

Examples of capacity building payments specifically for training of government personnel

---

6 Kurdistan model Production Sharing Contract, articles 23.4, 23.11 & 32.2.
7 Republic of Tanzania Model Production Sharing Agreement 2013, article 21.
3.10 Capacity building payments for the purposes of training of local, government and/or NOC personnel are a feature of most, if not all, African jurisdictions.
Kenya

3.10.1 In Kenya, an IOC must, pursuant to law and the model PSC, make annual capacity building payments to a government ministry training fund. This requirement is mandatory, with the quantum being a negotiable aspect of a PSC. 9

Equatorial Guinea

3.10.2 By law and under the terms of the model PSC, an IOC operating in Equatorial Guinea must provide the petroleum ministry with funds for the training of Equatoguinean personnel. 10

Ghana

3.10.3 The Ghanaian model PSC requires an IOC to pay the NOC an annual sum for purposes of training and development of local personnel. 11

Cameroon

3.10.4 Under the Cameroonian model PSC an IOC has been required to pay into a government bank account an annual sum for purposes of the professional training of Cameroonian personnel. 12

Eritrea

3.10.5 Under an Eritrean PSC an IOC has been required to pay into a ministerial bank account an annual sum for purposes of the training and employment of local personnel. 13

Examples of capacity building payments in developed African jurisdictions

3.11 The examples below indicate that capacity building payments to governments are commonplace even in the most developed African petroleum jurisdictions, where the institutional and logistical framework for the oil and gas industry is already in place.

Nigeria

3.11.1 The Nigerian Content Development Fund was established for the purpose of funding local capacity building in the oil and gas industry. Under Nigerian legislation, 1% of the contract value of every contract awarded to any IOC in the upstream sector is deducted at source

---

9 Petroleum (Exploration and Production) Act (Chapter 308), section 11, and Republic of Kenya Model Production Sharing Contract, article 13.

10 Petroleum Regulations of the Republic of Equatorial Guinea, article 157.

11 Ghanaian Production Sharing Contract, article 21.

12 Example Cameroon Production Sharing Contract, article 19.

13 Example Eritrean Production Sharing Contract, article 3.5.
and paid into the fund. The fund is managed by a Nigerian government body, the Nigerian Content Development and Monitoring Board. The fund primarily supports working capital and loan requirements to the local supply chain.

Angola

3.11.2 Any IOC operating in Angola is required under Angolan legislation to make annual payments to a centralized government petroleum training and development fund, in accordance with specified criteria.

Analogous capacity building by the World Bank

3.12 The pervasiveness of capacity building in the oil & gas industry, and the commonality of the goals of such capacity building, can be demonstrated by two recent World Bank projects:

3.12.1 On 20 December 2010, the World Bank announced its approval of a credit of US$38 million to the Government of Ghana for implementation of an Oil and Gas Capacity Building Project. Oil and gas was discovered in Ghana in 2007, after which it was determined that institutional development for management of the oil & gas sector and development of individual skills faced significant challenges. The Project has two main objectives: “first, to help improve public management and regulatory capacity and enhance sector transparency by strengthening the institutions managing and monitoring the sector; and second, support the development of indigenous technical and professional skills need by the petroleum sector through support educational institutions.” In particular, “the Project will provide institutional support to the Ministry of Energy and the soon-to-be-established petroleum regulatory body to enable them [to] play their oversight, coordination, policy planning and implementation as well as monitoring and evaluation roles effectively.”

3.12.2 On 24 July 2014, the World Bank announced its approval of US$50 million for the Government of Kenya to “strengthen its capacity to manage the oil and gas sector and the distribution of its revenues to create sustainable growth across all areas of the country’s economy.” The project followed the first discoveries of significant quantities of oil & gas in Kenya. The project is intended to foster “transparency and good governance in oil contracts and revenue” and “capacity building among existing government institutions and clarification of their roles and responsibilities.”

Please let me know if you need anything further or if you have any questions.

JCL

---

14 Nigerian Oil and Gas Industry Content Development Act 2010, s.104.

15 Angola Decree-Law 17/09, articles 12 & 13.


17 Kenya: New World Bank project will support country efforts to better manage oil and gas developments and revenues to invest in lasting growth and development, World Bank press release no. 2015/045/AFR dated 24 July 2014.
Annex 165

“Shareholders”, *Soma Oil & Gas* via the Wayback Machine, 13 March 2016, available at: https://web.archive.org/web/20160313104450/
SHAREHOLDERS

Shareholders in Soma Oil & Gas Holdings Limited (Company No. 08506858)

Soma Oil & Gas Exploration Limited and Soma Management Limited are wholly owned subsidiaries of Soma Oil & Gas Holdings Limited ("Soma Oil & Gas" or the "Company").

The following information in the table is available at Companies House:

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As of August 2015

Additional Disclosure

The Company confirms there are no Somali beneficial shareholders in any of the Companies that have a shareholding in Soma Oil & Gas. Furthermore, no shareholder, director or officer of Soma Oil & Gas is
Winter Sky Investments Limited is owned by the Dzhaparidze family as well as other founders and management of Eurasia Drilling Company. Georgy Dzhaparidze is a Director of Soma Oil & Gas Holdings Limited.

Soma Oil & Gas Limited BVI is owned by Basil Shiblaq, Executive Deputy Chairman and his son Iyad Shiblaq.

AfroEast Energy Limited is owned by the Ajami Family, Mohamad Ajami is a Director.

Kalyra Investments Limited is owned by Aidan Hartley.

Lord Howard of Lympne CH, QC is the Chairman.

Robert Sheppard is the Chief Executive Officer.

Hassan Khaire is Executive Director, Africa.

Philip Wolfe is the Chief Financial Officer.

Doma Investment Holdings Limited is owned by Peter Damouni, Company Secretary.
Annex 166

SHAREHOLDERS

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The Deloitte Guide to Oil and Gas in East Africa
Where potential lies
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1 Introduction

Welcome to the first edition of Deloitte’s guide to the upstream industry in East Africa.

Until the last few years this region has been a sleepy backwater for the upstream industry, but the discovery of significant quantities of oil in Uganda in 2006 has ushered in a bonanza; indeed one senior oil company executive informed me recently (January 2013) that more hydrocarbons have been discovered in East Africa in the last 2 years than anywhere else in the World. Onshore oil discoveries in Uganda have been followed by discoveries in Kenya. Offshore we have seen world-class discoveries of gas in Tanzania and Mozambique. Now every potential hydrocarbon basin across East Africa is the subject of intensive interest. We have also seen an influx of majors, super-majors and big independents. Indeed so rapid has the industry’s progress been that this slim volume has been through a number of re-writes before it even reached the public domain. I have no doubt that we will be continuing that process over the coming year, so please look out for our 2014 edition next year.

It is important to bear in mind that East Africa remains one of the world’s poorest, least developed regions. Many of its inhabitants live on less than a dollar a day and it continues to be ravaged by disease: AIDS, malaria and TB. Low levels of development are also reflected in an inadequate and poorly maintained infrastructure. The development of oil and gas will provide a major stimulus to the local economies and will require extensive upgrading of the existing infrastructure. Governments across the region are already looking at how to harness the power of the industry to benefit their people. At the same time oil and gas companies are also focusing their efforts on the development of local content and local capacity. The arrival of the international oil and gas industry offers hope of a better life for millions.

As a professional services firm with a long history of working with the oil and gas industry (both private sector players and governments), Deloitte is committed to making oil and gas a success story for this region. I hope and expect that future editions will chart that success.

Finally I must thank those who contributed to this guide: Eugenia Santos and Celia Meneses from our Maputo office; Nikhil Hira, Andrew Oduor and Linda Ndungu from Nairobi; Patronella Namubiru and Mabel Ndawula from Kampala; and Graham Sadler and Lydia Thevanayagam from Deloitte’s Petroleum Services Group in London.

Bill Page

Dar es Salaam, January 2013
2 Kenya

2.1 Overview

Kenya is a former British colony which became independent in 1963. Its first president, the charismatic Jomo Kenyatta, led the country from 1963 to his death in 1978. His successor, Daniel arap Moi left power in 2002 after 24 years in office, a period marked by major corruption scandals. Kenya’s transition to stable, democratic government has been somewhat erratic, with continuing allegations of corruption. The 2007 election was followed by widespread violence resulting in the deaths of around 1,500. Following the unrest, a peace deal was brokered by former UN secretary general, Kofi Annan which resulted in the formation of a coalition between the main political parties. Kenyans voted to approve a new constitution in August 2010 which will entail the creation of a bicameral assembly and the abolition of the post of prime minister. Kenya’s economy remains energy starved with restricted access to electricity.

2.2 Key facts

**Population:** 43 million (July 2012 estimate)

**Median age:** 18.8 years

**Currency (code):** Kenya shilling (KES)

**Exchange rate at 1 October 2012:** KES 84.9 = US$ 1

**Exchange controls:** none, but banks must report foreign exchange transactions on excess of US $ 10,000.

**GDP (purchasing power parity):** $72.34 billion (2011 estimate)

**GDP per head of population:** US$ 1,800 (2011 estimate)

**GDP growth:** 5% (2011 estimate)

**Principal industries:** agriculture, tourism

**Official languages:** English, Kiswahili

**Unemployment rate:** 40% (2008 estimate)
Hydrocarbon production: nil

Petroleum production usage: 78,000 barrels per day equivalent (2008 estimate)

Legal system: mixed system based on English common law.

Head of State: President Mwai Kibaki

Head of Government: President Mwai Kibaki

Transparency International corruption perception index 2011: 2.2 (placed 154)

Sources:
- BBC country profile (http://www.bbc.co.uk/news/world-africa-13681341);
- CIA World Factbook (https://www.cia.gov/library/publications/the-world-factbook/geos/ke.html);
- Transparency International (http://cpi.transparency.org/cpi2011/results/)

2.3 Industry overview

Kenya has 4 prospective sedimentary basins: Anza, Lamu, Mandera and the Tertiary Rift. The Lamu basin extends offshore.

Kenya has no proven commercial hydrocarbon discoveries at the time of writing. BP and Shell carried out exploration work in the 1950s with the first exploration well being drilled in 1960. Over the past 50 years many other oil and gas companies have tried their luck onshore and offshore, including Exxon, Total, Chevron, Woodside and CNOOC. Of 33 wells drilled in the country prior to 2012, 16 showed signs of hydrocarbons, but none were considered commercial. Only 4 had been drilled offshore prior to 2012 and of these only 1 (in Block L5, drilled by Woodside in 2007) was in deep water.

Following recent successes in Mozambique and Tanzania, offshore exploration has become flavor of the moment and industry confidence was boosted in 2012 by the announcement that Apache’s Mbawa-1 well (Block L8) had encountered gas. Extensive activity is expected over the next 2 years, with drilling planned by Afren (Block L17/18), Anadarko (Block L12), BG Group (Blocks L10A and L10B) and FAR (Block L6).

Recent onshore drilling by CNOOC in Block 9 (Anza Basin) proved unsuccessful, despite high hopes and reports of gas finds. Tullow Oil farmed into 6 blocks in the Turkana Rift Basin in late 2010 (5 in Kenya and one block in Ethiopia). The geology of this area is similar to that in the Albertine Graben of Uganda and a well drilled in 1992 by Shell found evidence of waxy crude similar to that in the Ugandan arm of the Rift Valley. Tullow is undertaking an exploration drilling campaign in the hope of replicating its recent Ugandan success. On 26 March, 2012, it announced an oil discovery in Block 10BB, though it is not yet clear whether this is commercial. A further discovery of oil in Block 13T was announced in November 2012 and drilling in the area continues at the time of writing. A licence auction is expected to take place in 2013. Kenya’s blocks are currently licensed as follows:
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<td>BLOCK 3A</td>
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*Under Application

Source: PetroView®
Kenya is home to the region’s only operating refinery and also its largest port, both located as Mombasa. The nameplate capacity of the Mombasa refinery, operated on a tolling basis by Kenya Petroleum Refinery Limited (KPRL), is 80,000 barrels per day but it currently operates at significantly less. In 2009 Essar acquired a 50% interest in KPRL from a consortium of BP, Shell and Chevron. The remainder is owned by the Kenyan government. At that point it was announced that Essar would invest USD 400 – 450 million in a significant upgrade. This project appears to be stalled at the time of writing.

Sources:

- National Oil Corporation of Kenya website (http://www.nockenya.co.ke/)
- A Dash for Gas (and Oil…) in East Africa (Citigroup Global Markets, 4 July 2011)
- Tullow Oil website (http://www.tullowoil.com/)
- Essar website (http://www.essar.com/)
- KPRL website (http://www.kprl.co.ke/)

2.4 Regulatory environment

The Petroleum (Exploration and Production) Act (cap 308), last revised in 1986, is the fundamental law governing upstream activities in Kenya. This vests ownership of hydrocarbons in the hands of the Kenyan government and grants significant powers over the sector to the Minister of Energy. Day to day responsibility for the sector lies with the Petroleum Energy Department of the Ministry.

The Act envisages upstream activities being conducted via a state oil company established for that purpose or through contractors under a petroleum agreement or “in any such other manner as may be necessary or appropriate” (section 4 (3) (b)). The Minister is empowered to sign petroleum agreements on behalf of Kenya and is required to make a model agreement available to potential contractors: this can be downloaded from the website of the state oil company (the National Oil Corporation of Kenya Ltd (NOCK) - see http://www.nockenya.co.ke/). The site includes 2 different versions of the PSC, which may be an oversight.

The Act is brief and provides little detail, particularly on questions relating to development and production activities. There are a couple of points worth noting:

- Where petroleum operations are carried out onshore, the Act provides the contractor with right of access to private land at 48 hours’ notice subject to various conditions.
- A contractor is required to give preference to locally available goods and services, but there is no definition of what “locally
available” means and no specific percentage of local content is prescribed.

NOCCK was established in the 1980s to spearhead exploration on behalf of the Kenyan government. This remains a key role, but since 1997 it has also built up a retail business and today controls around 5% of the retail market for petroleum products in Kenya.

Key features of the current model production sharing contract include:

- Negotiation of an initial exploration period with the possibility to extend this twice.
- An agreed percentage of the contract area is to be surrendered at the end of each exploration period.
- In the event of a commercial development the total contract duration is negotiable.
- Surface fees are provided for but are negotiable.
- Annual contributions to the Ministry of Energy training fund.
- The PSC does not provide for bonus payments or royalties.
- A cost recovery cap per period is envisaged but the amount of this is also negotiable.
- Capital costs are subject to recovery at a rate of 20% per annum (straight-line).
- The sharing of profit oil is based solely on production volumes with the maximum state share achieved when production exceeds 100,000 barrels per day. The state share may be taken in cash or in kind.
- Separate rules for sharing gas production are not provided.
- The state’s share of profit oil is inclusive of income tax (see below for more detail).
- One version of the model provides for an additional allocation of profit oil to the state, triggered when the oil price exceeds a specified threshold.
- In the event of a development, the government has a right to participate directly or via its designee (presumably this would be NOCK). The percentage share to be transferred is subject for negotiation. The PSC envisages that this will not entail reimbursement of costs up to the adoption of the development plan, but the government or its designee will be obliged to fund the respective share of costs thereafter, no carry arrangement being envisaged.
- The contractor is obliged to supply the domestic market out of its share of production in accordance with instructions from the Minister. This will be at market price.
- The contractor and its subcontractors will be entitled to import goods and equipment for petroleum operations free from customs duties.
- The PSC is subordinate to the laws of Kenya and it is not envisaged that it will be given force of law itself (e.g. by gazetting). In the event of a change in laws or regulations that impacts the economic benefits of a party to the PSC, it is provided that the parties “shall agree to make the necessary adjustments” to restore the status quo.
- In the event of dispute arbitration is provided for under UNCITRAL rules. This is to take place in Nairobi.
- The accounting procedure specifies the use of US dollars.
2.5 Taxation of oil and gas projects

The responsibility for administering taxes in Kenya rests with the Kenya Revenue Authority ("KRA"). The tax year is the calendar year.

Kenya resident companies and branches of foreign legal entities are taxed on all income accruing in or derived from Kenya. The calculation of profits is based on the IFRS financial statements. The rate for resident companies is 30% and for branches is 37.5%. There is no branch profits tax or branch remittance tax. Dividends paid by a resident company to a non-resident shareholder are usually subject to withholding tax at a rate of 10%. Capital gains are generally not taxed in Kenya (whilst there is capital gains tax legislation this has been suspended since 1985). Losses incurred may be offset in the year in which incurred and any of the 4 following years.

Income tax on employment income is generally collected via withholding at source under “pay as you earn” (PAYE). The marginal rate is 30% and additionally employers are required to collect certain social security contributions.

As noted above, the Kenyan model PSC provides that income tax (including tax on dividends paid) imposed on the contractor will be allocated from the government’s share of production. The PSC does not provide detailed rules for calculating the implied gross-up or guidance on how the allocation is to be carried out if the company has more than one PSA or other activities.

The Kenya Income Tax Act contains a specific schedule (the ninth) which deals with the taxation of upstream activities and includes a special regime for subcontractors. The rules are clearly drafted and deal with most routine situations likely to be encountered during the exploration phase. They have not been tested through development and production, of course. Key points addressed in the schedule which apply to petroleum companies are as follows:

- There are specific and detailed rules for determining the value of sales for tax purposes together with specific transfer pricing rules. These mirror the provisions of the model PSC.
- Capital expenditure is depreciated for tax purposes at a rate of 20% per annum (straight-line) commencing in the year the asset is brought into use or the year in which production commences whichever is later. Operating costs (including G&G and intangible drilling) are fully deductible in the year incurred.
- There are also specific thin capitalization rules for petroleum companies. These apply to both branches and residents. Interest expenses are restricted if the loan amount or interest rate exceeds an arm’s length amount. No specific debt: equity ratio is prescribed (unlike the general thin capitalization rules which impose a maximum debt: equity ratio of 3:1).
- Petroleum companies are permitted to carry back losses arising in the final year of production for up to 3 years. No carry back is permitted under general tax rules.
- Any gain arising on the disposal of a PSC interest will be taxed as income (the suspension of tax on capital gains is therefore not a benefit to petroleum
companies). The gain is the difference between proceeds and capital expenditure that has not yet been depreciated for tax purposes. The rules are silent on what happens in the case of a loss. In the case of a partial disposal the KRA may apportion the tax basis between the part sold and the part retained.

- In the event a disposal wholly or partly in exchange for the undertaking of a work obligation the value of the work obligation is excluded from the calculation of the gain.
- Amendments to the Income Tax Act introduced at the end of 2012 introduced an additional withholding tax on direct and indirect transfers of PSC interests. The rate is 10% of the value of total consideration in the case of transactions with residents and 20% in other cases. The withholding tax appears to apply in addition to any tax applied under the Ninth Schedule.
- On a disposal the assignee is permitted to tax depreciate the full consideration (i.e. a step-up in basis is permitted).
- The schedule does not provide for ring fencing of individual PSCs for tax purposes, so theoretically a petroleum company should pool all income and expenditures for purposes of calculating income tax. This is likely to cause difficulty in practice as the model PSC allocates income tax out of the government share of production and logically the mechanism for doing so can only operate on an individual PSC basis.

As mentioned above, the Ninth Schedule also deals with the taxation of “petroleum service subcontractors”. The definition restricts the scope to non-resident companies which contract directly with a petroleum company, i.e. it excludes a resident entity and also any lower tier subcontractors. The rules created a simplified tax regime for companies which are within the scope:

- They are subject to tax at the non-resident rate (37.5%) on a deemed profit of 15%.
- The resulting tax (5.625%) is to be withheld by the petroleum company and is a final tax.
- The base for calculating the tax excludes costs reimbursed by the petroleum company (including mobilization and demobilization costs).
- The rules only apply to activities within Kenya and its exclusive economic zone.

For activities undertaken by lower tier subcontractors, or services otherwise outside the scope of these special rules other rates of withholding tax may be applicable, depending on the specific fact pattern.

In addition to income tax on companies, Kenya operates a VAT system along conventional lines. The standard VAT rate is 16% but exports are generally zero-rated. Imports of goods and services normally trigger a VAT liability. The model PSC provides an exemption from VAT and customs duty on imports of goods by contractors and subcontractors. The VAT legislation provides a mechanism to implement this in the case of VAT on goods imported by a contractor, but is silent on the subject of subcontractors. The mechanism relies on a specific remission of the applicable VAT by the Kenyan government. This is currently under review as part of a full-scale overhaul of the Kenyan VAT Act. The relief does not apply to services.
General Law also provides an exemption from customs duty on equipment imported for purposes of exploration and development activities. This mirrors the exemption provided in the PSC, though it does not apply to subcontractors.

Sources:
- Kenya Income Tax Act
- Kenya VAT Act
- East Africa Customs Management Act
Annex 168

“Unlocking Somalia’s Potential - Somalia Oil & Gas Summit London, UK”, *Soma Oil & Gas*, 20 October 2014
Disclaimer

This presentation may contain forward-looking statements which are made in good faith and are based on current expectations or beliefs, as well as assumptions about future events. By their nature, forward-looking statements are inherently predictive and speculative and involve risk and uncertainty because they relate to events and depend on circumstances that will occur in the future. You should not place undue reliance on these forward-looking statements, which are not a guarantee of future performance and are subject to factors that could cause the actual information to differ materially from those expressed or implied by these statements. The Company undertakes no obligation to update any forward-looking statements contained in this presentation, whether as a result of new information, future events or otherwise.

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Introduction

► Focussing on offshore Somalia
  ▪ Soma Oil & Gas is focused on exploring for hydrocarbons offshore in the Federal Republic of Somalia
  ▪ Led by a Board and Management team with extensive experience in oil and gas, finance and international relations

► First mover in last offshore frontier in Africa
  ▪ Located in East Africa, a highly prospective and increasingly active oil and gas region
  ▪ Access to acreage with significant resource potential
  ▪ Completed the first major offshore seismic acquisition survey in the Federal Republic of Somalia since 1989

► A geopolitical inflection point
  ▪ Somalia has been on a path to greater stability since the election of President Hassan Sheikh Mohamud in September 2012
  ▪ Federal Government of the Republic of Somalia is first to gain international recognition following two decades of state failure and has particularly strong support from the UK, US, EU, UN and African Union

► Signed Seismic Option Agreement in August 2013
  ▪ Committed Soma Oil & Gas to invest in the gathering and digitisation of all available geological information, the reprocessing of existing seismic data, and
  ▪ Acquisition and processing of new seismic data offshore Somalia across 185,000 km² Evaluation Area and Reconnaissance Area
  ▪ In return, Soma Oil & Gas has the right to apply for concession areas of up to 60,000 km² based on an agreed form template Production Sharing Agreement
Rationale for Hydrocarbon Exploration Offshore Somalia

► **Significantly under-explored due to historic security issues – all PSCs in Force Majeure since 1990-91**
  - Only 6 offshore wells along the entire length of the eastern offshore basin
  - Only 1 offshore well near Soma Oil & Gas offshore area of interest, drilled by Exxon in 1982 in shallow water
  - Deep water entirely unexplored; historic seismic mainly limited to water depths of less than 1,000 m, while Soma Oil & Gas Evaluation Area extends to approximately 3,000 m water depth

► **Hydrocarbon plays – source and reservoir rocks – proven in adjacent sedimentary basins**
  - Tullow Oil, Eni, BG, Ophir Energy, Anadarko and Statoil have all added considerable value from recent finds in East Africa
  - USGS estimate Undiscovered Resources of 16 billion barrels of oil and 260 Tcf gas in three provinces bordering south Somalia offshore – Tanzania/Kenya, Madagascar and Seychelles
  - Early-Mid Jurassic plate reconstruction places offshore Somalia adjacent to Madagascar where Jurassic source rocks are present in well penetrations

► **Encouraging industry activity in adjacent Kenya offshore**
  - Likely to indicate strong technical interest in southern parts of Somalia offshore
  - Anadarko, Total and Eni all entered adjacent Kenya offshore
  - Oil and gas columns reported to be present in Sunbird-1 well, drilled in 2014 by BG Group in Block L10A
► Present day positioning of continents and age of ocean crust

Mid Jurassic Plate Reconstruction

165 Ma: Early Seafloor Spreading

► Mid Jurassic plate reconstruction places Somalia immediately opposite north-west Madagascar and Seychelles during the critical period of hydrocarbon source rock deposition
USGS Estimated Undiscovered Resources (2012)

USGS estimate total Undiscovered Resources of 16 billion barrels of oil and 260 Tcf gas in provinces bordering Soma Oil & Gas Offshore Evaluation Area in Somalia offshore waters.

- Plate reconstruction to Lwr. Jurassic – time of deposition of hydrocarbon source rocks – emphasises the relevance of the adjacent data.

Soma Oil & Gas Offshore Evaluation Area

- Morondava: 10.8 Bbo + 170 Tcf
- Tanzania: 2.8 Bbo + 70 Tcf
- Seychelles: 2.4 Bbo + 20 Tcf

South Somalia Offshore vs North Sea

Soma Oil & Gas Offshore Evaluation Area is comparable in size to productive areas of North Sea

Soma Oil & Gas Offshore Evaluation Area
- c. 114,000 km²

Soma Oil & Gas Reconnaissance Area
- c. 185,000 km²
Hydrocarbons in South Somalia & Adjacent Areas

Historic drilling in south Somalia
- Most wells date from 1956 to 1970
- Only 8 exploration wells since 1970
- Last well: 1990

Coriole-1 (1960)
2 MMcf/d + 100 bopd 36° API from Palaeoc.

Afgoi-1 (1965)
7 MMcf/d + 42 bcpd from U. Cret - Palaeocene

Gira-1 (1956)
Oil shows U. Cretaceous

El Hamurre-1 (1961)
Oil shows, Eocene

Merca-1 (1958)
Gas shows & Bitumen in Eocene

Soma Oil & Gas Offshore Evaluation Area

Meregh-1 1982 (Esso)
Only offshore well near Soma Oil & Gas Offshore Evaluation Area. No reservoir development

Calub & Hilala Fields
4 Tcf Resources

Duddamai-1 (1959)
Gas shows

Galcaio-2 (1962)
Oil shows, U. Jurassic

Annex 168
Industry Activity in Offshore Kenya

► Recent offshore Kenya licensing
- Anadarko L-5, 7,11,12 PSC, 2009
  Total farmin for 40% in 2012
- Total L-22; PSC, Sept. 2011
- Eni L-21, 23, 24. PSC, July 2012

Sunbird-1, BG Group 2014, WD>700m,
30 m gas and 14 m oil columns in Miocene reefal reservoir

Kiboko-1, Anadarko 2013, WD c.2,500 m,
“Well developed reservoir sands….. and indications of working petroleum system”

Pomboo-1, Woodside 2007, WD >2,000 m,
Good quality reservoir present but no shows

Kubwa-1, Anadarko 2013, WD >2,000 m,
“Non commercial oil shows in reservoir quality sands… Presence of a working petroleum system”

Mbawa-1, Apache 2012, WD 1,000 m,
Gas discovery, 52m net pay, in Cretaceous sandstones
Key Milestones & Achievements

Regional Evaluation
Preparation for 2D Seismic Programme
2D Seismic Acquisition
Capacity Building Support
Financial Results
Processing of 2D Seismic Data

Annex 168
Seismic Option Agreement Signed – August 2013

► Soma Oil & Gas will undertake an Exploration Programme in Somalia lasting for 18 - 24 months including:
  ■ Gathering and digitisation of all available geological information and the reprocessing of seismic data
  ■ The acquisition and processing of new 2D seismic data over an agreed Evaluation Area offshore Somalia
  ■ Data will be assembled in a Dataroom for the Somali Ministry of National Resources (now Ministry of Petroleum & Mineral Resources)

► In consideration for the Exploration Programme Soma Oil & Gas has the right to apply for concession areas of up to an aggregate of 60,000 km² and negotiate upto 12 individual PSAs of 5,000 km² each
Regional Evaluation Completed – April 2014

► Data Acquisition and Compilation
  - Purchase of 4,270 km of existing onshore seismic and 7,416 km of existing offshore seismic
  - Purchase of data on 20 onshore wells and 2 offshore wells
  - Purchase of available consultant and oil company reports on oil exploration activities in Somalia
  - Download of data on relevant DSDP wells offshore Somalia
  - Download of Lamont-Doherty 1980-81 academic seismic relevant to offshore Somalia

► Studies
  - Study and interpretation of all of the purchased data listed above
  - Public domain research into regional geology of surrounding East African countries
  - Plate tectonic reconstructions for western Indian Ocean

► Report
  - Report documenting the compiled data and study results was completed April 2014
On 3 February 2014, Soma Oil & Gas signed a contract with SeaBird Exploration, a global provider of marine acquisition for 2D and 3D seismic data for the oil and gas industry.

**Survey Design Criteria**

- **Time window:** Feb-May – constrained by onset of SE monsoon in May
- **10 x 20 km basic grid** – 17,700 line km, feasible within the available time window in 1H 2014
- **North limit:** Transform fault zone near to border with Puntland
- **South limit:** north edge of Kenya disputed zone
- **Inboard limit:** constrained by Pecten PSAs under force majeure
- **Outer limit:** main survey out to water depth of c.3,200 m
- **Reconnaissance lines into deeper water**

**Acquisition Strategy**

- Interpret on-board processed data
- Infill basic grid to be acquired where good prospectivity is recognised
Seismic Acquisition Programme – February to June 2014

2D Survey Basic Grid Acquired

Survey Acquired
- Time window: Feb-May – shutdown late May as expected due to strong currents generated by SE monsoon
- 10 x 20 km basic grid largely acquired as planned – 16,550 line km, c. 1,150 km less than plan
- Main difference: unable to acquire data within 12 nautical miles of coast

Infill Acquisition
- Successful interpretation of on-board processed data – allowed areas of interest to be identified, and infill lines to be acquired in real time
- Total of c. 4,000 line km of infill lines acquired over prospective areas (not shown on map)
Completion of the 2D Seismic Acquisition – June 2014

The seismic acquisition programme was successfully concluded in June 2014, within 10 months of signing the SOA.

Over 20,500 km lines of 2D seismic data having been acquired across 185,000 km² Offshore Evaluation Area and Reconnaissance Area:

- Two seismic vessels and eight support vessels
- 110 days to complete
- 72% operational time; 28% downtime (including crew changes, excluding Mob/Demob)
- Zero security and HSE incidents
Regional interpretation was carried out during acquisition using on-board processed data

- Objective: To identify prospective areas to target for infill data acquisition

Preliminary assessment of Prospectivity completed May-Sept 2014 based on on-board processed data

- Regional stratigraphic framework developed – tied to available wells
- Regional tectonic framework mapping completed
- Structural leads mapped – some of very large size
- Preliminary hydrocarbon volumetrics calculated

Ongoing and future Interpretation

- Re-interpret seismic data using final PSTM processed data
- Analyse amplitude and AVO data for indications of hydrocarbon presence
- Use gravity & magnetic data to influence final interpretation
- Modelling of source rock maturity
- Play fairway mapping
- Prospect and Lead mapping and depth conversion using seismic velocities
- Prospect and Lead hydrocarbon volume assessment
- Prospect and Lead risking analysis
Prospect Example 1

- Deep water NW-SE dipline across Cretaceous toe-thrust structures

High amplitude Tertiary channel & fan sands draping over large structures

Multiple toe-thrust structures formed by regional gravitational collapse Cretaceous delta system. Potential for stacked pay trapping.
Prospect Example 2

- Deep water NW-SE dipline over large scale Jurassic fault block (>200 sq.km mapped closure area)

Mid Jurassic carbonate reef on crest of fault block. Good potential for karst reservoir development.

Permo-Triassic Karoo clastics in large rotated fault block. Karoo reservoir and source possibilities

Anticipated source rocks in Lwr Jurassic syn-rift
Preparation for PSA Applications

- Soma Oil & Gas hopes to be in a position to make PSA applications
- Ministry of Petroleum & Mineral Resources is getting ready to receive PSA applications
  - Quad & Block Design and PSA Definition rules being approved

**Quad & Block Design**

**Schematic Example of PSA Definition**

PSA might encompass several Prospects and Leads
Capacity Support & CSR – April 2014 and Ongoing

► Capacity Building Paper signed 29 April 2014
  ▪ Capacity support salaries for Ministry staff and experts, and
  ▪ Contribution towards office equipment and outfitting
  ▪ In addition, Soma Oil & Gas contributing towards the rehabilitation and refurbishment of Ministry building to create the Dataroom as per the SOA obligation

► Corporate Social Responsibility
  ▪ Soma Oil & Gas will identify and support projects relating to Health, Education and Environment within the Federal Republic of Somalia

► Near term positive impact of the Oil & Gas Sector in Somalia
  ▪ Soma Oil & Gas has established a Mogadishu office which will provide employment opportunities
  ▪ Our work with the Ministry will encourage other companies to explore for hydrocarbons in the Somalia
  ▪ Under each PSA there will be explicit annual Training Fees and Local Community Benefit payments
Soma Oil & Gas published its Annual Reports and Financial Statements on 17 September 2014.

Approximately US$37 million expenditure on Exploration Programme to date vs US$15 million commitment under the terms of the SOA.

Breakdown of Expenditure on Exploration Programme:

- Regional Evaluation 5%
- Capacity Building Support 1%
- Mogadishu Office 1%
- Seismic Processing & Interpretation 7%
- Seismic Acquisition 86%

Total to date: US$37 million
Conclusions

- Soma Oil & Gas and the Federal Government of Somalia agreed a Seismic Option Agreement to accelerate development of hydrocarbon regime

- Soma Oil & Gas completed Phase 1 of the SOA in April 2014, within 8 months of signing the SOA

- As part of the SOA, Soma Oil & Gas completed over 20,500 km lines of 2D seismic data having been acquired across a 185,000 km$^2$ Offshore Evaluation Area and Reconnaissance Area

- Federal Government of the Republic of Somalia and Soma Oil & Gas agreed a capacity building support programme in April 2014

- On track for submission of Phase 2 processed 2D data to the Federal Government of the Republic of Somalia around year end followed by PSA applications on prospective areas
Unlocking Somalia’s Potential

Thank you for your attention
Annex 169

Companies House

Companies House does not verify the accuracy of the information filed
(http://resources.companieshouse.gov.uk/serviceInformation.shtml#compInfo)

SOMA OIL & GAS HOLDINGS LIMITED

Company number 08506858

Registered office address
   21 Arlington Street, St. James's, London, United Kingdom, SW1A 1RD

Company status
   Active

Company type
   Private limited Company

Incorporated on
   26 April 2013

Accounts

Next accounts made up to 31 December 2019
due by 31 December 2020

Last accounts made up to 31 December 2018

Confirmation statement

Next statement date 22 July 2021
due by 5 August 2021

Last statement dated 22 July 2020

Nature of business (SIC)

- 09100 - Support activities for petroleum and natural gas extraction

Previous company names

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<td>26 Apr 2013 - 31 Jul 2013</td>
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Annex 170
Certificate of Incorporation of Soma Oil & Gas Holdings Limited, UK Companies House, 26 April 2013
CERTIFICATE OF INCORPORATION
OF A
PRIVATE LIMITED COMPANY

Company No. 8506858

The Registrar of Companies for England and Wales, hereby certifies that

SOMA OIL & GAS LIMITED

is this day incorporated under the Companies Act 2006 as a private company, that the company is limited by shares, and the situation of its registered office is in England and Wales

Given at Companies House, Cardiff, on 26th April 2013
IN01(ef)

Application to register a company

Received for filing in Electronic Format on the: 26/04/2013

Company Name in full: SOMA OIL & GAS LIMITED

Company Type: Private limited by shares

Situation of Registered Office: England and Wales

Proposed Register Office Address: 78 YORK STREET
                                    LONDON
                                    UNITED KINGDOM
                                    W1H 1DP

I wish to entirely adopt the following model articles: Private (Ltd by Shares)
Company Director

Type: Person

Full forename(s): MR BASIL

Surname: SHIBLAQ

Former names:

Service Address recorded as Company's registered office

Country/State Usually Resident: UNITED KINGDOM

Date of Birth: 02/01/1944

Nationality: BRITISH

Occupation: INVESTOR

Consented to Act: Y

Date authorised: 26/04/2013

Authenticated: YES
## Statement of Capital (Share Capital)

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<td>Amount unpaid per share</td>
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**Prescribed particulars**

EACH SHARE HAS FULL RIGHTS IN THE COMPANY WITH RESPECT TO VOTING, DIVIDENDS AND DISTRIBUTIONS.

## Statement of Capital (Totals)

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<td>Total aggregate nominal value</td>
<td>55</td>
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### Initial Shareholdings

**Name:** SOMA OIL & GAS LIMITED  

**Address:** MILL MALL SUITE 6 WICKHAMS CAY 1  
ROAD TOWN, TORTOLA  
BRITISH VIRGIN ISLANDS  
BRITISH VIRGIN ISLANDS

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<td>Amount unpaid:</td>
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<td>Amount paid:</td>
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I confirm the requirements of the Companies Act 2006 as to registration have been complied with.

Name: SOMA OIL & GAS LIMITED
Authenticated: YES

Authorisation

Authoriser Designation: subscriber
Authenticated: Yes

End of Electronically Filed Document for Company Number: 08506858
COMPANY HAVING A SHARE CAPITAL

Memorandum of association of
SOMA OIL & GAS LIMITED

Each subscriber to this memorandum of association wishes to form a company under the Companies Act 2006 and agrees to become a member of the company and to take at least one share.

<table>
<thead>
<tr>
<th>Name of each subscriber</th>
<th>Authentication</th>
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</thead>
<tbody>
<tr>
<td>Soma Oil &amp; Gas Limited</td>
<td>Authenticated Electronically</td>
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Dated: 26/04/2013
Annex 171
Certificate of Incorporation of Soma Oil & Gas Exploration Limited, *UK Companies House*, 22 July 2013
CERTIFICATE OF INCORPORATION
OF A
PRIVATE LIMITED COMPANY

Company No. 8619726

The Registrar of Companies for England and Wales, hereby certifies that

SOMA OIL & GAS EXPLORATION LIMITED

is this day incorporated under the Companies Act 2006 as a private company, that the company is limited by shares, and the situation of its registered office is in England and Wales

Given at Companies House, Cardiff, on 22nd July 2013

*N08619726Q*

The above information was communicated by electronic means and authenticated by the Registrar of Companies under Section 1115 of the Companies Act 2006
IN01(ef)

Application to register a company

Received for filing in Electronic Format on the: 22/07/2013

Company Name in full: SOMA OIL & GAS EXPLORATION LIMITED

Company Type: Private limited by shares

Situation of Registered Office: England and Wales

Proposed Register Office Address:
78 YORK STREET
LONDON
UNITED KINGDOM
W1H 1DP

I wish to adopt entirely bespoke articles
Company Director

Type: Person

Full forename(s): MR BASIL

Surname: SHIBLAQ

Former names:

Service Address: 78 YORK STREET
LONDON
UNITED KINGDOM
W1H 1DP

Country/State Usually Resident: UNITED KINGDOM

Date of Birth: 02/01/1944

Nationality: BRITISH

Occupation: INVESTOR

Consented to Act: Y

Date authorised: 22/07/2013

Authenticated: YES
## Statement of Capital (Share Capital)

<table>
<thead>
<tr>
<th>Class of shares</th>
<th>ORDINARY</th>
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<tbody>
<tr>
<td><strong>Number allotted</strong></td>
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<tr>
<td><strong>Aggregate nominal value</strong></td>
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<tr>
<td><strong>Currency</strong></td>
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</tr>
<tr>
<td><strong>Amount paid per share</strong></td>
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</tr>
<tr>
<td><strong>Amount unpaid per share</strong></td>
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**Prescribed particulars**

VOTING RIGHTS - SHARES RANK EQUALLY FOR VOTING PURPOSES. ON A SHOW OF HANDS EACH MEMBER SHALL HAVE ONE VOTE AND ON A POLL EACH MEMBER SHALL HAVE ONE VOTE PER SHARE HELD. DIVIDEND RIGHTS - EACH SHARE RANKS EQUALLY FOR ANY DIVIDEND DECLARED. DISTRIBUTION RIGHTS ON A WINDING UP - EACH SHARE RANKS EQUALLY FOR ANY DISTRIBUTION MADE ON A WINDING UP. REDEEMABLE SHARES - THE SHARES ARE NOT REDEEMABLE.

## Statement of Capital (Totals)

<table>
<thead>
<tr>
<th>Currency</th>
<th>GBP</th>
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</thead>
<tbody>
<tr>
<td><strong>Total number of shares</strong></td>
<td>1000</td>
</tr>
<tr>
<td><strong>Total aggregate nominal value</strong></td>
<td>0.001</td>
</tr>
</tbody>
</table>
### Initial Shareholdings

**Name:** SOMA OIL & GAS LIMITED

**Address:** 78 YORK STREET  
LONDON  
UNITED KINGDOM  
W1H 1DP

<table>
<thead>
<tr>
<th>Class of share:</th>
<th>ORDINARY</th>
</tr>
</thead>
<tbody>
<tr>
<td>Number of shares:</td>
<td>1000</td>
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<td>Currency:</td>
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<td>Nominal value of each share:</td>
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<tr>
<td>Amount unpaid:</td>
<td>0</td>
</tr>
<tr>
<td>Amount paid:</td>
<td>0.000001</td>
</tr>
</tbody>
</table>
Statement of Compliance

I confirm the requirements of the Companies Act 2006 as to registration have been complied with.

Name: SOMA OIL & GAS LIMITED
Authenticated: YES

Authorisation

Authoriser Designation: subscriber
Authenticated: Yes
COMPANY HAVING A SHARE CAPITAL

Memorandum of Association of

SOMA OIL & GAS EXPLORATION LIMITED

Each subscriber to this Memorandum of Association wishes to form a company under the Companies Act 2006 and agrees to become a member of the company and to take at least one share.

<table>
<thead>
<tr>
<th>Name of each subscriber</th>
<th>Authentication by each subscriber</th>
</tr>
</thead>
<tbody>
<tr>
<td>SOMA OIL &amp; GAS LIMITED</td>
<td>SOMA OIL &amp; GAS LIMITED</td>
</tr>
</tbody>
</table>

Dated 22/7/2013
Company Number:

The Companies Act 2006

PRIVATE COMPANY LIMITED BY SHARES

ARTICLES
OF ASSOCIATION

SOMA OIL & GAS EXPLORATION LIMITED

Incorporated on
THE COMPANIES ACT 2006

PRIVATE COMPANY LIMITED BY SHARES

ARTICLES OF ASSOCIATION OF

SOMA OIL & GAS EXPLORATION LIMITED

1. PRELIMINARY

1.1 The model articles of association for private companies limited by shares contained in Schedule 1 to the Companies (Model Articles) Regulations 2008 (SI 2008 No. 3229) (the "Model Articles") shall apply to the Company save in so far as they are excluded or modified hereby and such Model Articles and the articles set out below shall be the Articles of Association of the Company (the "Articles").

1.2 In these Articles, any reference to a provision of the Companies Act 2006 shall be deemed to include a reference to any statutory modification or re-enactment of that provision for the time being in force.

1.3 Model Articles 7(2), 9(2), 14, 19(5), 21, 24, 26(5), 28(3), 36(4) and 44(4) do not apply to the Company.

1.4 The headings used in these Articles are included for the sake of convenience only and shall be ignored in construing the language or meaning of these Articles.

1.5 In these Articles, unless the context otherwise requires, references to nouns in the plural form shall be deemed to include the singular and vice versa, references to one gender include all genders and references to persons include bodies corporate and unincorporated associations.

2. DEFINED TERMS

2.1 Model Article 1 shall be varied by the inclusion of the following definitions:

"appointor" has the meaning given in Article 7.1;

"call" has the meaning given in Article 10.1;

"call notice" has the meaning given in Article 10.1;

"call payment date" has the meaning given in Article 10.4;

"forfeiture notice" has the meaning given in Article 10.4;

"lien enforcement notice" has the meaning given in Article 9.4;

"relevant rate" has the meaning given in Article 10.4;

"secretary" means the secretary of the Company, if any, appointed in accordance with Article 6.1 or any other person appointed to perform the duties of the secretary of the Company, including a joint, assistant or deputy secretary; and

"working day" means a day that is not a Saturday or Sunday, Christmas Day, Good Friday or any day that is a bank holiday under the Banking and Financial Dealings Act 1971 in the part of the United Kingdom where the Company is registered.
3. PROCEEDINGS OF DIRECTORS

3.1 Subject to Article 3.2, notwithstanding the fact that a proposed decision of the directors concerns or relates to any matter in which a director has, or may have, directly or indirectly, any kind of interest whatsoever, that director may participate in the decision-making process for both quorum and voting purposes.

3.2 If the directors propose to exercise their power under section 175(4)(b) of the Companies Act 2006 to authorise a director's conflict of interest, the director facing the conflict is not to be counted as participating in the decision to authorise the conflict for quorum or voting purposes.

3.3 Subject to the provisions of the Companies Act 2006, and provided that (if required to do so by the said Act) he has declared to the directors the nature and extent of any direct or indirect interest of his, a director, notwithstanding his office:-

(a) may be a party to or otherwise interested in, any transaction or arrangement with the Company or in which the Company is otherwise interested;

(b) may be a director or other officer or an employee of, or a party to any transaction or arrangement with, or otherwise interested in, any subsidiary of the Company or body corporate in which the Company is interested; and

(c) is not accountable to the Company for any remuneration or other benefits which he derives from any such office or employment or from any such transaction or arrangement or from any interest in any such body corporate and no transaction or arrangement is liable to be avoided on the ground of any such remuneration, benefit or interest.

4. UNANIMOUS DECISIONS

4.1 Model Article 8(2) shall be amended by the deletion of the words "copies of which have been signed by each eligible director" and the substitution of the following "where each eligible director has signed one or more copies of it" in its place. Model Article 8(2) shall be read accordingly.

5. TERMINATION OF DIRECTOR'S APPOINTMENT

5.1 In addition to the events terminating a director’s appointment set out in Model Article 18, a person ceases to be a director as soon as that person has for more than six consecutive months been absent without permission of the directors from meetings of directors held during that period and the directors make a decision to vacate that person’s office.

6. SECRETARY

6.1 The directors may appoint a secretary to the Company for such period, for such remuneration and upon such conditions as they think fit; and any secretary so appointed by the directors may be removed by them.

7. ALTERNATE DIRECTORS

7.1 (a) Any director (the "appointor") may appoint as an alternate any other director, or any other person approved by a decision of the directors, to:-
(i) exercise that director's powers; and
(ii) carry out that director's responsibilities.

in relation to the taking of decisions by the directors in the absence of the alternate's appointor.

(b) Any appointment or removal of an alternate must be effected by notice in writing to the Company signed by the appointor, or in any other manner approved by the directors. The notice must:-

(i) identify the proposed alternate; and
(ii) in the case of a notice of appointment, contain a statement signed by the proposed alternate that he is willing to act as the alternate of his appointor.

An alternate director has the same rights to participate in any directors’ meeting or decision of the directors reached in accordance with Model Article 8, as the alternate’s appointor.

Except as these Articles specify otherwise, alternate directors:-

(i) are deemed for all purposes to be directors;
(ii) are liable for their own acts or omissions;
(iii) are subject to the same restrictions as their appointors; and
(iv) are not deemed to be agents of or for their appointors.

(c) A person who is an alternate director but not a director:-

(i) may be counted as participating for the purposes of determining whether a quorum is participating (but only if that person's appointor is not participating); and
(ii) may sign or otherwise signify his agreement in writing to a written resolution in accordance with Model Article 8 (but only if that person's appointor has not signed or otherwise signified his agreement to such written resolution).

No alternate may be counted as more than one director for such purposes.

(d) An alternate director is not entitled to receive any remuneration from the Company for serving as an alternate director except such part of the remuneration payable to that alternate's appointor as the appointor may direct by notice in writing made to the Company.

(e) Model Article 20 is modified by the deletion of each of the references to "directors" and the replacement of each such reference with "directors and/or any alternate directors".

An alternate director's appointment as an alternate terminates:-

(a) when his appointor revokes the appointment by notice to the Company in writing specifying when it is to terminate;
(b) on the occurrence in relation to the alternate of any event which, if it occurred in relation to the alternate’s appointor would result in the termination of the appointor’s office as director;

(c) on the death of his appointor; or

(d) when his appointor’s appointment as a director terminates.

8. ISSUE OF SHARES

8.1 Shares may be issued as nil, partly or fully paid.

8.2 (a) Unless the members of the Company by special resolution direct otherwise, all shares which the directors propose to issue must first be offered to the members in accordance with the following provisions of this Article.

(b) Shares must be offered to members in proportion as nearly as may be to the number of existing shares held by them respectively.

(c) The offer shall be made by notice specifying the number of shares offered, and limiting a period (not being less than 14 days) within which the offer, if not accepted, will be deemed to be declined.

(d) After the expiration of the period referred to in (c) above, those shares so deemed to be declined shall be offered in the proportion aforesaid to the persons who have, within the said period, accepted all the shares offered to them; and such further offer shall be made in the like terms in the same manner and limited by a like period as the original offer.

(e) Any shares not accepted pursuant to the offer referred to in (c) and the further offer referred to in (d) or not capable of being offered as aforesaid except by way of fractions and any shares released from the provisions of this Article by any such special resolution as aforesaid shall be under the control of the directors, who may allot, grant options over or dispose of the same to such persons, on such terms, and in such manner as they think fit.

8.3 In accordance with section 567 of the Companies Act 2006, sections 561 and 562 of the said Act are excluded.

9. LIEN

9.1 The Company has a first and paramount lien on all shares (whether or not such shares are fully paid) standing registered in the name of any person indebted or under any liability to the Company, whether he is the sole registered holder thereof or is one of two or more joint holders, for all moneys payable by him or his estate to the Company (whether or not such moneys are presently due and payable).

9.2 The Company's lien over shares:-

(a) takes priority over any third party's interest in such shares; and

(b) extends to any dividend or other money payable by the Company in respect of such shares and (if the Company's lien is enforced and such shares are sold by the Company) the proceeds of sale of such shares.

9.3 The directors may at any time decide that a share which is or would otherwise be subject to the Company's lien shall not be subject to it, either wholly or in part.
9.4 (a) Subject to the provisions of this Article, if:-

(i) a notice of the Company’s intention to enforce the lien ("lien enforcement notice") has been sent in respect of the shares; and

(ii) the person to whom the lien enforcement notice was sent has failed to comply with it,

the Company may sell those shares in such manner as the directors decide.

(b) A lien enforcement notice:-

(i) may only be sent in respect of shares if a sum is payable to the Company by the sole registered holder or one of two or more joint registered holders of such shares and the due date for payment of such sum has passed;

(ii) must specify the shares concerned;

(iii) must include a demand for payment of the sum payable within 14 days;

(iv) must be addressed either to the holder of such shares or to a person entitled to such shares by reason of the holder’s death, bankruptcy or otherwise; and

(v) must state the Company’s intention to sell the shares if the notice is not complied with.

(c) If shares are sold under this Article:-

(i) the directors may authorise any person to execute an instrument of transfer of the shares to the purchaser or a person nominated by the purchaser; and

(ii) the transferee is not bound to see to the application of the consideration, and the transferee’s title is not affected by any irregularity in or invalidity of the process leading to the sale.

(d) The net proceeds of any such sale (after payment of the costs of sale and any other costs of enforcing the lien) must be applied:-

(i) first, in payment of so much of the sum for which the lien exists as was payable at the date of the lien enforcement notice; and

(ii) second, in payment to the person entitled to the shares at the date of the sale, but only after the certificate for the shares sold has been surrendered to the company for cancellation or a suitable indemnity has been given for any lost certificates, and subject to a lien equivalent to the company’s lien over the shares before the sale for any money payable in respect of the shares after the date of the lien enforcement notice.

(e) A statutory declaration by a director or the secretary that the declarant is a director or the secretary and that a share has been sold to satisfy the Company’s lien on a specified date:-

(i) is conclusive evidence of the facts stated in it as against all persons claiming to be entitled to the share; and
subject to compliance with any other formalities of transfer required by these Articles or by law, constitutes a good title to the share.

10. CALLS ON SHARES AND FORFEITURE

10.1 (a) Subject to these Articles and the terms on which shares are allotted, the directors may send a notice (a "call notice") to a member requiring the member to pay the Company a specified sum of money (a "call") which is payable in respect of shares which that member holds at the date when the directors decide to send the call notice.

(b) A call notice:

(i) may not require a member to pay a call which exceeds the total sum unpaid on that member's shares (whether as to the share's nominal value or any amount payable to the Company by way of premium);

(ii) must state when and how any call to which it relates is to be paid; and

(iii) may permit or require the call to be paid by instalments.

(c) A member must comply with the requirements of a call notice, but no member is obliged to pay any call before 14 days have passed since the call notice was sent.

(d) Before the Company has received any call due under a call notice the directors may:

(i) revoke it wholly or in part; or

(ii) specify a later time for payment than is specified in the call notice, by a further notice in writing to the member in respect of whose shares the call was made.

10.2 (a) Liability to pay a call is not extinguished or transferred by transferring the shares in respect of which the call is required to be paid.

(b) Joint holders of a share are jointly and severally liable to pay all calls in respect of that share.

(c) Subject to the terms on which shares are allotted, the directors may, when issuing shares, make arrangements for a difference between the holders in the amounts and times of payment of calls on their shares.

10.3 (a) A call notice need not be issued in respect of sums which are specified, in the terms on which a share is allotted, as being payable to the Company in respect of that share (whether in respect of nominal value or premium):

(i) on allotment;

(ii) on the occurrence of a particular event; or

(iii) on a date fixed by or in accordance with the terms of issue.

(b) But if the due date for payment of such a sum has passed and it has not been paid, the holder of the share concerned is treated in all respects as
having failed to comply with a call notice in respect of that sum, and is liable to the same consequences as regards the payment of interest and forfeiture.

10.4  (a) If a person is liable to pay a call and fails to do so by the call payment date:-

(i) the directors may send a notice of forfeiture (a "forfeiture notice") to that person; and

(ii) until the call is paid, that person must pay the Company interest on the call from the call payment date at the relevant rate.

(b) For the purposes of this Article:-

(i) the "call payment date" is the date on which the call notice states that a call is payable, unless the directors give a notice specifying a later date, in which case the "call payment date" is that later date; and

(ii) the "relevant rate" is the rate fixed by the terms on which the share in respect of which the call is due was allotted or, if no such rate was fixed when the share was allotted, five percent per annum.

(c) The relevant rate must not exceed by more than five percentage points the base lending rate most recently set by the Monetary Policy Committee of the Bank of England in connection with its responsibilities under Part 2 of the Bank of England Act 1998.

(d) The directors may waive any obligation to pay interest on a call wholly or in part.

10.5 A forfeiture notice:-

(a) may be sent in respect of any share in respect of which a call has not been paid as required by a call notice;

(b) must be sent to the holder of that share or to a person entitled to it by reason of the holder’s death, bankruptcy or otherwise;

(c) must require payment of a call and any accrued interest by a date which is not less than 14 days after the date of the forfeiture notice;

(d) must state how the payment is to be made; and

(e) must state that if the forfeiture notice is not complied with, the shares in respect of which the call is payable will be liable to be forfeited.

10.6 If a forfeiture notice is not complied with before the date by which payment of the call is required in the forfeiture notice, the directors may decide that any share in respect of which it was given is forfeited and the forfeiture is to include all dividends or other moneys payable in respect of the forfeited shares and not paid before the forfeiture.

10.7 (a) Subject to the following provisions of this Article 10.7, the forfeiture of a share extinguishes:-

(i) all interests in that share, and all claims and demands against the Company in respect of it; and
(ii) all other rights and liabilities incidental to the share as between the person in whose name the share is registered and the Company.

(b) Any share which is forfeited:-

(i) is deemed to have been forfeited when the directors decide that it is forfeited;

(ii) is deemed to be the property of the Company; and

(iii) may be sold, re-allotted or otherwise disposed of as the directors think fit.

(c) If a person’s shares have been forfeited:-

(i) the Company must send that person notice that forfeiture has occurred and record it in the register of members;

(ii) that person ceases to be a member in respect of those shares;

(iii) that person must surrender the certificate for the shares forfeited to the Company for cancellation;

(iv) that person remains liable to the Company for all sums due and payable by that person at the date of forfeiture in respect of those shares, including any interest (whether accrued before or after the date of forfeiture); and

(v) the directors may waive payment of such sums wholly or in part or enforce payment without any allowance for the value of the shares at the time of forfeiture or for any consideration received on their disposal.

(d) At any time before the Company disposes of a forfeited share, the directors may decide to cancel the forfeiture on such terms as they think fit.

10.8 (a) If a forfeited share is to be disposed of by being transferred, the Company may receive the consideration for the transfer and the directors may authorise any person to execute the instrument of transfer.

(b) A statutory declaration by a director or the secretary that the declarant is a director or the secretary and that a share has been forfeited on a specified date:-

(i) is conclusive evidence of the facts stated in it as against all persons claiming to be entitled to the share; and

(ii) subject to compliance with any other formalities of transfer required by these Articles or by law, constitutes a good title to the share.

(c) A person to whom a forfeited share is transferred is not bound to see to the application of the consideration (if any) nor is that person’s title to the share affected by any irregularity in or invalidity of the process leading to the forfeiture or transfer of the share.

(d) If the company sells a forfeited share, the person who held it prior to its forfeiture is entitled to receive from the Company the proceeds of such sale, net of any commission, and excluding any amount which:-
(i) was, or would have become, payable; and

(ii) had not, when that share was forfeited, been paid by that person in respect of that share,

but no interest is payable to such a person in respect of such proceeds and the Company is not required to account for any money earned on them.

10.9 (a) A member may surrender any share:-

(i) in respect of which the directors may issue a forfeiture notice;

(ii) which the directors may forfeit; or

(iii) which has been forfeited.

(b) The directors may accept the surrender of any such share.

(c) The effect of surrender on a share is the same as the effect of forfeiture on that share.

(d) A share which has been surrendered may be dealt with in the same way as a share which has been forfeited.

11. SHARE CERTIFICATES

11.1 (a) The Company must issue each member with one or more certificates in respect of the shares which that member holds.

(b) Except as is otherwise provided in these Articles, all certificates must be issued free of charge.

(c) No certificate may be issued in respect of shares of more than one class.

(d) A member may request the Company, in writing, to replace:-

(i) the member's separate certificates with a consolidated certificate; or

(ii) the member's consolidated certificate with two or more separate certificates.

(e) When the Company complies with a request made by a member under (d) above, it may charge a reasonable fee as the directors decide for doing so.

11.2 (a) Every certificate must specify:-

(i) in respect of how many shares, of what class, it is issued;

(ii) the nominal value of those shares;

(iii) whether the shares are nil, partly or fully paid; and

(iv) any distinguishing numbers assigned to them.

(b) Certificates must:-

(i) have affixed to them the Company's common seal; or

(ii) be otherwise executed in accordance with the Companies Acts.
12. **CONSOLIDATION OF SHARES**

12.1 (a) This Article applies in circumstances where:-

(i) there has been a consolidation of shares; and

(ii) as a result, members are entitled to fractions of shares.

(b) The directors may:-

(i) sell the shares representing the fractions to any person including the Company for the best price reasonably obtainable; and

(ii) authorise any person to execute an instrument of transfer of the shares to the purchaser or a person nominated by the purchaser.

(c) Where any holder’s entitlement to a portion of the proceeds of sale amounts to less than a minimum figure determined by the directors, that member’s portion may be distributed to an organisation which is a charity for the purposes of the law of England and Wales, Scotland or Northern Ireland.

(d) A person to whom shares are transferred is not obliged to ensure that any purchase money is received by the person entitled to the relevant fractions.

(e) The transferee’s title to the shares is not affected by any irregularity in or invalidity of the process leading to their sale.

13. **DIVIDENDS**

13.1 (a) Except as otherwise provided by these Articles or the rights attached to the shares, all dividends must be:-

(i) declared and paid according to the amounts paid up on the shares on which the dividend is paid; and

(ii) apportioned and paid proportionately to the amounts paid up on the shares during any portion or portions of the period in respect of which the dividend is paid.

(b) If any share is issued on terms providing that it ranks for dividend as from a particular date, that share ranks for dividend accordingly.

(c) For the purpose of calculating dividends, no account is to be taken of any amount which has been paid up on a share in advance of the due date for payment of that amount.

14. **CAPITALISATION OF PROFITS**

14.1 A capitalised sum which was appropriated from profits available for distribution may be applied:-

(a) in or towards paying up any amounts unpaid on any existing nil or partly paid shares held by the persons entitled; or

(b) in paying up new debentures of the Company which are then allotted credited as fully paid to the persons entitled or as they may direct.
14.2 Model Article 36(5)(a) is modified by the deletion of the words "paragraphs (3) and (4)" and their replacement with "Model Article 36(3) and Article 14.1".

15. WRITTEN RESOLUTIONS OF MEMBERS

15.1 (a) Subject to Article 15.1(b), a written resolution of members passed in accordance with Part 13 of the Companies Act 2006 is as valid and effectual as a resolution passed at a general meeting of the Company.

(b) The following may not be passed as a written resolution and may only be passed at a general meeting:-

(i) a resolution under section 168 of the Companies Act 2006 for the removal of a director before the expiration of his period of office; and

(ii) a resolution under section 510 of the Companies Act 2006 for the removal of an auditor before the expiration of his period of office.

15.2 (a) Subject to Article 15.2(b), on a written resolution, a member has one vote in respect of each share held by him.

(b) No member may vote on a written resolution unless all moneys currently due and payable in respect of any shares held by him have been paid.

16. NOTICE OF GENERAL MEETINGS

16.1 (a) Every notice convening a general meeting of the Company must comply with the provisions of:-

(i) section 311 of the Companies Act 2006 as to the provision of information regarding the time, date and place of the meeting and the general nature of the business to be dealt with at the meeting; and

(ii) section 325(1) of the Companies Act 2006 as to the giving of information to members regarding their right to appoint proxies.

(b) Every notice of, or other communication relating to, any general meeting which any member is entitled to receive must be sent to each of the directors and to the auditors (if any) for the time being of the Company.

17. QUORUM AT GENERAL MEETINGS

17.1 (a) If and for so long as the Company has one member only who is entitled to vote on the business to be transacted at a general meeting, that member present at the meeting in person or by one or more proxies or, in the event that the member is a corporation, by one or more corporate representatives, is a quorum.

(b) If and for so long as the Company has two or more members entitled to vote on the business to be transacted at a general meeting, two of such members, each of whom is present at the meeting in person or by one or more proxies or, in the event that any member present is a corporation, by one or more corporate representatives, are a quorum.

(c) Model Article 41(1) is modified by the addition of a second sentence as follows:-
"If, at the adjourned general meeting, a quorum is not present within half an hour from the time appointed therefor or, alternatively, a quorum ceases to be present, the adjourned meeting shall be dissolved."

18. VOTING AT GENERAL MEETINGS

18.1 (a) Subject to Article 18.2 below, on a vote on a resolution at a general meeting on a show of hands:-

(i) each member who, being an individual, is present in person has one vote;

(ii) if a member (whether such member is an individual or a corporation) appoints one or more proxies to attend the meeting, all proxies so appointed and in attendance at the meeting have, collectively, one vote; and

(iii) if a corporate member appoints one or more persons to represent it at the meeting, each person so appointed and in attendance at the meeting has, subject to section 323(4) of the Companies Act 2006, one vote.

(b) Subject to Article 18.2 below, on a resolution at a general meeting on a poll, every member (whether present in person, by proxy or authorised representative) has one vote in respect of each share held by him.

18.2 No member may vote at any general meeting or any separate meeting of the holders of any class of shares in the Company, either in person, by proxy or, in the event that the member is a corporation, by corporate representative in respect of shares held by that member unless all moneys currently due and payable by that member in respect of any shares held by that member have been paid.

18.3 (a) Model Article 44(2) is amended by the deletion of the word "or" in Model Article 44(2)(c), the deletion of the "." after the word "resolution" in Model Article 44(2)(d) and its replacement with "; or" and the insertion of a new Model Article 44(2)(e) in the following terms:-

"by a member or members holding shares conferring a right to vote at the meeting being shares on which an aggregate sum has been paid up equal to not less than one-tenth of the total sum paid up on all shares conferring that right".

(b) A demand for a poll made by a person as proxy for a member is the same as a demand made by the member.

18.4 Polls must be taken at the general meeting at which they are demanded and in such manner as the chairman directs.

19. DELIVERY OF PROXY NOTICES

19.1 Model Article 45(1) is modified, such that a "proxy notice" (as defined in Model Article 45(1)) and any authentication of it demanded by the directors must be received at an address specified by the Company in the proxy notice not less than 48 hours before the time for holding the meeting or adjourned meeting at which the proxy appointed pursuant to the proxy notice proposes to vote; and any proxy notice received at such address less than 48 hours before the time for holding the meeting or adjourned meeting shall be invalid.
20. COMMUNICATIONS

20.1 Subject to the provisions of the Companies Act 2006, a document or information may be sent or supplied by the Company to a person by being made available on a website.

20.2 (a) A member whose registered address is not within the United Kingdom and who gives to the Company an address within the United Kingdom at which notices may be sent to him or an address to which notices may be sent by electronic means is entitled to have notices sent to him at that address, but otherwise no such member is entitled to receive any notices from the Company.

(b) If any share is registered in the name of joint holders, the Company may send notices and all other documents to the joint holder whose name stands first in the register of members in respect of the joint holding and the Company is not required to serve notices or other documents on any of the other joint holders.

20.3 (a) If the Company sends or supplies notices or other documents by first class post and the Company proves that such notices or other documents were properly addressed, prepaid and posted, the intended recipient is deemed to have received such notices or other documents 48 hours after posting.

(b) If the Company sends or supplies notices or other documents by electronic means and the Company proves that such notices or other documents were properly addressed, the intended recipient is deemed to have received such notices or other documents 24 hours after they were sent or supplied.

(c) If the Company sends or supplies notices or other documents by means of a website, the intended recipient is deemed to have received such notices or other documents when such notices or other documents first appeared on the website or, if later, when the intended recipient first received notice of the fact that such notices or other documents were available on the website.

(d) For the purposes of this Article 20.3, no account shall be taken of any part of a day that is not a working day.

21. COMPANY SEALS

21.1 Model Article 49(1) is modified, such that any common seal of the Company may be used by the authority of the directors or any committee of directors.

21.2 Model Article 49(3) is modified by the deletion of all words which follow the ",," after the word "document" and their replacement with "the document must also be signed by: -

(a) one authorised person in the presence of a witness who attests the signature; or

(b) two authorised persons".

22. TRANSMISSION OF SHARES

22.1 Model Article 27 is modified by the addition of new Model Article 27(4) in the following terms: -
"Nothing in these Articles releases the estate of a deceased member from any liability in respect of a share solely or jointly held by that member".

22.2 All the Articles relating to the transfer of shares apply to:-

(a) any notice in writing given to the Company by a transmitee in accordance with Model Article 28(1); and

(b) any instrument of transfer executed by a transmitee in accordance with Model Article 28(2),

as if such notice or instrument were an instrument of transfer executed by the person from whom the transmitee derived rights in respect of the share, and as if the event which gave rise to the transmission had not occurred.

23. WINDING UP

23.1 If the Company is wound up, the liquidator may, with the sanction of a special resolution of the Company and any other sanction required by law, divide among the members in specie the whole or any part of the assets of the Company and may, for that purpose, value any assets and determine how the division shall be carried out as between the members or different classes of members. The liquidator may, with the like sanction, vest the whole or any part of the assets in trustees upon such trusts for the benefit of the members as he may determine, but no member shall be compelled to accept any assets upon which there is a liability.

24. SHARE TRANSFERS

24.1 (a) Model Article 26(1) is modified by the addition of the words "and, if any of the shares is nil or partly paid, the transferee" after the word "transferor".

(b) The directors may refuse to register the transfer of a share, and, if they do so, the instrument of transfer must be returned to the transferee together with a notice of refusal giving reasons for such refusal as soon as practicable and in any event within two months after the date on which the instrument of transfer was lodged for registration, unless the directors suspect that the proposed transfer may be fraudulent.
Annex 172

Special Resolution of Soma Oil & Gas Limited, *UK Companies House*, 19 July 2013
PRIVATE COMPANY LIMITED BY SHARE
WRITTEN RESOLUTION
OF
SOMA OIL & GAS LIMITED
(Company number 08506858)
(the "Company")
Circulated on 19 July 2013 (the "Circulation Date")

Pursuant to Chapter 2 of Part 13 of the Companies Act 2006, the directors of the Company propose that the following resolution is passed as a special resolution (the "Resolution")

SPECIAL RESOLUTION

THAT:

(a) the name of the Company be changed to "Soma Oil & Gas Holdings Limited",

(b) the directors of the Company be and are hereby generally and unconditionally authorised pursuant to section 551 of the Companies Act 2006 to exercise all the powers of the Company to allot shares in the Company or to grant rights to subscribe for or convert any securities into shares in the Company (the "Rights") up to a maximum aggregate nominal amount of £100, each having the respective rights and subject to the respective restrictions set out in the articles of association of the Company, provided that this authority shall expire (unless previously revoked, varied or extended by the Company in general meeting) on 19 July 2018, save that the Company may, at any time prior to the expiration of that power make an offer or agreement which would or might require shares to be allotted or Rights to be granted after such expiry and the directors may allot shares or grant Rights in pursuance of such offer or agreement as if the authority conferred hereby had not expired,

(c) in accordance with section 570 of the Companies Act 2006, the directors of the Company be and are hereby empowered to allot equity securities (as defined in section 560 of the 2006 Act) for cash pursuant to the authority conferred by Resolution (c) as if section 561(1) of the Companies Act 2006 did not apply to such allotment and shall expire (unless previously revoked, varied or extended by the Company in a general meeting) on the conclusion on 19 July 2018 save that the Company may, at any time prior to the expiration of that power make an offer or agreement which would or might require equity securities to be allotted pursuant to that power after its expiration and the directors may allot equity securities in pursuance of that offer or agreement as if the power conferred by this resolution had not expired

Please read the notes at the end of this document before signifying your agreement to the Resolution
The undersigned, being the sole member of the Company entitled to vote on the Resolution on the Circulation Date, hereby irrevocably agrees to the Resolution being passed as an ordinary resolution.

Signed for and on behalf of

SOMA OIL & GAS LIMITED (A BVI COMPANY)

Date: 19 July 2013
IMPORTANT NOTES

1. If you agree with the Resolution, please indicate your agreement by signing and dating this document where indicated above and returning it to the Company using one of the following methods:
   (a) **By hand:** Delivering the signed copy to Peter Damouni, c/o 78 York Street, London, W1H 1DP
   (b) **By post:** Returning the signed copy by post to Peter Damouni, c/o 78 York Street, London, W1H 1DP
   (c) **By email:** By attaching a scanned copy of the signed document to an email and sending it to pdamouni@gmail.com. Please enter "Soma Oil & Gas Limited – Shareholder Written Resolution" in the email subject box.

2. If you do not agree to the Resolution, you do not need to do anything. You will not be deemed to agree if you fail to reply.

3. Once you have indicated your agreement to the Resolution, you may not revoke your agreement.

4. Unless, within 28 days from the Circulation Date noted above, sufficient agreement has been received for the Resolutions to pass, they will lapse. If you agree to the Resolution, please ensure that your agreement reaches us before or during this date.

5. If you are signing this document on behalf of a person under a power of attorney or other authority, please send a copy of the relevant power of attorney or authority when returning this document.
The Registrar of Companies for England and Wales hereby certifies that under the Companies Act 2006:

SOMA OIL & GAS LIMITED

a company incorporated as private limited by shares; having its registered office situated in England/Wales; has changed its name to:

SOMA OIL & GAS HOLDINGS LIMITED

Given at Companies House on 31st July 2013
Annex 173
Consolidated Annual Report and Financial Statements for the period from
Incorporation (26 April 2013) to 31 December 2013 of Soma Oil & Gas Holdings
Limited, UK Companies House, 17 September 2014
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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<th>Page</th>
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</tr>
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</table>
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
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)
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
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
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.
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.
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
### CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

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

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

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.
## Assets

### Non-current assets
- Intangibles: exploration and evaluation assets
  - Notes 8: 1,059
- Property, plant and equipment
  - Notes 9: 48

### Current assets
- Trade and other receivables
  - Notes 10: 214
- Cash and cash equivalents
  - Notes 11: 35,000

### Liabilities
- Trade and other payables
  - Notes 12: (3,617)

### Equity
- Share capital
  - Notes 14: -
- Share premium
  - Notes 14: 36,500
- Share based payment reserve
  - Notes 14: 442
- Currency translation reserve
  - Notes 14: (32)
- Retained earnings
  - Notes 14: (4,206)

## Liabilities

### Current liabilities
- Trade and other payables
  - Notes 12: (3,617)

## Net Current Assets
- Notes 12: 31,597

## Net Assets
- Notes 12: 32,704

## Total equity
- Notes 12: 32,704

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

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

**Company**

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

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

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

<table>
<thead>
<tr>
<th>Note</th>
<th>Group</th>
<th>Company</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>For the period to 31 December 2013</td>
<td>For the period to 31 December 2013</td>
</tr>
<tr>
<td></td>
<td>US$’000</td>
<td>US$’000</td>
</tr>
</tbody>
</table>

| 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:

<table>
<thead>
<tr>
<th>Standard</th>
<th>Key requirements</th>
<th>Effective date as adopted by the EU</th>
</tr>
</thead>
<tbody>
<tr>
<td>IFRS 10, 'Consolidated financial statements' and corresponding amendment to IAS 27, 'Consolidated and separate financial statements'</td>
<td>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.</td>
<td>1 January 2014</td>
</tr>
<tr>
<td>IFRS 11, 'Joint Arrangements'</td>
<td>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.</td>
<td>1 January 2014</td>
</tr>
<tr>
<td>Amendment to IAS 28, 'Associates and joint ventures'</td>
<td>IAS 28 includes the requirements for joint ventures, as well as associates, to be equity accounted following the issue of IFRS 11.</td>
<td>1 January 2014</td>
</tr>
</tbody>
</table>

1Soma 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

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

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:

<table>
<thead>
<tr>
<th>Name</th>
<th>Countries of operation</th>
<th>Principal activity</th>
<th>Class of shares</th>
<th>%</th>
<th>Country of registration</th>
</tr>
</thead>
<tbody>
<tr>
<td>Soma Management Limited</td>
<td>UK</td>
<td>Management company</td>
<td>Ordinary</td>
<td>100%</td>
<td>UK</td>
</tr>
<tr>
<td>Soma Oil &amp; Gas Exploration Limited</td>
<td>The Federal Republic of Somalia, Kenya</td>
<td>Oil &amp; gas exploration</td>
<td>Ordinary</td>
<td>100%</td>
<td>UK</td>
</tr>
</tbody>
</table>

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.
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:

<table>
<thead>
<tr>
<th>Asset Type</th>
<th>Useful Life</th>
</tr>
</thead>
<tbody>
<tr>
<td>Equipment</td>
<td>3 years</td>
</tr>
<tr>
<td>Fixtures and fittings</td>
<td>3 to 5 years</td>
</tr>
</tbody>
</table>

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.
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.
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:

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

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:
5. Group operating loss for the period (continued)

| 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  |
| **Total**                                     | **4,206** |

6. Group staff costs

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

<table>
<thead>
<tr>
<th>Period ended</th>
<th>31 December</th>
<th>US$'000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Management</td>
<td>3</td>
<td></td>
</tr>
</tbody>
</table>

The aggregate remuneration comprised:

<table>
<thead>
<tr>
<th>Period ended</th>
<th>31 December</th>
<th>US$'000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Directors' wages and salaries</td>
<td>436</td>
<td></td>
</tr>
<tr>
<td>Directors' social security costs</td>
<td>52</td>
<td></td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>488</strong></td>
<td></td>
</tr>
</tbody>
</table>

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

<table>
<thead>
<tr>
<th>Period ended</th>
<th>31 December</th>
<th>US$'000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Current tax</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Deferred tax</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td><strong>Total income tax expense in the income statement</strong></td>
<td><strong>-</strong></td>
<td><strong>-</strong></td>
</tr>
</tbody>
</table>
7. Group taxation (continued)

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

<table>
<thead>
<tr>
<th></th>
<th>Period ended</th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>31 December</td>
<td>US $'000</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>2013</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Loss before tax</td>
<td>4,206</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Income tax</td>
<td>841</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Unutilised tax losses</td>
<td>(841)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Current tax charge</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

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

<table>
<thead>
<tr>
<th></th>
<th>Exploration and evaluation assets US$'000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cost:</td>
<td></td>
</tr>
<tr>
<td>At incorporation</td>
<td></td>
</tr>
<tr>
<td>Additions</td>
<td>1,059</td>
</tr>
<tr>
<td></td>
<td></td>
</tr>
<tr>
<td>At 31 December 2013</td>
<td>1,059</td>
</tr>
</tbody>
</table>

9. Group property, plant and equipment

<table>
<thead>
<tr>
<th></th>
<th>Fixtures and fittings US$'000</th>
<th>Computer equipment US$'000</th>
<th>Total US$'000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cost:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>At incorporation</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Additions</td>
<td>38</td>
<td>10</td>
<td>48</td>
</tr>
<tr>
<td>At 31 December 2013</td>
<td>38</td>
<td>10</td>
<td>48</td>
</tr>
</tbody>
</table>

| 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.
10. Group trade and other receivables

<table>
<thead>
<tr>
<th>Value added tax</th>
<th>At 31 December 2013 US$'000</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>214</td>
</tr>
</tbody>
</table>

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

<table>
<thead>
<tr>
<th>Cash and cash equivalents held on behalf of Group</th>
<th>At 31 December 2013 US$'000</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>35,000</td>
</tr>
</tbody>
</table>

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

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

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.
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

<table>
<thead>
<tr>
<th></th>
<th>Current US$'000</th>
<th>Non-current US$'000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash and cash equivalents</td>
<td>35,000</td>
<td></td>
</tr>
</tbody>
</table>

Financial liabilities

31 December 2013

<table>
<thead>
<tr>
<th></th>
<th>Current US$'000</th>
<th>Non-current US$'000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Trade and other payables</td>
<td>1,615</td>
<td></td>
</tr>
<tr>
<td>Accruals</td>
<td>1,122</td>
<td></td>
</tr>
<tr>
<td>Directors’ loans payable (note 20)</td>
<td>377</td>
<td></td>
</tr>
<tr>
<td>Wages control</td>
<td>315</td>
<td></td>
</tr>
<tr>
<td></td>
<td>3,429</td>
<td></td>
</tr>
</tbody>
</table>

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.
13. Group financial instruments (continued)

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

<table>
<thead>
<tr>
<th>Currency</th>
<th>2013 US$'000</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>US Dollars</td>
<td>35,000</td>
<td></td>
</tr>
</tbody>
</table>

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:

<table>
<thead>
<tr>
<th>Currency</th>
<th>Assets US$'000</th>
<th>Liabilities US$'000</th>
</tr>
</thead>
<tbody>
<tr>
<td>US Dollars</td>
<td>-</td>
<td>79</td>
</tr>
<tr>
<td>Sterling</td>
<td>213</td>
<td>3,093</td>
</tr>
<tr>
<td>Somali Shilling</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Kenya Shilling</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Euro</td>
<td>257</td>
<td></td>
</tr>
</tbody>
</table>

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

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

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.
NOTES TO THE COMPANY FINANCIAL STATEMENTS
For the period from Incorporation (26 April 2013) to 31 December 2013

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:

<table>
<thead>
<tr>
<th></th>
<th>31 December 2013 US$'000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Within one year</td>
<td>205</td>
</tr>
<tr>
<td>Within 2 - 5 years</td>
<td>461</td>
</tr>
</tbody>
</table>

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

16. Group share options and other share based payments

Charge for the year

For the period ended 31 December 2013 US$'000

1,942

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.

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

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.
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:

<table>
<thead>
<tr>
<th></th>
<th>Charge during the year US$'000</th>
<th>Assumed exercise price in US$ per share</th>
</tr>
</thead>
<tbody>
<tr>
<td>Outstanding at the beginning of the year</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Granted</td>
<td>442</td>
<td>13,000,000</td>
</tr>
<tr>
<td>Lapsed</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Exercised</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Outstanding at the end of the year</td>
<td>442</td>
<td>13,000,000</td>
</tr>
<tr>
<td>Exercisable at the end of the year</td>
<td>13,000,000</td>
<td>1.00</td>
</tr>
</tbody>
</table>

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:

<table>
<thead>
<tr>
<th>Period ended</th>
<th>Black-Scholes</th>
<th>31 December 2013</th>
</tr>
</thead>
<tbody>
<tr>
<td>Pricing model used</td>
<td>Grant date</td>
<td>10/08/2013</td>
</tr>
<tr>
<td>Weighted average share price at grant date (US$)</td>
<td>1.00</td>
<td></td>
</tr>
<tr>
<td>Weighted average exercise price (US$)</td>
<td>1.00</td>
<td></td>
</tr>
<tr>
<td>Weighted average contractual life (years)</td>
<td>5.00</td>
<td></td>
</tr>
<tr>
<td>Share price volatility (%)</td>
<td>93.18%</td>
<td></td>
</tr>
<tr>
<td>Dividend yield</td>
<td>0%</td>
<td></td>
</tr>
<tr>
<td>Risk-free interest rate (%)</td>
<td>1.33%</td>
<td></td>
</tr>
</tbody>
</table>
17. Group cash flows utilised in operating activities

<table>
<thead>
<tr>
<th>Cash flow from operating activities</th>
<th>US$’000 (Note)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Operating loss</td>
<td>(4,206)</td>
</tr>
<tr>
<td>Adjustments for:</td>
<td></td>
</tr>
<tr>
<td>Share based payment charge</td>
<td>1,942</td>
</tr>
<tr>
<td>Currency translation differences</td>
<td>(32)</td>
</tr>
<tr>
<td>Increase in trade and other receivables</td>
<td>(214)</td>
</tr>
<tr>
<td>Increase in trade and other payables</td>
<td>2,510</td>
</tr>
<tr>
<td>Net cash used in operating activities</td>
<td></td>
</tr>
</tbody>
</table>

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:

<table>
<thead>
<tr>
<th>Directors</th>
<th>US$’000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Robert Allen Sheppard</td>
<td>104</td>
</tr>
<tr>
<td>Mohamad Ajami</td>
<td>257</td>
</tr>
<tr>
<td>Philip Edward Charles Wolfe</td>
<td>16</td>
</tr>
<tr>
<td></td>
<td>377</td>
</tr>
</tbody>
</table>

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.
Annex 174
Soma Oil & Gas Holdings Limited
Consolidated Annual Report and Financial Statements

For the year ended 31 December 2015

Company number 08506858
**SOMA OIL & GAS HOLDINGS LIMITED**

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<th>Page No.</th>
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<td>21</td>
</tr>
<tr>
<td>Notes to the financial statements</td>
<td>22</td>
</tr>
</tbody>
</table>
SOMA OIL & GAS HOLDINGS LIMITED

GROUP INFORMATION

DIRECTORS:
- Lord Howard of Lympne, CH, QC (Chairman)
- Basil Shibaq
- William Richard Anderson
- Robert Allen Sheppard
- Philip Edward Charles Wolfe
- Hassan Khaire
- Mohamad Ali Ajami
- Georgy Dzhaparidze
- The Earl of Clanwilliam

COMPANY SECRETARY:
- Peter Damouni

REGISTERED OFFICE:
- 33 Cavendish Square
  - London
  - England
  - W1G 0PW

REGISTERED NUMBER:
- 08506858 (United Kingdom)

ANTI-BRIBERY & CORRUPTION AND CORPORATE LEGAL ADVISERS:
- DLA Piper UK LLP
  - 3 Noble St
  - London
  - EC2V 7EE

OIL & GAS LEGAL ADVISERS:
- Akin Gump Strauss Hauer & Feld LLP
  - Ten Bishops Square, 8th Floor
  - London
  - E1 6EG

AUDITORS:
- Deloitte LLP
  - 2 New Street Square
  - London
  - EC4A 3BZ

ACCOUNTANTS:
- Capita Asset Services
  - 1st Floor
  - 40 Dukes Place
  - London
  - EC3A 7NH
SOMA OIL & GAS HOLDINGS LIMITED
STRATEGIC REPORT
For the year ended 31 December 2015

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

Soma Oil & Gas Holdings Limited (the "Company" or "Soma") and its two wholly owned subsidiaries, Soma Management Limited ("Soma Management") and Soma Oil & Gas Exploration Limited ("Soma Exploration") together are referred to herein as the Group.

Business review and future developments

Introduction

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

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

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

Due to a request from the Federal Government and in order for it to be able to deliver on its rights and obligations under the SOA, on 25 April 2014 Soma Exploration signed a Capacity Building Agreement ("CBA") whereby Soma 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 implemented the CBA after consultation with specialist legal advisers in Anti-Bribery & Corruption. All payments due under the CBA were made to the Federal Government's Central Bank of Somalia account and the Ministry provided the details on allocation of funds as required under the provisions of the CBA.

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

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

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

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

1 As of January 2014, the Ministry of National Resources was divided amongst successor ministries and the relevant ministry for oil and gas is now the Ministry of Petroleum & Mineral Resources ("MPMR").
On 9 December 2015, the Prime Minister of Somalia officially opened the new office of the MPMR. This included the opening of the new data room in Mogadishu. The entire exploration data set acquired and processed by Soma under the SOA was formally presented to the Federal Government. The MPMR has been very active since the opening of its new offices.

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

Progress to date and expected future progress

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

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

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.

2 The processed seismic data was ready and was made available for delivery on 28 July 2015 and this was acknowledged by the Ministry of Petroleum & Mineral Resources. The actual handover of the processed seismic data was postponed until the opening of the Ministry Building and Data Room in Mogadishu on 9 December 2015.
Soma Exploration has spent approximately US$42,500,000 million on the Exploration Programme, exceeding the required spend under the SOA.

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

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

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

In July 2015, the Group obtained a funding commitment of US$3,000,000 from existing shareholders. In December 2015, the Group obtained a further funding commitment of US$15,000,000 (as described in note 23).

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

SFO Investigation

On 29 July 2015, the Group 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 Group 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 Group understands that the principal complainant who instigated the SFO’s investigation in to Soma was the Monitoring Group.

Monitoring Group leaked report

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

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

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

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

In late July 2015, parts of the Monitoring Group’s 2015 draft confidential report were leaked to various journalists, the media and the public and, on 2 August 2015, the full draft confidential report was leaked.
SOMA OIL & GAS HOLDINGS LIMITED
STRATEGIC REPORT
For the year ended 31 December 2015

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

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

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

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

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

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

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

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

Soma's Cooperation with the SFO

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

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

The Company also provided to the SFO the findings of the Independent Committee report dated 16 November 2015 commissioned by the Federal Government at the request of the United Nations. The Independent Committee, chaired by a representative of the World Bank, investigated the allegations of the UNSEMG and confirmed that there was no wrong doing by either Soma or the MPMR.
SOMA OIL & GAS HOLDINGS LIMITED
STRATEGIC REPORT
For the year ended 31 December 2015

Developments in the Federal Republic of Somalia

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

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

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

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

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

Judicial Review

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

Potential impact of the ongoing SFO Investigation

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

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

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

In the event that a court was to conclude that Soma was implicated in corrupt behaviour, it is possible that Soma could be exposed to significant fines and penalties, and may even forfeit the SOA and all its rights under that agreement.
Soma remains confident that there is no basis to the allegations, and it is taking all appropriate steps to protect its reputation and its business.

**EITI disclosure**

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

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

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

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

**Capacity Building Arrangements**

**Background**

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

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

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

**Capacity Building Arrangements with the Federal Government**

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

Subsequently, on 25 April 2014, Soma entered into the CBA to assist the MPMR to put in place the necessary resources. Under the terms of the CBA any payments would be offset against the training fees and rental obligations anticipated to become due under any future PSAs. The total amount in the CBA was US$400,000 broken down as follows: (i) US$40,000 for office equipment, transportation and other work tools needed by the MPMR; and (ii) US$30,000 per month for a 12-month period for Capacity Support Salaries to pay staff, consultants or advisors. Soma 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 entered into a further agreement, the Additional Capacity Building Arrangements that extended the Capacity Support Salaries payments for an additional 6 months, which equated to a further US$180,000.

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

The aggregate payments made by Soma under the CBA are US$580,000, of which US$270,000 related to the 2015 financial period, corresponding to 9 months of Capacity Support Salaries.
The Capacity Building Arrangements between Soma and the Federal Government are now concluded.

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

Data Room in Mogadishu

Under the terms of the SOA, Soma 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 might acquire within the Exploration Area.

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

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

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

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.

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

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

Oil and gas price risk

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

Foreign exchange risk

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

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

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

Political risk

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

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

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

The value of the 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.

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

Key Performance Indicators

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

Soma Oil & Gas Holdings Limited’s wholly owned subsidiary Soma Exploration successfully achieved the milestone of completing the 2D seismic acquisition programme offshore Somalia in June 2014;

Soma Oil & Gas Holdings Limited’s wholly owned subsidiary Soma Exploration achieved the milestone of completing the Exploration Programme and filed the Notice of Completion on 31 July 2015;

Soma Oil & Gas Holdings Limited’s wholly owned subsidiary Soma Exploration submitted the Notice of Applications for PSAs to the Federal Government on 9 December 2015.

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

The key performance indicators are monitored by the Board of Directors to ensure that they are progressing as planned in a timely manner. At this stage the Board of Directors is confident that these targets are being met.
SOMA OIL & GAS HOLDINGS LIMITED
STRATEGIC REPORT
For the year ended 31 December 2015

ON BEHALF OF THE BOARD:

William Richard Anderson
Chief Executive Officer
30 September 2016

Philip Edward Charles Wolfe
Chief Financial Officer
30 September 2016

REGISTERED OFFICE:
33 Cavendish Square
London
England
W1G 0PW
The Directors present their annual report on the affairs of the Group, together with the consolidated financial statements of Soma Oil & Gas Holdings Limited and the auditor's report for the year ended 31 December 2015.

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

FUTURE DEVELOPMENTS

Details of future developments can be found in the strategic report on page 3 and form part of this report by cross-reference.

GOING CONCERN

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

EVENTS AFTER THE BALANCE SHEET DATE

Details of significant events since the balance sheet date are contained in note 23 to the financial statements.

RESULTS AND DIVIDENDS

The Group’s comprehensive loss after tax to 31 December 2015 amounted to US$4,131,000 (2014: US$8,884,000). 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 (2014: 30 days) of the date of the invoice. The Company may, by exception, pay individual suppliers on different terms.

DIRECTORS

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

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

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

DIRECTORS’ REMUNERATION

The total paid to Directors during the year was US$2,147,000 (2014: US$2,427,000). This included the highest paid Director who was paid US$417,000 (2014: US$579,000).

During the year no Directors exercised their options.
SOMA OIL & GAS HOLDINGS LIMITED
DIRECTORS' REPORT
For the year ended 31 December 2015

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

DISCLOSURE OF INFORMATION TO THE AUDITOR:
Each of the persons who is a director at the date of approval of this report confirms that:

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

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

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.

William Richard Anderson
Chief Executive Officer
30 September 2016

Philip Edward Charles Wolfe
Chief Financial Officer
30 September 2016

REGISTERED OFFICE:
33 Cavendish Square,
London
England
W1G 0PW
STATEMENT OF DIRECTORS’ RESPONSIBILITIES
For the year ended 31 December 2015

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

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

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

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

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

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company’s website (www.somaoilandgas.com).

Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.
SOMA OIL & GAS HOLDINGS LIMITED
INDEPENDENT AUDITOR’S REPORT TO THE MEMBERS OF SOMA OIL & GAS HOLDINGS LIMITED
For the year ended 31 December 2015

We have audited the financial statements of Soma Oil & Gas Holdings Limited for the year ended 31 December 2015 which comprise the Consolidated Statement of Comprehensive Income, Consolidated and parent company Statement of Financial Position, Consolidated and parent company Statement of Changes in Equity and Consolidated and parent company Statement of Cash Flow and the related notes 1 to 23. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union and, as regards the parent company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

This report is made solely to the Company’s members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company’s members those matters we are required to state 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 2015 and of the Group’s loss for the year then ended;
• the Group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
• the parent company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006; and
• the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

Emphasis of matter: going concern 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 and the Group’s ability to continue as a going concern. The Group is reliant on receiving financing from existing shareholders in the next 3 months in order to continue to meet its obligations as they fall due. Furthermore, as disclosed in note 3, in 2015 the Serious Fraud Office (“SFO”) opened a criminal investigation into the Group in relation to allegations of corruption in Somalia. The outcome of the SFO investigation and any potential legal case that may follow is inherently uncertain but while the SFO investigation is ongoing, this may negatively impact the ability of the Group to raise further finance and also delay the granting of Production Sharing Agreements (“PSAs”) to Soma, resulting in delays to the planned timetable for future exploration activity as well as significant additional legal and other expenses being incurred in the next 12 months.
In addition, should the Group be found guilty of the corruption allegations it 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 Group may be subject to unlimited fines under the UK Bribery Act 2010.

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

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 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
30 September 2016
## CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2015

<table>
<thead>
<tr>
<th>Note</th>
<th>Administrative expenses</th>
<th>For the year ended 31 December 2015 US$’000</th>
<th>For the year ended 31 December 2014 US$’000</th>
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<td></td>
<td></td>
<td>(4,143)</td>
<td>(8,831)</td>
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<tr>
<td></td>
<td>Loss before tax</td>
<td>(4,143)</td>
<td>(8,831)</td>
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<tr>
<td></td>
<td>Taxation</td>
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<td></td>
<td>Loss for the year</td>
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<td>(8,831)</td>
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<td></td>
<td>Items that may be classified subsequently to profit or loss:</td>
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<td></td>
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<td>Currency translation differences</td>
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<td>(53)</td>
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<tr>
<td></td>
<td>Total comprehensive loss for the year</td>
<td>(4,131)</td>
<td>(8,884)</td>
</tr>
</tbody>
</table>

All of the above results are derived from continuing operations.

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

The total comprehensive income of the Company in the year was US$1,079,000

The notes on pages 22 to 43 are an integral part of these financial statements.
## SOMA OIL & GAS HOLDINGS LIMITED
### STATEMENTS OF FINANCIAL POSITION
As at 31 December 2015

<table>
<thead>
<tr>
<th>Notes</th>
<th>Group at 31 December</th>
<th>Company at 31 December</th>
<th>Group at 31 December</th>
<th>Company at 31 December</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>US$'000</td>
<td>US$'000</td>
<td>US$'000</td>
<td>US$'000</td>
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<tr>
<td>Assets:</td>
<td></td>
<td></td>
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</tr>
<tr>
<td>Non-current assets</td>
<td></td>
<td></td>
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</tr>
<tr>
<td>Exploration and evaluation assets</td>
<td>8</td>
<td>42,232</td>
<td>-</td>
<td>40,033</td>
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<tr>
<td>Property, plant and equipment</td>
<td>9</td>
<td>143</td>
<td>-</td>
<td>214</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>42,375</td>
</tr>
<tr>
<td>Current assets</td>
<td></td>
<td></td>
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<tr>
<td>Prepayments and other receivables</td>
<td>10</td>
<td>295</td>
<td>53,209</td>
<td>212</td>
</tr>
<tr>
<td>Cash in bank and on hand</td>
<td>11</td>
<td>882</td>
<td>-</td>
<td>3,781</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>1,177</td>
</tr>
<tr>
<td>Liabilities:</td>
<td></td>
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<tr>
<td>Current liabilities</td>
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<td></td>
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<tr>
<td>Trade and other payables</td>
<td>12</td>
<td>(2,114)</td>
<td>(73)</td>
<td>(506)</td>
</tr>
<tr>
<td>Current tax liabilities</td>
<td></td>
<td>(8)</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>(2,122)</td>
</tr>
<tr>
<td>Net current assets</td>
<td></td>
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</tr>
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<td>Net assets</td>
<td></td>
<td></td>
<td></td>
<td>41,430</td>
</tr>
<tr>
<td>Equity:</td>
<td></td>
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<tr>
<td>Share capital</td>
<td>16</td>
<td>51,800</td>
<td>51,800</td>
<td>51,800</td>
</tr>
<tr>
<td>Share premium</td>
<td>16</td>
<td>3,883</td>
<td>3,883</td>
<td>5,056</td>
</tr>
<tr>
<td>Share based payment reserve</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Convertible loan reserve</td>
<td>14</td>
<td>826</td>
<td>826</td>
<td>-</td>
</tr>
<tr>
<td>Warrant reserve</td>
<td>14</td>
<td>2,287</td>
<td>2,287</td>
<td>-</td>
</tr>
<tr>
<td>Currency translation reserve</td>
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<td>-</td>
<td>(65)</td>
<td>-</td>
</tr>
<tr>
<td>Retained losses:</td>
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<td></td>
<td></td>
<td>(17,301)</td>
</tr>
<tr>
<td>Total equity</td>
<td></td>
<td></td>
<td></td>
<td>41,430</td>
</tr>
</tbody>
</table>

The notes on pages 22 to 43 form an integral part of these financial statements.

The financial statements of Soma Oil & Gas Holdings Limited, company registration number 08506858 were approved by the Board of Directors and authorised for issue on 30 September 2016. They were signed on its behalf by:

Philip Edward Charles Wolfe
Chief Financial Officer
## SOMA OIL & GAS HOLDINGS LIMITED
### STATEMENTS OF CHANGES IN EQUITY
For the year ended 31 December 2015

<table>
<thead>
<tr>
<th>Group</th>
<th>Share capital</th>
<th>Share premium</th>
<th>Share based payment reserve</th>
<th>Currency translation reserve</th>
<th>Convertible Loan Reserve</th>
<th>Warrant Reserve</th>
<th>Retained losses</th>
<th>Total equity</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>US$’000</td>
<td>US$’000</td>
<td>US$’000</td>
<td>US$’000</td>
<td>US$’000</td>
<td>US$’000</td>
<td>US$’000</td>
<td>US$’000</td>
</tr>
<tr>
<td>Balance at 1 January 2014</td>
<td>-</td>
<td>36,500</td>
<td>442</td>
<td>(32)</td>
<td>-</td>
<td>-</td>
<td>(4,206)</td>
<td>32,704</td>
</tr>
<tr>
<td>Comprehensive expense</td>
<td>Loss for the year</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>(8,831)</td>
<td>(8,831)</td>
</tr>
<tr>
<td>Other comprehensive loss</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>(53)</td>
<td>-</td>
<td>-</td>
<td>(53)</td>
<td></td>
</tr>
<tr>
<td>Total comprehensive loss</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>(53)</td>
<td>-</td>
<td>-</td>
<td>(8,831)</td>
<td>(8,884)</td>
</tr>
<tr>
<td>Transactions with Shareholders</td>
<td>Issue of share capital: fundraising and warrants exercised</td>
<td>-</td>
<td>15,300</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>15,300</td>
</tr>
<tr>
<td>Share based payment</td>
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<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>4,614</td>
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<tr>
<td>Total transactions with shareholders</td>
<td>-</td>
<td>15,300</td>
<td>4,614</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>19,914</td>
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<td>-</td>
<td>(13,037)</td>
<td>43,734</td>
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<td>Loss for the year</td>
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<td>-</td>
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<td>-</td>
<td>(4,151)</td>
<td>(4,151)</td>
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<td>-</td>
<td>-</td>
<td>20</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>20</td>
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<tr>
<td>Total comprehensive loss</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>20</td>
<td>-</td>
<td>-</td>
<td>(4,151)</td>
<td>(4,131)</td>
</tr>
<tr>
<td>Transactions with Shareholders</td>
<td>Share based payment</td>
<td>-</td>
<td>-</td>
<td>(1,173)</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>(1,173)</td>
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<tr>
<td>Issue of convertible loan notes</td>
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<td>-</td>
<td>-</td>
<td>826</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>826</td>
</tr>
<tr>
<td>Issue of warrants</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>2,287</td>
<td>-</td>
<td>-</td>
<td>2,287</td>
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<td>Interest on convertible loan notes</td>
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<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>(113)</td>
<td>(113)</td>
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<tr>
<td>Total transactions with shareholders</td>
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<td>-</td>
<td>(1,173)</td>
<td>826</td>
<td>2,287</td>
<td>-</td>
<td>(113)</td>
<td>1,827</td>
</tr>
<tr>
<td>Balance as at 31 December 2015</td>
<td>-</td>
<td>51,800</td>
<td>3,883</td>
<td>(85)</td>
<td>826</td>
<td>2,287</td>
<td>(17,301)</td>
<td>41,430</td>
</tr>
</tbody>
</table>

The notes on pages 22 to 43 form an integral part of these financial statements.
**Company\)**

<table>
<thead>
<tr>
<th>Share capital</th>
<th>Share premium</th>
<th>Share based payment reserve</th>
<th>Convertible Loan Reserve</th>
<th>Warrant Reserve</th>
<th>Retained losses</th>
<th>Total equity</th>
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<tbody>
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<td>US$'000</td>
<td>US$'000</td>
<td>US$'000</td>
<td>US$'000</td>
<td>US$'000</td>
<td>US$'000</td>
<td>US$'000</td>
</tr>
<tr>
<td>Balance at 1 January 2014</td>
<td>-</td>
<td>36,500</td>
<td>442</td>
<td>-</td>
<td>(1,942)</td>
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<td>(4,684)</td>
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</tr>
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<td>Total comprehensive loss</td>
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<tr>
<td>Transactions with Shareholders</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td></td>
</tr>
<tr>
<td>Issue of share capital: fundraising and warrants exercised</td>
<td>15,300</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>15,300</td>
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<td>-</td>
<td>4,614</td>
<td>-</td>
<td>-</td>
<td>4,614</td>
</tr>
<tr>
<td>Total transactions with shareholders</td>
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<td>4,614</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>19,914</td>
</tr>
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<td>-</td>
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<tr>
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<td>1,079</td>
<td>1,079</td>
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<tr>
<td>Transactions with Shareholders</td>
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<td>-</td>
<td>(1,173)</td>
<td>(1,173)</td>
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<td></td>
</tr>
<tr>
<td>Share based payment</td>
<td>-</td>
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<td>-</td>
<td>-</td>
<td>(1,173)</td>
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<td>Issue of warrants</td>
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<td>2,287</td>
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<tr>
<td>Interest on convertible loan notes</td>
<td>-</td>
<td>(113)</td>
<td>-</td>
<td>(113)</td>
<td>-</td>
<td>(113)</td>
</tr>
<tr>
<td>Total transactions with shareholders</td>
<td>-</td>
<td>(1,173)</td>
<td>826</td>
<td>2,287</td>
<td>(113)</td>
<td>1,827</td>
</tr>
<tr>
<td>Balance as at 31 December 2015</td>
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<td>3,883</td>
<td>826</td>
<td>2,287</td>
<td>(5,660)</td>
<td>53,136</td>
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</table>

The notes on pages 22 to 43 form an integral part of these financial statements.
SOMA OIL & GAS HOLDINGS LIMITED
CASH FLOW STATEMENTS
For the year ended 31 December 2015

<table>
<thead>
<tr>
<th>Note</th>
<th>Group For the year ended 31 December 2015</th>
<th>Company For the year ended 31 December 2015</th>
<th>Group For the year to 31 December 2014</th>
<th>Company For the year to 31 December 2014</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>US$'000</td>
<td>US$'000</td>
<td>US$'000</td>
<td>US$'000</td>
</tr>
<tr>
<td>19</td>
<td>(3,747)</td>
<td>(3,000)</td>
<td>(6,671)</td>
<td>(50,300)</td>
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<td></td>
<td><strong>Net cash used in operating activities</strong></td>
<td><strong>Cash flow from investing activities</strong></td>
<td><strong>Additions of exploration and evaluation assets</strong></td>
<td><strong>(2,199)</strong></td>
</tr>
<tr>
<td>8</td>
<td>(2,199)</td>
<td>-</td>
<td>(38,974)</td>
<td>-</td>
</tr>
<tr>
<td>9</td>
<td>(33)</td>
<td>-</td>
<td>(213)</td>
<td>-</td>
</tr>
<tr>
<td></td>
<td><strong>Increase/(decrease) in trade and other payables relating to exploration and evaluation assets</strong></td>
<td><strong>80</strong></td>
<td><strong>(661)</strong></td>
<td><strong>-</strong></td>
</tr>
<tr>
<td>14</td>
<td>3,000</td>
<td>3,000</td>
<td><strong>-</strong></td>
<td><strong>-</strong></td>
</tr>
<tr>
<td>16</td>
<td><strong>-</strong></td>
<td><strong>15,300</strong></td>
<td><strong>15,300</strong></td>
<td><strong>15,300</strong></td>
</tr>
<tr>
<td></td>
<td><strong>Net cash used in investing activities</strong></td>
<td><strong>Cash flow from financing activities</strong></td>
<td><strong>Proceeds on issue of convertible loan notes</strong></td>
<td><strong>-</strong></td>
</tr>
<tr>
<td></td>
<td><strong>(2,152)</strong></td>
<td><strong>(2,152)</strong></td>
<td><strong>-</strong></td>
<td><strong>-</strong></td>
</tr>
<tr>
<td></td>
<td><strong>Net cash generated from financing activities</strong></td>
<td><strong>Net decrease in cash and cash equivalents</strong></td>
<td><strong>(2,899)</strong></td>
<td><strong>(31,219)</strong></td>
</tr>
<tr>
<td></td>
<td><strong>3,000</strong></td>
<td><strong>15,300</strong></td>
<td><strong>15,300</strong></td>
<td><strong>15,300</strong></td>
</tr>
<tr>
<td>11</td>
<td>3,781</td>
<td>35,000</td>
<td><strong>35,000</strong></td>
<td><strong>35,000</strong></td>
</tr>
<tr>
<td></td>
<td><strong>Cash and cash equivalents at beginning of the year</strong></td>
<td><strong>Cash and cash equivalents at end of year</strong></td>
<td><strong>3,781</strong></td>
<td><strong>3,781</strong></td>
</tr>
<tr>
<td>11</td>
<td>882</td>
<td><strong>3,781</strong></td>
<td><strong>-</strong></td>
<td><strong>-</strong></td>
</tr>
</tbody>
</table>

The notes on pages 22 to 43 form an integral part of these financial statements
SOMA OIL & GAS HOLDINGS LIMITED
NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2015

1. Basis of preparation for Group and Company

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRSs") 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 Limited ("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 receiving external financing.

In December 2015, as further discussed in note 23, the Group signed a non-binding funding agreement for US$15,000,000 from its existing shareholders underwritten by Winter Sky Investments Limited, through the issue of a Convertible Loan Note. At that time this US$15,000,000 was considered sufficient to fund the Company through to the signing of Production Sharing Agreements in late 2016, by which time additional finance was expected to be sourced from new investors or farm in partners. At the date of approval of these financial statements US$4,800,000 had been drawn down under this convertible loan note. Continuance of this funding is at the discretion of the existing shareholders.

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

While the SFO Investigation is ongoing it is likely to have a negative impact on Soma's ability to raise additional finance from new investors whether via farmouts at the asset level or equity or debt issuance by Soma Oil & Gas Holdings Limited. The SFO Investigation may also delay the granting of PSAs by the Federal Government, and therefore the planned timetable for future exploration activity including the acquisition of future 3D seismic surveys and the drilling of exploration wells. As such, the SFO Investigation may cause Soma very serious economic and financial damage. Furthermore, the additional legal and other related costs incurred by Soma as a result of the SFO Investigation, if the matter proceeds, are likely to be in the millions of dollars. A portion of this is expected to be covered by Soma's Directors' and Officers' Liability Insurance. Further detail on the SFO investigation is contained in the Strategic Report on page 3 and note 3.4.1.

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

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

The requirement for ongoing funding together with the uncertainties described above gives rise to a material uncertainty which may cast significant doubt over the Group's ability to continue as a going concern and therefore it may be unable to realise the full value of its assets and discharge its liabilities in the normal course of business. However, having considered the above uncertainties and all the available information, the Directors have a reasonable expectation that although the Group does not have adequate resources to continue in operational existence for the foreseeable future, existing shareholders will continue to support the business for the next 12 months at a minimum and as such, the Directors consider it appropriate to prepare the financial statements on a going concern basis. Further detail is contained in the Business Review and future developments on page 3.
SOMA OIL & GAS HOLDINGS LIMITED  
NOTES TO THE FINANCIAL STATEMENTS  
For the year ended 31 December 2015

1. Basis of preparation for Group and Company (continued)

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

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

<table>
<thead>
<tr>
<th>Standard</th>
<th>Key requirements</th>
<th>Effective date as adopted by the EU</th>
</tr>
</thead>
<tbody>
<tr>
<td>Amendment to IAS 19, ‘Employee benefits’</td>
<td>The amendments address updates on employee contributions.</td>
<td>1 February 2015</td>
</tr>
<tr>
<td>IFRIC Interpretation 21 Levies</td>
<td>The interpretation clarifies recognition of a liability for a levy.</td>
<td>17 June 2014</td>
</tr>
</tbody>
</table>

Standards issued but not yet effective

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

<table>
<thead>
<tr>
<th>Standard</th>
<th>Key requirements</th>
<th>Effective date as adopted by the EU</th>
</tr>
</thead>
<tbody>
<tr>
<td>Amendment to IFRS 11, ‘Accounting for Acquisitions of Interests in Joint Operations’</td>
<td>Amends IFRS 11 Joint Arrangements to require an acquirer of an interest in a joint operation in which the activity constitutes a business (as defined in IFRS 3 Business Combinations) to:</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>• apply all of the business combinations accounting principles in IFRS 3 and other IFRSs, except for those principles that conflict with the guidance in IFRS 11</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• disclose the information required by IFRS 3 and other IFRSs for business combinations.</td>
</tr>
<tr>
<td></td>
<td>The amendments apply both to the initial acquisition of an interest in joint operation, and the acquisition of an additional interest in a joint operation (in the latter case, previously held interests are not remeasured).</td>
<td>1 January 2016</td>
</tr>
<tr>
<td>Amendments to IAS 16 and IAS 38</td>
<td>Clarifies of acceptable methods of depreciation and amortisation.</td>
<td>1 January 2016</td>
</tr>
<tr>
<td>Amendments to IAS 27</td>
<td>Amends IAS 27 Separate Financial Statements to permit investments in subsidiaries, joint ventures and associates to be optionally accounted for using the equity method in separate financial statements.</td>
<td>1 January 2016</td>
</tr>
<tr>
<td>Amendments to IAS 1</td>
<td>Disclosure amendments</td>
<td>1 January 2016</td>
</tr>
</tbody>
</table>

The Directors anticipate that the adoption of these Standards and Interpretations in future years will have no material impact on the financial statements of the Group when the relevant standards and interpretations come into effect.
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 intragroup transactions, balances, income and expenses are eliminated on consolidation. The Group’s presentation currency is the United States dollar (USD). The functional currency of the majority of the Group’s subsidiaries is USD except for Soma Management Limited for which GBP was selected as functional currency.

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

<table>
<thead>
<tr>
<th>Name</th>
<th>Countries of operation</th>
<th>Principal activity</th>
<th>Class of shares</th>
<th>%</th>
<th>Country of registration</th>
</tr>
</thead>
<tbody>
<tr>
<td>Soma Management Limited</td>
<td>UK</td>
<td>Management company</td>
<td>Ordinary</td>
<td>100%</td>
<td>UK</td>
</tr>
<tr>
<td>Soma Oil &amp; Gas Exploration Limited</td>
<td>The Federal Republic of Somalia and Kenya</td>
<td>Oil &amp; gas exploration</td>
<td>Ordinary</td>
<td>100%</td>
<td>UK</td>
</tr>
</tbody>
</table>

2.2 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.

2.3 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.

2.4 Foreign currencies

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

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

2.5 Employee services settled in equity instruments

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

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

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

2.6 Oil and gas properties

Exploration and evaluation assets

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

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

Development and production assets

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

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

2.7 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.

2.8 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.

2.9 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:
SOMA OIL & GAS HOLDINGS LIMITED
NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2015

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

<table>
<thead>
<tr>
<th>Asset</th>
<th>Useful Life</th>
</tr>
</thead>
<tbody>
<tr>
<td>Computer equipment</td>
<td>3 years</td>
</tr>
<tr>
<td>Fixtures and fittings</td>
<td>3 to 5 years</td>
</tr>
<tr>
<td>Motor vehicles</td>
<td>3 years</td>
</tr>
</tbody>
</table>

Oil and gas properties – see note 2.6.

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.

2.10 Impairment of property, plant and equipment

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

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

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

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

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

2.11 Financial instruments

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

2.11.1 Trade receivables

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

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

2.11.2 Cash and cash equivalents

Cash and cash equivalents include cash at bank and in hand and highly liquid interest-bearing securities with maturities of three months or less.
2. Group and Company summary of significant accounting policies (continued)

2.11.3 Trade payables

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

2.11.4 Warrant reserve

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

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

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 99 per cent of the Group's cash and cash equivalents are held by 'BBB' or better rated banks. All trade and other receivables are considered operational in nature and have payment terms of 30 days.

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 seeks to secure the necessary estimated funding before committing to expenditures. See also note 1 "Going concern".

3.1.4 Market risk - interest rate risk

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

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. The Group has no externally imposed capital requirements.

In order to maintain or adjust the capital structure, the Group may return capital to shareholders, issue new shares or sell assets to reduce debt. At present, there is no debt.
3. Group financial risk management, critical judgements and key sources of estimation uncertainty (continued)

3.3 Fair values of financial assets and liabilities

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

3.4 Critical judgements and key sources of estimation uncertainty

3.4.1 SFO investigation

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

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

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

3.4.2 Exploration and Evaluation assets

The Group balance sheet includes significant E&E assets (see note 8).

Management is required to exercise judgement in selecting an appropriate accounting policy for the capitalisation, or otherwise, of costs incurred in connection with the acquisition of E&E rights and costs of E&E activities to exploit those rights. The Group's accounting policy is set out in note 2. Judgement is required in assessing whether E&E rights are sufficient to support the commencement of cost capitalisation. The SOA entitles the Group to apply for and be granted PSAs over an area of up to 60,000 sq. km and therefore the Group consider its E&E rights under the SOA are sufficient to support asset recognition.

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

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

3.4.3 Share based remuneration

The Group uses share based remuneration arrangements to compensate its employees, details of which are provided in note 18. The Group's accounting policy for share based remuneration is described in note 2. Accounting for the Group's share based payment arrangements involves estimates of the fair values of share based awards at the time they are conditionally granted to employees. Estimates of the period over which such awards may vest, and judgements as to whether performance milestones are likely to be met are also required, and these estimates and judgements are required to be reassessed each reporting period in order to determine the appropriate income statement charge in each period. Details of the Group's share based remuneration expense and the judgements and estimates made in relation thereto are provided in note 18.
4. Group Auditor's remuneration

The operating loss for the year is stated after charging:

<table>
<thead>
<tr>
<th></th>
<th>Year ended 31 December 2015</th>
<th>Year ended 31 December 2014</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>US$'000</td>
<td>US$'000</td>
</tr>
<tr>
<td>Audit fees:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Fees payable to the Company's Auditor for the Group and Company annual report</td>
<td>70</td>
<td>70</td>
</tr>
<tr>
<td>Audit of the Company's subsidiaries pursuant to legislation</td>
<td>40</td>
<td>19</td>
</tr>
<tr>
<td></td>
<td>110</td>
<td>89</td>
</tr>
<tr>
<td>Non-audit fees:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Tax services</td>
<td>33</td>
<td>55</td>
</tr>
<tr>
<td></td>
<td>33</td>
<td>55</td>
</tr>
</tbody>
</table>

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 administrative expenses

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

<table>
<thead>
<tr>
<th></th>
<th>Year ended 31 December 2015</th>
<th>Restated Year ended 31 December</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>US$'000</td>
<td>US$'000</td>
</tr>
<tr>
<td>Share based payment (note 18)</td>
<td>(1,173)</td>
<td>4,614</td>
</tr>
<tr>
<td>Directors' remuneration (note 6)</td>
<td>1,957</td>
<td>2,110</td>
</tr>
<tr>
<td>Travel and subsistence</td>
<td>721</td>
<td>422</td>
</tr>
<tr>
<td>Rent and rates</td>
<td>419</td>
<td>410</td>
</tr>
<tr>
<td>Staff wages</td>
<td>448</td>
<td>351</td>
</tr>
<tr>
<td>Legal and professional fees</td>
<td>1,013</td>
<td>252</td>
</tr>
<tr>
<td>Accountancy</td>
<td>120</td>
<td>157</td>
</tr>
<tr>
<td>Auditor's remuneration (note 4)</td>
<td>143</td>
<td>144</td>
</tr>
<tr>
<td>Marketing and public relations</td>
<td>127</td>
<td>106</td>
</tr>
<tr>
<td>Consultancy fees</td>
<td>114</td>
<td>35</td>
</tr>
<tr>
<td>Depreciation</td>
<td>.66</td>
<td>47</td>
</tr>
<tr>
<td>Loss on disposal of property, plant and equipment</td>
<td>.18</td>
<td>-</td>
</tr>
<tr>
<td>Other administrative expenses</td>
<td>150</td>
<td>183</td>
</tr>
<tr>
<td></td>
<td>4,143</td>
<td>8,831</td>
</tr>
</tbody>
</table>

The prior year has been restated to reclassify US$41,000 of consultancy fees to Directors' remuneration. The restatement relates to fees charged by Matador Asset Management Ltd, an entity which The Earl of ClanWilliam uses to charge the Company for his Director fees, which also results in restating the total Directors' remuneration to US$7,933,000 (note 6).
6. Group staff numbers and costs:

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

<table>
<thead>
<tr>
<th>Staff</th>
<th>Year ended 31 December 2015</th>
<th>Year ended 31 December 2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>No.</td>
<td>No.</td>
<td></td>
</tr>
<tr>
<td>Soma Management Limited</td>
<td>9</td>
<td>9</td>
</tr>
<tr>
<td>Soma Oil &amp; Gas Exploration Limited</td>
<td>2</td>
<td>2</td>
</tr>
<tr>
<td></td>
<td>11</td>
<td>11</td>
</tr>
</tbody>
</table>

Staff costs comprised:

<table>
<thead>
<tr>
<th></th>
<th>Year ended 31 December 2015</th>
<th>Year ended 31 December 2014</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>US$'000</td>
<td>US$'000</td>
</tr>
<tr>
<td>Wages, salaries and benefits</td>
<td>393</td>
<td>312</td>
</tr>
<tr>
<td>Social security costs</td>
<td>.55</td>
<td>39</td>
</tr>
<tr>
<td>Share based payments</td>
<td>40</td>
<td>-</td>
</tr>
<tr>
<td></td>
<td>488</td>
<td>351</td>
</tr>
</tbody>
</table>

The Directors' remuneration comprised:

<table>
<thead>
<tr>
<th></th>
<th>Year ended 31 December 2015</th>
<th>Restated Year ended 31 December 2014</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>US$'000</td>
<td>US$'000</td>
</tr>
<tr>
<td>Directors' wages, salaries and benefits</td>
<td>2,147</td>
<td>2,427</td>
</tr>
<tr>
<td>Directors' social security costs</td>
<td>192</td>
<td>242</td>
</tr>
<tr>
<td>Directors' defined contribution pension</td>
<td>35</td>
<td>20</td>
</tr>
<tr>
<td>Share based payments</td>
<td>(1,213)</td>
<td>4,614</td>
</tr>
<tr>
<td></td>
<td>1,161</td>
<td>7,303</td>
</tr>
</tbody>
</table>

The highest paid Director in the year was paid a salary of US$417,000 (2014: US$579,000). No share options have been exercised during the year. A total of US$417,000 (2014: US$579,000) in relation to Directors' remuneration has been capitalised as part of Exploration and Evaluation assets (Note 8).

Please see note 5 for details of the prior year restatement.
7. Group taxation

<table>
<thead>
<tr>
<th></th>
<th>Year ended 31 December 2015 US$'000</th>
<th>Year ended 31 December 2014 US$'000</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Current tax:</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Current tax</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Adjustments in respect of prior years</td>
<td>8</td>
<td>-</td>
</tr>
<tr>
<td>Total current tax expense</td>
<td>8</td>
<td>-</td>
</tr>
<tr>
<td><strong>Deferred tax</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total income tax expense in the income statement</td>
<td>8</td>
<td>-</td>
</tr>
</tbody>
</table>

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

<table>
<thead>
<tr>
<th></th>
<th>Year ended 31 December 2015 US$'000</th>
<th>Year ended 31 December 2014 US$'000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Loss before tax</td>
<td>4,143</td>
<td>8,831</td>
</tr>
<tr>
<td>Income tax using the UK domestic corporation tax rate of 20.25% (2014: 21.5%)</td>
<td>839</td>
<td>1,899</td>
</tr>
<tr>
<td>Kenyan branch income tax</td>
<td>8</td>
<td>-</td>
</tr>
<tr>
<td>Unutilised tax losses</td>
<td>(839)</td>
<td>(1,899)</td>
</tr>
<tr>
<td>Current tax charge</td>
<td>8</td>
<td>-</td>
</tr>
</tbody>
</table>

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. At 31 December 2015, tax losses were US$11,578,000 (2014: US$6,389,000).

8. Group intangible assets

<table>
<thead>
<tr>
<th></th>
<th>Exploration and evaluation assets US$'000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cost:</td>
<td></td>
</tr>
<tr>
<td>At 1 January 2014</td>
<td>1,059</td>
</tr>
<tr>
<td>Additions in the year</td>
<td>38,974</td>
</tr>
<tr>
<td>At 31 December 2014</td>
<td>40,033</td>
</tr>
<tr>
<td>Additions in the year</td>
<td>2,199</td>
</tr>
<tr>
<td>At 31 December 2015</td>
<td>42,232</td>
</tr>
</tbody>
</table>

Amortisation and impairment:
At 1 January 2014 and 31 December 2014 -
Amortisation charge for the year -
At 31 December 2015 -
8. Group intangible assets (continued)

<table>
<thead>
<tr>
<th>Exploration and evaluation assets</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
</tr>
<tr>
<td>Net book value:</td>
</tr>
<tr>
<td>At 31 December 2014</td>
</tr>
<tr>
<td>At 31 December 2015</td>
</tr>
</tbody>
</table>

Significant judgements and uncertainties relating to the Group’s exploration and evaluation assets, including the potential impact of the ongoing SFO investigation, are explained in note 3.4.

9. Group property, plant and equipment:

<table>
<thead>
<tr>
<th>Motor vehicles US$'000</th>
<th>Fixtures and fittings US$'000</th>
<th>Computer equipment US$'000</th>
<th>Total US$'000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cost:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>At 1 January 2014</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Additions in the year</td>
<td>126</td>
<td>71</td>
<td>213</td>
</tr>
<tr>
<td>At 31 December 2014</td>
<td>126</td>
<td>109</td>
<td>261</td>
</tr>
<tr>
<td>Additions in the year</td>
<td></td>
<td>31</td>
<td>33</td>
</tr>
<tr>
<td>Disposals in the year</td>
<td></td>
<td>(42)</td>
<td>(42)</td>
</tr>
<tr>
<td>At 31 December 2015</td>
<td>126</td>
<td>98</td>
<td>252</td>
</tr>
</tbody>
</table>

Depreciation:

<table>
<thead>
<tr>
<th>Motor vehicles US$'000</th>
<th>Fixtures and fittings US$'000</th>
<th>Computer equipment US$'000</th>
<th>Total US$'000</th>
</tr>
</thead>
<tbody>
<tr>
<td>At 1 January 2014</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Charge for the year</td>
<td>18</td>
<td>23</td>
<td>47</td>
</tr>
<tr>
<td>At 31 December 2014</td>
<td>18</td>
<td>23</td>
<td>47</td>
</tr>
<tr>
<td>Charge for the year</td>
<td>42</td>
<td>35</td>
<td>88</td>
</tr>
<tr>
<td>Disposals in the year</td>
<td></td>
<td>(24)</td>
<td>(24)</td>
</tr>
<tr>
<td>At 31 December 2015</td>
<td>60</td>
<td>34</td>
<td>109</td>
</tr>
</tbody>
</table>

Net Book Value:

<table>
<thead>
<tr>
<th>Motor vehicles US$'000</th>
<th>Fixtures and fittings US$'000</th>
<th>Computer equipment US$'000</th>
<th>Total US$'000</th>
</tr>
</thead>
<tbody>
<tr>
<td>At 31 December 2014</td>
<td>108</td>
<td>86</td>
<td>214</td>
</tr>
<tr>
<td>At 31 December 2015</td>
<td>66</td>
<td>64</td>
<td>143</td>
</tr>
</tbody>
</table>
10. Prepayments and other receivables

<table>
<thead>
<tr>
<th></th>
<th>At 31 December 2015</th>
<th>At 31 December 2014</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>US$'000</td>
<td>US$'000</td>
</tr>
<tr>
<td>Prepayments</td>
<td>108</td>
<td>133</td>
</tr>
<tr>
<td>VAT recoverable</td>
<td>98</td>
<td>60</td>
</tr>
<tr>
<td>Other receivables</td>
<td>89</td>
<td>19</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>295</strong></td>
<td><strong>212</strong></td>
</tr>
</tbody>
</table>

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

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

11. Cash and cash equivalents

<table>
<thead>
<tr>
<th></th>
<th>At 31 December 2015</th>
<th>At 31 December 2014</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>US$'000</td>
<td>US$'000</td>
</tr>
<tr>
<td>Cash in bank and on hand</td>
<td>882</td>
<td>3,781</td>
</tr>
</tbody>
</table>

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

Group

<table>
<thead>
<tr>
<th></th>
<th>At 31 December 2015 US$'000</th>
<th>At 31 December 2014 US$'000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Trade payables</td>
<td>1,240</td>
<td>379</td>
</tr>
<tr>
<td>Accruals</td>
<td>675</td>
<td>127</td>
</tr>
<tr>
<td>Social security and other taxes</td>
<td>128</td>
<td>-</td>
</tr>
<tr>
<td>Other payables</td>
<td>71</td>
<td>-</td>
</tr>
<tr>
<td>Current tax liabilities</td>
<td>8</td>
<td>-</td>
</tr>
<tr>
<td></td>
<td><strong>2,122</strong></td>
<td><strong>506</strong></td>
</tr>
</tbody>
</table>

Trade payables principally comprise amounts outstanding for trade purchases.

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

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

Company

<table>
<thead>
<tr>
<th></th>
<th>At 31 December 2015 US$'000</th>
<th>At 31 December 2014 US$'000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Accruals</td>
<td>73</td>
<td>33</td>
</tr>
</tbody>
</table>

13. Contingent liabilities and assets

The Group's exposure to potential fines and penalties and the risk of loss of the Group's rights under the SOA due to the SFO investigation are explained in notes 1 and 3.4.

14. Convertible loan notes and warrants

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

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

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

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

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

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

<table>
<thead>
<tr>
<th>Convertible loan reserve US$'000</th>
<th>Warrant reserve US$'000</th>
<th>Total US$'000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Issue of convertible loan notes</td>
<td>713</td>
<td>713</td>
</tr>
<tr>
<td>Issue of warrants</td>
<td>2,287</td>
<td>2,287</td>
</tr>
<tr>
<td>Interest payable</td>
<td>113</td>
<td>113</td>
</tr>
<tr>
<td></td>
<td></td>
<td>826</td>
</tr>
</tbody>
</table>

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

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

| 31 December 2015 |
|------------------|------------------|
| Outstanding at the beginning of the year |
| Granted          | 33,250,000       |
| Lapsed           |                  |
| Exercised        |                  |
| Outstanding at the end of the year |
| 33,250,000       |
| Exercisable at the end of the year |

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

<table>
<thead>
<tr>
<th>Year ended 31 December 2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>Pricing model used</td>
</tr>
<tr>
<td>Weighted average share price at grant date (US$)</td>
</tr>
<tr>
<td>Weighted average exercise price (US$)</td>
</tr>
<tr>
<td>Weighted average contractual life (years)</td>
</tr>
<tr>
<td>Weighted average share price volatility (%)</td>
</tr>
<tr>
<td>Dividend yield</td>
</tr>
<tr>
<td>Weighted average risk-free interest rate (%)</td>
</tr>
</tbody>
</table>

15. 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.
15. Group financial instruments (continued)

**Principal financial instruments**

The principal financial instruments used by the Group, from which financial instrument risk arises are as follows:
- Cash and cash equivalents
- Other receivables
- Trade payables
- Accruals

**Financial assets**

<table>
<thead>
<tr>
<th></th>
<th>At 31 December 2015</th>
<th></th>
<th>At 31 December 2014</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Current US$'000</td>
<td>Non-current US$'000</td>
<td>Current US$'000</td>
<td>Non-current US$'000</td>
</tr>
<tr>
<td>Cash and cash equivalents</td>
<td>882</td>
<td>-</td>
<td>3,781</td>
<td>-</td>
</tr>
<tr>
<td>Other receivables</td>
<td>89</td>
<td>-</td>
<td>19</td>
<td>-</td>
</tr>
<tr>
<td></td>
<td><strong>971</strong></td>
<td>-</td>
<td><strong>3,800</strong></td>
<td>-</td>
</tr>
</tbody>
</table>

**Financial liabilities**

<table>
<thead>
<tr>
<th></th>
<th>31 December 2015</th>
<th></th>
<th>31 December 2014</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Current US$'000</td>
<td>Non-current US$'000</td>
<td>Current US$'000</td>
<td>Non-current US$'000</td>
</tr>
<tr>
<td>Trade payables</td>
<td>1,240</td>
<td>-</td>
<td>379</td>
<td>-</td>
</tr>
<tr>
<td>Accruals</td>
<td>675</td>
<td>-</td>
<td>127</td>
<td>-</td>
</tr>
<tr>
<td>Other payables</td>
<td>68</td>
<td>-</td>
<td></td>
<td>-</td>
</tr>
<tr>
<td></td>
<td><strong>1,983</strong></td>
<td>-</td>
<td><strong>506</strong></td>
<td>-</td>
</tr>
</tbody>
</table>
15. Group financial instruments (continued)

Foreign currency risk

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

1) Transactional exposure relating to operating costs and capital expenditure incurred in currencies other than the functional currency of Group companies, being US Dollars and GBP Sterling;

2) Translation exposures relating to monetary assets and liabilities, including cash and short-term investment balances, held in currencies other than the functional currency of operations and net investments that are not denominated in US Dollars.

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

<table>
<thead>
<tr>
<th></th>
<th>At 31 December 2015</th>
<th>At 31 December 2014</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>US$'000</td>
<td>US$'000</td>
</tr>
<tr>
<td>US Dollars</td>
<td>850</td>
<td>3,134</td>
</tr>
<tr>
<td>GBP Sterling</td>
<td>24</td>
<td>638</td>
</tr>
<tr>
<td>Kenyan Shillings</td>
<td>8</td>
<td>9</td>
</tr>
<tr>
<td></td>
<td><strong>862</strong></td>
<td><strong>3,781</strong></td>
</tr>
</tbody>
</table>

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 2015 is as follows:

<table>
<thead>
<tr>
<th></th>
<th>Assets US$'000</th>
<th>Liabilities US$'000</th>
</tr>
</thead>
<tbody>
<tr>
<td>2015</td>
<td></td>
<td></td>
</tr>
<tr>
<td>US Dollars</td>
<td>850</td>
<td>661</td>
</tr>
<tr>
<td>GBP Sterling</td>
<td>94</td>
<td>1,312</td>
</tr>
<tr>
<td>Kenya Shilling</td>
<td>27</td>
<td>59</td>
</tr>
<tr>
<td></td>
<td><strong>27</strong></td>
<td><strong>59</strong></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th>Assets US$'000</th>
<th>Liabilities US$'000</th>
</tr>
</thead>
<tbody>
<tr>
<td>2014</td>
<td></td>
<td></td>
</tr>
<tr>
<td>US Dollars</td>
<td>3,134</td>
<td>104</td>
</tr>
<tr>
<td>GBP Sterling</td>
<td>638</td>
<td>389</td>
</tr>
<tr>
<td>Kenya Shilling</td>
<td>28</td>
<td>13</td>
</tr>
</tbody>
</table>

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.
16. Group and Company issued share capital and share premium

<table>
<thead>
<tr>
<th>Number of shares No.</th>
<th>Ordinary shares par value US$</th>
<th>Ordinary shares share premium US$</th>
</tr>
</thead>
<tbody>
<tr>
<td>At 1 January 2014</td>
<td>136,500,000</td>
<td>220</td>
</tr>
<tr>
<td>Fundraising and warrants exercised (i)</td>
<td>45,000,000</td>
<td>74</td>
</tr>
<tr>
<td>As at 31 December 2014 and 2015</td>
<td>181,500,000</td>
<td>294</td>
</tr>
</tbody>
</table>

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

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

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

17. 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:

<table>
<thead>
<tr>
<th></th>
<th>31 December 2015</th>
<th>31 December 2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>Within one year</td>
<td>21</td>
<td>-</td>
</tr>
<tr>
<td>Within 2-5 years</td>
<td>85</td>
<td>-</td>
</tr>
<tr>
<td>More than 5 years</td>
<td>-</td>
<td>-</td>
</tr>
</tbody>
</table>

At the balance sheet date the Group had no unprovided capital commitments.

18. Group share options and other share based payments

<table>
<thead>
<tr>
<th></th>
<th>For the year ended 31 December 2015</th>
<th>For the year ended 31 December 2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>(Credit)/charge for the year</td>
<td>US$'000 (1,173)</td>
<td>US$'000 4,514</td>
</tr>
</tbody>
</table>

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 13,000,000 options were therefore deemed to have been granted, conditionally, 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.

A further 4,034,550 share options were granted in 2014 and vest on successful completion of milestone 3.5 (described below).

During the year 50,000 share options were issued to an employee of the group with 50% vesting immediately and 50% vesting on the first anniversary of the date of grant.
Milestone options were put in place to incentivize the Executives Directors. On 23 December 2015, Robert Allen Sheppard stood down as Chief Executive Officer and, in doing so, agreed to waive 5,198,300 share options.

<table>
<thead>
<tr>
<th>Milestone</th>
<th>Number of options</th>
<th>Assumed Exercise price ($) at date of grant</th>
<th>Non market vesting condition</th>
<th>Exercise period (years)</th>
<th>Assumed Vesting period</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>3,250,000</td>
<td>1.00</td>
<td>Acquisition of 2D seismic ¹</td>
<td>5</td>
<td>To 31 December 2014</td>
</tr>
<tr>
<td>2</td>
<td>3,250,000</td>
<td>1.00</td>
<td>Sign the first three Production Sharing Agreements (<em>PSAs</em>) and issue of the first three blocks ²</td>
<td>5</td>
<td>To 31 December 2016 ²</td>
</tr>
<tr>
<td>3</td>
<td>3,250,000</td>
<td>1.00</td>
<td>Earliest of:</td>
<td>5</td>
<td>To 30 June 2017 ³</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>a) Farmout of interest in one or more blocks</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>b) Sale of one or more blocks</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>c) Soma achieving a premium listing on the Official List of London Stock Exchange (or another stock exchange unanimously voted by Remuneration Committee) ²</td>
<td></td>
<td></td>
</tr>
<tr>
<td>3.5A</td>
<td>1,344,850</td>
<td>0.01</td>
<td>Sign the fourth PSA ²</td>
<td>5</td>
<td>To 31 December 2016 ³</td>
</tr>
<tr>
<td>3.5B</td>
<td>2,689,700</td>
<td>0.63</td>
<td>Sign the fourth PSA ²</td>
<td>5</td>
<td>To 31 December 2016 ³</td>
</tr>
<tr>
<td>4</td>
<td>3,250,000</td>
<td>1.00</td>
<td>Sale of Soma to a third party ³</td>
<td>5</td>
<td>N/A</td>
</tr>
</tbody>
</table>

¹ Achieved in June 2014
² Sufficiently progressed at 31 December 2015 to be at least considered 50% probable.
³ Insufficiently progressed at 31 December 2015 to be considered at least 50% probable.
⁴ Management has reassessed the expected vesting period which affects the charge for the period.

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

The exercise price of all the options under Milestones 2, 3, 3A, 3B and 4 will be determined by the share price of any equity raised in the 12 months preceding the granting of the options. The Company has no legal or constructive obligation to repurchase or settle the options in cash.

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

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

<table>
<thead>
<tr>
<th></th>
<th>31 December 2015</th>
<th>31 December 2014</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Weighted</td>
<td>Weighted</td>
</tr>
<tr>
<td></td>
<td>Number of</td>
<td>Number of</td>
</tr>
<tr>
<td></td>
<td>share options</td>
<td>share options</td>
</tr>
<tr>
<td></td>
<td>average exercise</td>
<td>average exercise</td>
</tr>
<tr>
<td></td>
<td>price in US$ per</td>
<td>price in US$ per</td>
</tr>
<tr>
<td></td>
<td>share</td>
<td>share</td>
</tr>
<tr>
<td>Outstanding at the</td>
<td></td>
<td></td>
</tr>
<tr>
<td>beginning of the year</td>
<td>17,034,550</td>
<td>13,000,000</td>
</tr>
<tr>
<td>Granted</td>
<td>50,000</td>
<td>4,034,550</td>
</tr>
<tr>
<td>Lapsed</td>
<td>(5,198,300)</td>
<td>-</td>
</tr>
<tr>
<td>Exercised</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Outstanding at the</td>
<td></td>
<td></td>
</tr>
<tr>
<td>end of the year</td>
<td>11,886,250</td>
<td>17,034,550</td>
</tr>
<tr>
<td>Exercisable at the</td>
<td>3,250,000</td>
<td>3,250,000</td>
</tr>
<tr>
<td>end of the year</td>
<td>0.87</td>
<td>0.86</td>
</tr>
</tbody>
</table>

The weighted average fair value per share of the share options conditionally granted in the year, calculated using the Black-Scholes Option Pricing model, was US$0.43 (2014: US$0.42).

Based on Management's assessment of the likelihood of the non-market vesting conditions and considering the likely vesting period and the estimated number of shares that will vest for each milestone, this has led to a credit of US$1,173,000 (2014: charge of US$4,614,000) for the year to 31 December 2015.
19. Cash flows utilised in operating activities

Group

<table>
<thead>
<tr>
<th>Description</th>
<th>Note</th>
<th>For the year ended 31 December 2015 US$’000</th>
<th>For the year ended 31 December 2014 US$’000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Operating loss</td>
<td></td>
<td>(4,143)</td>
<td>(8,831)</td>
</tr>
<tr>
<td>Adjustments for:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Depreciation on property, plant and equipment</td>
<td>9</td>
<td>86</td>
<td>47</td>
</tr>
<tr>
<td>Share based payment (credit)/charge</td>
<td>18</td>
<td>(1,173)</td>
<td>4,614</td>
</tr>
<tr>
<td>Currency translation differences</td>
<td>20</td>
<td></td>
<td>(53)</td>
</tr>
<tr>
<td>Loss on disposal of fixed assets</td>
<td>18</td>
<td></td>
<td></td>
</tr>
<tr>
<td>(Increase)/ decrease in prepayments made and other receivables</td>
<td></td>
<td>(83)</td>
<td>2</td>
</tr>
<tr>
<td>Increase/ (decrease) in trade and other payables</td>
<td></td>
<td>1,528</td>
<td>(2,450)</td>
</tr>
<tr>
<td>Net cash used in operating activities</td>
<td></td>
<td>(3,747)</td>
<td>(8,671)</td>
</tr>
</tbody>
</table>

Company

<table>
<thead>
<tr>
<th>Description</th>
<th>Note</th>
<th>For the year ended 31 December 2015 US$’000</th>
<th>For the year ended 31 December 2014 US$’000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Operating profit/ (loss)</td>
<td></td>
<td>1,079</td>
<td>(4,684)</td>
</tr>
<tr>
<td>Adjustments for:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Share based payment charge</td>
<td>18</td>
<td>(1,173)</td>
<td>4,614</td>
</tr>
<tr>
<td>Increase in prepayments made and other receivables</td>
<td></td>
<td>(2,946)</td>
<td>(50,263)</td>
</tr>
<tr>
<td>Increase in trade and other payables</td>
<td></td>
<td>40</td>
<td>33</td>
</tr>
<tr>
<td>Net cash used in operating activities</td>
<td></td>
<td>(3,000)</td>
<td>(50,300)</td>
</tr>
</tbody>
</table>

No dividends were paid or declared during the year.

21. Related party transactions

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

Compensation of key management personnel

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

Other transactions

During the year, the Group companies entered into the following transactions with related parties who are not members of the Group.
21. Related party transactions (continued)

<table>
<thead>
<tr>
<th></th>
<th>Outstanding balance</th>
<th>Directors fees</th>
<th>Outstanding balance</th>
<th>Directors fees</th>
</tr>
</thead>
<tbody>
<tr>
<td>As at 31 December</td>
<td>2015 US$’000</td>
<td>2015 US$’000</td>
<td>2014 US$’000</td>
<td>2014 US$’000</td>
</tr>
<tr>
<td>Matador Asset Management Ltd</td>
<td>23</td>
<td>78</td>
<td></td>
<td>41</td>
</tr>
</tbody>
</table>

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

From September – December 2015 the Group received services from a member of staff employed by Eurasia Drilling Company Limited, a company which shares a number of common shareholders with Winter Sky Investments Limited. This loan of staff was for zero consideration in 2015, and then subsequent to year end in 2016 was charged at a market rate.

22. Group ultimate controlling party

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

23. Group subsequent events

SFO Investigation & Judicial Review

On 29 July 2015, the Group became aware that the SFO had opened a criminal investigation into Soma Oil & Gas Holdings Limited, Soma Oil & Gas Exploration Limited, Soma Management Limited and others in relation to allegations of corruption in Somalia. In August 2016, the Group took the decision to go to the High Courts of Justice to seek a Judicial Review in regards to the lawfulness and reasonableness of the ongoing SFO Investigation. Further detail in relation to these matters are set out in the Strategic Report and in notes 1 and 3.4 to the financial statements.

Shareholder funding

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

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

Change in ownership

On 5 September 2016, Winter Sky purchased 23,999,999 shares of Soma Oil & Gas Holdings Limited from Afro East Energy Limited. As a result, Winter Sky now owns 50.4% of the issued and outstanding shares. Afro East Energy Limited retains one share. As such Winter Sky is now the Ultimate Controlling Party of the Group.
Annex 175

Consolidated Annual Report and Financial Statements of Soma Oil & Gas Holdings Limited for the year ended 31 December 2018, UK Companies House, 30 September 2019
Soma Oil & Gas Holdings Limited

Consolidated Annual Report and Financial Statements

For the year ended 31 December 2018

Company number 08506858
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<th>Page No.</th>
</tr>
</thead>
<tbody>
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<td>2</td>
</tr>
<tr>
<td>Strategic report</td>
<td>3</td>
</tr>
<tr>
<td>Directors' report</td>
<td>4</td>
</tr>
<tr>
<td>The Statement of Directors' responsibilities</td>
<td>5</td>
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<tr>
<td>Chartered Accountants' Report</td>
<td>6</td>
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<td>Consolidated statement of comprehensive income</td>
<td>7</td>
</tr>
<tr>
<td>Statements of financial position</td>
<td>8</td>
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<tr>
<td>Statements of changes in equity</td>
<td>10</td>
</tr>
<tr>
<td>Statements of cash flows</td>
<td>12</td>
</tr>
<tr>
<td>Notes to the financial statements</td>
<td>13</td>
</tr>
</tbody>
</table>
SOMA OIL & GAS HOLDINGS LIMITED

GROUP INFORMATION

DIRECTORS: William Richard Anderson
Georgy Dzhaparidze

COMPANY SECRETARY: Peter Damouni

REGISTERED OFFICE: 21 Arlington Street
St. James's
London
United Kingdom
SW1A 1RD

REGISTERED NUMBER: 08506858 (United Kingdom)

ACCOUNTANTS Kreston Reeves LLP
Third Floor
24 Chiswell Street
London
EC1Y 4YX
SOMA OIL & GAS HOLDINGS LIMITED
STRATEGIC REPORT
For the year ended 31 December 2018

The Directors present their Strategic Report for the year ended 31 December 2018.

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

Developments since the last Annual Report

On 10 July 2018, the Company sold all its assets for a Promissory Note. The Promissory Note pays a coupon of 1.7% p.a. and has a 5-year term.

Principal risks and uncertainties

The Group’s financial and capital risk management policies are set out in Note 2 within the accounting policies section of this report. Other risks are shown below:

Foreign exchange risk

The accounts are maintained in US$ and any future proceeds from the Group’s sales are expected to be in US Dollars. Hence the Group is exposed to foreign exchange risk against UK Pound Sterling and Somali Shilling which may have positive or negative consequences for the Group’s overall profitability. The Group reports in US$ and maintains US$ as its main currency, therefore, minimising foreign exchange risk.

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

Tax risk

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

Financing and Liquidity risk

This is the risk that the Group will not be able to raise working capital for its ongoing activities and this is further discussed in the Going Concern section of the Directors Report. The Group would rely on its largest Shareholder, Winter Sky Investments Limited for funding, thereby minimising financing and liquidity risk.

Although the Group is not required to prepare a strategic report as a result of being a small group, the Directors have chosen to include the above disclosures.

ON BEHALF OF THE BOARD:

William Richard Anderson
Chief Executive Officer
SOMA OIL & GAS HOLDINGS LIMITED
DIRECTORS’ REPORT
For the year ended 31 December 2018

The Directors present their annual report on the affairs of the Group, together with the unaudited consolidated financial statements of Soma Oil & Gas Holdings Limited for the year ended 31 December 2018.

Soma Holdings was incorporated in England and Wales on 26 April 2013. The Company and its two wholly owned subsidiaries, Old Sycamore Management and Soma Exploration have been established to pursue oil and gas exploration in the Federal Republic of Somalia. Both subsidiaries were incorporated in England and Wales on 22 July 2013. On 12 September 2019, Soma Management Limited was sold and changed its name to Old Sycamore Management Limited.

BUSINESS REVIEW AND FUTURE DEVELOPMENTS

The Company expects to generate revenue from interest from the Promissory Note.

RISK MANAGEMENT POLICIES

The main risks to which the Group is exposed are discussed in the Strategic Report.

GOING CONCERN

The Group is dependent on funding from existing shareholders and is primarily funded by a major shareholder and the controlling party of the group, Winter Sky Investments Limited “Winter Sky”, a company incorporated in British Virgin Islands.

The Group’s capital management policy is to preserve the Group’s existing assets which is cash and the Promissory Note. The Group’s capital management policy is to preserve the Group’s existing assets by keeping costs to a minimum and monitor the collectability of the Promissory Note.

As at the 31 August 2019 the Group had a cash balance of US$276,462 (31 July 2018: $2,354,250).

Based on management’s forecasts, the remaining cash balance will be sufficient to meet operational costs over the going concern assessment period. The financial statements do not include the adjustments that would result if the Company and the Group were unable to continue as a going concern.

Having considered the above uncertainty and all the available information, the Directors have a reasonable expectation that although the Group has adequate resources to continue in operational existence for the foreseeable future, existing shareholders will continue to support the business for the next 12 months as a minimum and as such, the Directors consider it appropriate to prepare the financial statements on a going concern basis.

RESULTS AND DIVIDENDS

The Group’s comprehensive loss after tax to 31 December 2018 amount to US$12,346,000 (2017: US$4,552,000). The Directors do not recommend the payment of a final dividend.

DIRECTORS

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

William Richard Anderson
Georgy Dzhaparidze
Basil Shiblaq (resigned 16 July 2018)
Robert Allen Sheppard (resigned 16 July 2018)
The Earl of Clanwilliam (resigned 16 July 2018)
Lord Howard of Lympne, CH, QC (Chairman) (resigned 17 June 2018)

SMALL COMPANY PROVISIONS

The directors’ report has been prepared in accordance with the special provisions applicable to companies entitled to the small companies exemption as referred to by the Companies Act 2006.

William Richard Anderson
Chief Executive Officer

Annex 175
SOMA OIL & GAS HOLDINGS LIMITED
STATEMENT OF DIRECTORS' RESPONSIBILITIES
For the year ended 31 December 2018

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

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

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

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

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

Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.
SOMA OIL & GAS HOLDINGS LIMITED
ACCOUNTANTS’
For the year ended 31 December 2018

Chartered accountants’ report to the board of directors on the preparation of the unaudited statutory financial statements of Soma Oil & Gas Holdings Limited for the year ended 31 December 2018

In order to assist you to fulfil your duties under the Companies Act 2006, we have prepared for your approval the consolidated financial statements of Soma Oil & Gas Holdings Limited for the year ended 31 December 2018 which comprise the Statement of comprehensive income, the Statement of financial position, the Statement of changes in equity and the related notes from the Company’s accounting records and from information and explanations you have given us.

As a practising member firm of the Institute of Chartered Accountants in England and Wales (ICAEW), we are subject to its ethical and other professional requirements which are detailed at http://www.icaew.com/en/members/regulations-standards-and-guidance/.

This report is made solely to the Board of directors of Soma Oil & Gas Holdings Limited, as a body, in accordance with the terms of our engagement letter dated 29 July 2019. Our work has been undertaken solely to prepare for your approval the financial statements of Soma Oil & Gas Holdings Limited and state those matters that we have agreed to state to the Board of directors of Soma Oil & Gas Holdings Limited, as a body, in this report in accordance with ICAEW Technical Release TECH07/16AAF. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than Soma Oil & Gas Holdings Limited and its Board of directors, as a body, for our work or for this report.

It is your duty to ensure that Soma Oil & Gas Holdings Limited has kept adequate accounting records and to prepare statutory financial statements that give a true and fair view of the assets, liabilities, financial position and loss of Soma Oil & Gas Holdings Limited. You consider that Soma Oil & Gas Holdings Limited is exempt from the statutory audit requirement for the year.

We have not been instructed to carry out an audit or review of the financial statements of Soma Oil & Gas Holdings Limited. For this reason, we have not verified the accuracy or completeness of the accounting records or information and explanations you have given to us and we do not, therefore, express any opinion on the statutory financial statements.

Kreston Reeves LLP
Chartered Accountants
Third Floor
24 Chiswell Street
London
EC1Y 4YX
Date: 30 September 2019
## SOMA OIL & GAS HOLDINGS LIMITED
### CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
For the year ended 31 December 2018

<table>
<thead>
<tr>
<th>Note</th>
<th>For the year ended 31 December 2018 US$'000</th>
<th>For the year ended 31 December 2017 US$'000</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Other income</td>
<td>Administrative expenses</td>
</tr>
<tr>
<td></td>
<td></td>
<td>4 (12,709)</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Operating loss</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>(12,709)</td>
</tr>
<tr>
<td></td>
<td></td>
<td>(3,433)</td>
</tr>
<tr>
<td></td>
<td>Interest received</td>
<td>307</td>
</tr>
<tr>
<td></td>
<td></td>
<td>1</td>
</tr>
<tr>
<td></td>
<td>Finance costs</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>-</td>
</tr>
<tr>
<td></td>
<td></td>
<td>(1,070)</td>
</tr>
<tr>
<td></td>
<td>Loss before tax</td>
<td>(12,402)</td>
</tr>
<tr>
<td></td>
<td></td>
<td>(4,502)</td>
</tr>
<tr>
<td></td>
<td>Taxation</td>
<td>6</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Loss for the year</td>
<td>(12,402)</td>
</tr>
<tr>
<td></td>
<td></td>
<td>(4,502)</td>
</tr>
<tr>
<td></td>
<td>Other comprehensive income</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Currency translation differences</td>
<td>56</td>
</tr>
<tr>
<td></td>
<td></td>
<td>(50)</td>
</tr>
<tr>
<td></td>
<td>Total comprehensive loss for the year</td>
<td>(12,346)</td>
</tr>
<tr>
<td></td>
<td></td>
<td>(4,552)</td>
</tr>
</tbody>
</table>

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

The notes on pages 13 to 33 are an integral part of these financial statements.
### SOMA OIL & GAS HOLDINGS LIMITED
### STATEMENTS OF FINANCIAL POSITION
### As at 31 December 2018

<table>
<thead>
<tr>
<th>Notes</th>
<th>Group At 31 December 2018 US$'000</th>
<th>Company At 31 December 2018 US$'000</th>
<th>Group At 31 December 2017 US$'000</th>
<th>Company At 31 December 2017 US$'000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Assets</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Non-current assets</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Exploration and evaluation assets 7</td>
<td>43,142</td>
<td></td>
<td>43,142</td>
<td></td>
</tr>
<tr>
<td>Property, plant and equipment 8</td>
<td>2</td>
<td></td>
<td>2</td>
<td></td>
</tr>
<tr>
<td>Debtor: amounts falling due after more than one year 9</td>
<td>32,800</td>
<td></td>
<td>32,800</td>
<td></td>
</tr>
<tr>
<td>Current assets</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Prepayments and other receivables 10</td>
<td>63,725</td>
<td>149</td>
<td>63,725</td>
<td>63,725</td>
</tr>
<tr>
<td>Cash in bank and on hand 11</td>
<td>4,135</td>
<td>4,135</td>
<td>4,135</td>
<td>4,135</td>
</tr>
<tr>
<td>Liabilities</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Current liabilities</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Trade and other payables 12</td>
<td>(396)</td>
<td>(396)</td>
<td>(586)</td>
<td>(982)</td>
</tr>
<tr>
<td>Current tax liabilities</td>
<td></td>
<td>(8,975)</td>
<td>(8,975)</td>
<td>(8,975)</td>
</tr>
<tr>
<td>Net current assets</td>
<td>34,100</td>
<td>63,725</td>
<td>3,302</td>
<td>63,725</td>
</tr>
<tr>
<td>Net assets</td>
<td>34,100</td>
<td>63,725</td>
<td>46,446</td>
<td>63,725</td>
</tr>
<tr>
<td>Equity</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Share capital 14</td>
<td>68,565</td>
<td>68,565</td>
<td>68,565</td>
<td>68,565</td>
</tr>
<tr>
<td>Share premium 14</td>
<td>1,375</td>
<td>1,375</td>
<td>1,375</td>
<td>1,375</td>
</tr>
<tr>
<td>Share based payment reserve</td>
<td>1,375</td>
<td>1,375</td>
<td>1,375</td>
<td>1,375</td>
</tr>
<tr>
<td>Currency translation reserve</td>
<td>(21)</td>
<td>(21)</td>
<td>(77)</td>
<td>(77)</td>
</tr>
<tr>
<td>Retained losses</td>
<td>(35,819)</td>
<td>(6,215)</td>
<td>(23,417)</td>
<td>(6,215)</td>
</tr>
<tr>
<td>Total equity</td>
<td>34,100</td>
<td>63,725</td>
<td>46,446</td>
<td>63,725</td>
</tr>
</tbody>
</table>
SOMA OIL & GAS HOLDINGS LIMITED
STATEMENTS OF FINANCIAL POSITION
As at 31 December 2018

The Company has taken the exemption from the requirement to publish a separate income statement. The total comprehensive loss for the Company in the year was US$Nil (2017: US$2,373,000).

For the year ending 31 December 2018, the company was entitled to exemption from audit under section 477 of the Companies Act 2006 relating to small companies. The members have not required the company to obtain an audit of its accounts for the year in question in accordance with section 476.

The Directors acknowledge their responsibility for complying with the requirements of the Act with respect to accounting records and the preparation of accounts. These group accounts have been prepared in accordance with the provisions applicable to companies' subject to the small companies’ regime.

The financial statements of Soma Oil & Gas Holdings Limited, were approved by the Board of Directors and authorised for issue on 27 January 2019. They were signed on its behalf by:

William Richard Anderson
Chief Executive Officer

The notes on pages 13 to 33 are an integral part of these financial statements.
SOMA OIL & GAS HOLDINGS LIMITED
STATEMENTS OF CHANGES IN EQUITY
For the year ended 31 December 2018

<table>
<thead>
<tr>
<th>Group</th>
<th>Share capital US$'000</th>
<th>Share premium US$'000</th>
<th>Share based payment reserve US$'000</th>
<th>Currency translation reserve US$'000</th>
<th>Convertible Loan Reserve US$'000</th>
<th>Warrant Reserve US$'000</th>
<th>Retained losses US$'000</th>
<th>Total equity US$'000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Balance at 1 January 2017</td>
<td>-</td>
<td>51,800</td>
<td>1,543</td>
<td>(27)</td>
<td>865</td>
<td>2,287</td>
<td>(18,938)</td>
<td>37,630</td>
</tr>
<tr>
<td>Comprehensive expense</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>(4,502)</td>
<td>(4,502)</td>
</tr>
<tr>
<td>Loss for the year</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Other comprehensive loss</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>(50)</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>(50)</td>
</tr>
<tr>
<td>Total comprehensive loss</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>(50)</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>(4,502)</td>
</tr>
<tr>
<td>Transactions with Shareholders</td>
<td>-</td>
<td>-</td>
<td>(168)</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>(168)</td>
</tr>
<tr>
<td>Share based payment</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Cancellation of shares</td>
<td>-</td>
<td>(35)</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>(35)</td>
</tr>
<tr>
<td>Conversion of Director fee to shares</td>
<td>-</td>
<td>97</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>97</td>
</tr>
<tr>
<td>Conversion of US$3m convertible loan notes</td>
<td>-</td>
<td>3,129</td>
<td>-</td>
<td>(842)</td>
<td>(2,287)</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Conversion of US$15m draw down facility</td>
<td>-</td>
<td>10,380</td>
<td>-</td>
<td>(23)</td>
<td>-</td>
<td>23</td>
<td>10,380</td>
<td>-</td>
</tr>
<tr>
<td>Exercise of Class A and B warrants</td>
<td>-</td>
<td>3,194</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>3,194</td>
</tr>
<tr>
<td>Total transactions with shareholders</td>
<td>-</td>
<td>16,765</td>
<td>(168)</td>
<td>(865)</td>
<td>(2,287)</td>
<td>23</td>
<td>12,468</td>
<td>-</td>
</tr>
<tr>
<td>Balance as at 31 December 2017</td>
<td>-</td>
<td>68,565</td>
<td>1,375</td>
<td>(77)</td>
<td>-</td>
<td>-</td>
<td>(23,417)</td>
<td>46,446</td>
</tr>
<tr>
<td>Comprehensive expense</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>(12,402)</td>
<td>(12,402)</td>
</tr>
<tr>
<td>Loss for the year</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Other comprehensive income</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>56</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>56</td>
</tr>
<tr>
<td>Total comprehensive loss</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>56</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>(12,402)</td>
</tr>
<tr>
<td>Transactions with Shareholders</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Total transactions with shareholders</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Balance as at 31 December 2018</td>
<td>-</td>
<td>68,565</td>
<td>1,375</td>
<td>(21)</td>
<td>-</td>
<td>-</td>
<td>(35,819)</td>
<td>34,100</td>
</tr>
</tbody>
</table>

The notes on pages 13 to 33 form an integral part of these financial statements.
SOMA OIL & GAS HOLDINGS LIMITED  
STATEMENTS OF CHANGES IN EQUITY  
For the year ended 31 December 2018

<table>
<thead>
<tr>
<th>Company</th>
<th>Share Capital</th>
<th>Share Premium</th>
<th>Share based payment reserve</th>
<th>Convertible Loan Reserve</th>
<th>Warrant Reserve</th>
<th>Retained losses</th>
<th>Total Equity</th>
</tr>
</thead>
<tbody>
<tr>
<td>US$'000</td>
<td>US$'000</td>
<td>US$'000</td>
<td>US$'000</td>
<td>US$'000</td>
<td>US$'000</td>
<td>US$'000</td>
<td>US$'000</td>
</tr>
<tr>
<td>Balance at 1 January 2017</td>
<td>-</td>
<td>51,800</td>
<td>1,543</td>
<td>865</td>
<td>2,287</td>
<td>(3,865)</td>
<td>62,630</td>
</tr>
<tr>
<td>Comprehensive expense</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Loss for the year</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>(2,373)</td>
</tr>
<tr>
<td>Total comprehensive loss</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>(2,373)</td>
</tr>
<tr>
<td>Transactions with Shareholders</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Share based payment (credit) / charge</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Cancellation of shares</td>
<td>-</td>
<td>(35)</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Conversion of Director fee to shares</td>
<td>-</td>
<td>97</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Conversion of US$3m convertible loan notes</td>
<td>-</td>
<td>3,129</td>
<td>-</td>
<td>(842)</td>
<td>(2,287)</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Conversion of US$15m draw down facility</td>
<td>-</td>
<td>10,380</td>
<td>-</td>
<td>(23)</td>
<td>-</td>
<td>23</td>
<td>10,380</td>
</tr>
<tr>
<td>Exercise of Class A and B warrants</td>
<td>-</td>
<td>3,194</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>3,194</td>
</tr>
<tr>
<td>Total transactions with shareholders</td>
<td>-</td>
<td>16,766</td>
<td>(168)</td>
<td>(865)</td>
<td>(2,287)</td>
<td>23</td>
<td>13,468</td>
</tr>
<tr>
<td>Balance as at 31 December 2017</td>
<td>-</td>
<td>68,666</td>
<td>1,375</td>
<td>-</td>
<td>-</td>
<td>(6,215)</td>
<td>63,725</td>
</tr>
<tr>
<td>Comprehensive income</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Loss for the year</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Total comprehensive income</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Transactions with Shareholders</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total transactions with shareholders</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Balance as at 31 December 2018</td>
<td>-</td>
<td>68,666</td>
<td>1,375</td>
<td>-</td>
<td>-</td>
<td>(6,215)</td>
<td>63,725</td>
</tr>
</tbody>
</table>

The notes on pages 13 to 33 form an integral part of these financial statements.
SOMA OIL & GAS HOLDINGS LIMITED
CASH FLOW STATEMENTS
For the year ended 31 December 2018

<table>
<thead>
<tr>
<th>Note</th>
<th>Group</th>
<th>Company</th>
<th>Group</th>
<th>Company</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>For the year ended 31 December 2018</td>
<td>For the year ended 31 December 2018</td>
<td>For the year to 31 December 2017</td>
<td>For the year to 31 December 2017</td>
</tr>
<tr>
<td></td>
<td>US$'000</td>
<td>US$'000</td>
<td>US$'000</td>
<td>US$'000</td>
</tr>
<tr>
<td>Net cash used in operating activities</td>
<td>18</td>
<td>(34,261)</td>
<td>-</td>
<td>(2,894)</td>
</tr>
<tr>
<td>Cash flow from investing activities</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Additions of exploration and evaluation assets</td>
<td>7</td>
<td>(100)</td>
<td>-</td>
<td>(159)</td>
</tr>
<tr>
<td>Proceeds from disposal of exploration and evaluation assets</td>
<td></td>
<td>31,800</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Net cash used in investing activities</td>
<td>31,700</td>
<td>-</td>
<td>-</td>
<td>(159)</td>
</tr>
<tr>
<td>Cash flow from financing activities</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Proceeds on issue of convertible loan notes</td>
<td>-</td>
<td>-</td>
<td>3,303</td>
<td>3,303</td>
</tr>
<tr>
<td>Share capital issued (net of costs)</td>
<td>-</td>
<td>-</td>
<td>3,194</td>
<td>3,194</td>
</tr>
<tr>
<td>Net cash generated from financing activities</td>
<td>-</td>
<td>-</td>
<td>6,497</td>
<td>6,497</td>
</tr>
<tr>
<td>Net decrease in cash and cash equivalents</td>
<td>(2,561)</td>
<td>-</td>
<td>3,444</td>
<td>-</td>
</tr>
<tr>
<td>Cash and cash equivalents at beginning of the year</td>
<td>4,135</td>
<td>-</td>
<td>691</td>
<td>-</td>
</tr>
<tr>
<td>Cash and cash equivalents at end of year</td>
<td></td>
<td>1,574</td>
<td>-</td>
<td>4,135</td>
</tr>
</tbody>
</table>

The notes on pages 13 to 33 form an integral part of these financial statements.
SOMA OIL & GAS HOLDINGS LIMITED
NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2018

1. Accounting policies for Group and Company

1.1 Basis of preparation for Group and Company

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

Soma Oil & Gas Holdings Limited ("the Company") is a company limited by shares which was incorporated in England and Wales on 26 April 2013. The Company and its two wholly owned subsidiaries, Old Sycamore 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's principal place of business is 21 Arlington Street, St James's, London, SW1A 1RD.

The principal accounting policies adopted are set out below.

Statement of compliance with IFRS

These financial statements have been prepared in accordance with EU Adopted International Financial Reporting Standards (IFRS), IFRIC interpretations and the Companies Act 2006 applicable to companies reporting under IFRS.

The financial statements have been prepared on the going concern basis under the historical cost convention.

The preparation of financial statements in conformity with IFRS requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts in the financial statements. The areas involving a higher degree of judgement or complexity, or areas where assumptions or estimates are significant to the financial statements are as follows:

- Taking account of information at the balance sheet date, the directors make judgements based on experience on the capitalisation of exploration and evaluation assets when reviewed for impairment
- The directors make judgements on the record share-based payments based on the likelihood they will vest.

Changes in accounting policy and disclosure

A number of standards and amendments to standards and interpretations became effective during the financial year, for which the impact on the financial statements have been detailed below:

- IFRS15: Revenue from contracts with customers - The impact of this standard on the group has not been material.
- IFRS9: Financial instruments - The impact of this standard on the group has not been material. All material financial assets and financial liabilities are basic and remain classified at amortised cost as with the prior year.

The impact of expected credit loss model has been considered regarding trade receivables and intercompany debt with reference to historical data and current economic conditions.

No changes are expected from the implementation of IFRS15 as the Group does not have a revenue stream.

No changes are expected from the implementation of IFRS9 as the Group does not have any borrowers expected to default on their obligations.

Other amendments to the standards which have not materially impacted the entity include:

- IFRIC 22 (interpretation): Foreign currency transactions and advance consideration
- IFRS 4 (amendment): Applying IFRS 9 with IFRS 4
- IFRS 2 (amendment): Share based payments

The following standards and interpretations to existing standards have been published but are only effective for periods beginning on or after 1 January 2019 and therefore have not been applied to the company in the year.

- IFRS16: Leases - not expected to have a material impact on the financial statements.
1. Accounting policies for Group and Company (continued)

1.2 Basis of consolidation

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

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

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

<table>
<thead>
<tr>
<th>Name</th>
<th>Countries of operation</th>
<th>Principal activity</th>
<th>Class of shares</th>
<th>%</th>
<th>Registered office address</th>
<th>Country of registration</th>
</tr>
</thead>
<tbody>
<tr>
<td>Old Sycamore Management Limited (formerly Soma Management Limited)</td>
<td>UK</td>
<td>Management company</td>
<td>Ordinary</td>
<td>100%</td>
<td>21 Arlington Street, St. James's, London SW1A 1RD</td>
<td>England and Wales</td>
</tr>
<tr>
<td>Soma Oil &amp; Gas Exploration Limited</td>
<td>The Federal Republic of Somalia and Kenya</td>
<td>Oil &amp; gas exploration</td>
<td>Ordinary</td>
<td>100%</td>
<td>21 Arlington Street, St. James's, London SW1A 1RD</td>
<td>England and Wales</td>
</tr>
</tbody>
</table>

1.3 Revenue recognition

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

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

1.4 Operating lease payments

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

1.5 Foreign currencies

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

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

The financial statements are presented in US Dollars and all values are rounded to the nearest thousand pounds (£'000) except when otherwise stated.
1. Accounting policies for Group and Company (continued)

1.6 Employee services settled in equity instruments

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

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

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

1.7 Oil and gas properties

Exploration and evaluation assets

The Group follows the successful efforts method of accounting for intangible exploration and evaluation ("E&E") costs. All licence acquisition, exploration and evaluation costs are initially capitalised as intangible exploration and evaluation assets in cost centres by field or exploration area, as appropriate, pending determination of commerciality of the relevant property. Directly attributable administration costs are capitalised in so far as they relate to specific exploration activities.

Pre-licence costs and general exploration costs not specific to any particular licence or prospect are expensed as incurred.

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

Development and production assets

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

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

1.8 Depletion, amortisation and impairment – development and production assets

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

1.9 Commercial reserves

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

1.10 Property, plant and equipment

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

- Computer equipment: 3 years
- Fixtures and fittings: 3 to 5 years
- Oil and gas properties – see note 1.7.

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

1.11 Impairment of property, plant and equipment

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

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

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

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

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

1.12 Financial instruments

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

1.12.1 Trade receivables

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

The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating interest income over the relevant year. The effective interest rate is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset, or, where appropriate, a shorter period.
Cash and cash equivalents include cash at bank and in hand and highly liquid interest-bearing securities with maturities of three months or less.

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

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

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

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

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

Other income is measured at the fair value of consideration received from a third party. The income in 2016 relates to the agreed reimbursable amounts for costs incurred during the SFO investigation. These costs are covered by the Group's insurance policy.

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.

The Group operates internationally and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the GB pound sterling 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.

Credit risk is managed on a Group basis. Credit risk arises from cash and cash equivalents and outstanding receivables. Approximately 99 per cent of the Group's cash and cash equivalents are held by 'BBB' or better rated banks. All trade and other receivables are considered operational in nature and have payment terms of 30 days.
2. Group financial risk management, critical judgements and key sources of estimation uncertainty (continued)

2.1.3 Liquidity risk

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

2.1.4 Market risk - interest rate risk

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

2.2 Capital risk management

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

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

2.3 Fair values of financial assets and liabilities

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

2.4 Critical judgements

2.4.1 Capitalisation policy of Exploration and Evaluation assets

The Group balance sheet includes significant E&E assets (see Note 7). Management is required to exercise judgement in selecting an appropriate accounting policy for the capitalisation, or otherwise, of costs incurred in connection with the acquisition of E&E rights and costs of E&E activities to exploit those rights. The Group's accounting policy is set out in Note 2. Judgement is required in assessing whether E&E rights are sufficient to support the commencement of cost capitalisation.

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

2.4.2 Going concern

The Group is dependent on funding from existing shareholders and is primarily funded by a major shareholder and the controlling party of the group, Winter Sky.

The Group's capital management policy is to preserve the Group's existing reserves through reducing near term exploration and development activities.

As at the 31 August 2018 the Group had a cash balance of US$276,462
2. Group financial risk management, critical judgements and key sources of estimation uncertainty (continued)

Based on management’s forecasts, the remaining cash balance will be sufficient to meet operational costs over the going concern assessment period. The financial statements do not include the adjustments that would result if the Company and the Group were unable to continue as a going concern.

Having considered the above uncertainty and all the available information, the Directors have a reasonable expectation that although the Group has adequate resources to continue in operational existence for the foreseeable future, existing shareholders will continue to support the business for the next 12 months as a minimum and as such, the Directors consider it appropriate to prepare the financial statements on a going concern basis.

2.5. Key sources of judgement uncertainty

2.5.1 Exploration and Evaluation assets recoverability

E&E assets are required to be assessed for indications of impairment at least at each balance sheet date, with reference to the indicators of impairment set out in IFRS 6 Exploration and Evaluation of Mineral Resources. Such assessment often requires significant judgement, such as whether substantive further E&E activity is planned, and whether rights to explore in the specific area will expire in the near future. The exploration and evaluation assets were sold in the year.

2.5.2 Share based remuneration

The Group uses share-based remuneration arrangements to compensate its employees, details of which are provided in note 15. The Group’s accounting policy for share-based remuneration is described in note 2. Accounting for the Group’s share-based payment arrangements involves estimates of the fair values of share-based awards at the time they are conditionally granted to employees. Estimates of the period over which such awards may vest, and judgements as to whether performance milestones are likely to be met are also required, and these estimates and judgements are required to be reassessed each reporting period in order to determine the appropriate income statement charge in each period. Details of the Group’s share-based remuneration expense and the judgements and estimates made in relation thereto are provided in note 17.

3. Segmental analysis

The group only has one operating segment and therefore has not prepared segmental analysis.
4. Group administrative expenses

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

<table>
<thead>
<tr>
<th>Administrative Expense</th>
<th>Year ended 31 December 2018 US$'000</th>
<th>Year ended 31 December 2017 US$'000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Share based payment (note 17)</td>
<td>-</td>
<td>(168)</td>
</tr>
<tr>
<td>Directors' remuneration</td>
<td>14</td>
<td>694</td>
</tr>
<tr>
<td>Travel and subsistence</td>
<td>344</td>
<td>154</td>
</tr>
<tr>
<td>Rent and rates</td>
<td>195</td>
<td>189</td>
</tr>
<tr>
<td>Staff wages</td>
<td>14</td>
<td>300</td>
</tr>
<tr>
<td>Legal and professional fees</td>
<td>186</td>
<td>40</td>
</tr>
<tr>
<td>Accountancy</td>
<td>107</td>
<td>70</td>
</tr>
<tr>
<td>Marketing and public relations</td>
<td>-</td>
<td>18</td>
</tr>
<tr>
<td>Consultancy fees</td>
<td>316</td>
<td>299</td>
</tr>
<tr>
<td>Depreciation</td>
<td>2</td>
<td>18</td>
</tr>
<tr>
<td>Other administrative expenses</td>
<td>131</td>
<td>1,819</td>
</tr>
<tr>
<td>Loss on sale of Intangible Exploration Assets</td>
<td>11,400</td>
<td>-</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>12,709</strong></td>
<td><strong>3,433</strong></td>
</tr>
</tbody>
</table>

5. Group staff numbers and costs

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

<table>
<thead>
<tr>
<th>Year ended 31 December 2018 No.</th>
<th>Year ended 31 December 2017 No.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Old Sycamore Management Limited</td>
<td>4</td>
</tr>
<tr>
<td>Soma Oil &amp; Gas Exploration Limited</td>
<td>1</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>5</strong></td>
</tr>
</tbody>
</table>
5. Group staff numbers and costs (continued)

Staff costs, excluding directors comprised:

<table>
<thead>
<tr>
<th></th>
<th>Year ended 31 December 2018 US$'000</th>
<th>Year ended 31 December 2017 US$'000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Wages, salaries and benefits</td>
<td>(15)</td>
<td>251</td>
</tr>
<tr>
<td>Social security costs</td>
<td>29</td>
<td>48</td>
</tr>
<tr>
<td>Share based payments</td>
<td>-</td>
<td>1</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>14</td>
<td>300</td>
</tr>
</tbody>
</table>

The Directors' remuneration comprised:

<table>
<thead>
<tr>
<th></th>
<th>Year ended 31 December 2018 US$'000</th>
<th>Restated Year ended 31 December 2017 US$'000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Directors' wages, salaries and benefits</td>
<td>8</td>
<td>598</td>
</tr>
<tr>
<td>Directors' social security costs</td>
<td>1</td>
<td>-</td>
</tr>
<tr>
<td>Directors' defined contribution pension</td>
<td>5</td>
<td>97</td>
</tr>
<tr>
<td>Share based payments</td>
<td>-</td>
<td>(168)</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>14</td>
<td>527</td>
</tr>
</tbody>
</table>

No directors exercised share options in the year.

There are no directors to whom retirement benefits are accruing.

6. Group taxation

<table>
<thead>
<tr>
<th></th>
<th>Year ended 31 December 2018 US$'000</th>
<th>Year ended 31 December 2017 US$'000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Current tax</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Current tax</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Adjustments in respect of prior years</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Total current tax expense</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Deferred tax</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total income tax expense in the income statement</td>
<td>-</td>
<td>-</td>
</tr>
</tbody>
</table>

UK corporation tax is calculated at 19% (2017: 19.25%) of the estimated taxable loss for the year. Kenyan income tax is calculated at 37.5%, all costs incurred by the Kenyan Branch of Soma Oil & Gas Exploration Limited are recharged to the Old Sycamore Management Limited with a 10% uplift resulting in an income tax charge in the year.
6. Group taxation (continued)

<table>
<thead>
<tr>
<th></th>
<th>Year ended 31 December 2018 US$'000</th>
<th>Year ended 31 December 2017 US$'000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Loss before tax</td>
<td>12,402</td>
<td>4,502</td>
</tr>
<tr>
<td>Income tax using the UK domestic corporation tax rate of 19% (2017: 19.25%)</td>
<td>2,356</td>
<td>867</td>
</tr>
<tr>
<td>Kenyan branch income tax</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Unutilised tax losses</td>
<td>(2,356)</td>
<td>(867)</td>
</tr>
<tr>
<td>Current tax charge</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

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

7. Group intangible assets

<table>
<thead>
<tr>
<th>Exploration and evaluation assets</th>
<th>US$'000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cost:</td>
<td></td>
</tr>
<tr>
<td>At 1 January 2017</td>
<td>43,142</td>
</tr>
<tr>
<td>Additions in the year</td>
<td></td>
</tr>
<tr>
<td>At 31 December 2017</td>
<td>43,142</td>
</tr>
<tr>
<td>Additions in the year</td>
<td></td>
</tr>
<tr>
<td>Disposal in the year</td>
<td>99</td>
</tr>
<tr>
<td>At 31 December 2018</td>
<td>(43,241)</td>
</tr>
<tr>
<td>Amortisation and impairment:</td>
<td></td>
</tr>
<tr>
<td>At 1 January 2017 and 31 December 2017</td>
<td>-</td>
</tr>
<tr>
<td>Amortisation charge for the year</td>
<td>-</td>
</tr>
<tr>
<td>At 31 December 2018</td>
<td>-</td>
</tr>
</tbody>
</table>

| Net book value:                    |         |
| At 31 December 2017                | 42,142  |

At 31 December 2018

Consideration of impairment for exploration and evaluation assets

All exploration and evaluation assets have been disposed of in the year. No impairment required.
8. Group property, plant and equipment

<table>
<thead>
<tr>
<th></th>
<th>Fixtures and fittings US$'000</th>
<th>Computer equipment US$'000</th>
<th>Total US$'000</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Cost:</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>At 1 January 2017</td>
<td>98</td>
<td>28</td>
<td>126</td>
</tr>
<tr>
<td>Disposals in the year</td>
<td>(24)</td>
<td>-</td>
<td>(24)</td>
</tr>
<tr>
<td>At 31 December 2017</td>
<td>74</td>
<td>28</td>
<td>102</td>
</tr>
<tr>
<td><strong>Additions in the year</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Disposals in the year</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>At 31 December 2018</td>
<td>74</td>
<td>28</td>
<td>102</td>
</tr>
<tr>
<td><strong>Depreciation:</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>At 1 January 2017</td>
<td>67</td>
<td>24</td>
<td>91</td>
</tr>
<tr>
<td>Charge for the year</td>
<td>15</td>
<td>3</td>
<td>18</td>
</tr>
<tr>
<td>Disposals in the year</td>
<td>(9)</td>
<td>-</td>
<td>(9)</td>
</tr>
<tr>
<td>At 31 December 2017</td>
<td>73</td>
<td>27</td>
<td>100</td>
</tr>
<tr>
<td>Charge for the year</td>
<td>1</td>
<td>1</td>
<td>2</td>
</tr>
<tr>
<td>Disposals in the year</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>At 31 December 2018</td>
<td>74</td>
<td>28</td>
<td>102</td>
</tr>
<tr>
<td><strong>Net Book Value:</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>At 31 December 2017</td>
<td>1</td>
<td>1</td>
<td>2</td>
</tr>
<tr>
<td>At 31 December 2018</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
9. Debtors: Amounts falling due after more than one year

Group

<table>
<thead>
<tr>
<th>Amounts falling due after more than one year</th>
<th>At 31 December 2018 US$'000</th>
<th>At 31 December 2017 US$'000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Other receivables</td>
<td>32,800</td>
<td>-</td>
</tr>
</tbody>
</table>

10. Prepayments and other receivables

Group

<table>
<thead>
<tr>
<th>Prepayments</th>
<th>At 31 December 2018 US$'000</th>
<th>At 31 December 2017 US$'000</th>
</tr>
</thead>
<tbody>
<tr>
<td>VAT recoverable</td>
<td>66</td>
<td>61</td>
</tr>
<tr>
<td>Other receivables</td>
<td>12</td>
<td>10</td>
</tr>
<tr>
<td></td>
<td>23</td>
<td>78</td>
</tr>
<tr>
<td></td>
<td>101</td>
<td>149</td>
</tr>
</tbody>
</table>

There are no trade receivables held by the Group at 31 December 2018 (2017: Nil), therefore there is no average credit period taken on the sale of goods.

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

Company

<table>
<thead>
<tr>
<th>Amounts owed by Old Sycamore Management Limited</th>
<th>At 31 December 2018 US$'000</th>
<th>At 31 December 2017 US$'000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Amounts owed by Soma Oil &amp; Gas Exploration Limited</td>
<td>44,048</td>
<td>45,367</td>
</tr>
<tr>
<td></td>
<td>63,725</td>
<td>63,725</td>
</tr>
</tbody>
</table>

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

11. Cash and cash equivalents

Group

<table>
<thead>
<tr>
<th>Cash in bank and on hand</th>
<th>At 31 December 2018 US$'000</th>
<th>At 31 December 2017 US$'000</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>1,874</td>
<td>4,135</td>
</tr>
</tbody>
</table>
11. Cash and cash equivalents (continued)

Company

<table>
<thead>
<tr>
<th></th>
<th>At 31 December</th>
<th>At 31 December</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2018 US$’000</td>
<td>2017 US$’000</td>
</tr>
<tr>
<td>Cash in bank and on hand</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Trade payables</td>
<td>85</td>
<td>256</td>
</tr>
<tr>
<td>Accruals</td>
<td>-</td>
<td>131</td>
</tr>
<tr>
<td>Director fees, Social security and other taxes</td>
<td>-</td>
<td>595</td>
</tr>
<tr>
<td>Other payables</td>
<td>290</td>
<td>-</td>
</tr>
<tr>
<td></td>
<td>375</td>
<td>982</td>
</tr>
</tbody>
</table>

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

12. Trade and other payables

Group

<table>
<thead>
<tr>
<th></th>
<th>At 31 December</th>
<th>At 31 December</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2018 US$’000</td>
<td>2017 US$’000</td>
</tr>
<tr>
<td>Trade payables</td>
<td>85</td>
<td>256</td>
</tr>
<tr>
<td>Accruals</td>
<td>-</td>
<td>131</td>
</tr>
<tr>
<td>Director fees, Social security and other taxes</td>
<td>-</td>
<td>595</td>
</tr>
<tr>
<td>Other payables</td>
<td>290</td>
<td>-</td>
</tr>
<tr>
<td></td>
<td>375</td>
<td>982</td>
</tr>
</tbody>
</table>

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.

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.

Principal financial instruments

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

- Cash and cash equivalents
- Other receivables
- Trade payables
- Accruals
13. Group financial instruments (continued)

Financial assets

<table>
<thead>
<tr>
<th></th>
<th>Current US$'000</th>
<th>Non-current US$'000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash and cash equivalents</td>
<td>1,574</td>
<td>-</td>
</tr>
<tr>
<td>Other receivables</td>
<td>101</td>
<td></td>
</tr>
<tr>
<td></td>
<td>1,675</td>
<td>32,800</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th>Current US$'000</th>
<th>Non-current US$'000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash and cash equivalents</td>
<td>4,135</td>
<td>-</td>
</tr>
<tr>
<td>Other receivables</td>
<td>78</td>
<td></td>
</tr>
<tr>
<td></td>
<td>4,213</td>
<td>-</td>
</tr>
</tbody>
</table>

Financial liabilities

<table>
<thead>
<tr>
<th></th>
<th>Current US$'000</th>
<th>Non-current US$'000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Trade payables</td>
<td>85</td>
<td>-</td>
</tr>
<tr>
<td>Other payables</td>
<td>290</td>
<td></td>
</tr>
<tr>
<td></td>
<td>375</td>
<td>-</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th>Current US$'000</th>
<th>Non-current US$'000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Trade payables</td>
<td>256</td>
<td>-</td>
</tr>
<tr>
<td>Accruals</td>
<td>131</td>
<td>-</td>
</tr>
<tr>
<td>Other payables</td>
<td>595</td>
<td>-</td>
</tr>
<tr>
<td></td>
<td>982</td>
<td>-</td>
</tr>
</tbody>
</table>

Foreign currency risk

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

1) Transactional exposure relating to operating costs and capital expenditure incurred in currencies other than the functional currency of Group companies, being US Dollars and GBP Sterling;

2) Translation exposures relating to monetary assets and liabilities, including cash and short-term investment balances, held in currencies other than the functional currency of operations and net investments that are not denominated in US Dollars.
13. Group financial instruments (continued)

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

<table>
<thead>
<tr>
<th>Currency</th>
<th>At 31 December 2018</th>
<th>At 31 December 2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>US Dollars</td>
<td>1,446</td>
<td>4,065</td>
</tr>
<tr>
<td>GBP Sterling</td>
<td>96</td>
<td>55</td>
</tr>
<tr>
<td>Kenyan Shillings</td>
<td>2</td>
<td>15</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>1,574</strong></td>
<td><strong>4,135</strong></td>
</tr>
</tbody>
</table>

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 2018 is as follows:

<table>
<thead>
<tr>
<th>Year</th>
<th>Assets US$'000</th>
<th>Liabilities US$'000</th>
</tr>
</thead>
<tbody>
<tr>
<td>2018</td>
<td></td>
<td></td>
</tr>
<tr>
<td>US Dollars</td>
<td>1,547</td>
<td>290</td>
</tr>
<tr>
<td>GBP Sterling</td>
<td>96</td>
<td>85</td>
</tr>
<tr>
<td>Kenya Shilling</td>
<td>2</td>
<td></td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>2,607</strong></td>
<td><strong>375</strong></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Year</th>
<th>Assets US$'000</th>
<th>Liabilities US$'000</th>
</tr>
</thead>
<tbody>
<tr>
<td>2017</td>
<td></td>
<td></td>
</tr>
<tr>
<td>US Dollars</td>
<td>4,084</td>
<td>926</td>
</tr>
<tr>
<td>GBP Sterling</td>
<td>114</td>
<td>35</td>
</tr>
<tr>
<td>Kenya Shilling</td>
<td>15</td>
<td>21</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>4,323</strong></td>
<td><strong>1,283</strong></td>
</tr>
</tbody>
</table>

Interest rate risk

The Group has minimal exposure to interest rate risk as all debt was paid off prior to the year end.

14. Group and Company issued share capital and share premium

<table>
<thead>
<tr>
<th>Number of ordinary shares</th>
<th>Ordinary shares par value US$</th>
<th>Ordinary shares share premium US$</th>
</tr>
</thead>
<tbody>
<tr>
<td>At 1 January 2018</td>
<td>255,529,210</td>
<td>412</td>
</tr>
<tr>
<td>As at 31 December 2018</td>
<td>255,529,210</td>
<td>412</td>
</tr>
</tbody>
</table>

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.

There are no movements in the year to be disclosed.

Winter Sky is part owned by a close member as defined in IAS 24 by Georgy Dzhaparidze who is a Director of the Company and as such a related party relationship exists between Winter Sky and Soma.
SOMA OIL & GAS HOLDINGS LIMITED
NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2018

15. Statement of changes in equity

The Statement of changes in equity, set out share capital and reserves as explained below:

Share capital

The balance classified as share capital includes the total nominal value of the company's equity share capital, comprising $0.0001 ordinary shares.

Share premium

The balance classified as share premium includes the total amount paid for share capital above the nominal value of the company's equity share capital.

Share based payment reserve

The balance classified as share based payment represents the potential value due based on the share options issued.

Retained losses

This reserve records the accumulated earnings and losses of the group.

16. Group operating lease commitments

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

<table>
<thead>
<tr>
<th></th>
<th>31 December 2018</th>
<th>31 December 2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Within one year</td>
<td>64</td>
<td>26</td>
</tr>
<tr>
<td>Within 2-5 years</td>
<td>-</td>
<td>64</td>
</tr>
<tr>
<td>More than 5 years</td>
<td>-</td>
<td>-</td>
</tr>
</tbody>
</table>

At the balance sheet date, the Group had no unprovided capital commitments (2017: none).

17. Group share options and other share-based payments

The measurement requirements of IFRS2 have been implemented in respect of share options that were granted after 7 November 2002. The expense or credit recognised for share-based payments made during the year is shown in the following table:

<table>
<thead>
<tr>
<th></th>
<th>For the year ended</th>
<th>For the year ended</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>31 December 2018</td>
<td>31 December 2017</td>
</tr>
<tr>
<td>Credit for the year</td>
<td>US$'000</td>
<td>US$'000</td>
</tr>
<tr>
<td></td>
<td>-</td>
<td>(168)</td>
</tr>
</tbody>
</table>

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. 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 options were put in place to incentivise the Executives Directors.
17. Group share options and other share-based payments (continued)

During the year no new share options were issued to employees of the Company.

<table>
<thead>
<tr>
<th>Milestone</th>
<th>Number of options</th>
<th>Grant Date</th>
<th>Exercise price ($) at grant date</th>
<th>Nonmarket vesting condition</th>
<th>Exercise period (years)</th>
<th>Assumed Vesting period</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>2,250,000</td>
<td>Aug-13</td>
<td>1.00</td>
<td>Acquisition of 2D seismic ¹</td>
<td>5</td>
<td>To 31 December 2014</td>
</tr>
<tr>
<td>2</td>
<td>4,000,000</td>
<td>Jul-16</td>
<td>0.25</td>
<td>Earliest of:</td>
<td>5</td>
<td>To 30 June 2017</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>a) Signing the first three PSAs</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>b) Issue of the first three blocks for hydrocarbon exploration and production ³</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2.5A</td>
<td>4,000,000</td>
<td>Jul-16</td>
<td>0.25</td>
<td>Date on which the Company receives a &quot;No Further Action&quot; letter or a substantially similar document from the U.K. Serious Fraud Office ²</td>
<td>5</td>
<td>To 31 December 2016</td>
</tr>
<tr>
<td>3.5A</td>
<td>206,900</td>
<td>Sep-14</td>
<td>0.01</td>
<td>Sign the fourth PSA ⁴</td>
<td>5</td>
<td>To 31 December 2018</td>
</tr>
</tbody>
</table>

¹ Achieved in June 2014.
² Achieved in December 2016.
³ Nonmarket vesting condition not achieved, and option have not vested
⁴ Considered not probable that the non-market condition will vest.

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

During 2017 Milestone 2 was not achieved, the Company did not achieve the non-market vesting condition and as a result the options have not vested. The options have lapsed, and charges recognised since the grant date of the options reversed.

At 31 December 2017 it was deemed that the non-market vesting condition of Milestone 3.5A would not be achieved. The charges recognised for this option since the grant date have been reversed.

The exercise price of all the options under Milestones 2, 3, 3A, 3B and 4 will be determined by the share price of any equity raised in the 12 months preceding the granting of the options. The Company has no legal or constructive obligation to repurchase or settle the options in cash.

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

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

<table>
<thead>
<tr>
<th></th>
<th>31 December 2018</th>
<th>Weighted average exercise price in US$ per share</th>
</tr>
</thead>
<tbody>
<tr>
<td>Outstanding at the beginning of the year</td>
<td>6,300,000</td>
<td>0.52</td>
</tr>
<tr>
<td>Granted</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Lapsed</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Exercised</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Outstanding at the end of the year</td>
<td>6,300,000</td>
<td>0.52</td>
</tr>
<tr>
<td>Exercisable at the end of the year</td>
<td>6,300,000</td>
<td>0.52</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th>31 December 2017</th>
<th>Weighted average exercise price in US$ per share</th>
</tr>
</thead>
<tbody>
<tr>
<td>Outstanding at the beginning of the year</td>
<td>10,506,900</td>
<td>0.41</td>
</tr>
<tr>
<td>Granted</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Lapsed</td>
<td>(4,206,900)</td>
<td>0.24</td>
</tr>
<tr>
<td>Outstanding at the end of the year</td>
<td>6,300,000</td>
<td>0.52</td>
</tr>
<tr>
<td>Exercisable at the end of the year</td>
<td>6,300,000</td>
<td>0.52</td>
</tr>
</tbody>
</table>

Based on Management's assessment of the likelihood of the non-market vesting conditions and considering the likely vesting period and the estimated number of shares that will vest for each milestone, this has led to no credit or charge (2017: credit of US$167,902) for the year to 31 December 2018.
### 18. Cash flows utilised in operating activities

#### Group

<table>
<thead>
<tr>
<th>Cash flow from operating activities</th>
<th>Note</th>
<th>For the year ended 31 December 2018 US$'000</th>
<th>For the year ended 31 December 2017 US$'000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Operating loss</td>
<td></td>
<td>(12,346)</td>
<td>(4,552)</td>
</tr>
<tr>
<td>Adjustments for:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Depreciation on property, plant and equipment</td>
<td>7</td>
<td>2</td>
<td>18</td>
</tr>
<tr>
<td>Loss on disposal of fixed assets</td>
<td></td>
<td>11,400</td>
<td>15</td>
</tr>
<tr>
<td>Share based payment (credit)/charge</td>
<td>15</td>
<td>-</td>
<td>(168)</td>
</tr>
<tr>
<td>Conversion of Director fee to shares</td>
<td></td>
<td>-</td>
<td>97</td>
</tr>
<tr>
<td>Cancellation of Director shares</td>
<td></td>
<td>-</td>
<td>(35)</td>
</tr>
<tr>
<td>Effective interest charge on draw down facilities</td>
<td></td>
<td>-</td>
<td>1,072</td>
</tr>
<tr>
<td>(Increase) in debtors: amounts due after one year</td>
<td></td>
<td>(32,800)</td>
<td>-</td>
</tr>
<tr>
<td>(Increase)/ decrease in prepayments made and other receivables</td>
<td>48</td>
<td></td>
<td>739</td>
</tr>
<tr>
<td>Increase/ (decrease) in trade and other payables</td>
<td>21</td>
<td></td>
<td>(80)</td>
</tr>
<tr>
<td>(Decrease) in taxation creditors</td>
<td></td>
<td>(586)</td>
<td>-</td>
</tr>
<tr>
<td><strong>Net cash used in operating activities</strong></td>
<td></td>
<td><strong>(34,261)</strong></td>
<td><strong>(2,894)</strong></td>
</tr>
</tbody>
</table>

#### Company

<table>
<thead>
<tr>
<th>Cash flow from operating activities</th>
<th>Note</th>
<th>For the year ended 31 December 2018 US$'000</th>
<th>For the year ended 31 December 2017 US$'000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Operating profit/ (loss)</td>
<td></td>
<td>-</td>
<td>(2,373)</td>
</tr>
<tr>
<td>Adjustments for:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Share based payment charge</td>
<td>15</td>
<td>-</td>
<td>(168)</td>
</tr>
<tr>
<td>Cancellation of Director shares</td>
<td></td>
<td>-</td>
<td>(35)</td>
</tr>
<tr>
<td>Effective interest charge on draw down facilities</td>
<td></td>
<td>-</td>
<td>1,072</td>
</tr>
<tr>
<td>Increase in prepayments made and other receivables</td>
<td></td>
<td>-</td>
<td>(4,945)</td>
</tr>
<tr>
<td>Increase in trade and other payables</td>
<td></td>
<td>-</td>
<td>(48)</td>
</tr>
<tr>
<td><strong>Net cash used in operating activities</strong></td>
<td></td>
<td><strong>-</strong></td>
<td><strong>(6,497)</strong></td>
</tr>
</tbody>
</table>

No dividends were paid or declared during the year.
19. Related party transactions

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

Compensation of key management personnel

Key management are the Directors (executive and non-executive). Further information about the remuneration of Directors is provided in the note 4.

Shareholder funding - US$3m convertible loan notes

In 2015 3,000,000 convertible loan notes were issued at a price of US$1 per note. These were funded by the Company’s majority shareholder, Directors of the Company and an employee of the Company. The following holders of the convertible loan are considered to be related parties:

<table>
<thead>
<tr>
<th>Holder of convertible loan</th>
<th>Relationship</th>
</tr>
</thead>
<tbody>
<tr>
<td>Philip Edward Charles Wolfe</td>
<td>Ex Director and shareholder of Soma Oil &amp; Gas Holdings Limited</td>
</tr>
<tr>
<td>Hassan Khaire</td>
<td>Ex Director and shareholder of Soma Oil &amp; Gas Holdings Limited</td>
</tr>
<tr>
<td>Robert Allen Sheppard</td>
<td>Ex Director and shareholder of Soma Oil &amp; Gas Holdings Limited</td>
</tr>
<tr>
<td>Winter Sky</td>
<td>Controlling shareholder of Soma Oil &amp; Gas Holdings Limited</td>
</tr>
<tr>
<td>Afroeast Energy Limited</td>
<td>Director of Soma &amp; Oil Gas Holdings Limited</td>
</tr>
<tr>
<td>Soma Oil &amp; Gas Limited (BVI)</td>
<td>Basil Shiblaq is the outright shareholder of the Company and ex Director of Soma Oil &amp; Gas Holdings Limited</td>
</tr>
</tbody>
</table>

On 30 January 2017 a conversion notice was issued by the Board and the principal US$3m and interest accrued on the convertible loan notes of US$129k has been converted in full. New ordinary shares totalling 2,086,177 were issued from the Company to the holders of the notes on 1 February 2017 at a conversion price of US$1.50.

As part of the issue of the convertible loan notes, warrants were attached and issued to the holders of the convertible loan notes. On 15 December 2017 Winter Sky exercised in full the Class A and Class B warrants attached at an exercise price of US$0.25 and US$0.05 respectively per new ordinary share. The Company received US$3.194m in respect of the exercise and issued to Winter Sky 32,059,229 new ordinary shares.

Shareholder funding - US$15m draw down facility

In December 2015 the Group undertook a shareholder funding exercise to raise US$15,000,000 from existing shareholders in the form of a Convertible Loan Note. During 2017 additional drawdowns of US$3,303,284 have taken place under this loan by Winter Sky (31 December 2016: US$5,513,935 had been drawn down).

Each note accrues interest from the date in which it is allocated to the Noteholder up until the earlier of conversion or redemption of the loan note at a rate of 15% per annum. During the year an interest charge of US$1,071,557 (2016: US$513,088) accumulated on the loan notes and was charged as a finance cost. All interest accumulated on the capital balance due to Winter Sky and on 16 December 2017 were converted into new ordinary shares in the Company at a price per new ordinary share of US$0.25.
19. Related party transactions (continued)

Other transactions

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

<table>
<thead>
<tr>
<th>Outstanding balance</th>
<th>Directors fees</th>
<th>Outstanding balance</th>
<th>Directors fees</th>
</tr>
</thead>
<tbody>
<tr>
<td>As at 31 December</td>
<td>2018 US$'000</td>
<td>2018 US$'000</td>
<td>2017 US$'000</td>
</tr>
<tr>
<td>Matador Asset Management Ltd</td>
<td>-</td>
<td>-</td>
<td>149</td>
</tr>
</tbody>
</table>

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

On 23 February, Hassan Khaire a Director of the Company resigned and was simultaneously elected to be the Prime Minister of Somalia. To ensure no existing conflicts of interest or ties with the Group, he agreed to forfeit his entire shareholding, share options accumulated in Soma Oil and Gas Holdings.

Soma Oil and Gas Exploration Limited relinquished the debt due from Hassan for the acquisition of a motor vehicle. A charge to other administrative expenses of US$67,868 has been recognised during the year for the total amount.

From January - December 2017 Old Sycamore Management Limited received services from a member of staff employed by Eurasia Drilling Company Limited, a company which shares a number of common shareholders with Winter Sky. The staff member has been charged at a market rate, services received during the year totalled US$203,840 (2016: US$187,217) and an amount of US$186,812 (2016: US$34,056) was outstanding at the year end.

20. Group ultimate controlling party

At 31 December 2018 Winter Sky, a company incorporated in British Virgin Islands, owned 167,090,230 of the issued Ordinary shares representing 65.39% (2017: 65.39%) giving the entity ultimate control of the Group.

Soma Oil & Gas Holdings Limited are the largest group for which consolidated accounts are prepared.
Annex 176

Consolidated Annual Report and Financial Statements of Soma Oil & Gas Holdings Limited for the year ended 31 December 2016, UK Companies House,
27 September 2017
<table>
<thead>
<tr>
<th>Section</th>
<th>Page No.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Group information</td>
<td>2</td>
</tr>
<tr>
<td>Strategic report</td>
<td>3</td>
</tr>
<tr>
<td>Directors' report</td>
<td>9</td>
</tr>
<tr>
<td>The Statement of Directors' responsibilities</td>
<td>11</td>
</tr>
<tr>
<td>Independent Auditor's Report to the members of Soma Oil &amp; Gas Holdings Limited</td>
<td>12</td>
</tr>
<tr>
<td>Consolidated statement of comprehensive income</td>
<td>14</td>
</tr>
<tr>
<td>Statements of financial position</td>
<td>15</td>
</tr>
<tr>
<td>Statements of changes in equity</td>
<td>16</td>
</tr>
<tr>
<td>Statements of cash flows</td>
<td>18</td>
</tr>
<tr>
<td>Notes to the financial statements</td>
<td>19</td>
</tr>
</tbody>
</table>
SOMA OIL & GAS HOLDINGS LIMITED
GROUP INFORMATION

DIRECTORS: Lord Howard of Lympne, CH, QC (Chairman)
Basil Shiblaq
William Richard Anderson
Robert Allen Sheppard
Georgy Dzhaparidze
The Earl of Clanwilliam

COMPANY SECRETARY: Peter Damouni

REGISTERED OFFICE: 21 Arlington Street
St. James's
London
United Kingdom
SW1A 1RD

REGISTERED NUMBER: 08506858 (United Kingdom)

ANTI-BRIBERY & CORRUPTION
LEGAL ADVISERS: Paul Hastings LLP
10 Bishops Square
London
E1 6EG

OIL & GAS LEGAL ADVISERS: Akin Gump Strauss Hauer & Feld LLP
Ten Bishops Square, 8th Floor
London
E1 6EG

AUDITOR: Deloitte LLP
2 New Street Square
London
United Kingdom
EC4A 3BZ

ACCOUNTANTS: Capita Asset Services
1st Floor
40 Dukes Place
London
EC3A 7NH
SOMA OIL & GAS HOLDINGS LIMITED
STRATEGIC REPORT
For the year ended 31 December 2016

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

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

Developments with the Federal Republic of Somalia since last Annual Report

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

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

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

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

On 11 November 2016, at the Africa Oil Week Conference in Cape Town, the MPMR updated the industry on their progress to develop the legal and regulatory framework for hydrocarbon exploration in Somalia and announced plans for an inaugural Bid Round for blocks offshore; Galmudug, Hirshabelle and South West Member states. The available acreage will exclude the shallow water blocks under the 1988 concession agreement with Shell and ExxonMobil and the Notice of Application blocks under direct PSA negotiations with Soma.

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

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

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

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

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

On 26 May 2017, RPS Energy (Soma’s technical advisors) presented to the Minister and his advisor, an overview of the geological basins offshore Somalia and some of the potential leads and prospects from the interpretation of the 2D seismic data acquired by Soma.
SOMA OIL & GAS HOLDINGS LIMITED
STRATEGIC REPORT
For the year ended 31 December 2016

Business review and future developments

Introduction

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

Seismic Option Agreement

On 6 August 2013, Soma Exploration signed a Seismic Option Agreement ("SOA") with the Ministry of National Resources 1 of the Federal Government of Somalia ("FGS"). Under the terms of the SOA, Soma was required to undertake an Exploration Programme in the Federal Republic of Somalia over a two year period. Upon meeting the requirements of the SOA, Soma gained the right to apply for blocks and negotiate PSAs for further exploration covering an area of up to 60,000 sq. km.

The Exploration Programme had two phases:

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

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

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

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

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

Capacity Building Agreement

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

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

<table>
<thead>
<tr>
<th>Stage</th>
<th>Dates</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Determine if there is potential for undiscovered hydrocarbons using geological knowledge &amp; basin modelling</td>
<td>April to August 2013</td>
</tr>
<tr>
<td>2. Soma Exploration signs SOA with Federal Government</td>
<td>6 August 2013</td>
</tr>
<tr>
<td>3. Complete Regional Evaluation study (Phase 1 of Exploration Programme)</td>
<td>August 2013 to April 2014</td>
</tr>
<tr>
<td>5. Acquire 2D seismic survey over the offshore Evaluation Area (Phase 2 of Exploration Programme)</td>
<td>February 2014 to June 2014</td>
</tr>
<tr>
<td>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)</td>
<td>June 2014 to July 2015</td>
</tr>
<tr>
<td>7. Signed Data Room in Mogadishu letter with Federal Government to support creation of Data Room as per SOA obligation</td>
<td>17 December 2014</td>
</tr>
<tr>
<td>8. Signed Additional CBA for six month extension with Federal Government</td>
<td>28 April 2015</td>
</tr>
<tr>
<td>11. (a) Apply for and (b) negotiate/be granted PSAs by Federal Government (to shoot additional seismic and drill exploration wells to confirm presence of oil and/or gas with options to develop if discovery is commercial)</td>
<td>(a) 9 December 2015 (b) ongoing (see Negotiation of PSAs section below)</td>
</tr>
<tr>
<td>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 &amp; rewards of further exploration &amp; development of the target fields</td>
<td></td>
</tr>
<tr>
<td>13. Drill &amp; test exploration wells. Acquire additional seismic data. Depending on results, drill additional exploration and/or appraisal wells</td>
<td></td>
</tr>
<tr>
<td>14. If prospective fields are commercially viable, develop field development plans for approval by Joint Venture partners</td>
<td></td>
</tr>
<tr>
<td>15. The field development plans will also need to be approved by the Federal Government before implementation</td>
<td></td>
</tr>
<tr>
<td>16. Execute the field development plans, which involves building the surface &amp; subsea infrastructure and drilling multiple wells to enable the production of oil and/or gas over the lifetime of the fields</td>
<td></td>
</tr>
</tbody>
</table>

**Negotiation of PSAs**

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

**SFO Investigation Closure**

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

**SFO investigation Summary**

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

---

2 The processed seismic data was ready and was made available for delivery on 28 July 2015 and this was been acknowledged by the Ministry of Petroleum & Mineral Resources. The actual handover of the processed seismic data took place at the opening of the Ministry Building and Dataroom in Mogadishu on 9 December 2015.
SOMA OIL & GAS HOLDINGS LIMITED
STRATEGIC REPORT
For the year ended 31 December 2016

SFO Investigation Closure (continued)

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

EITI disclosure

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

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

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

Principal risks and uncertainties

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

Exploration risk

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

Regulatory risk

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

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

Unlike prior years the Somalia & Eritrea Monitoring Group (SEMG) 2016 report no longer recommends to the UN Security Council that they put in place a moratorium on all oil and gas exploration activities in the Federal Republic of Somalia. The UN Security Council continues to support Somalia’s sovereign rights over its natural resources.

Oil and gas price risk

The potential for oil and gas prices to fluctuate over any given period could put the commerciality of certain partnerships and related corporate transactions at risk. The continued lower for longer oil price could negatively impact the ability to raise funding from some financial instruments/markets.
Principal risks and uncertainties (continued)

Foreign exchange risk

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

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

Tax risk

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

Political risk

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

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

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

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

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

Financing and Liquidity risk

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

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

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

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

ON BEHALF OF THE BOARD:

William Richard Anderson
Chief Executive Officer
27 September 2017
SOMA OIL & GAS HOLDINGS LIMITED
DIRECTORS' REPORT
For the year ended 31 December 2016

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

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

BUSINESS REVIEW AND FUTURE DEVELOPMENTS

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

RISK MANAGEMENT POLICIES

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

GOING CONCERN

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

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

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

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

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

However, having considered the above uncertainty and all the available information, the Directors have a reasonable expectation that although the Group does not have adequate resources to continue in operational existence for the foreseeable future, existing shareholders will continue to support the business for the next 12 months as a minimum and as such, the Directors consider it appropriate to prepare the financial statements on a going concern basis.

EVENTS AFTER THE BALANCE SHEET DATE

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

RESULTS AND DIVIDENDS

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

9
SOMA OIL & GAS HOLDINGS LIMITED
DIRECTORS' REPORT
For the year ended 31 December 2016

SUPPLIER PAYMENT POLICY

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

DIRECTORS

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

Lord Howard of Lympne, CH, QC (Chairman)
Bash Shibliq
William Richard Anderson
Robert Alleh Sheppard
Georgy Dzhaparidze
The Earl of Clarwilliam
Philip Edward Charles Wolfe
Hassan Khair
Mohamad Ali Ajami

*Resigned 17 March 2017*
*Resigned 23 February 2017*
*Resigned 6 March 2017*

DIRECTORS' REMUNERATION

The total paid to Directors during the year was US$1,081,000 (2015: US$2,147,000). This included the highest paid Director who was paid US$374,000 (2015: US$417,000).

During the year no Directors exercised their options.

DIRECTORS' INDEMNITIES

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

DISCLOSURE OF INFORMATION TO THE AUDITOR

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

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

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

William Richard Anderson
Chief Executive Officer
27 September 2017
The Directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulations.

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

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

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

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

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

Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.
SOMA OIL & GAS HOLDINGS LIMITED
INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF SOMA OIL & GAS HOLDINGS LIMITED
For the year ended 31 December 2016

We have audited the financial statements of Soma Oil & Gas Holdings Limited for the year ended 31 December 2016 which comprise the Consolidated Statement of Comprehensive Income, Consolidated and Company Statements of Financial Position, Consolidated and Company Statements of Changes in Equity and Consolidated and Company Statements of Cash Flow and the related notes 1 to 21. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union and, as regards the parent company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

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

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

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

Opinion on financial statements
In our opinion:
- the financial statements give a true and fair view of the state of the group's and of the Company's affairs as at 31 December 2016 and of the group's loss for the year then ended;
- the group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- the parent company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

Emphasis of matter: going concern
In forming our opinion on the financial statements, which is not modified, we have considered the adequacy of the disclosure made in note 1 to the financial statements concerning the Company's and the Group's ability to continue as a going concern. The Group and Company is reliant on the funding in place under the US$15 million convertible loan facility from its existing shareholders in order to meet its obligations as they fall due over the 12 month period from the signing of the financial statements.

The loan is due on 31 December 2017 if not converted. The Group would be unable to repay the facility on 31 December 2017 when due if not converted or extended, without an alternative source of finance. Whilst the Group's assessment is that the loan is likely to be converted by Winter Sky, and thus repayment will not be required, Winter Sky is under no obligation to convert. This indicates the existence of a material uncertainty which may cast doubt on the Company's and Group's ability to continue as a going concern. The financial statements do not include the adjustments that would result if the Company and Group were unable to continue as a going concern.
SOMA OIL & GAS HOLDINGS LIMITED
INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF SOMA OIL & GAS
HOLDINGS LIMITED
For the year ended 31 December 2016

Opinion on other matters prescribed by the Companies Act 2006
In our opinion, based on the work undertaken in the course of the audit:

• the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements; and

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

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

Matters on which we are required to report by exception
We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

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

Bevan Whitehead (Senior statutory auditor)
for and on behalf of Deloitte LLP
Statutory Auditor
London, United Kingdom
28 September 2017
# CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2016

<table>
<thead>
<tr>
<th></th>
<th>For the year ended 31 December 2016</th>
<th>For the year ended 31 December 2015</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>US$’000</td>
<td>US$’000</td>
</tr>
<tr>
<td>Other income</td>
<td>692</td>
<td>-</td>
</tr>
<tr>
<td>Administrative expenses</td>
<td>(2,348)</td>
<td>(4,143)</td>
</tr>
<tr>
<td>Operating loss</td>
<td>(1,656)</td>
<td>(4,143)</td>
</tr>
<tr>
<td>Interest received</td>
<td>9</td>
<td>-</td>
</tr>
<tr>
<td>Interest expense</td>
<td>(529)</td>
<td>-</td>
</tr>
<tr>
<td>Loss before tax</td>
<td>(2,176)</td>
<td>(4,143)</td>
</tr>
<tr>
<td>Taxation</td>
<td>(8)</td>
<td>(8)</td>
</tr>
<tr>
<td>Loss for the year</td>
<td>(2,184)</td>
<td>(4,151)</td>
</tr>
<tr>
<td>Other comprehensive income</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Currency translation differences</td>
<td>38</td>
<td>20</td>
</tr>
<tr>
<td>Total comprehensive loss for the year</td>
<td>(2,146)</td>
<td>(4,131)</td>
</tr>
</tbody>
</table>

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

The notes on pages 19 to 42 are an integral part of these financial statements.
### SOMA OIL & GAS HOLDINGS LIMITED
### STATEMENTS OF FINANCIAL POSITION
### As at 31 December 2016

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

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

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

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

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

William Richard Anderson
Chief Executive Officer
SOMA OIL & GAS HOLDINGS LIMITED
STATEMENTS OF CHANGES IN EQUITY
For the year ended 31 December 2016

<table>
<thead>
<tr>
<th>Share capital</th>
<th>Share premium</th>
<th>Share based payment reserve</th>
<th>Currency translation reserve</th>
<th>Convertible Loan Reserve</th>
<th>Warrant Reserve</th>
<th>Retained losses</th>
<th>Total equity</th>
</tr>
</thead>
<tbody>
<tr>
<td>US$'000</td>
<td>US$'000</td>
<td>US$'000</td>
<td>US$'000</td>
<td>US$'000</td>
<td>US$'000</td>
<td>US$'000</td>
<td>US$'000</td>
</tr>
<tr>
<td>Balance at 1 January 2015</td>
<td>51,800</td>
<td>5,056</td>
<td>(85)</td>
<td>-</td>
<td>-</td>
<td>(13,037)</td>
<td>43,734</td>
</tr>
</tbody>
</table>

Comprehensive expense
Loss for the year | - | - | - | (4,151) | (4,151) |
Other comprehensive income | - | - | - | - | - | - | - |
Total comprehensive loss | - | - | - | - | - | (4,151) | (4,151) |

Transactions with Shareholders
Share based payment | - | - | - | (1,173) | - | - | (1,173) |
Issue of 2015 convertible loan notes | - | - | - | 826 | - | - | 826 |
Issue of 2015 warrants | - | - | - | - | - | 2,287 | 2,287 |
Interest on 2015 convertible loan notes | - | - | - | - | - | (113) | (113) |
Total transactions with shareholders | - | - | - | (1,173) | 826 | 2,287 | (113) | 1,827 |

Balance as at 31 December 2015 | 51,800 | 3,883 | (65) | 826 | 2,287 | (17,301) | 41,430 |

Comprehensive expense
Loss for the year | - | - | - | - | - | (2,184) | (2,184) |
Other comprehensive income | - | - | - | 38 | - | - | 38 |
Total comprehensive loss | - | - | - | 38 | - | (2,184) | (2,146) |

Transactions with Shareholders
Share based payment | - | - | - | (547) | - | - | 547 |
Recycled share options | - | - | - | (1,793) | - | - | (1,793) |
Interest on 2015 convertible loan notes | - | - | - | - | - | 17 | 17 |
2016 convertible loan note equity reserve | - | - | - | - | - | 22 | 22 |
Total transactions with shareholders | - | - | - | (2,340) | 39 | 2,287 | 547 | (1,754) |

Balance as at 31 December 2016 | 51,800 | 1,543 | (27) | 865 | 2,287 | (18,938) | 37,530 |

The notes on pages 19 to 42 form an integral part of these financial statements.
SOMA OIL & GAS HOLDINGS LIMITED
STATEMENTS OF CHANGES IN EQUITY
For the year ended 31 December 2016

<table>
<thead>
<tr>
<th>Company</th>
<th>Share capital</th>
<th>Share premium</th>
<th>Share based payment reserve</th>
<th>Convertible loan reserve</th>
<th>Warrant reserve</th>
<th>Retained losses</th>
<th>Total equity</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>US$'000</td>
<td>US$'000</td>
<td>US$'000</td>
<td>US$'000</td>
<td>US$'000</td>
<td>US$'000</td>
<td>US$'000</td>
</tr>
<tr>
<td>Balance at 1 January 2015</td>
<td>-</td>
<td>51,800</td>
<td>5,056</td>
<td>-</td>
<td>-</td>
<td>(6,626)</td>
<td>50,230</td>
</tr>
<tr>
<td>Comprehensive income</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>1,079</td>
<td>1,079</td>
</tr>
<tr>
<td>Total comprehensive profit</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>1,079</td>
<td>1,079</td>
</tr>
<tr>
<td>Transactions with Shareholders</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>1,079</td>
<td>1,079</td>
</tr>
<tr>
<td>Share based payment</td>
<td>-</td>
<td>-</td>
<td>(1,173)</td>
<td>-</td>
<td>-</td>
<td>(1,173)</td>
<td>-</td>
</tr>
<tr>
<td>Issue of 2015 convertible loan notes</td>
<td>-</td>
<td>-</td>
<td>826</td>
<td>-</td>
<td>-</td>
<td>826</td>
<td>-</td>
</tr>
<tr>
<td>Issue of 2015 warrants</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>2,287</td>
<td>-</td>
<td>2,287</td>
<td>-</td>
</tr>
<tr>
<td>Interest on 2015 convertible loan notes</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>(113)</td>
<td>(113)</td>
<td>-</td>
</tr>
<tr>
<td>Total transactions with shareholders</td>
<td>-</td>
<td>-</td>
<td>(1,173)</td>
<td>826</td>
<td>2,287</td>
<td>(113)</td>
<td>1,827</td>
</tr>
<tr>
<td>Balance as at 31 December 2015</td>
<td>-</td>
<td>51,800</td>
<td>3,883</td>
<td>826</td>
<td>2,287</td>
<td>(5,660)</td>
<td>53,136</td>
</tr>
<tr>
<td>Comprehensive loss</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>1,248</td>
<td>1,248</td>
</tr>
<tr>
<td>Loss for the year</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>1,248</td>
<td>1,248</td>
</tr>
<tr>
<td>Transactions with Shareholders</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>1,248</td>
<td>1,248</td>
</tr>
<tr>
<td>Recycled options</td>
<td>-</td>
<td>-</td>
<td>(547)</td>
<td>-</td>
<td>-</td>
<td>547</td>
<td>-</td>
</tr>
<tr>
<td>Share based payment</td>
<td>-</td>
<td>-</td>
<td>(1,793)</td>
<td>-</td>
<td>-</td>
<td>(1,793)</td>
<td>-</td>
</tr>
<tr>
<td>Interest on 2015 convertible loan notes</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>17</td>
<td>-</td>
<td>-</td>
<td>17</td>
</tr>
<tr>
<td>2016 convertible loan note equity reserve</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>22</td>
<td>-</td>
<td>-</td>
<td>22</td>
</tr>
<tr>
<td>Total transactions with shareholders</td>
<td>-</td>
<td>-</td>
<td>(2,340)</td>
<td>39</td>
<td>-</td>
<td>547</td>
<td>(1,754)</td>
</tr>
<tr>
<td>Balance as at 31 December 2016</td>
<td>-</td>
<td>51,800</td>
<td>1,543</td>
<td>865</td>
<td>2,287</td>
<td>(3,865)</td>
<td>52,830</td>
</tr>
</tbody>
</table>

The notes on pages 19 to 42 form an integral part of these financial statements.
SOMA OIL & GAS HOLDINGS LIMITED
STATEMENTS OF CASH FLOW
For the year ended 31 December 2016

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

The notes on pages 19 to 42 form an integral part of these financial statements.
1. Accounting policies for Group and Company

1.1 Basis of preparation for Group and Company

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

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

Going concern

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

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

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

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

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

However, having considered the above uncertainty and all the available information, the Directors have a reasonable expectation that although the Group does not have adequate resources to continue in operational existence for the foreseeable future, existing shareholders will continue to support the business for the next 12 months as a minimum and as such, the Directors consider it appropriate to prepare the financial statements on a going concern basis.
1. Accounting policies for Group and Company (continued)

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

<table>
<thead>
<tr>
<th>Standard</th>
<th>Key requirements</th>
<th>Effective date as adopted by the EU</th>
</tr>
</thead>
</table>
| Amendment to IFRS 11, 'Accounting for Acquisitions of Interests in Joint Operations' | Amends IFRS 11 Joint Arrangements to require an acquirer of an interest in a joint operation in which the activity constitutes a business (as defined in IFRS 3 Business Combinations) to:  
  • apply all of the business combinations accounting principles in IFRS 3 and other IFRSs, except for those principles that conflict with the guidance in IFRS 11  
  • disclose the information required by IFRS 3 and other IFRSs for business combinations. | 1 January 2016                      |
| Amendments to IAS 16 and IAS 38                                         | Clarifies acceptable methods of depreciation and amortisation.                                                                                                                                                    | 1 January 2016                      |
| Amendments to IAS 27                                                    | Amends IAS 27 Separate Financial Statements to permit investments in subsidiaries, joint ventures and associates to be optionally accounted for using the equity method in separate financial statements. | 1 January 2016                      |
| Amendments to IAS 1                                                     | Disclosure amendments                                                                                                                                                                                             | 1 January 2016                      |

Standards issued but not yet effective -

The following relevant new standards, amendments to standards and interpretations have been issued, but are not effective for the financial year beginning on 1 January 2016, as adopted by the European Union, and have not been early adopted:

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

The Directors anticipate that the adoption of these Standards and Interpretations in future years will have no material impact on the financial statements of the Group when the relevant standards and interpretations come into effect.
1. Accounting policies for Group and Company (continued)

The principal accounting policies adopted are set out below.

1.2 Basis of consolidation

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

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

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

<table>
<thead>
<tr>
<th>No.</th>
<th>Name</th>
<th>Countries of operation</th>
<th>Principal activity</th>
<th>Class of shares</th>
<th>%</th>
<th>Registered office address</th>
<th>Country of registration</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>Soma Management Limited</td>
<td>UK</td>
<td>Management company</td>
<td>Ordinary</td>
<td>100%</td>
<td>21 Arlington Street, St. James’s London United Kingdom SW1A 1RD</td>
<td>UK</td>
</tr>
<tr>
<td>2.</td>
<td>Soma Oil &amp; Gas Exploration Limited</td>
<td>The Federal Republic of Somalia and Kenya</td>
<td>Oil &amp; gas exploration</td>
<td>Ordinary</td>
<td>100%</td>
<td>21 Arlington Street, St. James’s London United Kingdom SW1A 1RD</td>
<td>UK</td>
</tr>
</tbody>
</table>

1.3 Revenue recognition

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

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

1.4 Operating lease payments

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

1.5 Foreign currencies

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

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

1.6 Employee services settled in equity instruments

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

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

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

1.7 Oil and gas properties

Exploration and evaluation assets

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

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

Development and production assets

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

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

1.8 Depletion, amortisation and impairment – development and production assets

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

1.9 Commercial reserves

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

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2016

SOMA OIL & GAS HOLDINGS LIMITED
Annex 176
1. Accounting policies for Group and Company (continued)

1.10 Property, plant and equipment

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

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

Oil and gas properties – see Note 1.7.

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

1.11 Impairment of property, plant and equipment

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

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

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

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

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

1.12 Financial instruments

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

1.12.1 Trade receivables

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

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

1.12.2 Cash and cash equivalents

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

1.12.3 Trade payables

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

1.12.4 Warrant reserve

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

1.13 Compound financial instruments

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

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

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

1.14 Other income

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

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

2.1 Financial risk factors

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

2.1.1 Market risk - foreign exchange risk

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

The majority of the intra-group transactions are conducted in US dollar. As a result there is no significant foreign exchange risk at present. However, the Group does review its exposure to transactions denominated in other currencies and takes necessary action to minimise this exposure.
2. Group financial risk management, critical judgements and key sources of estimation uncertainty (continued)

2.1.2 Credit risk

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

2.1.3 Liquidity risk

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

2.1.4 Market risk - interest rate risk

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

2.2 Capital risk management

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

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

2.3 Fair values of financial assets and liabilities

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

2.4 Critical judgements

2.4.1 Capitalisation policy of Exploration and Evaluation assets

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

Further judgement is involved in applying the Group's accounting policy to certain categories of costs, such as the Capacity Building Payments and Data Room costs as further described in the Strategic Report. Management capitalises such costs as they are considered directly attributable to the conversion of the Group's current E&E rights under the SOA into future exploration and production rights under a number of PSAs.
2. Group financial risk management, critical judgements and key sources of estimation uncertainty (continued)

2.5 Key sources of estimation uncertainty

2.5.1 Exploration and Evaluation asset recoverability

E&E assets are required to be assessed for indications of impairment at least at each balance sheet date, with reference to the indicators of impairment set out in IFRS 6 Exploration and Evaluation of Mineral Resources. Such assessment often requires significant judgement, such as whether substantive further E&E activity is planned, and whether rights to explore in the specific area will expire in the near future. Having considered these uncertainties in the light of all of the information currently available, in management's judgement the Group's E&E assets were not impaired at 31 December 2016.

2.5.2 Share based remuneration

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

3. Other income

<table>
<thead>
<tr>
<th></th>
<th>At 31 December 2016</th>
<th>At 31 December 2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>Other income</td>
<td>US$'000</td>
<td>US$'000</td>
</tr>
<tr>
<td></td>
<td>692</td>
<td>-</td>
</tr>
</tbody>
</table>

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

4. Group auditor's remuneration

The operating loss for the year is stated after charging:

<table>
<thead>
<tr>
<th></th>
<th>Year ended 31 December 2016</th>
<th>Year ended 31 December 2015</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>US$'000</td>
<td>US$'000</td>
</tr>
<tr>
<td>Audit fees:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Fees payable to the Company’s Auditor for the Group and Company annual report</td>
<td>24</td>
<td>70</td>
</tr>
<tr>
<td>Audit of the Company’s subsidiaries pursuant to legislation</td>
<td>40</td>
<td>40</td>
</tr>
<tr>
<td></td>
<td>64</td>
<td>110</td>
</tr>
<tr>
<td>Non-audit fees:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Tax services</td>
<td>21</td>
<td>33</td>
</tr>
<tr>
<td></td>
<td>21</td>
<td>33</td>
</tr>
</tbody>
</table>

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 administrative expenses

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

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

6. Group staff numbers and costs

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

<table>
<thead>
<tr>
<th>Year ended 31 December</th>
<th>Year ended 31 December</th>
</tr>
</thead>
<tbody>
<tr>
<td>No.</td>
<td>No.</td>
</tr>
<tr>
<td>Soma Management Limited</td>
<td>10</td>
</tr>
<tr>
<td>Soma Oil &amp; Gas Exploration Limited</td>
<td>2</td>
</tr>
<tr>
<td></td>
<td>12</td>
</tr>
</tbody>
</table>

Staff costs, excluding directors comprised:

<table>
<thead>
<tr>
<th>Year ended 31 December</th>
<th>Year ended 31 December</th>
</tr>
</thead>
<tbody>
<tr>
<td>US$'000</td>
<td>US$'000</td>
</tr>
<tr>
<td>Wages, salaries and benefits</td>
<td>316</td>
</tr>
<tr>
<td>Social security costs</td>
<td>45</td>
</tr>
<tr>
<td>Share based payments</td>
<td>97</td>
</tr>
<tr>
<td></td>
<td>458</td>
</tr>
</tbody>
</table>
6. Group staff numbers and costs (continued)

The Directors' remuneration comprised:

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

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

7. Group taxation

<table>
<thead>
<tr>
<th></th>
<th>Year ended</th>
<th>Year ended</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>31 December</td>
<td>31 December</td>
</tr>
<tr>
<td></td>
<td>2016 US$'000</td>
<td>2015 US$'000</td>
</tr>
<tr>
<td>Current tax:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Current tax</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Adjustments in respect of prior years</td>
<td>8</td>
<td>8</td>
</tr>
<tr>
<td>Total current tax expense</td>
<td>8</td>
<td>8</td>
</tr>
<tr>
<td>Deferred tax</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total income tax expense in the income statement</td>
<td><strong>8</strong></td>
<td><strong>8</strong></td>
</tr>
</tbody>
</table>

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

<table>
<thead>
<tr>
<th></th>
<th>Year ended</th>
<th>Year ended</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>31 December</td>
<td>31 December</td>
</tr>
<tr>
<td></td>
<td>2016 US$'000</td>
<td>2015 US$'000</td>
</tr>
<tr>
<td>Loss before tax</td>
<td>2,176</td>
<td>4,143</td>
</tr>
<tr>
<td>Income tax using the UK domestic corporation tax rate of 20% (2015: 20.25%)</td>
<td>435</td>
<td>839</td>
</tr>
<tr>
<td>Kenyan branch income tax</td>
<td>8</td>
<td>8</td>
</tr>
<tr>
<td>Unutilised tax losses</td>
<td>(435)</td>
<td>(839)</td>
</tr>
<tr>
<td>Current tax charge</td>
<td><strong>8</strong></td>
<td><strong>8</strong></td>
</tr>
</tbody>
</table>
7. Group taxations (continued)

UK tax losses may be carried forward indefinitely and set off against future taxable profits. Deferred tax assets have not been recognised in respect of these items because it is not yet probable that future taxable profit will be available against which the Group can utilise the benefits there from. At 31 December 2016, tax losses were US$15,670,000 (2015: US$10,967,000).

8. Group intangible assets

<table>
<thead>
<tr>
<th>Exploration and evaluation assets</th>
<th>US$'000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cost:</td>
<td></td>
</tr>
<tr>
<td>At 1 January 2015</td>
<td>40,033</td>
</tr>
<tr>
<td>Additions in the year</td>
<td>2,199</td>
</tr>
<tr>
<td>At 31 December 2015</td>
<td>42,232</td>
</tr>
<tr>
<td>Additions in the year</td>
<td></td>
</tr>
<tr>
<td>At 31 December 2016</td>
<td>751</td>
</tr>
<tr>
<td>Amortisation and Impairment:</td>
<td></td>
</tr>
<tr>
<td>At 1 January 2015 and 31 December 2015</td>
<td>-</td>
</tr>
<tr>
<td>Amortisation charge for the year</td>
<td>-</td>
</tr>
<tr>
<td>At 31 December 2016</td>
<td>-</td>
</tr>
<tr>
<td>Net book value:</td>
<td></td>
</tr>
<tr>
<td>At 31 December 2015</td>
<td>42,232</td>
</tr>
<tr>
<td>At 31 December 2016</td>
<td>42,983</td>
</tr>
</tbody>
</table>

Significant judgements and estimation uncertainties relating to the Group’s exploration and evaluation assets, are explained in Note 2.4 and 2.5.
9. Group property, plant and equipment

<table>
<thead>
<tr>
<th></th>
<th>Motor vehicles US$'000</th>
<th>Fixtures and fittings US$'000</th>
<th>Computer equipment US$'000</th>
<th>Total US$'000</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Cost:</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>At 1 January 2015</td>
<td>126</td>
<td>109</td>
<td>26</td>
<td>261</td>
</tr>
<tr>
<td>Additions in the year</td>
<td>-</td>
<td>31</td>
<td>2</td>
<td>33</td>
</tr>
<tr>
<td>Disposals in the year</td>
<td></td>
<td>(42)</td>
<td></td>
<td>(42)</td>
</tr>
<tr>
<td>At 31 December 2015</td>
<td>126</td>
<td>98</td>
<td>28</td>
<td>252</td>
</tr>
<tr>
<td>Disposals in the year</td>
<td></td>
<td></td>
<td></td>
<td>(126)</td>
</tr>
<tr>
<td>At 31 December 2016</td>
<td></td>
<td>98</td>
<td>28</td>
<td>126</td>
</tr>
<tr>
<td><strong>Depreciation:</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>At 1 January 2015</td>
<td>18</td>
<td>23</td>
<td>6</td>
<td>47</td>
</tr>
<tr>
<td>Charge for the year</td>
<td>42</td>
<td>35</td>
<td>9</td>
<td>86</td>
</tr>
<tr>
<td>Disposals in the year</td>
<td></td>
<td>(24)</td>
<td></td>
<td>(24)</td>
</tr>
<tr>
<td>At 31 December 2015</td>
<td>60</td>
<td>34</td>
<td>15</td>
<td>109</td>
</tr>
<tr>
<td>Charge for the year</td>
<td>-</td>
<td>33</td>
<td>9</td>
<td>42</td>
</tr>
<tr>
<td>Disposals in the year</td>
<td></td>
<td>(60)</td>
<td></td>
<td>(60)</td>
</tr>
<tr>
<td>At 31 December 2016</td>
<td></td>
<td>67</td>
<td>24</td>
<td>91</td>
</tr>
<tr>
<td><strong>Net Book Value:</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>At 31 December 2015</td>
<td>66</td>
<td>64</td>
<td>13</td>
<td>143</td>
</tr>
<tr>
<td>At 31 December 2016</td>
<td></td>
<td>31</td>
<td>4</td>
<td>35</td>
</tr>
</tbody>
</table>
10. Prepayments and other receivables

<table>
<thead>
<tr>
<th></th>
<th>At 31 December 2016</th>
<th>At 31 December 2015</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>US$'000</td>
<td>US$'000</td>
</tr>
<tr>
<td>Prepayments</td>
<td>72</td>
<td>108</td>
</tr>
<tr>
<td>VAT recoverable</td>
<td>110</td>
<td>98</td>
</tr>
<tr>
<td>Other receivables</td>
<td>705</td>
<td>89</td>
</tr>
<tr>
<td></td>
<td><strong>887</strong></td>
<td><strong>295</strong></td>
</tr>
</tbody>
</table>

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

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

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

11. Cash and cash equivalents

<table>
<thead>
<tr>
<th></th>
<th>At 31 December 2016</th>
<th>At 31 December 2015</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>US$'000</td>
<td>US$'000</td>
</tr>
<tr>
<td>Cash in bank and on hand</td>
<td>864</td>
<td>882</td>
</tr>
<tr>
<td>Bank overdraft</td>
<td>(173)</td>
<td>-</td>
</tr>
<tr>
<td></td>
<td><strong>691</strong></td>
<td><strong>882</strong></td>
</tr>
</tbody>
</table>

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

Group

<table>
<thead>
<tr>
<th></th>
<th>At 31 December</th>
<th>At 31 December</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2016 US$'000</td>
<td>2015 US$'000</td>
</tr>
<tr>
<td>Trade payables</td>
<td>263</td>
<td>1,240</td>
</tr>
<tr>
<td>Accruals</td>
<td>790</td>
<td>675</td>
</tr>
<tr>
<td>Social security and other taxes</td>
<td>-</td>
<td>128</td>
</tr>
<tr>
<td>Other payables</td>
<td>-</td>
<td>71</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>1,053</strong></td>
<td><strong>2,114</strong></td>
</tr>
</tbody>
</table>

Trade payables principally comprise amounts outstanding for trade purchases.

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

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

Company

<table>
<thead>
<tr>
<th></th>
<th>At 31 December</th>
<th>At 31 December</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2016 US$'000</td>
<td>2015 US$'000</td>
</tr>
<tr>
<td>Accruals</td>
<td>48</td>
<td>73</td>
</tr>
</tbody>
</table>

13. Convertible loan notes and warrants

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

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

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

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

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

Terms and debt repayment schedule

<table>
<thead>
<tr>
<th>Currency</th>
<th>Nominal interest rate %</th>
<th>Date of redemption</th>
<th>Face Value 31 December 2016</th>
<th>Carrying Amount 31 December 2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>Convertible loan notes</td>
<td>USD</td>
<td>15</td>
<td>31.12.2017</td>
<td>5,513,935</td>
</tr>
</tbody>
</table>

Convertible loan note movements:

- Proceeds from the issue of USD convertible loan notes
  $5,513,935

- Amount classified as equity through fair value discounting
  $(21,885)

- Discounted fair value of the convertible loan
  $5,492,050

- Effective interest charge on convertible loan to 31 December 2016
  513,088

- Carrying amount of the convertible loan at 31 December 2016
  $6,005,138

Split showing the maturity of the convertible loan notes:

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

- Liability due in >1 year at 31 December 2016
  -

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

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

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

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

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

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

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

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

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

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

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

<table>
<thead>
<tr>
<th></th>
<th>Number of warrants</th>
<th>Weighted average exercise price in US$</th>
</tr>
</thead>
<tbody>
<tr>
<td>Outstanding at the beginning of the year</td>
<td>33,250,000</td>
<td>0.1</td>
</tr>
<tr>
<td>Granted</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Lapsed</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Exercised</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Outstanding at the end of the year</td>
<td>33,250,000</td>
<td>0.1</td>
</tr>
<tr>
<td>Exercisable at the end of the year</td>
<td>-</td>
<td>-</td>
</tr>
</tbody>
</table>

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

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

On 30 January 2017 the Board members issued a written resolution approving the cessation of interest accruing on the loan notes effective 30 January 2016. Additionally a conversion notice was issued stating all interest accrued to the 30 January 2016 (US$129,000) and the principal (US$3,000,000) would be fully converted into new fully paid Ordinary shares on 1 February 2017. The conversion price was amended to US$1.50 per share and an additional 2,986,177 new fully paid Ordinary shares was issued on 1 February 2017.
14. Group financial instruments

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

Principal financial instruments

The principal financial instruments used by the Group, from which financial instrument risk arises are as follows:
- Cash and cash equivalents
- Other receivables
- Trade payables
- Accruals

Financial assets

<table>
<thead>
<tr>
<th></th>
<th>At 31 December 2016</th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Current US$'000</td>
<td>Non-current US$'000</td>
<td></td>
</tr>
<tr>
<td>Cash and cash equivalents</td>
<td>691</td>
<td>-</td>
<td></td>
</tr>
<tr>
<td>Other receivables</td>
<td>705</td>
<td>-</td>
<td></td>
</tr>
<tr>
<td></td>
<td><strong>1,396</strong></td>
<td>-</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th>At 31 December 2015</th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Current US$'000</td>
<td>Non-current US$'000</td>
<td></td>
</tr>
<tr>
<td>Cash and cash equivalents</td>
<td>882</td>
<td>-</td>
<td></td>
</tr>
<tr>
<td>Other receivables</td>
<td>89</td>
<td>-</td>
<td></td>
</tr>
<tr>
<td></td>
<td><strong>971</strong></td>
<td>-</td>
<td></td>
</tr>
</tbody>
</table>

Financial liabilities

<table>
<thead>
<tr>
<th></th>
<th>31 December 2016</th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Current US$'000</td>
<td>Non-current US$'000</td>
<td></td>
</tr>
<tr>
<td>Trade payables</td>
<td>263</td>
<td>-</td>
<td></td>
</tr>
<tr>
<td>Accruals</td>
<td>790</td>
<td>-</td>
<td></td>
</tr>
<tr>
<td>Convertible loan</td>
<td>6,005</td>
<td>-</td>
<td></td>
</tr>
<tr>
<td></td>
<td><strong>7,058</strong></td>
<td>-</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th>31 December 2015</th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Current US$'000</td>
<td>Non-current US$'000</td>
<td></td>
</tr>
<tr>
<td>Trade payables</td>
<td>1,240</td>
<td>-</td>
<td></td>
</tr>
<tr>
<td>Accruals</td>
<td>675</td>
<td>-</td>
<td></td>
</tr>
<tr>
<td>Other payables</td>
<td>71</td>
<td>-</td>
<td></td>
</tr>
<tr>
<td></td>
<td><strong>1,986</strong></td>
<td>-</td>
<td></td>
</tr>
</tbody>
</table>
14. Group financial instruments (continued)

Foreign currency risk

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

1) Transactional exposure relating to operating costs and capital expenditure incurred in currencies other than the functional currency of Group companies, being US Dollars and GBP Sterling;

2) Translation exposures relating to monetary assets and liabilities, including cash and short-term investment balances, held in currencies other than the functional currency of operations and net investments that are not denominated in US Dollars.

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

<table>
<thead>
<tr>
<th>Currency</th>
<th>At 31 December 2016</th>
<th>At 31 December 2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>US Dollars</td>
<td>846</td>
<td>850</td>
</tr>
<tr>
<td>GBP Sterling</td>
<td>(173)</td>
<td>24</td>
</tr>
<tr>
<td>Kenyan Shillings</td>
<td>18</td>
<td>8</td>
</tr>
<tr>
<td>Total</td>
<td>691</td>
<td>882</td>
</tr>
</tbody>
</table>

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

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

<table>
<thead>
<tr>
<th></th>
<th>2016</th>
<th>Liabilities</th>
</tr>
</thead>
<tbody>
<tr>
<td>US Dollars</td>
<td>933</td>
<td>6,118</td>
</tr>
<tr>
<td>GBP Sterling</td>
<td>445</td>
<td>939</td>
</tr>
<tr>
<td>Kenya Shilling</td>
<td>18</td>
<td>1</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th>2015</th>
<th>Liabilities</th>
</tr>
</thead>
<tbody>
<tr>
<td>US Dollars</td>
<td>850</td>
<td>661</td>
</tr>
<tr>
<td>GBP Sterling</td>
<td>94</td>
<td>1,312</td>
</tr>
<tr>
<td>Kenya Shilling</td>
<td>27</td>
<td>59</td>
</tr>
</tbody>
</table>

Interest rate risk

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

<table>
<thead>
<tr>
<th>Number of shares No.</th>
<th>Ordinary shares par value US$</th>
<th>Ordinary shares share premium US$</th>
</tr>
</thead>
<tbody>
<tr>
<td>As at 31 December 2015 and 2016</td>
<td>181,500,000</td>
<td>294</td>
</tr>
</tbody>
</table>

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

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

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

16. Group operating lease commitments

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

<table>
<thead>
<tr>
<th></th>
<th>31 December 2016 US$’000</th>
<th>31 December 2015 US$’000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Within one year</td>
<td>21</td>
<td>21</td>
</tr>
<tr>
<td>Within 2-5 years</td>
<td>64</td>
<td>85</td>
</tr>
<tr>
<td>More than 5 years</td>
<td>-</td>
<td>-</td>
</tr>
</tbody>
</table>

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

17. Group share options and other share based payments

<table>
<thead>
<tr>
<th>Year ended</th>
<th>Credit for the year US$’000</th>
</tr>
</thead>
<tbody>
<tr>
<td>31 December 2016</td>
<td>(1,793)</td>
</tr>
<tr>
<td>31 December 2015</td>
<td>(1,173)</td>
</tr>
</tbody>
</table>

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

Resignations

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

On 23 February 2017 Hassan Khaire stood down as a Director of Soma Exploration Limited, please see Note 21 for further detail, in doing so he agreed to waive all outstanding options to him totalling 5,241,400.
17. Group share options and other share based payments (continued)

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

**Share options issued**

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

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

¹ Achieved in June 2014.
² Achieved in December 2016.
³ Sufficiently progressed at 31 December 2016 to be at least considered 50% probable.
⁴ Insufficiently progressed at 31 December 2016 to be considered at least 50% probable.

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

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

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

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

<table>
<thead>
<tr>
<th></th>
<th>31 December 2016</th>
<th>Weighted average exercise price in US$ per share</th>
</tr>
</thead>
<tbody>
<tr>
<td>Outstanding at the beginning of the year</td>
<td>11,886,250</td>
<td>0.87</td>
</tr>
<tr>
<td>Granted</td>
<td>8,000,000</td>
<td>0.25</td>
</tr>
<tr>
<td>Lapsed / forfeited</td>
<td>(9,379,350)</td>
<td>0.85</td>
</tr>
<tr>
<td>Outstanding at the end of the year</td>
<td>10,506,900</td>
<td>0.41</td>
</tr>
<tr>
<td>Exercisable at the end of the year</td>
<td>6,250,000</td>
<td>0.45</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th>31 December 2015</th>
<th>Weighted average exercise price in US$ per share</th>
</tr>
</thead>
<tbody>
<tr>
<td>Outstanding at the beginning of the year</td>
<td>17,034,550</td>
<td>0.86</td>
</tr>
<tr>
<td>Granted</td>
<td>50,000</td>
<td>0.63</td>
</tr>
<tr>
<td>Lapsed</td>
<td>(5,198,300)</td>
<td>0.85</td>
</tr>
<tr>
<td>Outstanding at the end of the year</td>
<td>11,886,250</td>
<td>0.87</td>
</tr>
<tr>
<td>Exercisable at the end of the year</td>
<td>3,250,000</td>
<td>1</td>
</tr>
</tbody>
</table>

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

Based on Management’s assessment of the likelihood of the non-market vesting conditions and considering the likely vesting period and the estimated number of shares that will vest for each milestone, this has led to a credit of US$1,793,000 (2015: credit of US$1,173,000) for the year to 31 December 2016.
SOMA OIL & GAS HOLDINGS LIMITED
NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2016

18. Cash flows utilised in operating activities

Group

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

Company

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

No dividends were paid or declared during the year.
SOMA OIL & GAS HOLDINGS LIMITED
NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2016

19. Related party transactions

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

Compensation of key management personnel

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

Shareholder funding – US$15m draw down facility

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

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

Other transactions

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

<table>
<thead>
<tr>
<th></th>
<th>Outstanding balance 2016 US$'000</th>
<th>Directors fees 2016 US$'000</th>
<th>Outstanding balance 2015 US$'000</th>
<th>Directors fees 2015 US$'000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Matador Asset Management Ltd</td>
<td>75</td>
<td>68</td>
<td>23</td>
<td>78</td>
</tr>
</tbody>
</table>

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

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

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

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

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

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

21. Group subsequent events

Conversion of $3m convertible loan notes

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

Resignation of a Director

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

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

Extension of the US$15 million convertible loan notes

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

Set-off Agreement

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

Winter Sky agreed to subscribe for Notes at the nominal amount of US$1 per note, at 31 December 2016 there was a service fee accrued of US$94,000.
Annex 177

“The Story of Soma Oil & Gas - Company Presentation”, Soma Oil & Gas,
October 2015
The Story of Soma Oil & Gas Company Presentation October 2015
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## Strong Experienced Board & Management Team

<table>
<thead>
<tr>
<th>Name</th>
<th>Role</th>
<th>Experience</th>
</tr>
</thead>
<tbody>
<tr>
<td>Lord Howard of Lympne CH, QC</td>
<td>Non Executive Chairman</td>
<td>− Former leader of Britain's Conservative Party</td>
</tr>
<tr>
<td></td>
<td></td>
<td>− Former Home Secretary in Conservative Government</td>
</tr>
<tr>
<td></td>
<td></td>
<td>− Previous cabinet positions held include Secretary of State for Employment and Secretary of State for the Environment</td>
</tr>
<tr>
<td></td>
<td></td>
<td>− Lord Howard also sits on the Board of a number of companies</td>
</tr>
<tr>
<td>W. Richard Anderson</td>
<td>Chief Executive Officer</td>
<td>− Over has 32 years’ experience in oil and gas industry related finance and management.</td>
</tr>
<tr>
<td></td>
<td></td>
<td>− On the board of Eurasia Drilling Company, where he has been CFO since July 2008</td>
</tr>
<tr>
<td></td>
<td></td>
<td>− Chairman of the board of Vanguard Natural Resources LLC and he was President and Chief Executive Officer of Prime Natural Resources, Inc. from 2002 until 2007</td>
</tr>
<tr>
<td>Basil Shiblaq</td>
<td>Executive Deputy Chairman and Founder</td>
<td>− 45 years' experience in finance focussing in Oil &amp; Gas and Mining</td>
</tr>
<tr>
<td></td>
<td></td>
<td>− One of the early investors in both Fusion Oil &amp; Gas plc and Ophir Energy plc</td>
</tr>
<tr>
<td></td>
<td></td>
<td>− Founder of a number of private companies focussed on energy trading as well as oil &amp; gas and mineral exploration</td>
</tr>
<tr>
<td></td>
<td></td>
<td>− Previously at Merrill Lynch, Kidder Peabody and Credit Suisse First Boston in the Middle East and London</td>
</tr>
<tr>
<td>Robert Sheppard</td>
<td>Executive Director</td>
<td>− 40 plus years' oil &amp; gas experience with BP and Amoco</td>
</tr>
<tr>
<td></td>
<td></td>
<td>− Currently Senior Adviser to BP, non Executive Director at BlackRock Emerging Europe plc and Director of DTEK (Ukraine)</td>
</tr>
<tr>
<td></td>
<td></td>
<td>− Former TNK-BP board member</td>
</tr>
<tr>
<td></td>
<td></td>
<td>− Former Chief Executive Officer of Sidanco, President of Amoco Egypt and Argentina</td>
</tr>
</tbody>
</table>
Strong Experienced Board & Management Team

Philip Wolfe  
Chief Financial Officer  
- 23 years' experience in oil & gas corporate finance  
- Advised various IOCs, independents and NOCs on strategic transactions, IPOs and other financings  
- Previously Head of EMEA Oil & Gas at UBS, Global Head of Oil & Gas at HSBC; Deutsche Bank and Merrill Lynch oil & gas teams

Hassan Khaire  
Executive Director, Africa  
- Over 14 years’ of experience at Norwegian Refugee Council  
- Held senior positions as Regional Director of Horn of Africa and Yemen and Country Director of Somalia and Kenya  
- Somali and Norwegian National  
- BA at University of Oslo, MBA at Edinburgh Business School

Mohamad Ajami  
Non-Executive Director  
- Over 35 years’ of investing experience in the oil and gas and mineral resources sectors  
- Founder of the Levant Group a firm focussed on investments in oil & gas and minerals  
- Previously at Morrison Knudsen Corporation, a civil engineering and construction company (now part of URS Corporation)

Georgy Djaparidze  
Non-Executive Director  
- He started his career as an attorney, specializing in mergers and acquisitions, finance, and international transactions in the oil and gas industry  
- Currently runs an private investment fund and practices law, as Of Counsel  
- Educated in Russia and the United States and currently resides in London

The Earl of Clanwilliam  
Non-Executive Director  
- Chairman of Eurasia Drilling Company since October 2007  
- He is a director of NMC Healthcare plc and sits on the Advisory Board of Oracle Capital and Milio International
SOMALIA
Somalia in Context

- Population: 10 million, 85% ethnic Somalis live mainly in the north
- Civil war in 1991 demolished the country
- Infrastructure literally stripped and sold for scrap
- Top of “Failed States Index” from 2008 to 2013
- Transitional National Government (TNG) in 2000
- Transitional Federal Government (TFG) in 2004
- Somali Petroleum Law introduced by TFG in 2008
- Provisional constitution in August 2012
- Federal Government of Somalia (FGS) formed August 2012
- Economy: livestock, ports, telecoms & remittances from Somali’s abroad
Oil & Gas Industry in Somalia

- Prior to 1991, BP (Amoco, Sinclair), Chevron (Texaco), Conoco, Eni, Shell, ExxonMobil, Total and 5 others had signed rights to exploration blocks in Somalia
- By 1991, all operators claimed *force majeure* due to civil war
- Oil & gas sector primary focus for TFG and FGS for rebuilding the economy
- Petroleum Law enacted by the TFG in 2008
- FGS approached 12 licence holders in 2012/13 to end *force majeure* - all declined
- FGS contacted 8 other oil companies – who also declined
The Genesis of Soma

• February 2012: UK Government Hosted a Conference on Somalia in London
• March 2013: Basil Shiblaq (Founder of Soma) visited Somalia
  – Learned of Ministry approach to *force majeure* oil and gas companies
  – Historical geological/geophysical data was lost to the Government
  – Opportunity existed for an oil and gas company to enter the country
• April 2013: Soma incorporated as a UK company
  – from inception the Board committed to transparent governance
  – July 2013 engaged DLA Piper as Anti-bribery and Corruption legal advisers
• August 2013: Detailed Seismic Option Agreement (SOA) signed between Soma & FGS
• Why Soma? - FGS understood that the SOA represented an opportunity
  – A company willing & able to deliver
  – Work with an experienced and committed partner
  – Demonstrate that it was possible to operate in-country and put an end to *force majeure*
  – To attract further FDI through reopening the oil and gas sector and rebuild the country and economy
<table>
<thead>
<tr>
<th><strong>Legal Advisers</strong></th>
<th><strong>Geological &amp; Technical Advisers</strong></th>
<th><strong>Other Advisers</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>DLA PIPER</strong></td>
<td><strong>RPS®</strong></td>
<td><strong>Deloitte.</strong></td>
</tr>
<tr>
<td>Anti-bribery &amp; Corruption Adviser</td>
<td>Technical &amp; Geological Advisers</td>
<td>Auditors</td>
</tr>
<tr>
<td><strong>Akin Gump</strong></td>
<td><strong>DYNAMIC GLOBAL ADVISORS</strong></td>
<td><strong>CAPITA</strong></td>
</tr>
<tr>
<td>Strauss Hauer &amp; Feld</td>
<td></td>
<td><strong>Asset Services</strong></td>
</tr>
<tr>
<td>Oil &amp; Gas Adviser</td>
<td></td>
<td>Professional Services and Accountants</td>
</tr>
<tr>
<td><strong>STEPHENSON HARWOOD</strong></td>
<td></td>
<td><strong>FTI CONSULTING</strong></td>
</tr>
<tr>
<td>Legal Adviser</td>
<td></td>
<td>Financial PR and Strategic Communications Adviser</td>
</tr>
</tbody>
</table>
Soma Oil & Gas Strategy

- Evaluate hydrocarbon potential targeting unexplored deepwater
- Build relationship with new Federal Government of Somalia
- Develop Corporate Social Responsibility programme
- Membership of Extractive Industries Transparency Initiative (EITI)
- Develop seismic acquisition programme
- Fund acquisition of 2D seismic over entire Somalia coastline
- Support capacity build of Ministry of Petroleum and Mineral Resources in Government
- Interpret seismic & target blocks for development
- Apply for and negotiate PSAs under agreed rights (up to 60,000 km2)
- Seek farm-in and/or investment for exploration & development
Key Milestones & Achievements to date

6 August 2013
• Signed the SOA with Soma in Mogadishu

3Q ’13

17 January 2014
• Ministry of Natural Resources became Ministry of Petroleum & Resources

April 2014
• Signed the SOA with Soma in Mogadishu

1Q ’14

2Q ’14

3Q ’14

4Q ’14

1Q ’15

2Q ’15

3Q ’15

4Q ’15

2016

September 2015
• Spectrum awarded acquisition and marketing agreement with FGS

17 October 2013
• Council of Ministers unanimously ratified SOA

4Q ’13

3Q ’13

1Q ’13

2Q ’13

3Q ’13

4Q ’13

1Q ’14

2Q ’14

3Q ’14

4Q ’14

1Q ’15

2Q ’15

3Q ’15

4Q ’15

2016

29 July 2014
• Ministry of Natural Resources became Ministry of Petroleum & Resources

17 October 2014
• Data room letter signed

25 April 2014
• Capacity Building Agreement signed

27 April 2015
• Ministry ask Soma to extend CAB for additional 6 months

June 2014
• 2D Seismic Acquisition

November 2015
• Notice of Application for target blocks

2015

August 2015
• Processing of 2D Seismic Data complete

November 2015
• Mogadishu Data room

2016

2016
• Negotiate PSA
Map shows the area of the Lower Jurassic rift (200-175 MY) which preceded the sea floor spreading that moved the Madagascar and Seychelles plates to the south.

- Rift was predominantly located in present day offshore Somalia.
- Lower Jurassic source rocks inferred to be present in the rift section.
- Rift area also localises deep water areas in Mid & Upper Jurassic where additional source rocks are likely.
Map shows the depositional facies of the Mid Jurassic just after the start of oceanic spreading between Somalia and the Madagascar/Seychelles plates.

Seismic evidence indicates that deep marine Mid Jurassic facies offshore Somalia are located almost entirely in present day deep water.

Middle Jurassic source rocks likely to concentrate in the deep water facies.

High quality Mid Jurassic source rocks known from Beronono outcrop and well data in Madagascar.
## Possible Source Rocks Offshore Somalia

<table>
<thead>
<tr>
<th>Source Rock</th>
<th>Evidence</th>
</tr>
</thead>
<tbody>
<tr>
<td>Upper Jurassic</td>
<td>Global anoxic event. Known in Ogaden Basin in Ethiopia, and in north Somalia</td>
</tr>
<tr>
<td>Mid Jurassic</td>
<td>Beronono outcrop, Madagascar -- Excellent oil prone source, &gt;10% TOC (Hunt Oil, 2007), expected to be present in deep water facies of Mid Jurassic</td>
</tr>
<tr>
<td>Lower Jurassic</td>
<td>Lacustrine sources inferred to be present in syn-rift facies observed on seismic</td>
</tr>
<tr>
<td>Permo/Triassic</td>
<td>Lacustrine Karoo sources well developed in Madagascar – source of giant heavy oil fields, and present in Ogaden Basin in Ethiopia</td>
</tr>
</tbody>
</table>

## Interpreted Reservoir Rocks, Offshore Somalia

<table>
<thead>
<tr>
<th>Reservoir Rock</th>
<th>Evidence</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tertiary sandstone</td>
<td>Oligocene deep marine sands in mapped fan &amp; channel system</td>
</tr>
<tr>
<td>Upper Cretaceous sandstone</td>
<td>Multiple levels of deep marine channel &amp; fan sands interpreted in delta front setting</td>
</tr>
<tr>
<td>Lower Cretaceous / Upper Jurassic Limestone</td>
<td>Shallow marine limestone facies interpreted on shelf margins and faulted into basin</td>
</tr>
<tr>
<td>Mid Jurassic Limestone</td>
<td>Mid Jurassic carbonate reefs and shoals clearly evident on seismic</td>
</tr>
<tr>
<td>Triassic sandstone</td>
<td>Karoo continental alluvial fan sands expected in pre-rift</td>
</tr>
</tbody>
</table>
Map shows the area at the north end of the survey where Late Mid Jurassic carbonate reef and shallow water shoal facies are interpreted from seismic evidence.

These have potential to be high quality reservoir rocks.
• Only 1 direct well tie, **Meregh-1** (drilled by Esso 1982)
• Indirect ties to **Pomboo-1** & **DSDP*241** of limited use for stratigraphic correlation
• Significant data gap, >50 km, from coastal onshore wells to Soma 2D survey
• Hence the stratigraphic age calibration of horizons interpreted in the new 2D survey poses a significant challenge

• Note* DSDP = Deep Sea Drilling Project
The Seismic Survey (over 1,200 km long)
Only direct well tie for 2D survey – to Meregh-1 on shelf
– But correlation into deep water basin is complex
   • Lwr Jurassic syn-rift (Blue) absent at well, and poorly imaged in basin due to depth
   • Mid Jurassic (Orange) thick on shelf and thins depositionally into basin
   • U. Jurassic & Lwr Cretaceous (Green) thickens into basin but deformed by gravity
     sliding and eroded at Mid Cretaceous unconformity
   • Thick wedge of U. Cretaceous (Yellow) onlaps basin slope and not represented in
     well
   • U Cretaceous and Lwr Tertiary absent on basin slope due to localised erosion
Hence:
   • Stratigraphic age calibration into basin remains uncertain
   • But geology in the basin is quite different to the shelf
Late Middle Jurassic – Carbonate Reservoirs

- Mid Jurassic carbonate buildup localised on crest of large rotated fault block – possible Trap & Reservoir
- Potential for source rocks in off-structure deeper water facies of Mid Jurassic
- Additional source potential in Lower Jurassic syn-rift
- Additional reservoir potential in sandstones of Triassic Karoo fault block
Late Middle Jurassic – Carbonate Reef Example

Offshore Somalia Mid Jurassic carbonate buildup on Line SOM14-513

Shown at c. same scale as:

Malampaya Field (Oligocene) carbonate reef in the Philippines

Malampaya Field

Malampaya (Shell),
- 650m gas + 56m oil leg
- GIIP 2.8 Tcf
- OIIP 268 MMstb
- C. 3000m depth
Gravity Collapse of Upper Cretaceous Delta

- Large scale gravity collapse of U. Cretaceous delta; basal slip plane near base of U Cretaceous
- Mud diapirs in centre of system. (Note: gravity data suggests diapirs are mud rather than salt)
- Large scale toe-thrusts in outboard part of system

[Diagram showing geologic layers and features, including U Tertiary, Lwr Tertiary, U Cretaceous, L Cret & U Jurassic, Mid & L Jurassic, Line 40 AGC, 20 km scale]
SEISMIC OPTION AGREEMENT
Seismic Option Agreement (SOA)

- Signed 6 August 2013 at a public ceremony in Mogadishu
- SOA set out the Exploration Programme consisting of
  - Phase 1: Gathering of all historical seismic and other geological data
  - Phase 2: acquisition & processing of new deepwater seismic data & delivery to Data Room
- Soma agreed to
  1. Gather & evaluate historical geological data
  2. Acquire 2D seismic over area of 114,000 km² offshore Somalia
  3. Process seismic data
  4. Provide raw and processed seismic data to FGS for Data Room
  5. Support the creation of Dataroom in Mogadishu
  6. Establish a local office in Somalia
  7. Hold interactive sessions / training for FGS
  8. Invest a minimum of $15 million in the Exploration Programme
  9. All conditions of the SOA achieved by 6 August 2015
- FGS agreed to
  1. Allow Soma to submit applications for PSAs for up to 12 blocks (each 5,000 km²)
Security for the Seismic Survey

- Security to protect seismic vessels and crews
- Operational need to warn shipping and fishing in survey path
- Security - collaboration of Solace Global and Salama Fikira
  - **Solace Global** HQ in Poole, UK: leading maritime security company
  - **Salama Fikira** HQ in Nairobi: working in Somalia since 2006
  - 44 international/ex-pat security consultants (41 offshore, 3 onshore)
  - **Peace Business Group**, HQ in Mogadishu, Somalia: 40 Somali security personnel trained, vetted & approved by Salama Fikira
- Solace Global & Salama Fikira subcontracted by SeaBird Exploration and Peace Business Group subcontracted by Soma
- Denied exemption from arms embargo (UNSEMG) for near shore seismic lines (only Somali nationals can carry arms inside 12 nautical mile limit)
  - subcontracted to Peace Business Group in Somalia
- Total cost of seismic survey security and support vessels $12 million including Peace Business Group c. $600k
Security Arrangement for Seismic Survey

Seismic vessel flanked by security/support vessels

Airguns & streamer under tow

Security escort from Seismic helideck

Anti boarding razor wire installed around Seismic vessel
Logistics & Security in Mogadishu

• Peace Business Group
  – Owners of three Peace Hotels inside Mogadishu
  – Has “rapid response, well-trained and heavily armed security team”
  – Providers of secure office space
  – Provider of security in Somalia (Airport transfers, site visits, etc.) to NGO, UN and Charities

• Peace Business Group contracted by Soma to provide office and security in Mogadishu
INVESTMENTS IN SOMALIA
Investments in Somalia

- Regional data and new survey and processing for FGS - $42 million
  - Seismic survey $15 million
  - Survey Security $12 million
  - Fees for legal advisor contracted to Government - $494k
- Capacity Building Agreement for Ministry office and staff - $580k
- Support for Dataroom in Mogadishu - $100k
- Office and security in Mogadishu
## Payments to/for Somali Government made by Soma

<table>
<thead>
<tr>
<th>Invoice date</th>
<th>Amount</th>
<th>Receipt notice</th>
</tr>
</thead>
<tbody>
<tr>
<td>22 May 2014</td>
<td>$70,000 (CBA)</td>
<td>30 Jun 2014</td>
</tr>
<tr>
<td>8 Jul 2014</td>
<td>$150,000 (CBA)</td>
<td>17 Aug 2014</td>
</tr>
<tr>
<td>9 Jul 2014</td>
<td>$180,000 (CBA)</td>
<td>13 Nov 2014</td>
</tr>
<tr>
<td>16 Dec 2014</td>
<td>$100,000 (Data Room)</td>
<td>Still in CBS account</td>
</tr>
<tr>
<td>18 Dec 2014</td>
<td>$494,000 (PRA J.Park)</td>
<td>Dec 2014</td>
</tr>
<tr>
<td>29 Apr 2015</td>
<td>$90,000 (CBA extension)</td>
<td>28 May 2015</td>
</tr>
<tr>
<td>Jul 2015</td>
<td>$90,000 (CBA extension)</td>
<td>Aug 2015</td>
</tr>
</tbody>
</table>

- 31 Jul 2014, Soma received employment contracts & CVs for 10 candidates selected and hired by the Ministry
- 1 Aug 2014, Soma received payroll records for the above staff from Mar 2014 up to Jul 2015
- Ministry requested Soma to pay PRA (J.Park) on 6 Aug 2013 based on contract terms FGS agreed with PRA as legal adviser to the Somali Ministry. Soma paid the fees after ABC review by Soma’s legal advisor
Challenges to Setting up the Data Room (December 2013)

Ministry Building in Mogadishu, Somalia

All government buildings stripped bare

Ministry Building in Mogadishu, Somalia

No power, windows or walls
PRODUCTION SHARING AGREEMENT
Ministry of Petroleum & Mineral Resources is getting ready to receive PSA applications
Quad & Block Design and PSA Definition rules approved, developing framework for revenue share
Soma Oil & Gas developing PSA applications
Production Sharing Agreement (PSA)

- Model PSA in attachment as placeholder in SOA
  - Sourced from Somalia’s Petroleum Law 2008
  - Minimum annual spend of c. $2 million
  - Full State approval at all stages with contractual milestones
  - Preliminary Fiscal & commercial terms not finalised (gas & deepwater)

- FGS approval process for PSA

- Government & Soma agreed PSA will not be approved until Revenue Sharing Agreement in place between FGS and Member States

- Granting of any PSA requires approval of each of the following:
  - Minister of Petroleum and Natural Resources
  - President
  - Prime Minister
  - Council of Ministers
  - Ratified by Parliament

- PSA signature mandated by Ministry of Petroleum and Natural Resources
APPENDIX

REOPENING OIL & GAS EXPLORATION IN SOMALIA
Soma’s 2D Seismic Survey in 2014

- Existing 2D seismic lines in Green
- Soma 2D seismic survey in red
Chronology of efforts to reopen exploration

- 7th October 2013: Soma lead sponsor and keynote speaker at the Premier Somali Oil and Gas Summit
- 6 June 2014: Soma announces Completion of the 2D Seismic Acquisition Programme
- 13 June 2014: on the back of Soma’s success. HE Minister Daud Mohamed Omar, Minister of Petroleum and Mineral Resources visited Shell in The Hague
- 20 October 2014: Soma lead sponsor and keynote speaker at the 2nd Somalia Oil & Gas Summit
- 27 April 2015: Soma co-sponsors of the 1st International Forum on Somalia Oil, Gas & Mining
- 27 April 2015: at the conference, Soma announces completion of the Processing of the 2D Seismic Data and anticipates will transfer the data to FGS by 1 August 2015
- 7 September 2015: Spectrum signed agreement with FGS to acquire 28,000 km of 2D seismic data. The acquisition complements Soma’s existing data.
Efforts to reopen exploration in Somalia

Friday 13 June 2014, HE Minister Daud Mohamed Omar, Minister of Petroleum and Mineral Resources visited Shell in The Hague, The Netherlands

The Minister was in The Hague at the invite of Shell EP Somalia B.V. (“Shell”) who was awarded a concession for five blocks (Blocks M3-M7)* offshore Somalia in 1988. Mobil Exploration Somalia Inc. (“ExxonMobil”) subsequently joined the concession as a 50% joint venture partner. The parties have now begun discussions with the Ministry with the aim to convert the existing concession (which has been under force majeure since 1990) to a Production Sharing Agreement (PSA) as called for by the 2008 Petroleum Law. The Federal Republic of Somalia has welcomed these initial engagements with Shell and ExxonMobil. The joint venture partners will continue discussions on areas of cooperation and the potential for exploring and developing hydrocarbon resources offshore Somalia. It is the parties’ hope that these discussions will help pave the way towards the long term development of a sustainable oil and gas industry for Somalia, a key building block in the rebuilding of its economy.

Minister Daud Mohamed Omar said: “We are encouraged by the work that Shell and ExxonMobil are doing, and are keen to discuss the way forward on their offshore blocks. It is our hope that the joint venture will soon be able to start exploration and development activities in the country, and we believe these discussions are the first step in this process. I would hope to welcome Shell and ExxonMobil to visit Mogadishu in the near future.”

Shell Vice President of Exploration for Sub Saharan Africa, Alastair Milne said: “I am pleased that the Federal Government of Somalia clearly recognises the rights of existing concession holders such as Shell and ExxonMobil, and I am delighted that progress is being made in relation to our acreage.”

For further information contact:
Ministry of Petroleum & Mineral Resources,
Federal Government of Somalia
+25261-5522003 +25261-8474935 Shell Media Enquiries +44 (0) 207 934 5550
Soma’s Investment since 2014

Total Humanitarian Aid in 2015*

* Funding figures are as of May 19 2015. All international figures are according to OCHAs Financial Tracking Service, based on international commitments during the current calendar year. While ISG figures are according to USG, and reflect the most USG commitments in FY2015, which began on October 1, 2014.
Efforts to reopen exploration in Somalia

Federal Government of Somalia enters into an agreement with Multi-Client seismic survey company Spectrum ASA

MOGADISHU, September 5th 2015 – The East Africa region has been emerging as a major new frontier in the oil and gas industry for some time. The news that Somalia has opened itself up to exploration is a further indication that the region is aware of the potential hydrocarbon resources that is available.

In this context, the Ministry of Petroleum and Mineral Resources is pleased to announce that the Federal Government of Somalia entered into an agreement today with the Multi-Client seismic survey company Spectrum ASA, during a signing ceremony in Mogadishu. The agreement allows Spectrum to acquire approximately 28,000 km of long offset 2D seismic data offshore south Somalia in order to image subsurface structures. The survey will focus on Shell blocks and create extensive data needed by Somalia and international oil/gas companies.

The new acquisition is intended to complement 20,000 km of existing seismic that was acquired in 2014. These seismic surveys will allow the in-depth study of hydrocarbon prospectivity offshore Somalia, which lies in close proximity to major discoveries on the East African margin.

The Multi-Client model described within the agreement ensures that the government will receive the acquired data to help map the hydrocarbon resource potential at no cost. With the acquired data, Spectrum ASA will use its global marketing reach to raise interest and awareness amongst the oil and gas industry.

At the signing ceremony, the Ministry of Petroleum and Mineral Resources, His Excellency Mohamed Mukhtar Ibrahim, said that “this historic seismic data agreement will be the resumption of the exploration programme of the hydrocarbon reserves of our country, which will be a turning point for the economic development of our nation.”

Mohamed Aden, Minister of Finance who is also the Chair of the Financial Governance Committee commended the process of drafting this agreement.

His Excellency Omar Abdirashid A. Sharmarke, Prime Minister of the Federal Republic of Somalia who concluded the event said “Seismic data can lead to good decision-making and guided strategy.”

For further information or questions, please contact:

Ibrahim Hussien
Head of External Relations
Ministry of Petroleum & Mineral Resources
Email: Ibrahim.hussein@mopetmr.so
Soma’s Survey 2014 in Red
Spectrum Survey Plan 2015 in Green
- Includes *Force Majeure* acreage
- Infill of Soma’s survey
- Covers more of shallow water
- Explores to outer boundary
- Explores to ultra deep ocean
- Excludes Jorra in south
- Stops at Puntland in North
Ministry of Natural Resources Organisation

Soma worked with three different Ministers for Petroleum & Mineral Resources:

• Jan 2013 – Dec 2013: H.E. Abdirizak Omar Mohamed
• Jan 2014 – Jan 2015: H.E. Daud Mohamed Omar
• Feb 2015 – Nov 2016: H.E. Mohamed Mukhtar Ibrahim
Annex 178

“Exploring and Developing Hydrocarbons offshore Somalia: Corporate Update”, Soma Oil & Gas, December 2016
Exploring and Developing Hydrocarbons offshore Somalia

Corporate Update

December 2016
Disclaimer

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Oil & Gas Exploration in Somalia

- BP (Amoco, Sinclair), Chevron (Texaco), Conoco, Eni, Shell, ExxonMobil, Total and 5 others had signed rights to exploration blocks in Somalia. By 1991, all operators claimed *force majeure*

- All historical regional geological & geophysical data & knowledge lost due to civil war

- Oil & gas sector primary focus for TFG and FGS for rebuilding the economy

- Petroleum Law enacted by the TFG in 2008

- FGS approached 12 licence holders in 2012/13 to end *force majeure* - all declined

- FGS contacted 8 other oil companies – who also declined

- Significantly under-explored (mainly due to historic security issues)

- Historic seismic primarily limited to shallow waters (<1,000m)

- Only 6 offshore wells in shallow waters along the 2,300 km length of the eastern offshore basin

- Existing concession agreements (Pecten) in force majeure since 1990-91

- Deep water entirely unexplored until Soma’s 20,500 kms 2D seismic survey in winter 2014/2015

- Spectrum completed 20,583 km of 2D offshore seismic survey in winter 2015/2016

TFG: Transitional Federal Government (of Somalia)
FGS: Federal Government of Somalia
Overview of Soma Oil & Gas

- Private UK company founded in 2013, focussed on exploring for hydrocarbons offshore in the Federal Republic of Somalia
- Signed Seismic Option Agreement (SOA) with the Republic of Somalia in August 2013
- Gathered & evaluated prior geological data; seismic & wells, studies, etc.
- Acquired 20,500 km of 2D seismic over 114,000 km² offshore Somalia
- Process & analysed acquired seismic
- Delivered all prior data & newly acquired & processed 2D seismic data to Ministry 9 December 2015
- Notice of Application for 12 Production Sharing Agreements (PSAs) approved on 9 December 2015
- $53 million invested in Somalia to date
- Negotiate Model PSA terms with FGS Ministry (to convert the Notice of Application into PSAs)
- Seeking farm-ins/investment to further explore & develop the most promising prospects
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<tr>
<td>W. Richard Anderson</td>
<td>Chief Executive Officer</td>
<td></td>
</tr>
<tr>
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<td>Chief Financial Officer</td>
<td></td>
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<tr>
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<td>Executive Director, Africa</td>
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<td>Tom O’Gallagher</td>
<td>VP Marketing</td>
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<td>Peter Damouni</td>
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Somalia Plate Reconstruction in Jurassic

- Proven hydrocarbon plays in adjacent sedimentary basins (Ethiopia, Madagascar, Tanzania & Mozambique)
- Jurassic source rocks confirmed in Madagascar & Seychelles wells are also predicted for Somalia
- Somalia offshore was adjacent to Madagascar & Seychelles basins during Jurassic source rock deposition based on tectonic plate reconstruction
USGS Estimated Undiscovered Resources

- USGS estimate total Undiscovered Resources of 16 billion barrels of oil and 260 Tcf gas in provinces bordering Soma Oil & Gas Offshore Evaluation Area in Somalia offshore waters

- Plate reconstruction to Lwr. Jurassic – time of deposition of hydrocarbon source rocks – emphasises the relevance of the adjacent data

Discoveries to Date

Gas Resources:
- c.150 Tcf Mozambique
- c.36 Tcf Tanzania

Heavy Oil (STOIIP)
- Madagascar
  - 17 Bbbl Bemolanga
  - 2 Bbbl Tsimiroro

Source: www.energy.usgs.gov
Seismic Acquisition Programme

Seismic Survey
- 16,500 km of 2D
- 4,000 line km of infill lines
- Tie-in to Meregh 1 Well (Esso 1982)
- Excluded Legacy Concession & disputed territories

Challenging Stratigraphic Calibration
- Only 1 direct well tie, Meregh-1 (drilled by Esso 1982)
- Indirect ties to Pomboo-1 & DSDP*241 of limited use for stratigraphic correlation
- Significant data gap, >50 km, from coastal onshore wells to Soma 2D survey
- Hence the stratigraphic age calibration of horizons interpreted in the new 2D survey poses a significant challenge

Recent East African discoveries by Anadarko, BG, Eni, Ophir Energy, Statoil & Tullow Oil

Note* DSDP = Deep Sea Drilling Project
Spectrum’s 2D Seismic Survey in 2015-2016

Spectrum Survey Plan 2015 in Green
- Includes Shell & Exxon’s Force Majeure acreage
- Covers more of shallow water
- Infill of Soma’s survey
- Explores to ultra deep ocean
- Excludes Jorra block in south
- Stops at Puntland in North
- Acquired December 2015 to May 2016
- BGP Pioneer acquired 2D
- 20,583 2D kms 2D acquired

Legacy Seismic in Black
Soma 2D Seismic in Red
Spectrum Survey Plan in Green
Notice of Application for PSAs

- Notice of Application for PSAs signed by Minister of Petroleum & Mineral Resources 9 Dec 2015
- Based on 5,000 sq km Block Grid defined by the Somali Ministry of Petroleum & Mineral Resources

Somali Government Block Design

Examples of PSA Definition

Single Block PSA (5,000 square kilometres)

PSA Block abutting legacy concession
Soma signed a Notice of Application for PSAs with the Somali Ministry of Petroleum & Mineral Resources on 9 December 2015

- Delineates up to 12 PSAs which target prospects identified for further exploration
- Delineates a total acreage of 54,807 square kilometres in aggregate

Legend:
- Legacy Concession
- 2D seismic acquired by Soma 2014
Opening of the New Ministry Building in Mogadishu

View from the new office of the Ministry of Petroleum and Mineral Resources 9 December 2015

Prime Minister Speech at the new Ministry: 9 December 2015

Lord Howard signing the Notice of Application for Production Sharing Agreements

Minister of Petroleum & Mineral Resources with Lord Howard and Ibrahim Hussein (Advisor to the Minister)
# Shareholders in Soma Oil & Gas

<table>
<thead>
<tr>
<th>Shareholders</th>
<th>Shares (millions)</th>
<th>(%)</th>
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<tbody>
<tr>
<td>Winter Sky Investments Limited</td>
<td>91.5</td>
<td>50.4%</td>
</tr>
<tr>
<td>Soma Oil &amp; Gas Limited BVI</td>
<td>66.5</td>
<td>36.6%</td>
</tr>
<tr>
<td>Aidan Hartley</td>
<td>10.0</td>
<td>5.5%</td>
</tr>
<tr>
<td>Lord Howard of Lympne CH, QC</td>
<td>7.0</td>
<td>3.9%</td>
</tr>
<tr>
<td>Robert Sheppard</td>
<td>2.0</td>
<td>1.1%</td>
</tr>
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<td>2.0</td>
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</tr>
<tr>
<td>Philip Wolfe</td>
<td>1.5</td>
<td>0.8%</td>
</tr>
<tr>
<td>Doma Investment Holdings Limited</td>
<td>1.0</td>
<td>0.6%</td>
</tr>
<tr>
<td>AfroEast Energy Limited</td>
<td>0.0</td>
<td>–</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>181.5</strong></td>
<td><strong>100.0%</strong></td>
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</table>

**Shareholders in Soma Oil & Gas Holdings Limited (Company No. 08506858)**

Soma Oil & Gas Exploration Limited and Soma Management Limited are wholly owned subsidiaries of Soma Oil & Gas Holdings Limited ("Soma Oil & Gas" or the "Company"):  

**Additional Disclosure**

The Company confirms there are no Somali beneficial shareholders in any of the Companies that have a shareholding in Soma Oil & Gas. Furthermore, no shareholder, director or officer of Soma Oil & Gas is a nominee for or in any other way directly or indirectly connected to or obligated to any Somali individual or entity.

- Winter Sky Investments Limited is owned by the Dzhaparidze Family as well as other founders and management of Eurasia Drilling Company. Georgy Dzhaparidze is a Director of Soma Oil & Gas Holdings Limited.
- Soma Oil & Gas Limited BVI is owned by Basil Shiblaq, Executive Deputy Chairman and his son Iyad Shiblaq.
- Lord Howard of Lympne CH, QC is the Chairman.
- Robert Sheppard is a Director.
- Hassan Khaire is Executive Director, Africa.
- Philip Wolfe is the Chief Financial Officer.
- Doma Investment Holdings Limited is owned by Peter Damouni, Company Secretary.
- AfroEast Energy Limited is owned by the Ajami Family. Mohamad Ajami is a Director. AfroEast Energy Limited owns one share.
ADDITIONAL INFORMATION
SFO Investigation Summary

- 29 July 2015, Soma learned about the SFO investigation based on the UNSEMG’s allegations
- 22 April 2016, Soma submitted a comprehensive Letter of Representation to the SFO
- 17 August 2016, Soma applied for a Judicial Review at the High Court in attempt to end investigation
- 12 October 2016, Approved Judgment released – no evidence of criminality in Capacity Building
- 14 December 2016, SFO closes the investigation of Soma in relation to allegations of corruption
Key Milestones

6 August 2013
• Signed the SOA with FGS in Mogadishu

17 January 2014
• Ministry of National Resources became Ministry of Petroleum & Mineral Resources

25 April 2014
• Capacity Building Agreement signed

17 October 2014
• Dataroom letter signed

29 July 2015
• SFO investigation based on SEMG leaked report

27 April 2015
• Ministry ask Soma to extend CBA for additional 6 months

2016
• Negotiate PSA terms
• Convert Notice of Application into PSAs

3 October 2013
• Council of Ministers unanimously ratified SOA

June 2014
• Completed 2D Seismic Acquisition

9 December 2015
• Data transfer & opening of Mogadishu Dataroom

17 October 2014
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September 2015
• Spectrum awarded acquisition and marketing agreement with FGS

30 October 2013
• Council of Ministers unanimously ratified SOA

June 2014
• Completed 2D Seismic Acquisition

27 April 2015
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**Well Tie to Meregh-1**

**Only direct well tie for 2D survey – to Meregh-1 on shelf**

- But correlation into deep water basin is complex

  - Lwr Jurassic syn-rift (Blue) absent at well, and poorly imaged in basin due to depth
  - Mid Jurassic (Orange) thick on shelf and thins depositionally into basin
  - U. Jurassic & Lwr Cretaceous (Green) thickens into basin but deformed by gravity sliding and eroded at Mid Cretaceous unconformity
  - Thick wedge of U. Cretaceous (Yellow) onlaps basin slope and not represented in well
  - U Cretaceous and Lwr Tertiary absent on basin slope due to localised erosion

**Hence:**

- Stratigraphic age calibration into basin remains uncertain
- But geology in the basin is quite different to the shelf
## Source and Reservoir Potential

<table>
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<tr>
<th>Possible Source Rocks Offshore Somalia</th>
<th>Evidence</th>
</tr>
</thead>
<tbody>
<tr>
<td>Upper Jurassic</td>
<td>Global anoxic event. Known in Ogaden Basin in Ethiopia, and in north Somalia</td>
</tr>
<tr>
<td>Mid Jurassic</td>
<td>Beronono outcrop, Madagascar – Excellent oil prone source, &gt;10% TOC (Hunt Oil, 2007), expected to be present in deep water facies of Mid Jurassic</td>
</tr>
<tr>
<td>Lower Jurassic</td>
<td>Lacustrine sources inferred to be present in syn-rift facies observed on seismic</td>
</tr>
<tr>
<td>Permo/Triassic</td>
<td>Lacustrine Karoo sources well developed in Madagascar – source of giant heavy oil fields, and present in Ogaden Basin in Ethiopia</td>
</tr>
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</table>

## Interpreted Reservoir Rocks, Offshore Somalia

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<td>Tertiary sandstone</td>
<td>Oligocene deep marine sands in mapped fan &amp; channel system</td>
</tr>
<tr>
<td>Upper Cretaceous sandstone</td>
<td>Multiple levels of deep marine channel &amp; fan sands interpreted in delta front setting</td>
</tr>
<tr>
<td>Lower Cretaceous / Upper Jurassic Limestone</td>
<td>Shallow marine limestone facies interpreted on shelf margins and faulted into basin</td>
</tr>
<tr>
<td>Mid Jurassic Limestone</td>
<td>Mid Jurassic carbonate reefs and shoals clearly evident on seismic</td>
</tr>
<tr>
<td>Triassic sandstone</td>
<td>Karoo continental alluvial fan sands expected in pre-rift</td>
</tr>
</tbody>
</table>
Map shows the area of the Lower Jurassic rift (200-175 MY) which preceded the sea floor spreading that moved the Madagascar and Seychelles plates to the south.

- Rift was predominantly located in present day offshore Somalia.
- Lower Jurassic source rocks inferred to be present in the rift section.
- Rift area also localises deep water areas in Mid & Upper Jurassic where additional source rocks are likely.
Map shows the depositional facies of the Mid Jurassic just after the start of oceanic spreading between Somalia and the Madagascar/Seychelles plates

- Seismic evidence indicates that deep marine Mid Jurassic facies offshore Somalia are located almost entirely in present day deep water
- Middle Jurassic source rocks likely to concentrate in the deep water facies
- High quality Mid Jurassic source rocks known from Beronono outcrop and well data in Madagascar
Late Middle Jurassic – Carbonate Reservoirs

Area at the north end of the survey interpreted as

Late Mid Jurassic carbonate reef and shallow water shoal facies

- Potentially high quality reservoir rocks
Late Middle Jurassic – Carbonate Reservoirs

- Mid Jurassic carbonate buildup localised on crest of large rotated fault block – possible Trap & Reservoir
- Potential for source rocks in off-structure deeper water facies of Mid Jurassic
- Additional source potential in Lower Jurassic syn-rift
- Additional reservoir potential in sandstones of Triassic Karoo fault block
Late Middle Jurassic – Carbonate Reef Example

Offshore Somalia Mid Jurassic carbonate buildup on Line SOM14-513

Shown at c. same scale as:

Malampaya Field (Oligocene) carbonate reef in the Philippines

Malampaya (Shell),
- 650m gas + 56m oil leg
- GIIP 2.8 Tcf
- OIIP 268 MMstb
- C. 3000m depth
**Upper Cretaceous – Clastic Delta Play**

- Large Clastic delta system dominated deposition in the South of the region during Upper Cretaceous and Tertiary
  - Major Upper Cretaceous delta (blue arrow) entered the basin from the NW. Deposition in offshore area was mainly delta slope and pro delta shales plus channel and fan sands expected to form excellent reservoirs
  - Gravitational collapse of the delta in Palaeocene, with listric normal faults nearshore and a major toe-thrust zone further offshore
  - Pro-delta muds underlying the delta became mobilised and intruded vertically as diapirs in the centre of the system
  - Focus of delta deposition moved to north in Tertiary (green arrow) and this system also underwent gravity collapse in the Late Tertiary

- System provides:
  - Multiple Reservoir sands
  - Large Trapping Structures
Gravity Collapse of Upper Cretaceous Delta

- Large scale gravity collapse of U. Cretaceous delta; basal slip plane near base of U Cretaceous
- Mud diapirs in centre of system. (Note: gravity data suggests diapirs are mud rather than salt)
- Large scale toe-thrusts in outboard part of system
Annex 179

PRODUCTION SHARING AGREEMENT (PSA)

Soma Oil & Gas signed a Notice of Application for PSAs with the Somali Ministry of Petroleum & Mineral Resources on 9 December 2015. These Applications will be converted into PSAs based on negotiations with the Federal Government of Somalia. The award of any PSA is also dependent on the implementation of a Revenue Sharing Agreement between the Federal Government and Federal Member states.

A Production Sharing Agreement is a contract between a government and an exploration & production (E&P) company. The sovereign state remains the owner of the hydrocarbon resources, the E&P company receives a share of the production in exchange for the investment required to explore and produce oil and gas.
Annex 180

“Exploring and Developing Hydrocarbons offshore Somalia: Company Update”, Soma Oil & Gas, December 2016
Exploring and Developing Hydrocarbons offshore Somalia

Company Update

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Non Executive Chairman

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Executive Deputy Chairman & Founder

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Non-Executive Director

Mohamad Ajami
Non-Executive Director

The Earl of Clanwilliam
Non-Executive Director

Robert Sheppard
Non-Executive Director

W. Richard Anderson
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Philip Wolfe
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Company Secretary
Why explore in Somalia?

Somalia Plate Reconstruction in Jurassic age

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- Jurassic source rocks confirmed in Madagascar & Seychelles wells are also predicted for Somalia
- Somalia offshore was adjacent to Madagascar & Seychelles basins during Jurassic source rock deposition based on tectonic plate reconstruction

Present day positioning of continents and age of ocean crust

165 Ma: Early Seafloor Spreading
Why explore in Somalia?

USGS estimate of Undiscovered Resources adjacent to Somalia

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- Recent East African discoveries by Anadarko, BG, Eni, Ophir Energy, Statoil & Tullow Oil

Note* DSDP = Deep Sea Drilling Project
Soma’s 2D survey (Red - 2014/2015)
Spectrum’s 2D Seismic Survey (Green - 2015/2016)

Spectrum Survey Plan 2015 in **Green**
- Includes Shell & Exxon’s Force Majeure acreage
- Covers more of shallow water
- Infill of Soma’s survey
- Explores to ultra deep ocean
- Excludes Jorra block in south
- Stops at Puntland in North
- Acquired December 2015 to May 2016
- BGP Pioneer acquired 2D
- 20,583 2D kms 2D acquired

Legacy Seismic in **Black**
Soma 2D Seismic in **Red**
Spectrum Survey Plan in **Green**
Somali Ministry Definition of Block grid November 2016

- 5,000 sq km Block Grid as defined by the Somali Ministry of Petroleum & Mineral Resources
- 100 kilometres long by 50 kilometres wide blocks in linear grid with Mogadishu as origin

Somali Government Block Design

Examples of PSA Definition

Single Block PSA (5,000 square kilometres)

PSA Block abutting legacy concession
Opening of the New Ministry Building, Data Transfer & Submission of Application for Blocks in Mogadishu

9 December 2016

View from the new office of the Ministry of Petroleum and Mineral Resources 9 December 2015

Lord Howard signing the Notice of Application for Production Sharing Agreements

Prime Minister’s Speech at the new Ministry: 9 December 2015

Minister of Petroleum & Mineral Resources with Chairman of Soma & Ministry’s Head of External Affairs)
Soma’s Notice of Application for Blocks

- Soma signed a Notice of Application for PSAs with the Somali Ministry of Petroleum & Mineral Resources on 9 December 2015
- Delineates up to 12 Blocks which target prospects/leads identified for further exploration
- Delineates a total acreage of 54,807 square kilometres in aggregate
- Production Sharing Agreements to be negotiated and applied per Block
- Revenue Sharing Agreement to be in place before PSA(s) awarded

Legacy Concession
Block application by Soma December 2016
ADDITIONAL COMPANY INFORMATION
6 August 2013
- Signed the SOA with FGS in Mogadishu

3Q '13
- 6 August 2013
  - Signed the SOA with FGS in Mogadishu

4Q '13
- 17 October 2014
  - Data room letter signed

1Q '14
- 25 April 2014
  - Capacity Building Agreement signed

2Q '14
- 17 January 2014
  - Ministry of National Resources became Ministry of Petroleum & Mineral Resources

3Q '14
- 29 July 2015
  - SFO investigation based on SEMG leaked report

4Q '14
- 9 December 2015
  - Data transfer & opening of Mogadishu Dataroom

1Q '15
- 27 April 2015
  - Ministry ask Soma to extend CBA for additional 6 months

2Q '15
- 9 December 2015
  - Notice of Application for target blocks

3Q '15
- September 2015
  - Spectrum awarded acquisition and marketing agreement with FGS

4Q '15
- August 2015
  - Processing of 2D Seismic Data complete

2016
- 9 December 2015
  - Spectrum awarded acquisition and marketing agreement with FGS

2017
- April 2015
  - Capacity Building Agreement signed

2018
- March 2015
  - Ministry of National Resources became Ministry of Petroleum & Mineral Resources

2019
- June 2015
  - Completed 2D Seismic Acquisition

2020
- 14 December 2016
  - SFO closes investigation vindicating Soma and Ministry
Shareholders in Soma Oil & Gas (December 2016)

<table>
<thead>
<tr>
<th>Shareholders</th>
<th>Shares (millions)</th>
<th>(%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Winter Sky Investments Limited</td>
<td>91.5</td>
<td>50.4%</td>
</tr>
<tr>
<td>Soma Oil &amp; Gas Limited BVI</td>
<td>66.5</td>
<td>36.6%</td>
</tr>
<tr>
<td>Aidan Hartley</td>
<td>10.0</td>
<td>5.5%</td>
</tr>
<tr>
<td>Lord Howard of Lympne CH, QC</td>
<td>7.0</td>
<td>3.9%</td>
</tr>
<tr>
<td>Robert Sheppard</td>
<td>2.0</td>
<td>1.1%</td>
</tr>
<tr>
<td>Hassan Khaire</td>
<td>2.0</td>
<td>1.1%</td>
</tr>
<tr>
<td>Philip Wolfe</td>
<td>1.5</td>
<td>0.8%</td>
</tr>
<tr>
<td>Doma Investment Holdings Limited</td>
<td>1.0</td>
<td>0.6%</td>
</tr>
<tr>
<td>AfroEast Energy Limited</td>
<td>0.0</td>
<td>–</td>
</tr>
<tr>
<td>Total</td>
<td>181.5</td>
<td>100.0%</td>
</tr>
</tbody>
</table>

Shareholders in Soma Oil & Gas Holdings Limited (Company No. 08506858)
Soma Oil & Gas Exploration Limited and Soma Management Limited are wholly owned subsidiaries of Soma Oil & Gas Holdings Limited ("Soma Oil & Gas” or the “Company”):

Additional Disclosure
The Company confirms there are no Somali beneficial shareholders in any of the Companies that have a shareholding in Soma Oil & Gas. Furthermore, no shareholder, director or officer of Soma Oil & Gas is a nominee for or in any other way directly or indirectly connected to or obligated to any Somali individual or entity.

- Winter Sky Investments Limited is owned by the Dzhaparidze Family as well as other founders and management of Eurasia Drilling Company. Georgy Dzhaparidze is a Director of Soma Oil & Gas Holdings Limited.
- Soma Oil & Gas Limited BVI is owned by Basil Shiblaq, Executive Deputy Chairman and his son Iyad Shiblaq.
- Lord Howard of Lympne CH, QC is the Chairman.
- Robert Sheppard is a Director.
- Hassan Khaire is Executive Director, Africa.
- Philip Wolfe is the Chief Financial Officer.
- Doma Investment Holdings Limited is owned by Peter Damouni, Company Secretary.
- AfroEast Energy Limited is owned by the Ajami Family. Mohamad Ajami is a Director. AfroEast Energy Limited owns one share.
Schedule/summary of SFO Investigation

- 29 July 2015: Soma learned about the SFO investigation which was based on a UN Somalia & Eritrea Monitoring Group (SEMG) confidential report
- 22 April 2016: Soma submitted a comprehensive Letter of Representation (LoR) to the SFO addressing and refuting the allegations made by the SEMG
- 6 May 2016: QC David Perry’s opinion of LoR concluded “compelling rebuttal of any suggestion of impropriety in their [Soma’s] dealings with the Somali Government and this is a case in which there is no realistic prospect of conviction”
- 17 August 2016: Soma applied for a Judicial Review at the High Court in attempt to have the SFO finalise & close their investigation. Application rejected.
- 12 October 2016: Approved Judgment of the rejected application released by High Court with SFO statement of insufficient [no] evidence of criminality by Soma in Capacity Building and the Lord Justice urged the SFO to expeditiously conclude their investigation
- 14 December 2016: SFO closes the investigation of Soma in relation to allegations of corruption vindicating full compliance with UK ABC Law by Soma and the Somali Ministry of Petroleum & Mineral Resources
Additional information on geology & source rocks
## Source Rock and Reservoir Potential

### Possible Source Rocks Offshore Somalia

<table>
<thead>
<tr>
<th>Source Rock</th>
<th>Evidence</th>
</tr>
</thead>
<tbody>
<tr>
<td>Upper Jurassic</td>
<td>Global anoxic event. Known in Ogaden Basin in Ethiopia, and in north Somalia</td>
</tr>
<tr>
<td>Mid Jurassic</td>
<td>Beronono outcrop, Madagascar -- Excellent oil prone source, &gt;10% TOC (Hunt Oil, 2007), expected to be present in deep water facies of Mid Jurassic</td>
</tr>
<tr>
<td>Lower Jurassic</td>
<td>Lacustrine sources inferred to be present in syn-rift facies observed on seismic</td>
</tr>
<tr>
<td>Permo/Triassic</td>
<td>Lacustrine Karoo sources well developed in Madagascar – source of giant heavy oil fields, and present in Ogaden Basin in Ethiopia</td>
</tr>
</tbody>
</table>

### Interpreted Reservoir Rocks, Offshore Somalia

<table>
<thead>
<tr>
<th>Reservoir Rock</th>
<th>Evidence</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tertiary sandstone</td>
<td>Oligocene deep marine sands in mapped fan &amp; channel system</td>
</tr>
<tr>
<td>Upper Cretaceous sandstone</td>
<td>Multiple levels of deep marine channel &amp; fan sands interpreted in delta front setting</td>
</tr>
<tr>
<td>Lower Cretaceous / Upper Jurassic Limestone</td>
<td>Shallow marine limestone facies interpreted on shelf margins and faulted into basin</td>
</tr>
<tr>
<td>Mid Jurassic Limestone</td>
<td>Mid Jurassic carbonate reefs and shoals clearly evident on seismic</td>
</tr>
<tr>
<td>Triassic sandstone</td>
<td>Karoo continental alluvial fan sands expected in pre-rift</td>
</tr>
</tbody>
</table>
Map shows the area of the Lower Jurassic rift (200-175 MY) which preceded the sea floor spreading that moved the Madagascar and Seychelles plates to the south:

- Rift was predominantly located in present day offshore Somalia
- Lower Jurassic source rocks inferred to be present in the rift section
- Rift area also localises deep water areas in Mid & Upper Jurassic where additional source rocks are likely
Source Rock Deposition - Middle Jurassic Early Drift

Map shows the depositional facies of the Mid Jurassic just after the start of oceanic spreading between Somalia and the Madagascar/Seychelles plates:

- Seismic evidence indicates that deep marine Mid Jurassic facies offshore Somalia are located almost entirely in present day deep water.
- Middle Jurassic source rocks likely to concentrate in the deep water facies.
- High quality Mid Jurassic source rocks known from Beronono outcrop and well data in Madagascar.
North basin: Late Middle Jurassic – Carbonate Reservoirs

Area at the north end of the survey interpreted as

Late Mid Jurassic carbonate reef and shallow water shoal facies

Potentially high quality reservoir rocks
North basin: Late Middle Jurassic – Carbonate Reservoirs

- Mid Jurassic carbonate buildup localised on crest of large rotated fault block – possible Trap & Reservoir
- Potential for source rocks in off-structure deeper water facies of Mid Jurassic
- Additional source potential in Lower Jurassic syn-rift
- Additional reservoir potential in sandstones of Triassic Karoo fault block
North basin: Late Middle Jurassic – Carbonate Reef Example

Offshore Somalia Mid Jurassic carbonate buildup on Line SOM14-513

Shown at c. same scale as:

Malampaya Field (Oligocene) carbonate reef in the Philippines

Malampaya Field

- 650m gas + 56m oil leg
- GIIP 2.8 Tcf
- OIIP 268 MMstb
- C. 3000m depth
South basin: Upper Cretaceous – Clastic Delta Play

- Large Clastic delta system dominated deposition in the South of the region during Upper Cretaceous and Tertiary
  - Major Upper Cretaceous delta (blue arrow) entered the basin from the NW. Deposition in offshore area was mainly delta slope and pro delta shales plus channel and fan sands expected to form excellent reservoirs
    - Gravitational collapse of the delta in Palaeocene, with listric normal faults nearshore and a major toe-thrust zone further offshore
    - Pro-delta muds underlying the delta became mobilised and intruded vertically as diapirs in the centre of the system
  - Focus of delta deposition moved to north in Tertiary (green arrow) and this system also underwent gravity collapse in the Late Tertiary

- System provides:
  - Multiple Reservoir sands
  - Large Trapping Structures
South basin: Gravity Collapse of Upper Cretaceous Delta

- Large scale gravity collapse of U. Cretaceous delta; basal slip plane near base of U Cretaceous
- Mud diapirs in centre of system. (Note: gravity data suggests diapirs are mud rather than salt)
- Large scale toe-thrusts in outboard part of system
Annex 181
Confirmation Statement of Soma Oil & Gas Holdings Limited up to 19 December 2016, *UK Companies House*, 19 January 2017
Company Name: Soma Oil & Gas Holdings Limited
Company Number: 08506858

Received for filing in Electronic Format on the: 19/01/2017

Company Name: Soma Oil & Gas Holdings Limited
Company Number: 08506858
Confirmation Statement date: 19/12/2016

Electronically filed document for Company Number: 08506858
Statement of Capital (Share Capital)

Class of Shares: ORDINARY
Currency: GBP
Number allotted: 181500000
Aggregate nominal value: 181.5

Prescribed particulars

EACH SHARE IS ENTITLED TO ONE VOTE IN ANY CIRCUMSTANCES. EACH SHARE HAS EQUAL RIGHTS TO DIVIDENDS. EACH SHARE IS ENTITLED TO PARTICIPATE IN A DISTRIBUTION ARISING FROM A WINDING UP OF THE COMPANY. THE SHARES ARE NOT REDEEMABLE.

Statement of Capital (Totals)

Currency: GBP
Total number of shares: 181500000
Total aggregate nominal value: 181.5
Total aggregate amount unpaid: 0

Electronically filed document for Company Number: 08506858
Full details of Shareholders

The details below relate to individuals/corporate bodies that were shareholders during the review period or that had ceased to be shareholders since the date of the previous confirmation statement.

Shareholder information for a non-traded company as at the confirmation statement date is shown below:

Shareholding 1: 23999999 transferred on 2016-09-05
Name: AFROEAST ENERGY LIMITED
1 ORDINARY shares held as at the date of this confirmation statement

Shareholding 2: 1000000 ORDINARY shares held as at the date of this confirmation statement
Name: DOMA INVESTMENT HOLDINGS LIMITED

Shareholding 3: 10000000 ORDINARY shares held as at the date of this confirmation statement
Name: AIDAN HARTLEY

Shareholding 4: 7000000 ORDINARY shares held as at the date of this confirmation statement
Name: LORD MICHAEL HOWARD OF LYMPNE

Shareholding 5: 10000000 transferred on 2016-03-09
0 ORDINARY shares held as at the date of this confirmation statement
Name: KAL YRA INVESTMENTS LIMITED

Shareholding 6: 2000000 ORDINARY shares held as at the date of this confirmation statement
Name: HASSAN KHAIRE

Shareholding 7: 2000000 ORDINARY shares held as at the date of this confirmation statement
Name: ROBERT ALLEN SHEPPARD

Shareholding 8: 66500000 ORDINARY shares held as at the date of this confirmation statement
Name: SOMA OIL & GAS LIMITED (BVI)

Shareholding 9: 91499999 ORDINARY shares held as at the date of this confirmation statement
Name: WINTER SKY INVESTMENTS LIMITED

Shareholding 10: 1500000 ORDINARY shares held as at the date of this confirmation statement
Name: PHILIP EDWARD CHARLES WOLFE
Persons with Significant Control (PSC)

PSC Statements

The company knows or has reasonable cause to believe that there is no registrable person or registrable relevant legal entity in relation to the company.
Confirmation Statement

I confirm that all information required to be delivered by the company to the registrar in relation to the confirmation period concerned either has been delivered or is being delivered at the same time as the confirmation statement.
Authorisation

Authenticated
This form was authorised by one of the following:
Director, Secretary, Person Authorised, Charity Commission Receiver and Manager, CIC Manager, Judicial Factor

Annex 181

End of Electronically filed document for Company Number: 08506858
Memorandum on Capacity Building in the Oil & Gas Industry from Akin Gump Strauss Hauer & Feld to Robert Sheppard and Philip Wolfe of Soma Oil & Gas, 17 August 2015
MEMORANDUM

Date: 17 August 2015

To: Robert Sheppard
    Philip Wolfe
    Soma Oil and Gas

From: John LaMaster

Re: Capacity Building in the Oil & Gas Industry

1. Background

   1.1 Soma Oil & Gas (Soma) has entered into a letter agreement dated 25 April 2014 with the Minister of Petroleum and Mineral Resources (the Ministry) of the Government of the Federal Republic of Somalia (the Government) regarding Capacity Building Arrangements, and a letter agreement dated 28 April 2015 with the Government regarding Additional Capacity Building Arrangements (collectively, the Capacity Building Arrangements).

   1.2 Under the Capacity Building Arrangements, Soma agrees to pay the “salary costs” of certain “staff, consultants and advisors” of the Ministry, together with the “cost of office equipment, transportation and other working tools” needed by the Ministry. These payments are to be set-off against the obligations to pay rent and training fees under the terms of Production Sharing Agreements to be entered into by Soma in the future.

   1.3 The UN Somalia and Eritrean Monitoring Group and the Serious Fraud Office have alleged that the payments contemplated by the Capacity Building Arrangements are improper. You have asked our advice regarding the usual and customary practice regarding capacity building arrangements in the oil & gas industry.

   1.4 Akin Gump Strauss Hauer & Feld LLP (Akin Gump) has represented clients in the oil & gas industry for 70 years. Our clients include independent producers, major multinational and state-owned oil companies, national governments, lenders, investment banks, private equity funds, underwriters, issuers, energy service companies, processing, operations, transportation and pipeline companies and refining and petrochemical companies. We have represented these clients throughout the entire oil & gas value chain, from exploration and production activity through pipelines, LNG, refining and petrochemicals. This memorandum draws on the collective experience of the 198 lawyers at Akin Gump who have experience in the oil & gas industry.

2. Summary Conclusion

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

   2.2 Capacity building has been a long-standing feature of the oil & 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.

2.3 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 & gas industry. An early stage oil & gas jurisdiction is likely to place more extensive capacity building requirements on IOCs than a more developed oil & gas producing jurisdiction. As a result, an aspect of capacity building that may look unusual or unconventional in one jurisdiction may be necessary in another jurisdiction.

2.4 Capacity building by IOCs is typically mandated by legislation and/or by contract.

2.5 Depending on the existing capacity already in place, capacity building in the oil & gas industry can take many forms, ranging from training and education, to technology transfer, to the building of legal and institutional frameworks.

2.6 Paragraph 3.9 of this memorandum sets forth a variety of examples of capacity building provisions in various jurisdictions under legislation and in contracts. These include mandated payments directly to governmental institutions for specified purposes, such as development of government institutions and logistics for the oil and gas industry, which can often be spent at the government’s discretion. There are also examples of capacity payments directed towards training of government personnel, which is a nearly universal requirement in the oil & gas industry.

2.7 The pervasiveness of capacity building in the oil & gas industry, and the commonality of the goals of such capacity building, can be demonstrated by two recent World Bank projects that are described in paragraph 3.12.

3. **Discussion**

**What is ‘capacity building’?**

3.1 Capacity building is typically defined as the development and strengthening of human and institutional resources. It involves an analysis of what is preventing people and governments from realizing their development goals, and implementing processes to help them achieve those development goals.

3.2 The United Nations Conference on Environment and Development held in Rio de Janeiro in June 1992 adopted two conventions regarding sustainable development. One of those Conventions, Agenda 21 (the *Agenda 21 Convention*), adopted the following definition of “capacity building”:

“The ability of a country to follow sustainable development paths is determined to a large extent by the capacity of its people and its institutions as well as by its ecological and geographical conditions. Specifically, capacity-building encompasses the country's human, scientific, technological, organizational, institutional and resource capabilities. A fundamental goal of capacity-building is to enhance the ability to evaluate and address the crucial questions related to policy choices and modes of implementation among development options, based on an understanding of environmental potentials and limits and of needs as perceived by the people of the
country concerned. As a result, the need to strengthen national capacities is shared by all countries.”

*Capacity building in the oil & gas industry generally*

3.3 Capacity building has been a long-standing feature of the oil & 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 often been incumbent upon IOCs to engage in capacity building of local persons and governments. Oftentimes this capacity building is carried out in parallel with public entities such as the United Nations and the World Bank.

3.4 To build capacity effectively, it is first essential to understand what capacity is already in place. This will obviously vary widely from jurisdiction to jurisdiction.

3.4.1 At one end of the spectrum, developed countries with long-standing oil & gas industries such as the United States, the United Kingdom and Norway, will already have fully-developed oil & gas capacity across the full spectrum of technical, legal, institutional and other relevant capabilities.

3.4.2 On the other end of the spectrum, developing countries without established oil & gas industries may have little or no capacity. Countries such as Kenya, Tanzania and Mozambique have recently had their first material oil & gas discoveries, and they are rapidly developing the necessary technical, legal, institutional and other relevant capabilities.

3.4.3 Somalia sits at the far end of this spectrum because as a result of the civil war there has been no oil & gas exploration activity for over a decade. Most of the technical, legal, institutional and other relevant capabilities that existed prior to the civil war have dissipated. As a result, Somalia can be viewed as a country with minimal existing capability.

3.4.4 In summary, it is never enough to say “this is how it is done everywhere else” because no two jurisdictions are exactly the same. An aspect of capacity building that would look unusual or unconventional in one jurisdiction may be necessary in another jurisdiction.

3.5 Capacity building in the oil & gas industry has benefits for both host countries and IOCs. Host countries will seek capacity building in order to develop their domestic oil & gas industry and otherwise develop their wider economy. From the perspective of the IOCs, capacity building will give the host country the ability to perform more efficiently its interfaces with the IOC. In host countries with a national oil company (NOC), capacity building can also enable the NOC to perform more capably its interfaces with the IOC, whether as a regulator or a co-venturer or both. Ultimately, from an IOC perspective capacity building is a form of sustainable development that leads to a more stable investment environment and reduces the IOC’s political risk.

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2 Martyn David, Upstream Oil and Gas Agreements, at 75 (1996).

Specific types of capacity building in the oil & gas industry

3.6 Depending on the existing capacity already in place, capacity building in the oil & gas industry can take many forms, including the following:

3.6.1 The most common type of capacity building is the provision of training and education. Petroleum laws and upstream petroleum agreements in most host countries include provisions requiring IOCs to provide training for nationals of the host country. Oil & gas exploration and exploitation requires highly skilled technical workers, such as geologists and geophysicists, as well as legal and financial specialists. The purpose of the training is two-fold. First, the IOC is typically obligated under the petroleum laws or upstream petroleum agreements to employ nationals of the host country, and it is necessary to train persons for these positions. Second, it is often necessary to train the staff of the local ministry of oil & gas and/or the NOC in order that they can perform their regulatory, oversight and other functions, which the IOC needs to have performed in a competent manner.4 Although training may be the most common form of capacity building, there are many other aspects of capacity building in the oil & gas industry.

3.6.2 Another common aspect of capacity building in the oil & gas industry is the transfer of technology. The oil & gas industry is a highly technical and complex industry, involving a range of technologies from geo-sciences such as geology, geophysics, geochemical, gravity and magnetic work and interpretations, to oilfield services such as drilling wells, laying pipelines and general operations and maintenance. An example of a technology transfer is the transfer to the Ministry of the seismic data acquired and processed by Soma and the establishment of a data room repository to accept and retain that data. Of course, the transfer of this technology to the host country is not useful without the training of host country nationals as described above. The Agenda 21 Convention described technology transfer as follows:

“There is a need for favourable access to and transfer of environmentally sound technologies, in particular to developing countries, through supportive measures that promote technology cooperation and that should enable transfer of necessary technological know-how as well as building up of economic, technical, and managerial capabilities for the efficient use and further development of transferred technology. Technology cooperation involves joint efforts by enterprises and Governments, both suppliers of technology and its recipients. Therefore, such cooperation entails an iterative process involving government, the private sector, and research and development facilities to ensure the best possible results from transfer of technology. Successful long-term partnerships in technology cooperation necessarily require continuing systematic training and capacity-building at all levels over an extended period of time.”5

3.6.3 A further aspect of capacity building is the fostering of an appropriate legal and institutional framework by which the host country may best achieve successful exploration and exploitation. This includes a regulatory body such as the Ministry to manage, oversee and regulate

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4 Id. At 382.
the oil & gas industry. This requires a wide range of skillsets. On the technical side, the regulatory body will need geoscientific capabilities in order to assess exploration activities such as minimum work programs and development programs. On the legal side, the regulatory body will need to administer the relevant petroleum law, prepare and enforce oil & gas regulations, and work with IOCs with respect to upstream petroleum agreements such as production sharing contracts and concessions. On the financial side, the regulatory body will need to be able to collect and distribute oil & gas revenues. Strengthening the regulatory institutions can also improve transparency by creating standard policies and procedures that should be followed in specified circumstances. In a country like Somalia, which has minimal existing capabilities, the development of these capabilities requires more than just the training and technology transfers referred to above. In this context, in our experience it is appropriate that these additional forms of support include payment of salaries at a time when the regulatory body has no revenue from oil & gas activities, as well as providing office space and office equipment.

How is capacity building implemented in the oil & gas industry?

3.7 Capacity building by IOCs is typically mandated by legislation and/or by contract. In some host countries, the petroleum law or the petroleum regulations will provide for capacity building. This is particularly seen in developed petroleum jurisdictions, such as Nigeria and Angola. Alternatively, or in addition to legislative requirements, capacity building may also be required under the contractual provisions of a host country’s model production sharing contract (PSC), concession or equivalent upstream petroleum agreement (collectively referred to as a UPA). The model form of the UPA will be prescribed by the government. Examples of capacity building provisions under legislation and in UPAs are detailed in paragraph 3.9 below.

3.8 The implementation of the types of capacity building described at paragraph 3.6 take several forms under the relevant legislative and contractual provisions. Capacity building will require active engagement by IOCs for purposes of training, technological transfer and knowledge sharing. Very commonly, there is an additional requirement for the IOC to provide monetary funds to the host government in order that the government may implement its own capacity building programs. This is typically structured as the payment of a specific monetary amount either at the outset of IOC operations and/or on an annual basis for the duration of operations. The payment may be stipulated as for a particular purpose, such as a contribution to a training fund. In other cases, it is described broadly as for purposes of development, or as financial assistance. In the vast majority of cases, this is payment directly to a government, a ministry or other government-affiliated body, via a bank account controlled by that government party. It is at the discretion of the government to then apportion funds. In some, but not all, cases, the IOC may be notified of, and may have audit rights regarding, this process. In our view, it is not unusual that the government of an early-stage oil and gas jurisdiction without an institutional or logistical infrastructure may require an IOC to make monetary contributions for the purpose of it putting this infrastructure in place.

Examples of capacity building payments for institutional / logistical development

3.9 The examples included in this paragraph detail specifically the use of capacity building payments for the development of government institutions and logistics for the oil and gas industry.

Kurdistan Region, Iraq

3.9.1 The Kurdistan model PSC requires an IOC to provide multiple capacity building payments to the government, which are in addition to other provisions which deal with expenditure for purposes of training of personnel. The following three provisions, in particular,
exemplify the wide scope of capacity building payments. Notably, the capacity building bonus is a up-front capacity building payment to the government without a defined purpose:

- Recruitment of personnel: “For the first [ ] ([ ]) Contract Years, the CONTRACTOR shall provide up to [ ] Dollars (US$[ ]) in advance each Contract Year to the GOVERNMENT for the recruitment or secondment of personnel, whether from the Kurdistan Region other parts of Iraq or Abroad, to the Ministry of Natural Resources. The selection of such personnel shall be at the discretion of the Minister of Natural Resources. Such costs shall be considered as Petroleum Costs and shall be recovered in accordance with the provisions of Articles 1 and 25.”

- Logistical assistance: “Before the end of the first Contract Year, the CONTRACTOR shall provide to the GOVERNMENT in kind technological and logistical assistance to the Kurdistan Region petroleum sector, including geological computing hardware and software and such other equipment as the Minister of Natural Resources may require, up to the value of [ ] Dollars (US$[ ]). The form of such assistance shall be mutually agreed by the Parties and any costs associated therewith shall be considered Petroleum Costs and shall be recovered by the CONTRACTOR in accordance with the provisions of Articles 1 and 25.”

- Capacity building bonus: “A capacity building bonus of [ ] Dollars (US$[ ]) (“Capacity Building Bonus”) shall be payable to the GOVERNMENT by the CONTRACTOR within thirty (30) days of the Effective Date.”

Tanzania

The Tanzanian model PSC requires the IOC to make annual payments to the government for capacity building. The PSC specifically provides for capacity building in terms of both the training of government and NOC (TPDC) personnel and also the development of government resources. For example, the payment may be used to “purchase for the Government and TPDC advanced technical books, professional publications, technical software, scientific instruments, technical software or other equipment required by the Government and TPDC.”

Liberia

The Liberian model PSC includes detailed provisions in relation to capacity building, which include annual payments by the IOC for training, social and welfare programs, and the development of university programs. These payments are required to be paid by an IOC into a general revenue account maintained by the ministry of finance.

Examples of capacity building payments specifically for training of government personnel

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6 Kurdistan model Production Sharing Contract, articles 23.4, 23.11 & 32.2.
7 Republic of Tanzania Model Production Sharing Agreement 2013, article 21.
3.10 Capacity building payments for the purposes of training of local, government and/or NOC personnel are a feature of most, if not all, African jurisdictions.
Kenya

3.10.1 In Kenya, an IOC must, pursuant to law and the model PSC, make annual capacity building payments to a government ministry training fund. This requirement is mandatory, with the quantum being a negotiable aspect of a PSC.9

Equatorial Guinea

3.10.2 By law and under the terms of the model PSC, an IOC operating in Equatorial Guinea must provide the petroleum ministry with funds for the training of Equatoguinean personnel.10

Ghana

3.10.3 The Ghanaian model PSC requires an IOC to pay the NOC an annual sum for purposes of training and development of local personnel.11

Cameroon

3.10.4 Under the Cameroonian model PSC an IOC has been required to pay into a government bank account an annual sum for purposes of the professional training of Cameroonian personnel.12

Eritrea

3.10.5 Under an Eritrean PSC an IOC has been required to pay into a ministerial bank account an annual sum for purposes of the training and employment of local personnel.13

Examples of capacity building payments in developed African jurisdictions

3.11 The examples below indicate that capacity building payments to governments are commonplace even in the most developed African petroleum jurisdictions, where the institutional and logistical framework for the oil and gas industry is already in place.

Nigeria

3.11.1 The Nigerian Content Development Fund was established for the purpose of funding local capacity building in the oil and gas industry. Under Nigerian legislation, 1% of the contract value of every contract awarded to any IOC in the upstream sector is deducted at source

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9 Petroleum (Exploration and Production) Act (Chapter 308), section 11, and Republic of Kenya Model Production Sharing Contract, article 13.
10 Petroleum Regulations of the Republic of Equatorial Guinea, article 157.
11 Ghanaian Production Sharing Contract, article 21.
12 Example Cameroon Production Sharing Contract, article 19.
13 Example Eritrean Production Sharing Contract, article 3.5.
On 24 July 2014, the World Bank announced its approval of US$50 million for the Government of Kenya to “strengthen its capacity to manage the oil and gas sector and the distribution of its revenues to create sustainable growth across all areas of the country’s economy.”

The project followed the first discoveries of significant quantities of oil and gas in Kenya. The project is intended to foster “transparency and good governance in oil contracts and revenue” and “capacity building among existing government institutions and clarification of their roles and responsibilities.”

Please let me know if you need anything further or if you have any questions.

JCL

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14 Nigerian Oil and Gas Industry Content Development Act 2010, s.104.

15 Angola Decree-Law 17/09, articles 12 & 13.


17 Kenya: New World Bank project will support country efforts to better manage oil and gas developments and revenues to invest in lasting growth and development, World Bank press release no. 2015/045/AFR dated 24 July 2014.
Annex 183

PEACE AND STABILITY IN THE HORN OF AFRICA: PROBLEMS AND PROSPECTS

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INTRODUCTION

The Horn of Africa has historically been an important geo-strategic region of the world. The opening of the Suez Canal made it even more important since the Red Sea became a vital line of communication which connected Europe and the East. Today, its importance has been enhanced further because it has become an integral part of the strategically important Red Sea/Persian Gulf/Indian Ocean sector of super-power competition.

The Horn of Africa is a region of great diversity and contrast. It is inhabited by different ethnic, religious, linguistic, and cultural groups. Unfortunately, this diversity was not to become a gratifying source of mutually enriching inter-relationships. On the contrary, it has generated deep-seated antagonisms, distrust, and ill-will. It has also nurtured fierce nationalistic values, beliefs, and attitudes which affect and, in turn, have been exacerbated by the political and ideological differences of the states of the region.

Ethiopia is a multi-ethnic, multi-lingual, and multi-confessional state engaged in a near-futile bid to create a nation. Somalia is a homogeneous state in a desperate search for unity of a people which finds itself in four different adjoining states. Djibouti, which is equally divided between two nationalities whose roots are elsewhere, is in search of an identity. Eritrea, whose people have forged a nation through long, arduous struggle, is fighting for a state.

Ethiopia was, until 1974, a feudal state closely allied with the United States. It is now run by a self-proclaimed Marxist regime which is closely linked with the Soviet Union and the socialist bloc. Somalia was a socialist state, governed on the tenets of Scientific Socialism and closely associated with the USSR and its allies until 1977. It is now a close associate of the U.S., although it continues to be ruled by the same government and the same revolutionary party. Eritrea has been waging a war of liberation for more than a quarter of a century while Djibouti, which became independent in 1977, is dependent on French military presence for its sovereignty and territorial integrity.

These centrifugal forces have caused the Horn of Africa to become a region of interminable political upheaval, social instability, economic chaos, civil strife, and the battleground for several savage wars. This condition enabled...
the great powers to intervene in the affairs of the region and to spread their influences easily. However, it must be added that the values, beliefs, and attitudes of the peoples of the region, as well as their relationship with each other, have always been independent, and beyond the control, of the great powers. It is to be noted that none of the great powers could control the evolving reality in the Horn of Africa that was triggered by the upheaval of the Ethiopian revolution in 1974. On the contrary, they were forced to adjust to the situation obtaining in the region and to avail themselves of the opportunity that was created in the new political environment. It must be remembered that each of the great powers—the U.S., the USSR, and France—as well as their allies (notably the socialist countries) owe their presence in the region to an invitation by one state or another of the region.

Nevertheless, a state of hostility and conflict has forced the states of the region not only to depend heavily on the great powers for military and economic assistance, but also to allocate their meager internal resources to the purchase of sophisticated weaponry and to the permanent retention of large armies. The absence of peace has also been costly in terms of economic development and social progress.²

The internal condition was worsened by external factors which were to influence the course of history and the political evolution in the region.

The start of the Second World War caused an abrupt end to Italian colonialism. All three countries—Ethiopia, Eritrea, and Italian Somaliland—were “liberated” in short successive order by British and Commonwealth forces, accompanied by patriotic contingents from all these countries, between April and May of 1941. Italian defeat excited fresh hopes in Eritrea and Italian Somaliland. However, the euphoria that followed Italian defeat and the Atlantic Declaration was to be short-lived as the spirit of cooperation and goodwill vanished promptly and the great powers began to pursue policies dictated by their national interests.³ This augured ill for Eritrea and Italian Somaliland. To begin with, the colonial powers were not ready to relinquish their colonies. France was reinstated in what was then called French Somaliland. Great Britain did not relax its colonial rule in British Somaliland. Eritrea and Italian Somaliland became virtual British colonies. Even Ethiopia’s independence was nominal.⁴ Unfortunately, the nascent independence movements in Eritrea, the Ogaden, and the two Somalilands were not strong enough to challenge British power. In fact, most of these movements, particularly those in Eritrea and Ogaden, actively cooperated with British authorities in the initial stage in the mistaken belief that Britain had come as a liberator.

Second, the process of decolonization, when it was finally started, was to be inextricably linked with the Cold War. American policy on decolonization was to be conditioned by what was perceived to be the expansion of commu-
nism and was based on the principles of containment. The U.S. initiated and concluded a series of regional and bilateral alliances with what it considered to be staunch, anti-communist countries irrespective of their legitimacy or popularity. The USSR considered these U.S. policies as schemes to stifle and destabilize the socialist revolution. Consequently, the USSR attacked the U.S. and their allies in their policies towards the colonies. It became a champion of the unconditional, total, and immediate independence of colonial peoples.

Italy and Ethiopia immediately sided with the U.S. and they were to reap benefits from that. Italy became a member of NATO. Ethiopia made a series of military, political, and diplomatic arrangements with the U.S. Italy actively sought to be reinstated in its former colonies. Once assured of its own independence and territorial integrity by the U.S., and having succeeded in winning recognition as a contributor to the allied war effort, Emperor Haile Sellassie's Ethiopia laid claim to Eritrea and Italian Somaliland as “its lost provinces.” Italy was rewarded by a trusteeship in Italian Somaliland. U.S. influence weighed heavily in producing the ill-fated U.N. decision which federated Eritrea with Ethiopia.

The Soviet Union opposed both decisions. At one point, it had desired to administer one Italian colony or another. Its covetousness was short-lived, however, and it espoused the cause of independence. The U.S., in contrast, supported both decisions and acquired bases in both Italy and Ethiopia.

This diplomatic process was to ensure peace and stability in the region. The U.N. decision on Eritrea, however, was unpopular with a majority of the population. They were convinced that they were denied rightful opportunities that were being offered to the other Italian colonies. The resentment and bitterness were aggravated by the backward and heavy-handed policies and administrative practices of feudal Ethiopia, which militated against the development of mutual trust, communality of feelings, and common aspirations. The illegal abrogation of the Federal Act in 1962 and the incorporation of Eritrea as another province tolled the death-knell of Ethio-Eritrean unity. In the same year, the Eritrean liberation struggle started. Inevitably, the Eritrean liberation fighters were to be bitter against the U.S., which was Ethiopia's patron and benefactor, not only for conspiring against their independence, but also for encouraging the dissolution of the federation which provided them with at least a national identity and whatever limited freedom they were able to exercise. They also blamed the U.S. for providing the imperial government with the military wherewithal needed to prosecute the anti-liberation war savagely, as well as with diplomatic cover that shielded the government from international censure as it arrogantly applied barbarous measures against the civilian population of Eritrea. Naturally, the liberation movements turned to the Socialist bloc for succor.
The British decision to hand back the Ogaden, the birthplace of Somali culture and nationalism, to Ethiopia in 1942, and the Haud and reserved areas in 1955, was to complicate the politics of Somalia's independence. The inability of the U.N. to delimit the boundary between Ethiopia and the trust territory of Italian Somaliland, during the ten years trusteeship period, was to become yet another bone of contention between Ethiopia and independent Somalia. Again, the U.S. was perceived as the power behind imperial Ethiopia's pursuit of aggressive policies since the U.S. was giving unqualified military and diplomatic support to Ethiopia after 1950. Somalia courted the socialist bloc and received help until 1977.

These twin questions—the Eritrean conflict and the Ethiopia-Somalia dispute—constitute the major obstacles to peace and stability in the Horn of Africa.

THE EXTERNAL POWERS

It can be argued that many states have interests in the Horn of Africa. However, two groups can be identified as having major stakes, and as playing significant roles, in the area. The first group consists of four of the permanent members of the Security Council of the U.N., namely the U.S., the USSR, France, and the People's Republic of China. The first three have military alliances with the three states of the region. The fourth has close economic and cultural relations with Somalia and Djibouti, substantial trade relations with Ethiopia, and it is allegedly supplying weapons to both Somalia and the Eritrean liberation fronts. The second group consists of the immediate neighbors, Kenya and the Sudan, as well as the littoral states of the Red Sea. They are Egypt, Israel, the two Yemens, Saudi Arabia, and the Gulf States. All these states have long-standing cultural, economic, political, religious, trade, and military relationships with the countries of the Horn of Africa and have played important roles in the history of the region.

It is to be noted that all these states share mutual as well as antagonistic interests. Each of the great powers wants to make certain that the region does not become the sphere of influence of one of the others. All of them wish to ensure that the Red Sea will not be controlled by parties hostile to them and that there is a permanent safe passage through the straits of the Bab-el-Mandeb. Therefore, "the lines have been drawn for a superpower struggle over the Horn and the Red Sea, and the superpowers would not hesitate to plunge the area into a full-scale war if it suited their interests to do so."13

One can safely assume that the interests of the Soviet Union in the Horn of Africa were heightened partly because of its decision to fill the vacuum left in the Indian Ocean after the withdrawal of British military presence from
Let us not forget that the Soviet Union was able to convert this western loss to its own gain without any risk of confrontation with the Western Alliance. This action was followed by feverish diplomatic activity to consolidate its gains and make its presence palatable by developing good relations with the states of the region. This task proved easier than anticipated by the Soviet Union since most of the states—Egypt, Sudan, the two Yemens, and Somalia—were, at that time, recipients of Soviet military aid and technical assistance. In the process, the Soviet Union became instrumental in making the armed forces of Somalia one of the most efficient and best-equipped in sub-Saharan Africa. In return, the USSR acquired bases and facilities in Berbera and Mogadisho.

The Soviet Union, whose relationship with the Sudan and Egypt had deteriorated in the early 1970s, saw additional advantages in its presence in the region. It was convinced that preponderance in the Horn of Africa would not only give legitimacy to its perceived role as a power broker in the Middle East and the Gulf area but also provide it with influence in the Nile Valley, with sequential leverage over Egypt and Sudan. The Ethiopian revolution in 1974 provided the necessary opportunity to replace U.S. influence there without losing its position in Somalia. Since the U.S. was not eager to confront the USSR on the subject of Ethiopia, the Soviet Union abandoned its original caution and quickly deepened its friendly relations with the military government. Soon thereafter, it was emboldened to sponsor a conference of the states of the region under the chairmanship of Fidel Castro of Cuba, ostensibly to avert war and to agree upon the pre-conditions for peace in the region. This zone of peace was to be established by the creation of a confederation of "progressive" states consisting of Ethiopia, Somalia, the People's Democratic Republic of Yemen, and an independent or autonomous Eritrea. Needless to say, this scheme would equally serve the purpose of creating a PAX SOVIETICA in the region.

If the scheme had been successful, it would have enabled the Soviet Union to acquire an economic zone with a vast potential as a market for Soviet manufactured products and as a source of raw materials for Soviet industries. It would also have created an absolute military control of the southern end of the Red Sea and of the source of the Nile and a great proxy force made of the region's four great armies. It was doomed to failure because of the irreconcilable interests of the two participants of the conference, Ethiopia and Somalia.

Soon thereafter, the Soviet Union abandoned Somalia for Ethiopia. Soviet-Ethiopian relations blossomed into a Treaty of Friendship and Cooperation in 1978. The Soviet Union now wields great influence in Ethiopian life as a result of a series of economic, trade, cultural, political, and military agreements which followed the treaty. Most of all, the Soviet Union has at its com-
plete disposal the naval bases in the Dahalak Archipelago in the Eritrean coast of the Red Sea, and the use of the airbase in Asmara, the Eritrean capital. These bases and the presence of Cuban forces and East European advisors elsewhere in Ethiopia, coupled with its military presence in the People's Democratic Republic of Yemen and Afghanistan, have bestowed upon it a formidable presence in the region. This presence is a source of constant worry to the conservative states of the area because it is now capable of exploiting regional disputes and inter-Arab differences.

Ethiopia is now the key to Soviet strategic interests in the region, and the Soviet Union is determined to dominate it by ensuring its continued dependence on it. It has thus been more generous with its economic and technical assistance to Ethiopia, which is now the fifth largest recipient of Soviet aid and an observer member of COMECON. This assistance has not been anywhere near enough to meet the needs of the country. However, the Soviet Union's continued lavish supply of arms and military advisers, which enables the military government to prosecute the Eritrean War and to intimidate Somalia, as well as to terrorize the rest of the country, has been enough to narrow Ethiopia's foreign policy options and to secure its dependency.

The short-term advantages for the Soviet Union were obvious. Its long-term gains are, as will be seen later, questionable. It can, in fact, be concluded that the overall results of realignment and changing alliances were unfavorable to the Soviet Union and the socialist cause.

U.S. policy towards the Horn of Africa is, like that of the Soviet Union, a function of its policies and interests in the Middle East, the oil-rich Gulf Area, and the Indian Ocean. These latter areas are vital to American, Western European, and Israeli strategic and trade interests.22

Until recently, the U.S. had an unassailable superiority over the Soviet Union in these areas. Accordingly, successive U.S. policy makers viewed with complacency the energetic Soviet military expansion program and the flurry of diplomatic activity in the Indian Ocean and adjacent areas.23 Two explanations were proffered. First, Soviet activity was considered temporary and having short-term interests.24 U.S. authorities were convinced that Soviet policy, aimed at exploiting local differences, would be counter-productive and were only too eager to watch the Soviet Union suffer the consequences of its follies.25 In any case, they were certain that the strong U.S. presence in Diego Garcia in the Indian Ocean, French presence in Djibouti and the Indian Ocean, and Israeli presence in the Dahalak islands, off the Eritrean coast, would more than deter the Soviet Union from any anti-western misadventures.26

It was also assumed quite wrongly by U.S. authorities that the Horn of Africa was appropriately part of the African, rather than the Middle-East Gulf-Indian Ocean, sub-system.27 Consequently, it was concluded that devel-
opments in the Horn would not be directly relevant to the latter regions. Events were to prove this conclusion wrong. By 1980, the U.S. had little military weight, an undiscernable policy, and disheartened and confused allies in the region.

Several events contributed to the American predicament. In 1973, the Socialist government of Greece decided against the use of U.S. bases in its territory as staging points for Middle East operations. In 1974, the government of Emperor Haile Sellassie was overthrown in Ethiopia, and by 1977, Ethiopia's military relationship with the U.S. was severed. In any case, the military success of the Eritrean liberation fronts was considered to be a threat to U.S. and Israeli interests in the Red Sea. In 1979, the Shah of Iran, the U.S. proxy in the region, was also overthrown by Islamic revolutionaries who were fanatically anti-American. In 1980, the Soviet Union invaded Afghanistan and Soviet forces were within striking distance of the Arabian Sea and the Straits of Hormuz. During all this time, U.S. policy was handcuffed by the “Vietnam Syndrome,” which precluded any strong posture, thought of intervention to redress regional imbalances, or the possibility of confrontation with the Soviet Union.28

By 1980, many of America's African and Arab allies, were pressing the U.S. to be more assertive.29 As a result, it embarked upon an aggressive military and diplomatic campaign to contain, and possibly roll back, Soviet preponderance in the region. The era of the Rapid Deployment Force (RDF) was inaugurated.30 Since the efficacy of the RDF depended on the goodwill and cooperation of several states in the region, the U.S. signed a series of agreements with Egypt, Sudan, Somalia, Kenya, and Oman to make it a working proposition.31 In addition, it capitalized on its special relationship with Saudi Arabia and Kuwait. Two countries, Saudi Arabia and Egypt, were to become the pillars of U.S. policy in the region.32 The first took over Iran's role; the second actively participated in the annual military exercises of the RDF which originated in the U.S. but used the facilities of NATO bases in both Great Britain and the Federal Republic of Germany.33 Both Saudi Arabia and Egypt became recipients of large quantities of sophisticated military supplies. The others, too, were beneficiaries of new military assistance programs.34 In turn, the U.S. acquired naval and air bases in Berbera and Mogadisho (Somalia), Mombasa (Kenya), Ras Banas (Egypt), and Masirrah (Kuwait).35 The U.S. was also using Djibouti as an observation post to monitor the activities of the Soviet Navy in the Red Sea and the Indian Ocean,36 and the U.S. and France are cooperating militarily in Djibouti.37 The Yemen Arab Republic (North Yemen) was persuaded by Saudi Arabia to adopt a friendly relationship.38 The Indian Ocean base in Diego Garcia was expanded and refurbished with newer equipment. All this was backed by American political resolve to act swiftly to confront any further aggression by the Soviet
Union and/or its proxies. The U.S. was able to recoup its losses very quickly.39

The policy of the People's Republic of China on the Horn of Africa is based on the theoretical premises of the "Theory of the Three Worlds" and its relationships with the two super-powers. This implausible theory is conveniently employed by the PRC in its unrealistic exhortation of the last two "worlds" to unite in an alliance against the exploitation of the two "imperialist" states in the "first" world. However, Chinese authorities are quick to add that the Soviet Union is, as the late-starter, the hungrier and, consequently, more dangerous of the two and must, accordingly, be the prime target of opposition. This theory has perhaps been applied by the PRC nowhere else as in the Horn of Africa. The PRC does not have any economic, military, or perhaps even ideological interests in the entire geo-strategic system, although the Soviet invasion of Afghanistan must have been a source of considerable anxiety and concern because of the concomitant dangers to its ally, Pakistan.

The Chinese have only an indirect interest and objective in the region: to thwart Soviet attempts to expand its zone of influence and to undermine its existing positions of influence.40 Chinese analysis prognosticates that the presence of the Soviet Union in the Horn of Africa is, just like its occupation of Afghanistan, part of a grand design to control the area between the Persian Gulf and the Pacific in the East and to dominate the Middle East and Europe in the West. This strategy, according to the Cassandraiac pronouncements of Chinese authorities, envisages the asphyxiation of the capitalist world by controlling the oil-fields of the Gulf and the supply route from both sides of the Red Sea and the Persian Gulf.41

The PRC is determined to subvert this design. Its foreign policy has been dictated more by its perceived national interests than by the ideological dictates of Proletarian Internationalism. Accordingly, it has been forced to urge a very strong U.S. presence in the area as well as to have close relationships, and work in collusion, with states and other actors of contradicting ideologies, including committed anti-Marxists, as long as it promoted the abortion of Soviet policies.42 It must be noted, in this connection, that Chinese economic and technical assistance has been used to entice countries to weaken their ties with the Soviet Union or has been rushed in when countries have severed relations with the Soviet Union.43 It helps movements and parties against proclaimed Marxist states, as for example in Angola (UNITA) or Ethiopia (WAZ LEAGUE), if these countries are allied to the Soviet Union. On the contrary, it has, with the exception of its assistance to the PLO, halted all assistance to national liberation and revolutionary movements in the region, notably in Eritrea and Oman. It is significant to note that the PRC actually withdrew its assistance to the Eritrean liberation movements after the official visit of Emperor Haile Sellassie to Peking in 1972. It is equally note-
worthy that it was overly eager to establish diplomatic relations with arch-conservative Kuwait and Djibouti, a French ally, in 1978 and that it continues to make strenuous efforts to establish relations with Saudi Arabia. The military presence of France in the Horn of Africa is justified by two factors: its commitment to defend Djibouti's Sovereignty and territorial integrity and Djibouti's importance to France's strategic interests in the region.

France has a military presence in Djibouti similar to its presence in most of its former African colonies with whom it has defence agreements. French military presence is welcomed—indeed it was insisted upon during the independence negotiations—by Djibouti which has misgivings about the long-term ambitions and goals of its two stronger neighbors which accepted its independence only grudgingly.

On the other hand, France needs its presence in Djibouti for several reasons. First, its shares the general Western European interest to keep safe the sources of energy and the supply routes which are so vital for the well-being of Europe. Seventy percent of the oil from the fields of the Gulf is carried by vessels registered in France and flying French colors. For this reason, France has held periodic consultations with Great Britain, the Federal Republic of Germany, and the U.S., as well as some other concerned states of the region. Second, the Red Sea route is important to France as a direct link with its nuclear testing center in French Polynesia. Third, Djibouti constitutes the northernmost point of a wide French maritime strategic area, studded by several islands, including Reunion in the South. France maintains, in this area, a fleet which consists of several aircraft carriers and has communication stations and fuel depots. Fourth, it is widely believed that France may use Djibouti as a supplemental staging point for military intervention to preserve its interests elsewhere in Africa. Finally, Djibouti is used by both France and the U.S. to monitor the movements of Soviet vessels and intercept communication. The French presence in the area compliments, but is not an extension of, American policy since it is based on French interests and predates American interest in the region.

The conflicts in the Horn of Africa have been affected by, and have influenced the policies of, the neighboring states. The littoral states of the Red Sea and Kenya on the Indian Ocean coast have been forced to participate, albeit at varying degrees of involvement, in the unfolding political drama of the region, because of their proximity to the region, their ideological predispositions, and their alliance or cooperation with one superpower or another.

Saudi Arabia views as an anathema to its survival the presence of the Soviet Union uncomfortably close to its borders, in the People's Democratic Republic of Yemen (South Yemen) and Ethiopia. It considers both of these countries as nothing more than Soviet surrogates ready to seize any available opportunity to undermine the existing order in the country not only...
because of their commitment to socialist ideology but also to further Soviet national interests. It is convinced that the Soviet Union is impelled both by ideological diktat and its self-interest to strengthen the Marxist regimes in these states and to assist them in the organization of radical forces and revolutionary movements in the region with the view to establishing a socialist zone. In its determination to arrest further Soviet gains in the area and to subvert the dominance of these two states, Saudi Arabia has made maximum use of its financial prowess as well as its special military and political relationship with the U.S.\(^50\)

Its "Dollar Diplomacy," benefitting from the cooperation of Kuwait and the other conservative Arab states of the region,\(^51\) is devised to bolster the moderate but economically faltering regimes in the region as well as to woo away the radical but financially needy states from the Soviet Union towards a closer relationship with the U.S. To this end, it has given grants and loans to, and invested heavily in, the Sudan, Somalia, Djibouti, North Yemen, and even Kenya. In North Yemen and Djibouti, it has also participated in joint ventures with the U.S.\(^52\) and France respectively.\(^53\)

Its political and military policy makes maximum use of the "Nixon Doctrine," which considers Saudi Arabia the first of its "Twin Pillars"\(^54\) policy in the Gulf Area. The U.S. continues to adhere to the doctrine in spite of the loss of Iran, the other pillar, because it is convinced that the loss of Iran could be amply compensated for by the gain in Egypt. Egypt has been elevated to that exalted status.

Saudi policy has twin objectives. First, it seeks to isolate and weaken Ethiopia and South Yemen. To this end, it has tried to unite, and has assisted at least one of, the liberation movements in Eritrea (ELF-PLF). It has used the Arab League and particularly the Islamic Conference Organization, which has its headquarters in Saudi Arabia, to apply pressure on, and further isolate, Ethiopia and to assist national liberation movements and other political organizations opposed to the Marxist regime. Second, it aims at making North Yemen, which the Saudis consider a key state in the region, strong enough to resist south Yemen's pressures and unity overtures and to become a partner in the creation of an anti-socialist league in the region.\(^55\) Saudi Arabia is convinced that the control of North Yemen by unfriendly powers would be dangerous to its vital interests and detrimental to the balance of power in the Red Sea area. Saudi policy aims, therefore, to make North Yemen strong enough to resist other pressure but weak enough to depend on Saudi assistance.

Saudi-North Yemen relations have witnessed good and bad times but, on the whole, they have been among the best in the Arab world. In addition to a heavy financial commitment, the Saudi government has helped successive Yemen governments militarily during the civil war which pitted the central government against the National Democratic Front, a leftist organization
which was being trained, equipped, and financed by South Yemen. Nevertheless, Saudi Arabia has also contributed to the chronic instability which torments the country by aiding and abetting feudal provincial overlords and the conservative political groups in the country in order to keep a tight rein on the central government.

The U.S. has welcomed the deepening relationship between Saudi Arabia and North Yemen. It has extended generous economic and military aid to North Yemen and is hopeful that the Saudi plan to create a conservative alliance revolving on Saudi-North Yemen friendship will eventually succeed and become a countervailing force against the Addis Ababa - Aden axis.

Egypt has historic interests in the Horn of Africa, first because Ethiopia is the major source of the life-giving Nile and second because Egypt guards the northern gate of the Red Sea. The Nile is the principal source of Egypt's policies and Egypt has used force and/or diplomacy to ensure the uninterrupted flow of the Nile. During the final decades of the last century, it had occupied the Eritrean coast of the Red Sea and Harrar, which it had inherited from Turkey, before Italian and British colonialism and Ethiopian expansionism terminated its suzerainty. After World War II, it had, for a brief period, entertained a claim over Eritrea, but it quickly abandoned the idea in favor of independence. The Nasser era was characterized with sympathy for the anti-colonial struggles of the people of Eritrea, Somalia, and Djibouti, whose liberation movements were the beneficiaries of moral, political, and financial assistance.

First, there was his staunch support for anti-imperialist and anti-colonialist struggles and he regarded the Ethiopian presence in Eritrea after 1962 a colonialist occupation. Second, and more importantly, he wanted to have a card against Ethiopia over any possible dispute over the uses of the water of the Nile after the building of Aswan Dam.

Nasser's Egypt was to cease overt support and assistance to the Eritrean and Djibouti movements, however, because of the cordial and correct relationships established with Ethiopia and France. Ethiopia's Haile Sellassie not only established personal rapport with Nasser, but reassured him about the Nile. DeGaulle's France supported Arab causes in the Middle East. Relations with Ethiopia deteriorated after the revolution because of Egypt's perceived threats to the Nile and instability in the Red Sea region. Egypt suspected Soviet vindictiveness behind Ethiopia's threats and feared that the Soviet Union would coax Ethiopia, and transfer to it the necessary technology, to obstruct the normal flow of the Nile. Egypt reacted by revitalizing its political and defense agreements with the Sudan and by stationing 40,000 troops in that country after President Nimeiri's government accused Libya and Ethiopia of masterminding the abortive coup d'etat of the summer of 1976. Egypt also extended modest military and medical assistance to Somalia during
the Ethiopia-Somalia War and encouraged the North Yemen initiative to host the Taiz Conference in February 1977, which declared the Red Sea an "Arab Lake." Even more seriously, Egypt has become an active partner in the U.S. Rapid Deployment Force program. Its troops take part in joint annual military exercises with those of the RDF. Egypt's role in Red Sea diplomacy has been minimal, however, and it seems that it has, by understanding with the U.S., Saudi Arabia, and Sudan, left prominence in the area to Saudi Arabia. Recent events indicate that relations between Ethiopia and Egypt have improved since the Ethiopian head of state paid an official state visit to Egypt in January 1987.

The People's Democratic Republic of Yemen (South Yemen) has been, along with Ethiopia, the most reliable Soviet ally in the region, and the Soviet Union is secure in its near-total control of the political, economic, and military course of events in that country. True, a constant struggle for power among competing factions within the Yemen Socialist Party permeates political life in that country. This has, however, never seriously endangered the predominant position of the Soviet Union. In fact, the belief that these coups d'etat and purges are engineered by the Soviet Union itself to ensure its continued predominance is gaining currency in the region by the day.

South Yemen hosts the Soviet Navy in Aden and allows the Soviet Air Force full use of its military aerodromes. South Yemen has also agreed to become the Soviet Union's surrogate, especially in the Gulf area and Southern Arabia and, to this end, has been provided with military aircraft, patrol boats, communication and radar systems, and other intelligence gathering systems far beyond its national need. South Yemen has, of course, already acted as a critical link in the airbridge from the Soviet Union to Ethiopia. Also, South Yemeni pilots and tank crews participated actively on the Ethiopian side of the Eritrean conflict although it had been a principal advocate of Eritrean independence and supporter of the Eritrean liberation movements before the Soviet Union itself switched sides.

The Gulf States have grown in importance because of the strategic value of their resources and have become significant, particularly within the context of the ideological polarization and militarization of the region as a whole. The interest of the great powers in the region has enhanced the anxiety of these rich, but small and weak, states of the area. The knowledge that they will be the major prizes to be won, in the event that the competition between the great powers is finalized, is a source of grave insecurity to them, especially since they fully realize that military force can be of advantage and, at least in the short run, can bring beneficial results to even such weak and otherwise inconsequential states like Ethiopia and Yemen. To these states, this is a significant lesson to be constantly remembered as long as the Soviet presence continues in the Horn of Africa and South Yemen in the South and Afghani-
stan in the North. Under the circumstances, the states of the region have been faced with a dilemma. On the one hand, they wish to avoid a direct U.S. military presence in their territories for fear of provoking or giving unnecessary excuses to their hostile neighbors. On the other hand, they are against giving any concession to the Soviet Union, which would enable it to acquire a special right and role in the area. They would welcome any other form of U.S. military involvement—including the RDF—to caution and deter the USSR from any miscalculations.66

Israel, along with Ethiopia, is the only non-Arab and non-Moslem state in the Red Sea area. Its own presence around the port of Eilat is narrow and useful only in the northern part of the Red Sea area. Until recently, Israeli presence had been broadened by the lease from Ethiopia of the Dahalak islands off the Eritrean coast. This had proved sufficient to safeguard its oil supplies and its communication link with South Africa. In return, Israel had assisted Ethiopia in the Eritrean conflict. Ethio-Israeli relations were officially discontinued only after 1977, in spite of the severance of formal diplomatic ties in 1973.67 However, the two countries apparently have a thriving commercial and other relationship sub-rosa. It is an open secret in official circles in Addis Ababa that at least some of the Falashas actually left Ethiopia for Israel from Bole Airport in Addis Ababa.68 It is also known that Israel continues to supply the military regime in Addis Ababa with military hardware.69 Finally, Arab pressure on Djibouti forced the latter to “put an end to Israeli use of Djibouti.”70

The Sudan is both a Red Sea country and a member of the Nile valley and has great interests in any changes that may occur in the Horn of Africa. Ethio-Sudanese relations had been good, especially since Emperor Haile Sellassie successfully mediated an end to the conflict in the Southern Sudan in 1971. The relationship between the two countries has deteriorated since, largely because of two reasons. On the one hand, Ethiopia resented Sudan's open door humanitarian policy towards Ethiopian refugees who fled the scourges of revolution and repression in their country and its support for the Eritrean liberation movements. On the other hand, the Sudan accused Ethiopia of inciting its population in general, and the Communist party of the Sudan in particular, against the established government of President Nimeiri. The relationship of the two countries between 1976-1980 was characterized by mutual suspicion and acrimony and each one was actively assisting opposition movements of the other country. In addition, each country accused the other in all international and regional forums, most notably the OAU, where both the Eritrean and Ogaden questions were raised by the Sudan. The Sudan also raised the matters in the Arab League and Islamic Conference, where Ethiopia had no representation. The relationship improved briefly in 1980 and the heads of state of the two countries exchanged official visits dur-
ing that same year. They signed a declaration of principles for cooperation and good neighborliness. Relations deteriorated once again in 1981 when Ethiopia signed the Tripartite Agreement with South Yemen and Libya, then Sudan's arch enemy. Ethiopia has, since then, trained, equipped, financed, and militarily supported the Sudan People's Liberation Army (SPLA), the military wing of the Sudan People's Liberation Movement (SPLM).  

Kenya's interest in the Horn of Africa was related to the Ogaden problem, which was similar, if not identical, to the Northern Frontier District (NDF) of Kenya. At the same time, capitalist Kenya was also apprehensive of the rapid development of communism in Ethiopia since it had a defense agreement with the country directed against Somalia. Thus, Kenya was forced to steer its diplomatic course carefully between the Ethiopian Scylla and the Somali Charybdis. Kenya's relations with Ethiopia, which had cooled during the early days of the Ethiopian revolution, markedly improved during the Ogaden War. Kenya openly sided with Ethiopia and supported the latter's war effort. The heads of state of the two countries exchanged visits in 1980, despite misgivings by the Conservative wing of the Kenyan government, led by Charles Njonjo, and Ethiopian radicals, led by Legesse Asfaw. The two countries signed a Treaty of Friendship and Cooperation and renewed their defense agreements. However, Kenya immediately balanced this act by improving its relations with Somalia, which is now, like Kenya, safely allied to the Western Camp. President Moi of Kenya visited Mogadisho in 1981 and received assurances that Somalia had no irredentist interests in the NDF. Today, Kenya has tilted towards Somalia.

THE INTERNAL SETTING

The Horn of Africa remains a volatile zone of danger, destruction, and despair. It continues to be an arena of strife in the absence of a permanent solution to the basic issues, which divide the states of the region as well as the people within the states of the region. True, the level of intensity of the Ethiopia-Somalia conflict is lower than a decade ago. Now, it is Ethiopia that occupies Somali territory and, until there is a permanent solution to the problem, war will surely flare up again; and the war in Eritrea continues unabated and at almost the same level of destructive intensity of 1977-1978.

The principal sources of conflict, tension, and instability may be the Ethiopia-Somalia dispute and the Eritrea conflict, but each country in the region is afflicted by a host of internal military, political, economic, and social problems, which exacerbates an already explosive situation in the region.

The Ethiopia-Somalia dispute must rank with the India-Pakistan and Greek-Turkey conflicts in the emotion it evokes, in the stubbornness of its
protagonists and in its seeming defiance of an equitable solution. The victory
of the combined Cuban and Ethiopian forces over Somali troops in 1978 did
not produce an end to hostilities. In the summer of 1980, Ethiopia accused
Somalia of invasion.74 In 1981, Somalia claimed that Ethiopian troops have
crossed its borders and occupied two villages in Northern Somalia.75 Somalia
also accuses Ethiopia of repeated violations of its air space and even of aerial
bombardment of Somali villages by the Ethiopian Air Force.76 The conflict
continues to be complicated by the involvement of the two superpowers and
the continued presence of Cuban troops in the Ogaden.

Both Ethiopia and Somalia advocate a peaceful solution to the problem
and profess their readiness to accept mediation. Discussions between the two
countries have taken place at all levels within the framework of existing insti-
tutions and commissions of the OAU. Discussions have also been held as the
result of the mediatory initiatives of third parties, notably Djibouti. In 1980,
the OAU ad hoc committee on the Ethiopia-Somalia dispute met in Lagos,
Nigeria, only to complicate the issue by exceeding its terms of reference and
declaring that the Ogaden was part of Ethiopia. Somalia, of course, rejected
this. Since 1982, President Hassan Gouled Aptidon of Djibouti had made
great efforts to mediate between his two neighbors. In addition to visiting
both countries, he finally succeeded in arranging a meeting between the leaders
of the two countries during the inaugural conference of the intergovern-
mental agency for drought and development (IGAAD), which was held
in Djibouti in January 1986. This was no mean achievement.77 Since then, the
joint Ethiopia-Somalia consultative committee, created in 1967, was reacti-
vated and has met three times. However, it is unlikely that these and similar
meetings will produce any meaningful results as long as the two parties con-
tinue to play zero-sum games based on structural values. Ethiopia insists that
there is no possibility of peace until Somalia renounces its claims to Ethiopian
territory and disavows its “expansionist” policy. Somalia is adamant that the
Ogaden must be the beneficiary of the relevant U.N. resolutions on decoloni-
zation and that its people must exercise their right to self-determination.78

The Eritrean conflict is even more serious than the Ogaden problem, not
only because of its tragic consequences, but also because of its historic implic-
ations and the nature of the forces that are pitted against each other. On the
one hand, there is a military might propped by an endless flow of sophisti-
cated weaponry and foreign advisors as well as a vast reservoir of manpower
forcibly inducted from an unwilling and unfortunate population. It is marshal-
led by a government whose ruthlessness and callous disregard for hu-
man values and rights is only matched by its caprice, shortsightedness,
and irresponsibility. On the other hand, there is a determined people, con-
vinced of the nobility of their cause and the inevitability of their victory and
ready to suffer deprivation and to make supreme sacrifices to attain their
cherished goal.

The Eritrean conflict had entered its third phase with the withdrawal of the liberation forces to the mountain fastness of the Sahel region, in the case of the EPLF, or to the Barka region and the borderland with the Sudan, in the case of the ELF, following the Ethiopian counter-offensive in 1978 which was backed by Soviet and East German advisors and South Yemeni pilots and tank crew. Since then, the Ethiopian military regime has launched at least seven major offensives. In all but one, it benefitted from the advice of Soviet officers at all stages of engagement. Still, they were all unsuccessful. The most publicized offensives, the Red Star (1982) and Bahre Negash (1985) campaigns, were unmitigated disasters for the Ethiopian forces. They cost many lives and much material. The toll of the Eritrean forces was also heavy because of indiscriminate bombing and use of napalm and other toxic gasses by the Ethiopian air force. Most of all, the damage to civilian life and property was great as an ill-disciplined, angry, and defeated army vented its frustrations on a defenseless civilian population.

In 1985, the EPLF scored what has been described as one of the greatest military victories in Africa. Itsmashed the North-Eastern command of the Ethiopian Army near Alghena and captured vast quantities of weapons and ammunition as well as the Deputy Commanders of the sector. In 1984 and 1985, it attacked Asmara Airport and destroyed many aircraft. There have been many battles and skirmishes around the country since then. The military situation in Eritrea at this time resembles that which existed before the Eritrean offensive in 1977. The Ethiopian government controls the major cities and towns, the EPLF controls much of the countryside and is free to attack the cities and towns at will.

Both the Ethiopian government and the EPLF profess their commitment to peace. The Ethiopian government's proposal is based on regional autonomy and has been rejected by all Eritrean movements. The EPLF's proposal is based on a referendum which would allow the Eritrean people to decide, once and for all, on whether they want independence, regional autonomy, or the old U.N. sponsored federation. The Ethiopian government has rejected it by its silence.

Several talks were held between the Ethiopian government and one or the other Eritrean liberation movement throughout this period in many European and Middle Eastern capitals, including Aden, Berlin, Moscow, and Rome. The most serious ones were the talks held between the Ethiopian government and the EPLF in 1978 in Berlin and between 1982-1985 in Rome. Nothing came out of these discussions, and the Eritrean war must progress in its dialectically inevitable course until final resolution.

The Horn of Africa is also besieged by other armed conflicts. There are major and minor clashes between national and/or political movements and
the central authorities in three of the countries of the region.

Ethiopia is plagued by a major share of these clashes. In Eastern and South-Eastern Ethiopia, the Western Somalia Liberation Front (WSLF) and the Somali Abo Liberation Front (SALF) continue to harass government troops. The Afar Liberation Front (ALF) and the Sidama Liberation Front (SLF) operate in Dankalia and Sidamo respectively. The activities of these movements are limited to hit-and-run attacks and cannot be considered to be more than nuisance factors. A more potent, and potentially decisive, force is the Oromo Liberation Front (OLF), active in most of Southern and Western Ethiopia both of which are largely inhabited by the Oromo. Its forces have been growing steadily and its operations in Arsi, Bale, and Wollega have expanded. The OLF is a source of major anxiety to the military regime in Addis Ababa, which has incarcerated several members of the Oromo elite in jails around the country since 1980. Perhaps the biggest, most organized and so far most successful national liberation movement in Ethiopia is the Tigray People’s Liberation Front (TPLF), which is in virtual control of over 80 percent of Tigray and has expanded its operation to Wollo, Gondar, and Dankalia. The TPLF has shown daring and brilliance in its operations.

All these movements are based on their resentment of what they perceive to be Amhara colonial domination. Two of them, the OLF and the TPLF, have benefitted from the experience of, and cooperation with, the EPLF. This was especially true of the TPLF, whose relationship of mutual benefit with the EPLF has recently experienced an ideological and political rift to the great advantage and satisfaction of the Ethiopian government.

There are other political groups operating in Ethiopia to overturn the Marxist government in Addis Ababa. The Ethiopian Peoples Democratic Alliance (EPDA) embraces several political opposition groups in exile and has established military presence in Gondar and Wollega provinces. The Ethiopian People’s Democratic Movement (EPDM) composed of the remnants of the Ethiopian People’s Revolutionary Party (EPRP) and other dissident elements, has been active in Gondar and Gojjam provinces. The Ethiopian Democratic Union (EDU) has yet to establish a military presence in Ethiopia but it has reportedly gone on forays to Gondar from Sudanese territory. It is not certain whether the Liberation Front of the Ethiopian People (LIFREP), the National Front for the Liberation of the Ethiopian People (NFLEP), and the Democratic Front for the Liberation of Ethiopia (DFLE) exist other than on paper. It is reported that most of these groups have internal contacts which have infiltrated student, labor, and peasant organizations, as well as the civil and military bureaucracies.

Ethiopia is in turmoil. The insurgency problem in the country has, until recently, been confined to remote regions bordering Kenya, Somalia, and the Sudan. The various movements attracted only a few and recruitment was low.
However, the change in the past few years has been dramatic. The number of movements has proliferated; their sizes have increased and their zones of operation and influence have expanded. Today, different movements operate freely even in places which had hitherto been considered safe government areas.

True, none of these movements as yet poses any real danger to the central government. The likelihood that any of the above-mentioned national liberation movements in Ethiopia proper will successfully establish their own states or liberated zones is remote in the extreme. It is also remote that the political movements will overthrow the regime in the near future. Yet, it is equally true that the government lacks the military capability and the political support of the population to eliminate these movements. The government's anti-insurgency program has in no way been effective to arrest the spread of these operations. Accordingly, the government's sphere of authority is rapidly shrinking and diminishes with the distance from the capital. This endangers the vital military and commercial communication lines between the capital and the rest of the country. The recurrence of the attacks in the Addis Ababa-Assab road and the Addis Ababa-Djibouti railroad, which are the major outlets of the country, has increased rapidly. Road transport on the Addis Ababa-Debre Markos-Gondar line is hazardous, and convoys need military escorts. The Addis Ababa-Dessie-Makale-Asmara road is virtually closed.

The Somali National Movement (SNM) and the Somali Salvation Democratic Front (SSDF) were created, organized, trained, and financed by Ethiopia. They are based in, and operate from, Ethiopia and are advised by Ethiopian and foreign experts. Initially, Libya was the major source of finance. The two movements also availed themselves of the facilities of the powerful Voice of Revolutionary Ethiopia to broadcast daily propaganda to Somalia. By 1982, they had caused serious strains on the limited resources of the government of Somalia. Thereafter, their effectiveness and influence began to wane, not only because of ideological and political differences between the two movements, but also because of debilitating internecine feuds within each movement. Counter propaganda by the Somali government, which depicted the movements as lackeys whose sole purpose was to serve Ethiopian colonialism, also had a telling effect on the morale of the rank and file of the fighting forces. In any case, the termination of Libyan finance was slowing training and effective logistics.

The SSDF had a force of about 3,000 well-trained and well-armed fighters at the height of its power and conducted several, well-organized and well-publicized operations inside Somali territory. The SNM was smaller and less active and had, in any case, collapsed by 1982. By 1985, the SSDF was in total disarray and the desertion rate was catastrophic. At one point, Ethiopian forces had to intervene and stop the defectors, who were leaving en masse.
with the sophisticated weapons supplied to them by Ethiopia.94 Today, the SSDF has also collapsed and the majority of its leaders and fighters have availed themselves of the amnesty offered by the Somali government,95 especially after the shootout between different factions within the SSDF in the Ethiopian railroad city of Dire Dawa in 1986. This was the beginning of the end of the movement.96

Djibouti has a two-pronged problem: the Afars, based in, and supported by, Ethiopia; and the Somalis, based in, and aided by, Somalia. This is a reflection on the nature of Djibouti society. However, Djibouti is immune to any major military threat and will remain fairly stable, largely because of the French military presence. The Front Democratique pour la Liberation de Djibouti (FDLD), formed from the old Movement Populaire pour la Liberation (MPL), a leftist organization, continues to receive military and financial assistance from the Ethiopian government.97 Somalia also continues to help the scattered remnants of the Old Front pour la Liberation de Cote de Somalies (FLCS), both in Djibouti and in Somalia. However, both Ethiopia and Somalia fully realize that no significant military operation can be launched against Djibouti as long as the French armed forces are stationed there. Thus, both have preferred to develop a good-neighbor relationship with Djibouti and to curb the activities of the respective organizations supported by them.

Eritrea has been plagued by the internecine warfare between different liberation movements almost throughout the history of the protracted liberation struggle. Although this divisive phenomenon has been detrimental to the struggle, it is not unique to the historical process in Eritrea. Almost all African countries which had fought wars of independence had undergone the same experience. Perhaps Lusophone Africa is a classical example. As in Guinea Bissau, the EPLF has effectively consolidated power in Eritrea and has become the sole, legitimate authority after the civil war in 1983, in which it defeated, and drove out of the country, the other major movement, the ELF.98 Since then, it had extended a hand of reconciliation and cooperation to all groups and it was announced recently that the EPLF and the ELF (G.C.), a splinter of the original ELF, have, on November 22, 1986, effected a merger after three years of protracted negotiations and military cooperation.99 The EPLF has declared that this process of reconciliation will continue until all the contradictions between the different groups are resolved to the mutual benefit and satisfaction of all.100

This plethora of national and political movements in the region, combined with the two internationalized conflicts, have made it necessary for two of the countries to allocate a major share of their finances to the establishment and maintenance of large armies and the purchase of sophisticated weaponry. The third, Djibouti, depends on a foreign military presence. The Eritrean lib-
eration struggle has hitherto been distracted by internecine feuds.

Ethiopia maintains by far the biggest military establishment in the region. The army which has 243,000 troops, is well-equipped with Soviet material. However, it suffers from inadequate training, lack of experience, conviction, and motivation, and bad morale. The air force is the biggest and most experienced in the region. It has 175 combat and other aircraft and 30 helicopters. It played a critical role in the Ogaden war and has been the most destructive force in the Eritrean conflict. In addition, Ethiopia has several anti-aircraft and missile units. The small navy (36 vessels) performs only Coast Guard duties.

Somalia had perhaps the most efficient and best equipped, if small, army in the region before 1977, thanks to the Soviet Union’s military assistance program. It was badly defeated in the Ogaden war, where it lost much of its equipment and weaponry during a hurried retreat. The air force, too, suffered heavy casualties and lost many aircraft and personnel. The current U.S. military assistance program is helping to reconstitute and revive the armed forces. However, the modest program does not compare with Soviet assistance to Ethiopia or even previous Soviet assistance to Somalia itself. It is doubtful that the Somali armed forces, completely demoralized by the Ogaden war and subsequent political developments at home, can regain, in the near future, anywhere near their previous combat fitness and capability. Sections of the armed forces have, in fact, rebelled against the government on at least three occasions since the war, and it is reported that the government has found it prudent to keep sizeable contingents in the capital to defend itself.

The various groups that formed a coalition to negotiate the independence of Djibouti insisted on a continued French military presence to deter effectively any military threat by its bigger neighbors against the country’s newly-gained independence, as well as its unity and territorial integrity. The French have, by agreement reached during the independence negotiations, kept military presence composed of 4,500 legionnaires, several ships, and a strong air unit. This presence has assumed an additional meaning since this force also helps to project French power and influence beyond the region. The small armed forces of Djibouti are only internal security forces and it is doubtful whether they can perform more than constabulary duties since they are incapable of operating any sophisticated equipment.

The Eritrean People’s Liberation Army (EPLA) is a highly disciplined, motivated, and battle-hardened force of about 30,000 fighters. While it has benefitted from a little external assistance, it is equipped largely by material captured from the Ethiopian army. It has, however, received critical equipment, such as gas masks from France, in times of need. This fighting force is supplemented by a sizeable militia force. Eyewitness reports confirm
that it now has tanks, BTR60 armored vehicles, Stalin Organs, and some anti-aircraft guns and they consider Eritrea as a well-equipped armed force, waging a struggle equal to the one in Viet-Nam. However, in the absence of an effective anti-aircraft or missile system, the EPLA, and most of the population, remain exposed to deadly aerial bombardments by the Ethiopian air force.

Since 1977, the EPLA has resorted to classical warfare on three occasions only. It scored a stunning victory in the North Eastern sector in 1985 and had captured the border town of Tessenai (1985) and the seemingly impregnable Ethiopian stronghold of Barentu (1985). Tessenai and Barentu were recaptured by Ethiopian forces in 1986 after several, massive military counter-offensives. Yet, it must be emphasized that the EPLA is the only force which has hitherto prevented Ethiopia's total military domination of the region and which has frustrated the Ethiopian leader's stated ambition to embark upon adventures beyond his country's borders.

The states of the region are among the poorest of the least developed countries (LDCS) of the world. Indeed, the area is the most impoverished and backward region in Africa. At the best of times, they have been victims of chronic, severe, economic, and social problems. In the last decade, they have been devastated by the ravages of famine. All available economic and social indices depict a sad and disturbing picture. Indeed, the only common bond, in an area tormented by diverse dissimilarities, is a human condition savaged by grinding poverty and endemic hardship.

Ethiopia's present economic calamities are not necessarily rooted, as some have claimed, in its chosen path of economic development based on Marxist-Leninist principles. The major causes of economic dislocation are political instability, the near-total lack of social cohesion and, above all, the government's uncompromising military and political program, including conscription, resettlement, and villagization. The last two are, in the Ethiopian context, essentially military and political, rather than economic, programs and the price paid by the Ethiopian people has been incalculable.

Recent events indicate that there is a burgeoning power struggle between pragmatists and ideologues in the WPE. The defection of Foreign Minister Goshu Wolde (1983-1986) was, by his own account, triggered by his loss in this power struggle rather than by his rejection of the regime, its leader or the system. True, these infights do not as yet seem to threaten the position of Mengistu Hailemariam, who, in fact, seems to be encouraging the struggle. However, he is viewed by the ideologues, who have arrogated to themselves the leadership of the so-called labor-peasant alliance, which is only a figment of their imagination, as representing a right wing faction of the WPE, composed of the military and civil bureaucracy. This group dominated the defunct Abiyotawi Seded party, which was created to serve Mengistu's political pur-
poses. As yet, the ideological gauntlet has not been thrown; but it remains to be seen whether Mengistu will emerge victorious or lose in the inevitable showdown.

There is little visible political resistance in Ethiopia. The repressive nature of the system, the infiltration of all mass organizations and government agencies by an assortment of government and party agents inhibit it. Even then, periodic arrests and detentions for "political reasons" make the existence of clandestine resistance probable. Indeed, the various political groups abroad claim they have agents in place. There is, however, "passive" resistance in the industries, state farms, other state-owned enterprises, and the bureaucracy, where a disgruntled and bitter work-force uses any available pretext to sabotage the government. It is also reported that only brute force and periodic purges make the members of the armed forces accept further sacrifices in Eritrea and elsewhere.

The situation in Somalia is not much better. The effects of the war were devastating on the socio-economic fabric of the country. Economic life is stagnating and social life is decaying. In addition, Somalia is overburdened by the presence of hundreds of thousands of political and economic refugees who have fled Ethiopia.

There have been several challenges to the power of President Siad Barre from within and from outside since the Ogaden debacle. However, he has so far successfully weathered the political storm. In fact, he has recently been re-elected for another term in office in spite of persistent rumors of his resignation, caused by a long hospitalization period after a car accident.

The government of Somalia is accused of being clan-based and favoring not only the relatives of the president but also the Marehan clan to which he belongs. The Marehan presently control the military and civil bureaucracy, particularly the ubiquitous secret service. If Somali nepotism is worse than Ethiopian cronyism, then the political environment in Somalia is reputedly only slightly less stultifying than in Ethiopia.

Djibouti is more stable than its neighbors and has shown some economic progress. Economic development will continue to be slow in spite of increased U.S., Arab (mainly Saudi Arabia), and French assistance, because of the lack of the requisite infrastructure and alleged corruption. There are also allegations that independence has been accompanied by the polarization of status and wealth in Djibouti society as government officials have used the influence of their offices to accumulate illegal wealth.

Pluralism still exists in Djibouti politics, but it is endangered. Freedom of speech is exercised relatively well and political leaders have expressed opposing and critical views without harassment. The population is also relatively free. Recent events indicate, however, that more often than not, loyal political opposition has been equated with sedition, and political freedom may soon...
become only a fond memory.\textsuperscript{122}

There is evidence of struggle in both the ruling party and the government, instigated by the advancing age of Hassan Gouled Aptidon. The major conflict erupted in May 1986, when Aden Robleh, third Vice Chairman of the Party and Minister of Industry and Commerce, was stripped of his party and government posts and later fled to Ethiopia.\textsuperscript{123} A very popular figure in Djibouti politics, well-liked by both Afar and Somali, he is now conducting a political campaign from Paris.\textsuperscript{124}

The situation in Eritrea is both different and unique. In spite of its external and internal problems, the EPLF has been successful in its determination to bring about a genuine socio-economic transformation of Eritrean society.\textsuperscript{125} The EPLF embarked upon this program because the struggle for national liberation could succeed only, it seemed, if it were accompanied by the struggle for social liberation.\textsuperscript{126} Self-reliance is the bedrock of this program. By all independent accounts, the EPLF has created an egalitarian and democratic society where a highly conscious population has, by its active participation in the political process, become the effective backbone of the liberation struggle.\textsuperscript{127}

Independent observers also confirm the existence of a comparatively sophisticated administrative structure which makes possible the success of the social and economic programs of the Front.\textsuperscript{128} The administrative set-up and the medical, educational, and social programs and facilities have been the subjects of foreign admiration.\textsuperscript{129} The administrative structure proved to be more than equal to the challenge posed by the 1984-1985 famine\textsuperscript{130} and the EPLF was able to make an admirable performance.

There has been little instability in the leadership of the EPLF since the 1977 Menkaii crisis.\textsuperscript{131} There was no evidence of disharmony or criticism of the leadership during the last session of the national congress, which met in Eritrea in April 1987. Several changes were made in the structure and membership of the ruling organs of the Front to reflect present-day reality.\textsuperscript{132}

CONCLUSIONS

During the past decade and a half, the Horn of Africa has been devastated by political upheaval, social turbulence, economic chaos, war, and famine. Historic animosities and suspicions between, as well as within, states have been aggravated. The savage and interminable war in Eritrea continues to exact an enormous toll in human life and property. The conflict between Ethiopia and Somalia simmers, perhaps at a lower intensity, and saps the energy of both states. Already, a new arms race has been triggered largely because Ethiopia is resolved to create an “invincible army” in the region. The region will continue to progress in disorder until the causes of conflict and
unrest are permanently removed. This is the first major factor that militates against peace and stability in the region.

The great powers persist in patronizing states in the region contrary to their best interests and possibly their better judgements. In spite of mediatory efforts by regional institutions and the good offices of African leaders, the states of the region will not give serious consideration to peace as long as each patron state continues to adopt a liberal attitude to arms supplied to the region. The attitudes of the great powers and their relationship with the states of the region is the second major factor that militates the peace and stability in the region.

Peace and stability will also be elusive as long as the international community accepts the eternalization of certain sterile and hopelessly outdated legal and political norms, principles, and processes, which have proved themselves to be inimical—indeed dangerous—to the very peace, security, and stability they are dedicated to preserve and to the welfare of the people of the region.

Prominent among these are the 1964 OAU decision which sanctifies colonial boundaries and the indiscriminate application of the principle of non-intervention, which prevents even international or regional organizations from taking collectively appropriate diplomatic, economic, or military action in spite of the flagrant violation of International Law, human rights, and the threat that the actions of certain states pose to peace and security. This is the third factor that militates peace and stability in the region.

The Horn of Africa is a component part of what is conventionally known as the “Third Strategic Zone” of military confrontation. Any change in the sub-system must consequently affect the overall structure of peace in the larger system. At present, the situation obtaining in the region is fraught with dangerous consequences to the larger system and international peace and security. Conversely, a timely and mutually beneficial solution to the basic questions that have bedeviled the region will promote peace, or at least diminish the chance of conflict, in the larger system.

However, the general hostility and distrust that haunts the region discourages any hope that the countries of the region will themselves initiate any meaningful search for peace. Also, the history of the Organization of African Unity (OAU) does not inspire any optimism that it will succeed in the future when it had failed in the past here and elsewhere in Africa. Neither will mediation by third parties, outside the framework of the OAU, succeed. Under the circumstances, it becomes clear that the major initiative must come from the great powers which have the responsibility to ensure international peace and security and the enlightened self-interest to avoid being drawn into conflict by the internationalization of local hostilities.

Peace and stability can be achieved only if the historic problems of the region are solved permanently and the region is insulated from great power
Insulation implies neutralization. Neutralization is contingent on the goodwill of the great powers' readiness to guarantee the new status of the region. It requires that the region should become an area free of great-power competition. It is conditional on the dismantling of all foreign military bases and the denial of local facilities to foreign powers. It also prohibits any foreign military exercises in the region, independently or jointly with local forces. It precludes any interference by the guaranteeing powers except to uphold the neutralized status of the region. The region should also be insulated from interference by proxies or surrogate powers. A major provision of any agreement has to ensure that the states of the region will not commit aggression against each other. Any aggression needs to be promptly identified and urgently confronted, which would be easy in a neutralized zone.

Neutralization will mean neither the demilitarization nor the internationalization of the region. The states of the region will continue to maintain their own armed forces and to exercise full sovereignty like all other independent states. The guaranteeing powers shall respect the sovereignty of the states of the region and refrain from interfering in their internal affairs either collectively or individually. Each state shall be master of its own ideological destiny and shall evolve its own political, economic, and social programs; but it must be prevented from exporting its ideology and from assisting political opposition groups to subvert governments in neighboring countries. Political developments inside each state, including unrest and civil strife, would be considered as domestic affairs within the meaning of the relevant articles of the U.N. and the OAU, although, in view of the excesses of certain regimes, one is tempted to append a codicil concerning human rights.

Neutralization shall not mean neutrality. Each state shall be free to conduct its own independent foreign policy. That may include neutrality, but the choice and the decision will be made by the state. It can be argued that economic and technical assistance programs have the tendency to create dependency relationships leading to special military and political privileges for donor countries, thus nullifying the neutralized status of the recipient country. Such a possibility is remote with the existence of monitors and the immediate intervention of the guaranteeing powers.

The prospect for a reign of peace in the Horn of Africa is also predicated on the solution of the major, long-standing problems of the region. Neutralization of the region alone would be barren and a prime candidate for an early demise if it were not to be accompanied by a removal of the historic causes that continue to generate hostility, suspicion, civil strife, and war. Any effort to bring peace to the region must begin with a serious search for definitive solutions to the Eritrean conflict and the Ethiopia-Somalia dispute. It is not too much to hope that, at this late state, any genuine approach would bear in mind
the suffering of the people in the region and view the issues through the prism of the best interests of these peoples rather than the requirements of local governments or global interests. With an open mind, one has to analyze the unique historical, political, and socio-economic attributes of the region; one has to reassess the wisdom of certain international, legal, and political principles; and one has to question the currency and validity to this region of the conventions and decisions that govern inter-state relations in Africa.

Neutralization shall be accomplished by the implementation of an act of the great powers—the U.S., the U.S.S.R., France, China—and other interested parties—Great Britain and Italy—since they were colonial and Trustee powers in the region, which shall meet in concert to consider and decide upon the problems of the region. It might be advantageous, but not essential, to involve the U.N. and the OAU.

It is assumed that the great powers have both collective and individual interests in neutralizing the region. Hidden behind the assumption is the conviction that the great powers have cooperative as well as competing interests in the region. If the states that have interests in the region were to emphasize the greater, mutual benefits to be gained from cooperation rather than the limited individual gains to be won from competition, they would find it cheaper, safer, and more sensible to embark on the endeavor.

First, there is the lesson of history. History has proved that the path of great powers which had hitherto sought to control events, and influence the course of history, in the Horn of Africa has been strewn with pitfalls and dangers. Almost all the powers that had involved themselves in the affairs of the Horn of Africa have, to their detriment, failed to grasp the issues at stake, misunderstood the cultural values, psychological dispositions, and national feelings of the peoples of the region and miscalculated the benefits to be accrued from involvement. At present, the U.S. and the USSR are being faced by almost the same forces and problems that challenged Turkey, Egypt, Italy, France, Great Britain, and, to some extent, Germany and Tsarist Russia during the last century. It is an old story with new actors and an all-too-certain end.

Second, both the U.S. and the USSR must, after witnessing more than thirteen years of the region’s most turbulent history, have concluded that their continued presence in the region and their relationships with their respective clients must be temporary marriages of convenience, which could be broken as easily as they were made. Both powers must realize that, although the states of the region are forced to rely on them to pursue their ambitions, they are not ready to sacrifice their long-held beliefs and cherished values to satisfy the geo-strategic interests of their patrons. In the final analysis, it is easier for them to abandon their patrons rather than their values and beliefs. Ironically, the great powers must compete with each other because—not in spite—of this.
There is such a causal relationship between this psychological environment and the decline of the great powers' influence over their clients that they cannot even ensure the proper use of their economic and military assistance. Needless to say, it is the use of weapons by client states against the will and/or advice of their allies that may drag their patrons into undesired and unexpected confrontations since the latter would fear losing prestige and credibility among their other friends and clients.

It must by now be evident that the alliances in the Horn of Africa have served the two super-powers, and perhaps even their respective clients, no useful purposes. For the great powers, the investment has been too much for too little. The value of the military bases and facilities that each uses in the region is minimal. In view of the turbulence in the region, they may even be weak, unreliable, and dangerous links in the general military scheme of the bigger system. For the client states, including those whose singular ambition is to maintain the status quo in the region, the burden has been too heavy and the sacrifice too great. The states of the region have not fulfilled their ambitions and must, by now, presumably find unacceptable the financial burden, the political price, and the sacrificed development projects. For all concerned, the gains have been pyrrhic, the losses all too real. Hence, the great powers must find an attraction in honorable withdrawal from the region and cooperation is sought to promote and guarantee peace, security, and stability.

True, the Horn of Africa is important; but it is not a vital interest of any of them, and neutralization of the region will not produce a strategic disadvantage to them. On the contrary, it is likely to produce beneficial results. Most countries of the world are searching for ways and means to create zones of peace, free from superpower competition. It is not too much to hope that the great powers involved in the Horn of Africa will adopt the spirit of the times and become responsible for the eventual creation of such a zone in the bigger Red Sea/Gulf/Indian Ocean system by taking appropriate first steps to promote peace and security in a sub-system where there are no vital interests at stake. It must be noted that each of the major powers which has a client in the area has already proposed peace plans at one time or another. It must thus be acceptable to all to act collectively. Needless to say, cooperation in the neutralization of the Horn of Africa will be considered a grand experiment in peace engineering and in resurrecting détente, which, in turn, will rekindle hope, mutual trust, and goodwill.

The Soviet Union has seemingly important stakes in the Horn of Africa. Its first interest is the freedom of navigation for its military, merchant, scientific, and fishing fleets in the Red Sea. This interest it shares with friend and foe alike. It is acknowledged that the Red Sea route is the shortest, all-year communication line between the European and Asian parts of the USSR and it is considered critical in any possible war with the People's Republic of
China. This gives added importance to Soviet facilities in the Red Sea. It is assumed, however, that war between the two powers would not remain confined for a long time and would soon involve the other great powers. In that case, the importance of the region would be temporary since it is accepted that the bases and facilities will become worthless in an enlarged war.

The region has never been an important trading route or economically significant for the Soviet Union since it depends neither on the oil fields of the Gulf nor on the mineral resources of the rest of the region. Then, too, the Soviets cannot even contemplate the use of these bases and facilities to interfere with western access to the oil fields of the Gulf since it would invite immediate and forceful retaliation from the U.S. and its allies. In any case, the Soviet Union can, in a general war, paralyze the area by attacking it from the safer and more secure Northwest Asian quadrant. It has also been suggested that Soviet military presence in the region serves political objectives since it has been used to support friendly regimes and liberation movements. Recent evidence confirms that any such political dividend does not compensate for loss of Soviet prestige in the region and elsewhere in Africa or offset the potential military danger. In any case, such objectives can be pursued from either South Yemen, across the Red Sea, or the Soviet fleet in the Indian ocean.

Conventional wisdom prescribes that the Soviet Union's interest in the region is to achieve domination ideologically and to avoid confrontation with the U.S. There is the abiding fear among high ranking officials of the Ethiopian government that the new Soviet administration of Mikhail Gorbachev may, because of American pressure and the bleak prospects for an early end of the conflicts in the region, be contemplating an honorable withdrawal from the Ethiopian quagmire. In that case, the Soviet Union will surely welcome an arrangement that will enable it to withdraw its military commitments without seemingly losing prestige and influence in Ethiopia and while still protecting the socialist character of the Ethiopian state.

The West has vital interests in the region. The major interest of the U.S. is to safeguard Israeli and West European access to the oil fields of the Persian Gulf, so vital to Western and Israeli economies, and safe passage through the Red Sea to the Indian Ocean and, thence, to Asia and Southern Africa. Yet, the abandonment of the facilities at Berbera and Mogadisho in Somalia must, if it were to be accompanied by Soviet withdrawal from Ethiopia, be an acceptable proposition to the U.S. and its allies since this would increase the safeguard of their interests. The neutralization of the Horn of Africa will not have any major effect on the effectiveness of the RDF since the loss of the Somali ports can be easily covered by other contingencies. On the other hand, neutralization can be a boon to U.S. interests since the absence of competition in the military field will facilitate healthy competition in the economic
and technical fields in which the U.S. and its allies have a decided advantage over the USSR and its allies.

France must also find the neutralization of the region attractive since it would provide international guarantees to, and distribute among the great powers the responsibility for, Djibouti's independence and security. It will also enable it to divert the funds released by the removal of its military towards the development programs of its allies. France's military presence in the Indian Ocean will not be substantially affected, even though Djibouti is considered a key base in the area, since substitutes can be built in nearby Indian Ocean islands.

The People's Republic of China has always advocated the creation of zones of peace, free of super-power competition, and should welcome the neutralization of the Horn of Africa. For the People's Republic of China, this would provide an equal chance to compete with the Soviet Union ideologically and with the West commercially, and with both in technical and economic assistance programs.

The creation of a neutralized zone will also be a boon to the states of the region since the emergence of peace and stability would permit the following: (a) an elimination of the arms race in the region and a release of the funds that were hitherto wasted on weaponry for socio-economic development; the states of the region, notably Ethiopia and Somalia, must have learned the bitter lesson that peace and security can be permanently guaranteed not by armaments, but by the improvement of political and socio-economic conditions; (b) concentration on much-needed and much delayed national development programs without fear of aggression by neighboring states; (c) formulation of a framework which would facilitate the elimination of hostility and suspicion which, in turn, would create the necessary atmosphere for mutual trust, understanding, and confidence; and (d) reduction of the existing psychological gap, which would enable the participating states to discover common interests and to pave the way for community feeling, the lack of which had, so far, obstructed cooperation in the implementation of mutually beneficial international and regional development programs, including the Lagos Plan for Action.

It may be argued that there is little prospect for the success of such an initiative since it is heavily dependent on the goodwill and cooperation of the states of the region which are notorious for their ill-will to each other. To begin with, the initiative is not dependent as much on the goodwill of these states as it is on the cooperation and determination of the great powers and the understanding and support of the international community. There may be apprehension about the advisability, as indeed the practicability, of a solution forcibly imposed by external powers. Yet, history is replete with examples of countries which have benefitted from such arrangements. Austria and Laos
are but two recent examples. It must always be remembered that the great powers—all permanent members of the U.N. Security Council—have international obligations to promote peace and security in the world. It may be objected that the examples refer to single units rather than a region. However, the climate of the times favors such regional zones of peace and the Horn of Africa seems to provide an excellent opportunity since the international responsibilities and the global interests of the great powers do converge.

Moreover, the major actors of the region, with the possible exception of Ethiopia, are not adverse to such a solution. Somalia has urged the convening of an international conference to consider the Ogaden question. The EPLF has offered a proposal for the resolution of the Eritrean conflict under international auspices. Djibouti would be eager to acquire wider international guarantees in order to get rid of foreign troops. The Red Sea littoral states and the Gulf states would welcome an era of peace in the Horn of Africa with a collective sigh of great relief. Even Ethiopia, which alone prefers the continuation of the status quo to any “internationalization” of “internal” issues, would benefit from acquiescence to the exigencies of the times. It is not hazardous to forecast the historically inevitable results that will confront the Ethiopian state, including disintegration and perhaps even loss of independence, sooner than expected, unless wisdom overcomes obstinacy and timely action is taken to avert catastrophe by agreeing to be flexible to bring about peaceful ends of the Eritrean war and the Ogaden dispute.

A neutralized Horn of Africa, created on the basis of fair and equitable solutions to the problems of the region, is fraught with beneficial potentialities for the peoples of the region as well as international peace and security. Any solution will be fair and equitable if it respects the wishes of the Eritrean people, guarantees Ethiopia’s access to the sea, gives international recognition to the cultural social and economic rights of the people of the Ogaden, and guarantees Djibouti’s independence.

NOTES

1In this study, the Horn of Africa is considered as comprising four different political units: Djibouti, Ethiopia, Somalia, and Eritrea. There are several good reasons for considering Eritrea a distinct unit. The most important is that the country, which had its own international legal status before its forcible incorporation to Ethiopia is now largely controlled by the EPLF. Eritrea has, at present, its own “government” with political, economic, and social programs and administrative set-up, an army and militia, and a sizeable “diplomatic” representation abroad.


7Tekle, 16.
8Imperial Ethiopian Government, Memorandum on Ethiopia's Claims to the Return of Eritrea and Somaliland (April 1946).
9Tekle, 12.
15Yasmin Quershi, “Recent Developments,” 146.
18Andersen, 926.
19Strategic Survey 1978: 25.
21Strategic Survey 1978: 25.
22Quershi, 147.
24Zelnicher, 63.
25Moorer and Cottrel, 31.
26Zelnicher, 63.
27Ibid., 63.
28Quershi, 148.
29Zelnicher, 63.
39Deutsch, 15.
41Ibid., 370.
106

42Ibid., 362.
45Harris, 370.
48Ibid., 144.
49Ibid., 145.
50El Azhary, 279.
51Ibid., 280.
52Ibid., 281.
54Curtis, 208.
55El Azhary, 281.
56Tekle, 30.
57Egypt conducted a provocative naval exercise in 1979. See Africa Diary 18.21 (May 21-22): 8482.
58Sadat threatened to bomb any dam that they built on the Nile in Ethiopia.
63In 1986, it was reported in official circles in Addis Ababa that the Soviets were extremely angry with Mengistu and chastised him for attempting to help his “friend” Ali Nasser Mohammed, who was shuttling between Addis and South Yemen during the power struggle. He is now in exile in Ethiopia. The Soviets, it is widely believed in official circles in Addis Ababa, overthrew him because he was improving relations with Saudi Arabia.
64See, for example, Peter Vanneman and Martin James, “Soviet Thrust into the Horn of Africa—The Next Targets,” Strategic Review 7.2: 35.
65Ibid., 35.
66Andersen, 917.
68Eyewitness reports from the airport confirm it.
69“Israel and the Horn: Who Pulls the Strings,” Africa Events 1.2: 28. It is reported that the supply was valued at 20 million in 1983 and 40 million in 1984.
70Africa Confidential 20.18 (Sept. 5, 1979): 5.
71Training is given in Gambella by army personnel from Tatek Camp and civilians from the Yekatit ‘66 School of Ideology.
72Africa Diary 18.18: 8978.
73The 12 Article Treaty was signed on 31 January 1978. In addition, the old defense agreement was renewed and a joint communiqué urged Somalia to accept Ethiopia’s four conditions for peace, including “unconditional renunciation of claims.” See Africa Diary 19.13: 9443.
74Ethiopian Herald as quoted in Africa Diary 20.40: 10211.
77The two appeared on T.V. and Mengistu was referring to Siad Barre as “my brother” although he had hitherto adamantly refused to meet with him and had even missed conferences to avoid meeting him.
On the first two occasions, they could not even agree on an agenda. The outcome of the third, which was held in April 1987, is not yet known.


Cliffe, 94-95. Map on page 93.


*Africa Confidential* 24.19 (Sept. 21, 1983), ff no 2.


Arrests are constantly made in Ethiopia of cell members of one or the other group. The last most important government crackdown occurred in 1984 when the government claimed to have broken a big EPDA operation. An American, branded a CIA operative controlling the cell, was considered *persona non grata*, after detention and torture, and expelled from the country.

*They are old Somali hands from the imperial government like Brigadier Mehretab Tedla and Fitawrari Demisse Teferra.*

*Africa Confidential* 23.18 (Sept. 8, 1982): 3.


There is a special Djibouti Committee in Ethiopia, composed of the Ministers of Foreign Affairs, Interior, Defense, State and Public Security, Communications and Industry. It is chaired by the Interior Minister. The Committee draws up the "plans," strategies, and budget of the Djibouti "operation." Arms are funnelled through state security and training is given by the army and state security. The monthly stipends were signed by the Head of the Africa and Middle East Department of the Foreign Ministry.

*Africa Confidential* 23.18 (Sept. 8, 1982): 3.

"Adulis (Organ of the EPLF) 3.12: 1.

Ibid., 1.


Dougherty, 25.


Figures are for 1979.
Foreign Minister Claude Cheysson of France brought a message from President Mitterand to Mengistu in Asmara in January of 1981 trying to dissuade him not to use toxic gas against the liberation forces. At that meeting, he informed him that France, which supported self-determination for Eritrea, would provide gas masks.


“Political” arrests on charges of membership in opposition groups are a daily occurrence. Although unreported, they are many. The author knows this from personal experience of a year’s detention for alleged political activities.

See ff. 91 above.

“Africa Confidential 25.25 (Dec. 12, 1984): 4. Reports it as the “Vietnam Syndrome in which government troops cannot see the wisdom of fighting.”

“Nation in Tatters,” Africa Events 1.7: 20.


“Cousins and Inlaws,” Africa Events 1.7: 9.

Africa Confidential 20.18: 5 and 23.18: 3.


Indian Ocean Newsletter 256 (November 15, 1986): 5.


Francois Houtard, “The Social Revolution in Eritrea,” in Davidson et al., Behind the War in Eritrea, 99.


Cliffe, “The Social Basis of Eritrean Nationhood,” 34.


Information from EPLF office, New York.

The concept and definition of “Neutralization” used in this text is adopted entirely from Cyril E. Black et al., eds., Neutralization and World Politics (Princeton: Princeton University Press, 1968).


Andersen, 913.

Ibid., 914.

This fear was continuously expressed in official circles since 1985.
Annex 184

7 The Exclusive Economic Zone
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(p. 177) 7. The Exclusive Economic Zone

7.1 Introduction

The exclusive economic zone (EEZ) and the International Seabed Area constitute the main innovations of
the new Law of the Sea whose highest expression is the 1982 United Nations Convention on the Law of the
Sea (UNCLOS).¹

Those two legal concepts are expressions of antithetical approaches to the law of the sea. While the
international seabed area, finding its legal basis in the concept of common heritage of mankind, represents
the triumph of collectivism in international relations, the EEZ is the most evident explication of
individualism. It is the recognition of territorial claims of coastal States over waters adjacent to their
coasts, giving them sovereign rights of economic character over a large area of sea (p. 178) that extends to
200 nautical miles (nm) from the baselines from which the breadth of the territorial sea is measured.²

This recognition of the claims of coastal States was not without conflict: it has focused many of the
tensions of the modern international society, and many of the uncertainties arising from the search for a
better world organization and a proper economic order. In fact, the EEZ appears to be a compromise,
moreover unstable, between the concepts of sovereignty and freedom;³ a compromise which, being
reached with a ‘negative’ method, i.e. with the elimination of other possible solutions, means that the EEZ
appears to be a somewhat ambiguous legal concept.

7.2 The Creation and Development of the Concept of the Exclusive
Economic Zone

7.2.1 From the Truman’s Proclamation of 1945 to the Geneva Conventions
of 1958

The opportunity for new forms of exploitation of marine resources, determined by the development of
technology, in the immediate post-war period led to the general trend of the expansion of marine areas
under the jurisdiction of coastal States.

After the Proclamation of 28 September 1945, concerning the exercise of United States jurisdiction over
the continental shelf, with a second proclamation of the same day on the United States policy in the coastal
fishing areas, President Truman referred to the possibility for the United States government to establish
some conservation areas on the high seas, where fishing activities would have been subject to regulation
and control by the US government. In this Proclamation, however, Truman did not specify the spatial limit
for these areas, nor did he claim the exclusive rights of exploitation of biological resources.⁴

(p. 179) A series of unilateral claims followed the Truman Proclamation, mainly relating to the continental
shelf; some also concerned the epeiric sea, i.e. the area of sea above the continental shelf characterized by
extraordinary biological activity due to the influence of sunlight that stimulates the life of plants and
countless species of animals, both of which are susceptible to industrial uses.⁵

In this context, the Declaration of Santiago of 1952 on maritime areas gained particular importance. It was
signed by three Pacific Ocean coastal South American States: Chile, Peru, and Ecuador joined by Costa
Rica in 1995.⁶ These States, without a continental shelf, claimed territorial sovereignty and exclusive
jurisdiction over waters up to a minimum distance of 200 nm from the coast, especially in order to protect
fish stocks in adjacent waters. In fact, the criterion of 200 nm was intended to include in that area the cold
current of Humboldt, coming from the Antarctic. The amount of plankton carried by these cold currents is
significant, and therefore the amount of biological resources existing there is remarkable. In this maritime
area within 200 nm, including the seabed and its subsoil, the right of innocent passage⁷ of foreign vessels
was recognized.

If, on the one hand, other Latin American States were making similar claims or were sharing the
inspiration of such a declaration,⁸ on the other hand, the

References
(p. 180) maritime powers were showing strong opposition. For example, the US Congress approved the Fishermen’s Protective Act in 1954, with the aim of protecting the rights of United States vessels on the high seas. This Law provided for the reimbursement by the US Department of the Treasury for any fines paid by the owners of United States’ ships captured, and the US Secretary of State reserved the right to pursue appropriate action against foreign States for the recovery of sums paid to the owners of such ships.9

Even the Geneva Conventions on the Law of the Sea of 1958 rejected these claims. More specifically, the Convention on the High Seas reaffirms the principle of freedom of use of the sea for all States: the freedom of use, in particular, includes the freedom of navigation, fishing, laying of submarine cables and pipelines, and the freedom of overflight. The assimilation of freedom of fishing to freedom of navigation on the high seas, including the contiguous zone, excludes the recognition of any special right on fisheries for the coastal State. In the same vein, while the 1958 Convention on the Territorial Sea and the Contiguous Zone does not provide a contiguous fishing area, the Convention on Fishing and Conservation of the Living Resources of the High Seas (‘Convention on Fishing’) recognizes for the coastal State only a special interest in the conservation of marine resources in an area of open sea adjacent to the territorial sea. It also allows it unilaterally to take appropriate measures, which are for that purpose under certain conditions, if not reached within three months, for an agreement on the area under discussion with other States whose citizens engage in fishing in the area.

In other words, the applicability of the Convention does not seem to recognize any sovereign right to the coastal State, but a special interest in maintaining the sovereign productivity of biological resources in all parts of the high seas adjacent to its territorial sea. In addition to the principle of special interest, which seems to be the only exception to the principle of freedom of fishing on the high seas, in the Convention on Fishing it is also stated that biological resources are not unlimited; the importance of conservation to ensure the constant and optimal output of resources, and the importance of international cooperation for the implementation of conservation programmes were highlighted. All these principles would have inspired the next evolution of the law of the sea, and in particular the emergence of the concept of the EEZ.10

(p. 181) 7.2.2 From the Geneva Conventions of 1958 to the Third United Nations Conference on the Law of the Sea

The years between 1958 and the beginning of the Third UN Conference on the Law of the Sea were characterized by great uncertainty about the regime applicable to fishing; this uncertainty was due to doubts and disputes on the extent of the territorial sea and the failure of the system of conservation of biological resources developed by the Convention on Fishing.

Even the second Geneva Conference on the Law of the Sea of 1960 did not reach any concrete results, as no agreement was reached and the extent of the territorial sea or the establishment of fishing zones were not defined. During the proceedings, however, a trend in States’ proposals emerged for recognition of a large exclusive fishing zone, up to 12 nm from the baselines. A joint project by Canada and the United States provided for the extension of the territorial sea up to 6 nm, the establishment of a fishing zone up to 12 nm, within which the coastal State would have had, on fisheries and conservation of marine biological resources, the same rights as in the territorial sea; and the recognition of historical fishing rights in the area between 6 and 12 nm to foreign fishermen habitually fishing in those areas for a period of five years prior to 1958. These rights were subject to a time limit of ten years from 1960.11 Although this proposal had no effect, and general international law did not seem to admit the legitimacy of a contiguous zone for fisheries, due to the lack of constructive States practice, such a formula was already deserving of attention, because it would have been a model for subsequent unilateral conduct, and subsequent international agreements.

This trend influenced the following development of international practice and, during the 1960s, many States extended their exclusive jurisdiction in respect of fisheries to 12 nm, or extended the territorial sea up to this limit. The establishment of exclusive fishing zones was legitimized by international agreements. The first multilateral treaty providing for the regulation of exclusive fishing zones was the European Convention on Fisheries, signed by twelve States in London in 1964.12

The Convention provided for two fishing areas: the first up to 6 nm, where the coastal State had an exclusive right to fishing, and the second between 6 and 12 nm, where the State had only a right to preferential treatment, while (p. 182) recognizing historical rights to fishing vessels of other contracting
parties. The historical rights were recognized only to States parties to the Convention, and were subject to a time limit. In particular, the recall to the same rights that the coastal State has in its territorial sea also included the right to restrict the exploitation only to the fishermen of the coastal State; to take legislative measures concerning the conservation of fish species and the fishing methods, also with regard to foreign fishermen allowed to practice their activities within the area; and, additionally, it allowed the monitoring of compliance with such legislation through administrative and judicial measures. It is evident that the existence of this fishing area could not prevent third States from exercising the rights allowed them on the high seas, with respect to matters other than fisheries. As a result, it should not be possible to speak of the sovereignty of the coastal State.

The same 12-mile limit was used by the International Court of Justice (ICJ) in its judgment of 1974 on the dispute between the UK and the Federal Republic of Germany, on the one hand, and Iceland, on the other. The Court, in fact, concluded that coastal States could, under certain circumstances, claim preferential rights to fishing outside their territorial waters only in those maritime areas falling within 12 nm from the coast.

However, during the years from 1958 to 1974, the claims for the establishment of fishing zones ever larger, and often the unilateral determination of these areas, became even more frequent and pressing. The forum in which these claims were focused was the Seabed Committee, established in 1968 within the United Nations and responsible for preparing the revision of the international law of the sea. During the debates within this Committee, the idea of an exclusive jurisdiction of the coastal State over living and non-living resources, present in a maritime area of 200 nm, called the ‘patrimonial sea’ beforehand, and ‘exclusive economic zone’ afterwards, began to materialize.

7.2.3 The positions of the States during the Third United Nations Conference on the Law of the Sea

The ultimate dispute among these claims occurred during the Third United Nations Conference on the Law of the Sea.

References

As for the attitude of the States participating in this Conference on the establishment of the EEZ, four of the most important approaches can be detected: the ‘territorialist’ one; the functional one; that of the landlocked or geographically disadvantaged States, and that of the maritime powers.

The ‘territorialist’ States, mainly Latin American, proposed to extend the territorial sea up to 200 nm off the coast; in this area; the traditional freedom of navigation and overflight, or at least the right of innocent passage, should have been recognized. Instead, some other coastal States opted for a functional solution. Although they could benefit, due to the geographical configuration of their coasts, by such an extension of the territorial sea, they preferred to recognize the coastal State sovereign rights but solely with regard to natural resources located within 200 nm, with full respect to the traditional freedom of navigation, overflight, and the laying of submarine cables and pipelines. The landlocked States or geographically disadvantaged, at first, were opposed to any extension of State jurisdiction, and later supported the establishment of regional economic zones in which they could participate in the exploration and exploitation of biological resources, in a position of equality with coastal States, and finally they sustained their fair right to participate in the exploitation of the EEZs of their region or sub-region. They based this assumption on the status of res communes omnium of these areas where they had enjoyed the same rights as the coastal States. In other words, the recognition of equitable chances of access to resources of the EEZ acquired almost a compensatory nature, compared to the loss of actual or virtual rights previously enjoyed. The maritime powers, finally, on the one hand, were not averse to the possibility of extending the rights of coastal States over large areas of sea; on the other, they were also interested in protecting the existing freedom of communication of the high seas, both accentuating the purely economic function of the EEZ, and emphasizing its character as part of the high seas.

The plurality of approaches and solutions submitted during the Conference often made negotiations extremely long and difficult, especially considering the need to reach a compromise solution which could take into account the most relevant demands involved in shaping and developing the concept of the EEZ.

7.3.1 The legal nature of the EEZ

If we examine the proposals submitted during the Third Conference on the Law of the Sea and then analyse Part V of UNCLOS, in which the EEZ is regulated, we are well aware that the rights conferred to the coastal State are extremely large. They concern not only the exclusivity of the exploration, exploitation, and conservation of natural resources in the water column, in the seabed, and in the subsoil within the economic zone, but also the exercise of the coastal State jurisdiction for the purposes of installation and use of artificial islands, installations, and structures, in order to monitor scientific research at sea and to protect the marine environment against pollution. Undoubtedly, the new conventional rules give the coastal State advantages previously unknown in the EEZ. The regime of the consensus on the scientific research carried out by foreign vessels or the system of authorizations with regard to artificial islands, installations, and structures show very clearly the expansion of the State’s rights and jurisdiction.

As is known, there was a vigorous debate about the legal nature of the EEZ due to its hybrid character determined by a balancing between freedom of navigation and sovereign rights and jurisdiction of the coastal State. According to some, that area would be part of the high seas; according to a second orientation, it would constitute a zone under the State authority; and following a third, it would have a *sui generis* character. The true legal nature of the area can be gathered only from the relevant UNCLOS provisions and, in particular, under Article 55, that defines it as an area located beyond and adjacent to the territorial sea, which cannot extend beyond 200 nm from the baselines from which the territorial sea is measured. The same provision specifies that the EEZ is subject to a special legal regime, established in Part V of UNCLOS, under which the rights and jurisdiction of the (p. 185) coastal State and the rights and freedoms of other States are governed by the relevant provisions of UNCLOS. Therefore, the rules and regulations on the EEZ no longer allow the use of the traditional principles of sovereignty and freedom, in order to identify exactly the State’s sovereign sphere and to oppose it to the freedoms of other States at sea. The EEZ is characterized by grey areas that may not be submitted uniquely to the freedom regime or to that of sovereignty. In this regard, the EEZ constitutes a pragmatic solution to some of the fundamental interests of industrialized States, as well as coastal States and maritime powers.

7.3.2 The legal regime of the EEZ: general aspects

First, coastal State jurisdiction in the EEZ may be exercised only after a specific declaration by the State concerned. The need for this declaration is not expressly provided in any article of UNCLOS, but it emerges *a contrario* by Article 77 paragraph 3 on the continental shelf, which establishes that the rights of the coastal State over the continental shelf are independent from the effective or symbolic occupation, as well as of any express declaration. The reasons for this requirement resides in the idea that the continental shelf is a natural extension of the land highlighted by the ICJ in its judgment on the continental shelf of the North Sea of 1969, an idea which, evidently, cannot be extended to the EEZ.

The legal regime of the EEZ differs both from that of the territorial sea and from the high seas, despite having the characteristics of both of these regimes. The EEZ appears a *sui generis* zone, as a transition zone between the territorial sea and the high seas. There, the coastal State does not enjoy territorial sovereignty, but only sovereign rights over economic resources within it.

Under Article 56 of UNCLOS, these sovereign rights concern the conservation, management, and exploitation of natural resources, biological and non-biological, in the EEZ, and other activities aimed at the exploration and exploitation of the area for economic purposes, such as the production of energy from water, currents, and winds. In fact, biological resources represent the vital and immediate interest, especially for developing countries, and during the Third Conference, the participating States expressed their major concerns regarding the regime of fisheries in the EEZ.

References

Two kinds of rights and freedoms are detected in the EEZ: those of the coastal State, on the one hand, and those of other States, on the other. UNCLOS seems to deduce, through the existence of these two kinds of rights and freedoms, a sort of equilibrium between the rights of the coastal State and the
freedoms of third States within the EEZ. Through this equilibrium, UNCLOS draws certain consequences in terms of compatibility between the rights of the coastal State and the freedom of other States. But it also provides the so-called residual rule, to be applied in cases where UNCLOS does not confer rights to the coastal State and not to other States either. This residual rule would have a balancing function for the coastal State’s position with respect to the position of other States.\textsuperscript{20}

However, in practice it is very difficult to frame the situation of the other States within the EEZ in terms of freedoms, taking into account the measures of control and enforcement the coastal State is entitled to exercise in the area. For these purposes, the coastal State may carry out coercive measures such as arrest, seizure, rights of access, and hijacking, as well as the prosecution of foreign ships and their crews; all measures that will inevitably shift the balance in favour of the coastal State with respect to activities carried out by other States within the zone. The situation does not appear, therefore, balanced, but, is instead detrimental to the other States; it is, therefore, much more oriented towards a regime of territoriality than towards a regime of freedom, at least in the practical implementation of its rights by the coastal State.

Some scholars have underlined the risk of territorialization that can arise from the customary development of the EEZ regime. To avoid such a risk, cooperation among the maritime States should be promoted, in order to prevent the risk that the rights and duties attributed to the coastal State in the EEZ lead to results far from what is considered the ratio of UNCLOS. This is what is happening now: a continuous expansion of the jurisdiction of coastal States, to the detriment of freedom of the high seas, and in particular, to the detriment of freedom of navigation in the EEZ.\textsuperscript{21}

\textbf{(p. 187) 7.3.3 The rights of the coastal State in the EEZ}

Under Article 56 UNCLOS the coastal State has sovereign rights in the EEZ for the purposes of exploring and exploiting, conserving and managing the natural resources, biological and non-biological, of the waters superjacent to the seabed and of the seabed and its subsoil, as well as with regard to other activities for the economic exploitation and exploration of the zone, such as the production of energy from the water, currents, and winds; of jurisdiction with regard to the establishment and use of artificial islands, installations, and structures; the protection of the marine scientific research; and the protection and preservation of the marine environment.

The exploitation of biological resources is the major sovereign right recognized to coastal States in the EEZ. Specifically, the coastal State shall, pursuant to Article 61 UNCLOS, ensure, taking into account the most valid scientific information available, that the maintenance of living resources in the EEZ is not endangered by intensive exploitation; for this purpose, it shall adopt appropriate measures for storage and use and, as appropriate, cooperate with relevant—regional or universal—organizations.\textsuperscript{22}

On the basis of these assumptions, the coastal State shall determine the amount of allowable catch (TAC: total allowable catch) and set its own harvesting capacity. If the coastal State does not have the capacity to harvest the entire allowable catch, it shall, through agreements or other arrangements, give other States access to the surplus of TAC. In authorizing such access to other States, the coastal State shall (p. 188) take into account all relevant factors and circumstances, including, inter alia, the significance of the living resources of the area to the economy of the coastal State concerned and its other national interests; the requirements of developing States in the region, and the need to minimize economic dislocation in States whose nationals have habitually fished in the zone or who have made substantial efforts in research and identification of stocks.

Nationals of other States who have been allowed to fish in the EEZ, shall comply with the conservation measures and with the other conditions established in the laws and regulations of the coastal State, which will be related to the licensing of fishermen, fishing vessels, and equipment, including payment of fees and other forms of remuneration. In the case of developing coastal States, there may be adequate compensation in the field of financing, equipment, and technology relating to the fishing industry. Other laws and regulations to be complied with are those concerning the determining of the species which may be caught, even fixing quotas of catch and other conditions; the transmission of information and statistical data; the conducting of specified fisheries research programmes; the placing of observers or trainees on board by the coastal State; the landing of all or any part of the catch in the ports of the coastal State; the establishment of terms and conditions relating to joint ventures or other cooperative arrangements; and the transfer of fisheries technology.
In order to ensure compliance with these standards, the coastal State may adopt, under Article 73 UNCLOS, all necessary measures, including detention, inspection, arrest, and judicial proceedings. In any case, however, the penalties may not include imprisonment or any other form of corporal punishment; moreover, arrested vessels and their crews shall be promptly released upon the posting of reasonable bond or other security.23

Clearly, the sovereign rights of the coastal State in the fisheries management are exclusive; the coastal State plays the main role in the conservation, management, and exploitation of living resources of the EEZ; and the access of other States in this area to conduct fishing activities depends on its will. (p. 186) The sovereign rights of the coastal State in the management and exploitation of non-living biological resources in the EEZ, match the rights exercised in the continental shelf. Article 56 paragraph 3 refers to the rules contained in Part IV UNCLOS on the continental shelf.

In the EEZ, the coastal State exercises its jurisdiction, on the creation and use of artificial islands, installations, and structures; on scientific research and the protection and preservation of the marine environment.24

The problem of the construction of artificial islands,25 even at a considerable distance from the coast, has taken on greater importance, especially since technology development has allowed for the discovery and exploitation of undersea oilfields. In this regard, the powers of the coastal State are wide; indeed, Article 60 UNCLOS provides that the coastal State shall have the exclusive right to construct and to authorize and regulate the construction, operation, and use of artificial islands and other installations and structures for economic purposes or which may, however, interfere with the exercise of the rights of the coastal State in the zone—evaluation at the coastal State’s wide discretion. The coastal State shall have exclusive jurisdiction over such artificial islands, installations, and structures, including jurisdiction with regard to customs, fiscal, health, safety, and immigration laws and regulations. The coastal State, however, is also the holder of certain obligations with regard to artificial islands and other similar structures: the obligation of notice and warning to maintain navigation in the EEZ, and the obligation of removing any abandoned and disused installations or structures to ensure safety of navigation. For the same reasons, the coastal State can establish reasonable safety zones around such artificial islands, installations, and structures.

The coastal State also has jurisdiction over scientific research;26 the exercise of this jurisdiction is not regulated by Part V UNCLOS, but by Part XIII which (p. 190) concerns the marine scientific research, in Article 246. This article, which is the result of a laborious compromise, recognizes the right of coastal States to regulate, authorize, and conduct marine scientific research in their EEZ. As for the regime of consent, various hypotheses are identified; in particular, in normal circumstances—i.e. in the case of marine research projects aimed at exclusively peaceful purposes and at increasing scientific knowledge (pure research)—coastal States shall grant their consent in order to realize these projects.27 However, in the case of projects with direct significance for the exploration and exploitation of natural resources (applied research), or projects involving the construction, exploitation, or use of artificial islands or installations, or drilling on the continental shelf, or the use of explosives or the introduction of harmful substances into the marine environment, or if the information provided regarding the nature and objectives of the project are inaccurate or if the researching State or the competent international organizations have outstanding obligations to the coastal State from a prior research project, the consent may be withheld at the discretion of the coastal State.

Alongside this general regime of consent, Article 246 UNCLOS also includes an hypothesis of implied consent;28 the implied consent is deemed granted if six months have elapsed from the date on which State researchers have provided all information on their research project and the coastal State has not informed, within four months of the receipt of the communication containing such information, that it has withheld its consent; that the information given does not conform to the manifestly evident facts; that it requires supplementary information; or that outstanding obligations exist with respect to a previous marine scientific research project (Article 252).

Article 247 also provides another possibility of implied consent; it is assumed that the coastal State being a member of or having a bilateral agreement with an international organization has given consent for research to be carried out in its EEZ when the organization took the decision to undertake the project, or expressed willingness to participate in it, and the coastal State has not expressed any objection within four months of the organization’s notification of the project. (p. 191) In any case, under certain circumstances, the coastal State may require the suspension or cessation of marine scientific research activities (Article 253).
The freedoms enjoyed by other States in the EEZ are referred to in Article 58 of UNCLOS. They consist of the freedom of navigation, overflight, the laying of submarine cables and pipelines, and other internationally lawful uses of the sea related to these freedoms and compatible with the other provisions of this Convention. This list does not include the other freedoms of the high seas, such as fishing and scientific research that has a specific discipline. This list is exhaustive, even if the reference to other lawful uses makes it somewhat flexible, especially with regard to certain military applications.

At a first reading of Part V UNCLOS, and especially with regard to pollution from dumping and vessels (Articles 210–211). Moreover, the powers granted to the coastal State on marine pollution in the EEZ match in some way its rights concerning the resources of that area. In other words, when the coastal States are recognized, these rights, the instruments to protect the area, and the opportunity to take all necessary measures to preserve it for the future are given to them.

### 7.3.4 The freedoms of other States in the exclusive economic zone

The freedoms of other States in the EEZ are not contained in Part V UNCLOS, but appear in certain Articles of Part XI, dedicated to the protection of the marine environment. In fact, in this Convention, the rules on the protection of the marine environment do not change, depending on the maritime area concerned, but are connected, instead, to different scenarios of pollution arising from activities conducted both by the coastal State and third States. The coastal State has a wide range of powers concerning the safeguarding of the EEZ from pollution, particularly with regard to pollution from dumping and vessels (Articles 210–211). Moreover, the powers granted to the coastal State on marine pollution in the EEZ match in some way its rights concerning the resources of that area.

Finally, the sovereign rights of the coastal State for the protection of the marine environment are not contained in Part V UNCLOS, but appear in certain Articles of Part XI, dedicated to the protection of the marine environment. In fact, in this Convention, the rules on the protection of the marine environment do not change, depending on the maritime area concerned, but are connected, instead, to different scenarios of pollution arising from activities conducted both by the coastal State and third States. The coastal State has a wide range of powers concerning the safeguarding of the EEZ from pollution, particularly with regard to pollution from dumping and vessels (Articles 210–211). Moreover, the powers granted to the coastal State on marine pollution in the EEZ match in some way its rights concerning the resources of that area. In other words, when the coastal States are recognized, these rights, the instruments to protect the area, and the opportunity to take all necessary measures to preserve it for the future are given to them.

In the context of relations between the jurisdiction of the coastal State and that of the flag State within the EEZ, some scholars argue, inter alia, that the freedoms enjoyed by the other States in the EEZ are in no way equal to the freedoms of the high seas, because of restrictions imposed on their exercise according to UNCLOS. In this regard, the provision of UNCLOS for the resolution of conflicts on the attribution of rights and jurisdiction in the EEZ states that, in cases where UNCLOS does not attribute rights or jurisdiction to the coastal State or to other States within the EEZ and a conflict arises between the interests of the coastal State and any other State or States, the conflict should be resolved on the basis of equity and in the light of all the relevant circumstances, taking into account the respective importance of the interests involved to the parties as well as to the international community as a whole.

In this context, the issue of the legality or not of military activities conducted by other States in the EEZ remains fundamental. Given the silence of UNCLOS on (p. 193) this subject, the absolute freedom of military activities can be easily affirmed, with significant exceptions, such as the prohibition of the threat or use of force, the obligation to take in due account the rights of the coastal State, and any rules contained in specific conventions. However, analysing attentively the various military activities, some concerns arise over the legitimacy of some cases. With the exception of military exercises with naval air teams even of
different States, some concerns arise over the use and testing of weapons and explosives; the installation of equipment used for surveillance or espionage or as weapons, and the scientific research for military purposes. Actually, for many of these cases, the most suitable legal solution seems to assess the activities concerned, taking into account the rights of the coastal State and of other States and, where this criterion would not be useful, to employ the clause of the use for peaceful purposes, with the result that if the purpose of the activity may represent a threat to security and peace of the coastal State, the activity in question must be considered unlawful.

7.3.5 Cases of creeping jurisdiction

The very same concept of the EEZ can be regarded as an example of creeping coastal State jurisdiction to manage problems mainly posed by the freedom of fishing in the high seas. Undoubtedly the recognition of extended legal jurisdiction for coastal States must be seen as a necessary addition to the technological developments that ever more allow the use of the high seas for a variety of purposes (e.g., communications, resource development, wind energy, etc.).

In relatively recent times, however, coastal States have attempted to exercise greater control in this zone with regard to maritime transport and other uses, largely on the basis of a need to provide protection to coastal interests and resources. This extension of control can be carried out either by the coastal State, in which case the (p. 194) correct expression is ‘creeping jurisdiction’, or by the international community, in which case a preferable term is ‘creeping common heritage’.

In particular, in the second half of the twentieth century the term ‘creeping jurisdiction’ has been used to describe the progressive extension of State jurisdiction offshore over ever larger areas.

The current State practice shows a further creeping of jurisdiction, consisting of an effort by States to provide themselves with greater security from threats from the sea. However, UNCLOS does not deal with security issues, neither military or environmental security, nor security from the transport of Weapons of Mass Destruction by non-State actors.

Instead UNCLOS almost entirely avoids considering military surveillance, and refers to security matters only with regard to innocent passage through the territorial sea. In particular, the coastal State may temporarily suspend innocent passage for the purposes of essential security protection, and if different activities are deemed to be prejudicial to the peace, good order, or security of the coastal State if they occur on board a foreign vessel in the territorial sea of the coastal State.

Many of the concerns surrounding creeping jurisdiction focus on the freedom of navigation rights for foreign vessels. Although Article 58 UNCLOS grants all States the freedoms of navigation and overflight, as well as all the other high seas freedoms, these rights are restricted and depend on the conduct of coastal States. The unclear provision of the second paragraph of Article 56 means that the limits of the coastal State sovereignty and jurisdiction within the EEZ are not clearly defined. As a result, the coastal State may control the navigation activities of foreign commercial and military vessels within its EEZ, establishing maritime facilities, or safety and conservation zones. Such measures have already been undertaken by coastal States with regard to pollution management.

Some scholars consider Article 59 UNCLOS to be the basis for creeping jurisdiction. Although UNCLOS specifies rights and duties of States within the EEZ, it also admits that some activities do not fall under the authority of either the coastal or foreign State. To solve this problem, UNCLOS merely states that jurisdiction should be determined on the basis of equity and in the light of all the relevant circumstances, taking into account the respective importance of the interests involved to the parties as well as to the international community as a whole.

Significant inequalities result from the implementation of UNCLOS provisions. Disadvantaged States may appear to expand their jurisdiction offshore in order to prevail over these inequalities, especially if they perceive other attempts at creeping jurisdiction to be contributing to the inequity. For these reasons, many States have applied restrictions on vessels navigating in their territorial waters or their surroundings in order to protect their security. Moreover, certain States have also stated the right to deny vessels transporting ultra-hazardous shipment, such as nuclear materials, the passage through not only their territorial sea, but even their EEZ.

The analysis of State practice undoubtedly shows that States are allowed to conduct military activities within foreign EEZs without coastal State notice or consent. For centuries States have regularly conducted naval military activities in foreign territorial seas. Within the full respect of the imperative customary rule
on the prohibition on the use or menace of armed force, these activities range from navigation and overflight, exercises and manoeuvres, weapons firing and testing, to surveys and surveillance. Over the years, some States, such as Brazil and India, have opposed these activities with a diplomatic approach, and have been challenged only by China, North Korea, and, in one case, by Peru.

China represents the most relevant case concerning creeping jurisdiction and military navigation: the EEZ is viewed by China more like the territorial sea than the high seas.

(p. 196) China requires that foreign military vessels give prior notice to the authorities concerned before their passage through its territorial sea. In other words, in its EEZ military activities are prohibited without coastal State consent.

Most of the conflicts involving China have a common factor which relates to how China perceives its national security and international responsibilities: indeed, China sees itself in competition with other States bordering the South China Sea over control of the seafloor energy resources of that area, and considers the United States as a powerful adversary that could threaten its interests at sea. Thus, China has tried to extend its authority over the sea and the seabed, sometimes by force.

In each of the incidents that occurred with the United States, China asserted that US aircraft and vessels were violating Chinese law and international law. In particular, China stated that the EEZ is within China’s sovereign domain, and sustained that foreign vessels must have Chinese permission for military operations within its EEZ. China further justified its position by arguing that military activities, excluding navigation and overflight, pose a threat to its security and are incompatible with the provisions of UNCLOS.

China’s position is not supported by State practice, and neither by UNCLOS nor other international instruments: military operations, exercises, and activities have always been regarded as internationally lawful uses of the sea, and the right to conduct such activities will continue to be enjoyed by all States in the EEZ.

7.3.6 The rights of landlocked or geographically disadvantaged States in the EEZ

Articles 69 and 70 UNCLOS conferred special rights to the landlocked or geographically disadvantaged States in the EEZs of other States only for the exploitation of biological living resources. The ratio of these two norms is to alleviate the negative effects of the establishment of the EEZ that necessarily entails this category of States, which are no longer able to carry out fishing activities in those areas that were previously considered high seas but now fall within the EEZs of coastal States. Already during the proceedings of the Third Conference of the codification of the law of the sea, the landlocked and geographically disadvantaged States joined a group (Group of 54) in order to better protect their interests—in interests that did not completely coincide: the landlocked States gave particular importance to the problem of access to the sea, while the geographically disadvantaged States were focused on the exploitation of marine resources. Articles 69 and 70 UNCLOS attribute to both of these groups of disadvantaged States the right to participate, on an equitable basis, in the exploitation of an appropriate part of the surplus of the living resources of the EEZs of coastal States of the same region or sub-region, taking into account the relevant economic and geographical circumstances of all the States concerned, in accordance with the choices made by the coastal State with regard to the conservation and utilization of living resources.

The terms and modalities of such participation shall be established by the States concerned through bilateral, sub-regional or regional agreements, taking into account a number of factors: the need to avoid detrimental effects to fishing communities and to fishing industries of the coastal State; the extent to which the landlocked or the geographically disadvantaged State participates or is entitled to participate, under existing bilateral, sub-regional or regional agreements, in the exploitation of living resources of the EEZs of other coastal States; the extent to which other landlocked and geographically disadvantaged States participate in the exploitation of the living resources of the EEZ of the coastal State and the consequent need to avoid a particular burden for any single coastal State or a part of it; and, finally, the nutritional needs of the populations of the respective States.

When the harvesting capacity of a coastal State approaches a point enabling it to harvest the entire allowable catch of the living resources in its EEZ, UNCLOS provides on behalf of the landlocked States, or the developing geographically disadvantaged States, that the coastal State and other States concerned shall cooperate to the establishment of equitable arrangements on a bilateral, sub-regional or regional basis to
allow for participation of those developing States in the exploitation of the living resources of the EEZs, as may be appropriate on satisfactory terms to all parties. Instead, developed landlocked States or geographically disadvantaged States shall be entitled to participate in the exploitation of living resources only in the EEZs of developed coastal States of the same sub-region or region.

In conclusion, even when dealing with landlocked States and geographically disadvantaged States, the coastal State maintains a dominant position and a fundamentally unlimited discretion, since the special regime provided by Articles 69 and 70 is reconnected to the signing of appropriate agreements, which set a (p. 198) personal right of access and exploitation that cannot be transferred to other States. It is, furthermore, a special regime that deals only with living biological resources. Therefore, the coastal State has the possibility of invoking Article 71, which excludes the application of those two provisions in the case of a coastal State whose economy is overwhelmingly dependent on the exploitation of the living resources of its EEZ.

**7.3.7 Special regimes for certain categories of biological resources**

In addition to the provisions setting out the sovereign rights and fundamental duties of the State in respect of the management of biological resources, more specific rules are provided for particular species of resources: highly migratory species; anadromous stocks; catadromous species; marine mammals; and sedentary species. The exploitation and management of these two latter species is not governed by the norms of Part V relating to the EEZ. In particular, the sedentary species are considered resources of the continental shelf, and therefore they are not subject to the rules of the EEZ. For the highly migratory species a legal regime is provided that constitutes an exception to the general regime outlined by the Convention. States whose nationals catch these species, tuna and swordfish, shall cooperate, in any marine region, directly or through appropriate international organizations, with a view to ensuring conservation and promoting the objective of optimum utilization of such species throughout the region, both within and beyond the EEZ. Moreover, in regions for which no appropriate international organization exists, the States concerned shall cooperate to establish such an organization and participate in its work (Article 64).

This rather vague formula is a compromise between the Latin American States, especially those of the Pacific coast, where the tuna is plentiful, and those States whose nationals catch tuna in waters far away from their shores, who would prefer an international regime characterized by a complete freedom of fishing and management, and have regional or sub-regional international organizations to control those operations.

(p. 199) Article 65 is specifically dedicated to marine mammals, given the special protection these species need, although they are also a highly migratory species. This article gives coastal States and international organizations the right to prohibit, limit, or regulate the exploitation of marine mammals more strictly than is provided for by the general rules on fishing in the EEZ.

As regards anadromous stocks, which originate in rivers, spend most of their lives in the sea and then travel back into the rivers where they lay their eggs and die, the primary responsibility is on the State of origin. In any case, the fishing for these stocks shall be conducted only in waters landward of the outer limits of EEZs, except in cases where this provision would result in economic dislocation for a State other than the State of origin (Article 66).

For catadromous species, which spend the greater part of their life cycle in rivers, but lay eggs in the sea, Article 67 establishes a special regime, corresponding in general to that provided for anadromous stocks.

Finally, Article 63 provides that where the species occur within the EEZs of two or more coastal States, these States shall seek, either directly or through appropriate sub-regional or regional organizations, to agree upon the measures necessary for coordinating and ensuring the conservation and development of such stocks.

The United Nations Agreement for the Implementation of the Provisions of the United Nations Convention on the Law of the Sea of 10 December 1982 relating to the Conservation and Management of Straddling Fish Stocks and Highly Migratory Fish Stocks was adopted by the United Nations in 1995, and came into force in 2001. This agreement aims to ensure the long-term conservation and sustainable exploitation of the stocks concerned through the strengthening of international cooperation. In particular, it was created to enhance the cooperative management of fisheries resources that cover large areas, and are of economic and environmental concern to many States. Straddling fish stocks are particularly at risk of overexploitation.
7.4 The Current Practice of States and the Development of Customary International Law Concerning the Exclusive Economic Zone

Since the mid-seventies, following the rules contained in the negotiation texts of the Third Conference, many States began to proclaim their EEZs unilaterally, (p. 200) encouraging the crystallization of this concept both at the international treaty law level and at the customary law level. The analysis of State practice in this field, i.e. national legislation, unilateral declarations, and bilateral agreements, allows a full understanding of the concept of the EEZ in international life.45

Often both unilateral declarations and national rules do not match the system outlined by UNCLOS. Specifically, national legislations can be legally divided into four groups: (1) laws proclaiming the sovereignty up to 200 nm of the extended territorial sea where only innocent passage for foreign vessels is allowed. Almost all of these legislations were adopted before the convening of the Third Conference, in particular, by South American States; (2) laws providing for the extension of the already existing 200 nm fishing zones, without changing their legal frameworks; this is the case of several western States, including some member States of the European Union; (3) laws substantially complying with the text of the Convention but not disciplining the duties of the coastal State in respect of the management of biological resources; these laws are generally adopted by many developing States; and (4) laws referring to the duties of the coastal State, providing for the determination of the amount of allowable catch, the determination and allocation of any surplus among the other States concerned. Among the States that adopted laws of this type are the Former Soviet Union and the United States. However, many States,46 having previously proclaimed a territorial sea (p. 201) beyond the limit of 12 nm, have changed their laws to comply with the provisions of the Convention, and a growing number of States, implementing the EEZ, have been inspired by the text and the specific rules of the Convention.47

Furthermore, most of the bilateral fisheries agreements between a coastal State, having declared an EEZ, and a State interested in gaining access to fishing zones under the jurisdiction of the coastal State, are largely inspired by the rules of UNCLOS. These agreements expressly refer to the determination of the allowable catch and to the determination of the surplus.48 In particular, a correspondence, with regard to the conditions of access and the compensations demanded by the coastal State, is clearly established between the majority of the agreements and the relevant provisions of UNCLOS. Although any agreement explicitly evokes the needs of developing States, many of them are cooperative agreements, concluded generally between a poorer State, which has an EEZ, and another industrialized State. In these agreements, the access to surplus depends not only on economic considerations, but on practical and effective help to the development of the fishing industry of the grantor State. This is the case, for example, of agreements concluded between the European Community and many Third World Countries.49 In the framework of bilateral cooperation, during the seventies, the recourse to joint ventures was very frequent. These are companies that, in the framework of international agreements and in accordance with the domestic laws of a State, shall be created between a public or private enterprise of the coastal State and (p. 202) private foreign companies, in view of a joint exploitation of biological resources. These companies are, to all intents and purposes, national companies of the State that receives funds, and are subject only to the domestic laws of the coastal State.

The achievement of the concept of the EEZ and of the principles of rational management of biological resources in the international practice of States has encouraged, in recent years, a new phase of expansion in the world’s production of fish resources.50 The EEZ has effectively represented an economic revenge for many developing States, which could potentially save an enormous quantity of biological resources from indiscriminate exploitation operated by the most industrialized States practicing deep-sea fishing. The crystallization of the concept of the EEZ in the customary practice of international law shows that the validity of such an institute is independent, paradoxically, from UNCLOS. Undoubtedly, the EEZ is now a legal concept accepted by customary international law; although not all provisions on the EEZ contained in UNCLOS have already acquired the status of international customary rules. The rampant jurisdiction of coastal States has, in a short time, almost reversed the relationship between customary law and treaty rules. That is why, in recent years, the international practice in protecting the interests of coastal States often went beyond the very same content of the provisions of UNCLOS.

These trends in international practice, on the one hand, aim at a quantitative extension of marine zones originally assigned to the coastal State, as the EEZ, and, on the other, aim at a qualitative expansion of the powers of the coastal State in the zone, thus transforming the same legal nature of that zone, towards a more accentuated territorialization. This practice, although opposed by the majority of traditional
maritime States, is implemented not only by developing coastal States, but sometimes even by the industrialized coastal States, over the oceans.\textsuperscript{51}

References

(p. 203) 7.5 The Delimitation of the Exclusive Economic Zone between States with Opposite or Adjacent Coasts

7.5.1 Article 74 UNCLOS
The significant extension of the exclusive economic zone—200 nm from the baselines from which the breadth of the territorial sea is measured—gives rise to

References

(p. 204) the problem of the delimitation of the EEZ between States with opposite or adjacent coasts.\textsuperscript{52} Article 74 UNCLOS deals with this issue, reproducing completely the provisions contained in Article 83 on the delimitation of the continental shelf. Under this article, the delimitation of the EEZ between States with opposite or adjacent coasts shall be effected by agreement on the basis of international law, as referred to in Article 38 of the Statute of the International Court of Justice, in order to achieve an equitable solution. If no agreement can be reached within a reasonable period of time, the States concerned shall resort to the procedures provided for in Part XV on settlement of disputes. In any case, pending agreement as provided in this field, the States concerned shall make every effort to enter into provisional arrangements of a practical nature and not to hamper the reaching of the final agreement. In other words, the States have a real obligation to settle disputes by peaceful means, or to negotiate in good faith. However, Article 74 does not provide any provision concerning the delimitation of the EEZ, as well as Article 83 for the continental shelf. No indication of any specific method of delimitation is given. The rule on the delimitation laid down in this article has an articulated structure, made up of three elements: the agreement; the compliance of the agreement with general and conventional international law; and the equitable solution to be reached in the delimitation.

Not being able to dwell on the development of relevant international case law\textsuperscript{53} and on the configuration of the general rule which requires that the delimitation should be sufficient to support a fair solution, the reference made by Article 74 to (p. 205) general international law involves the identification of general rules in force concerning the delimitation of the EEZ. They can be identified by analysing the relevant State practice: bilateral agreements of delimitation; domestic laws; and collective and unilateral declarations.\textsuperscript{54}

7.5.2 The conventional international practice concerning the delimitation of the EEZ

Many of the international bilateral agreements do not deal specifically with the delimitation of this area, but they do delimit the seabed and subsoil marine and the water column. These agreements can be divided into three groups depending on their approach to the issue of delimitation: the first group, certainly the most numerous, uses the delimitation’s method of the median or equidistance (e.g. Agreement of 20 November 1976 between Colombia and Panama; Agreement of 25 July 1980 between Burma and Thailand; Agreements of 25 October 1983 between France and Great Britain; and Agreement of 13 September 1988 between Australia and the Solomon Islands);\textsuperscript{55} the second group merely provides that the delimitation should be made in accordance with international law (e.g. Agreement of 31 October 1978 between the Netherlands and Venezuela, and Agreement of 3 March 1979 between the Dominican Republic and Venezuela);\textsuperscript{56} another group establishes directly the geographical coordinates, without indicating which method was used in the delimitation, or resorts to methods other than that of the median or equidistance. Among many, the Agreement of 23 August 1975 between Colombia and Ecuador proposes the line of the geographic parallel where the terrestrial border between Colombia and Ecuador is projected into the sea; the Agreement of 4 June 1975 between Gambia and Senegal and that of 30 January 1981 between Brazil and France have used the method of the rhumb line (or loxodrome) of the azimuth; and the
Agreement of 18 April 1988 between Sweden and the Soviet Union adopts a system of straight lines connecting the points of the coordinates specified in the Agreement itself.\textsuperscript{57}

Most recently, on 15 September 2010 in Murmansk, Norway and Russia signed a treaty regarding the bilateral maritime delimitation in the Barents Sea and the Arctic Ocean. The delimitation treaty ensures the continuation of the extensive and fruitful Norwegian-Russian fisheries cooperation. The agreement settles a compromise between the median line preferred by Norway, and the meridian

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(p. 206) based sector favoured by Russia. By signing this agreement, Norway and Russia finally resolved a long dispute about the territorial sea and the EEZ concerning the Svalbard archipelago, as it affects Russia's EEZ due to its unique treaty status.

The Government of the Republic of Mauritius and the Government of the Republic of Seychelles, on 29 July 2008, signed an agreement on the delimitation of their respective EEZs. Moreover, on 17 December 2010, the Greek Cypriot Administration signed, in Nicosia, an EEZ delimitation agreement with Israel. The governments of Australia and New Zealand also established certain EEZs and continental shelf boundaries in a Treaty of 25 July 2004.\textsuperscript{58}

7.5.3 National legislation concerning the delimitation of the EEZ

The analysis of the domestic legislation concerning the delimitation of the EEZ highlights the tendency to prefer the method of the median; this method, therefore, appears to be used not only in the agreements of delimitation but also as an independent criterion. Some laws, indeed, require the delimitation of the area through international agreement, but failing that they relate to the median method. This is the case of the domestic rules adopted, for example, by the Bahamas (1977),\textsuperscript{59} Denmark (1976),\textsuperscript{60} Japan (1977),\textsuperscript{61} Iceland (1979), Norway (1976), New Zealand (1979), and Spain (1978). Other laws provide that the

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(p. 207) delimitation should be made by agreement without stating a method to be used; more specifically, in some cases, they refer to existing international law in the field and in other cases they trace directly the geographical coordinates (e.g. Cuba 1977,\textsuperscript{62} Philippines 1979,\textsuperscript{63} France 1977, Netherlands 1986,\textsuperscript{64} and Federal Republic of Germany 1976\textsuperscript{65}). Further, some laws impose a delimitation by agreement, expressly indicating the fair outcome to be achieved (e.g. United States\textsuperscript{66} 1983 and the Former Soviet Union 1984\textsuperscript{67}); others specify that it is necessary to take into account the special circumstances of the area to be delimited (e.g. Pakistan 1976 and Indonesia\textsuperscript{68} 1983); and others, finally, directly trace the geographic coordinates without referring either to the agreement or other method of delimitation (e.g. Canada 1977 and Kenya 1979). There are, however, some acts establishing the EEZs or fisheries zones that merely set the extent of 200 nm from the baselines of the territorial sea without indicating any provision on the delimitation, as well as other acts which refer generically to rules of general international law on the delimitation of marine areas.\textsuperscript{59}

(p. 208) 7.6 The Relations between the Exclusive Economic Zone and Other Maritime Areas

The establishment and development of the EEZ make extremely important the aspect of its relations with other maritime zones recognized by the international law of the sea: territorial sea, contiguous zone, continental shelf, high seas, and international seabed area.

As to the territorial sea and the contiguous zone, relations with the EEZ are characterized by a sort of complementarity having its basis in the essentially economic function of the EEZ; in this area the State only exercises sovereign rights concerning the management of biological resources, while in the territorial sea and in the contiguous zone sovereignty is expressed in full (territorial sea) or considering the safety of the community settled on land (contiguous zone). Such complementarity is not detectable in the relationship with the high seas and the international seabed area. In these cases, the relation is definitively in opposition; the EEZ represents the denial of the freedom of the high seas and of the international management regime to advantage all mankind in the international seabed area.
The relation with the continental shelf is particularly complicated, since it entails the simultaneous application of two different regimes in the same strip of coast, except when the continental shelf outer limit is beyond 200 nm; such regimes are characterized by the exercise by the coastal State of sovereign rights, in both cases, to the exploitation of biological resources existing there.

Following a superficial analysis of the provisions of UNCLOS, the two concepts seem to coexist. On the contrary, the continental shelf has been absorbed by the EEZ. Article 56 applies the regime of the EEZ not only to the waters superjacent to the seabed, but also to the seabed and its subsoil in an area of 200 nm from the baselines. However, this article stresses that the rights with respect to the seabed and the subsoil shall be exercised in accordance with Part VI on the continental shelf.

A deeper analysis highlights the autonomy of these regimes; while the regime of the EEZ shall apply to all biological resources, living or not, the regime of the continental shelf covers only the non-living resources of the seabed and subsoil with the exception of sedentary species. This autonomy does not eliminate the strong complementary relation between these two concepts and justifies the efforts of scholars to harmonize the relation between the EEZ and the continental shelf. The need for harmonization, also in order to finding an applicable regime in doubtful and disputed cases, stems from the differences between these two concepts.

First, the rights on the EEZ depend on an express declaration, while those on the continental shelf exist ipso facto and ab initio without requiring occupations or proclamations. As a result, if a State can have the continental shelf without the EEZ, the opposite hypothesis cannot occur. Furthermore, the extension of such regimes can be different: the EEZ may not extend beyond the limit of 200 nm, while the continental shelf may extend beyond this limit, but not beyond the 350 nm from the baselines or the 100 nm from the 2,500-metre isobaths. Moreover, if, under the regime of the EEZ, the coastal State has the obligation to give access to resources to other States, such an obligation does not exist for the resources of the continental shelf. Finally, while for the laying of submarine cables and pipelines the consent of the coastal State is not necessary in the EEZ (Article 58 UNCLOS), such consent is required within the continental shelf (Article 79 paragraph 3 UNCLOS).

This last distinction, given the geographical overlapping of the EEZ and the continental shelf, raises the question of the identification of the applicable norms. In this regard, the special character of the continental shelf compared to the EEZ has to be emphasized. This special character is also confirmed by paragraph 3 of Article 77 UNCLOS, according to which the rights of the coastal State over the continental shelf are independent of occupation, effective or symbolic, as well as any explicit declaration. The reference to this special character of the continental shelf allows the resolution of any doubts on the applicability of the regime of the EEZ or of that of the continental shelf, giving prevalence to the latter.

Another aspect of the relations between the EEZ and the continental shelf concerns the issue of the delimitation of these two areas between States with opposite or adjacent coasts. More specifically, the question is whether or not the lines of delimitation coincide. Scholars are divided; according to some, the practice of States would encourage the adoption of a single line of delimitation due to the absorption, within 200 nm, of the concept of the continental shelf in that of the EEZ; whereas others argue that there is no legal obligation for States to proceed to trace a single line of delimitation or to automatically extend the line negotiated for the continental shelf also to the EEZ when established. This is because the achievement of a fair result would not entail the adoption of the same criteria for both the delimitations. The most recent international case law seems to be oriented in this direction (Judgment of 31 July 1989 of the ad hoc Arbitration Tribunal on the dispute between Guinea Bissau and Senegal).

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In conclusion, the fact that Articles 77 and 84 UNCLOS have the same content does not necessarily mean that the factors helping to determine the delimitation lines in order to achieve a fair result are the same.

7.7 The Opportunity of Establishing Exclusive Economic Zones in Enclosed or Semi-enclosed Seas: The Mediterranean Case

The concept of the EEZ, created to satisfy the needs of the oceanic States to the exclusive exploitation of biological resources and minerals contained in the seabed, in the subsoil, and the superjacent water
column, within an area of 200 nm, raises serious problems of application in relation to certain enclosed or semi-enclosed seas, given their limited size.

This would result in the decomposition of these seas in the EEZs of their coastal States, with relevant—risky—effects on international navigation.

7.7.1 The opportunity to establish EEZs in the Mediterranean Sea

The problem concerning the effects on the Mediterranean Sea arising from the establishment of EEZs should be considered under at least four different aspects. The first issue to be considered is the legal regime of the EEZ itself; the second concerns the size and features of the Mediterranean Sea; the third aspect concerns the practice carried out so far by Mediterranean coastal States; and the fourth is related to the ability to apply in the Mediterranean the instruments of cooperation provided for by UNCLOS for enclosed or semi-enclosed seas.

The potential establishment of EEZs in the Mediterranean Sea would result in the risk of its territorialization. A compelling reason for preventing the establishment of the EEZs in the Mediterranean arises mainly from the fact that this sea constitutes an important international waterway. The freedom of navigation, especially for the military, would inevitably be affected, despite the existence of principles intended to guarantee it.

The question of the possible establishment of EEZs in the Mediterranean is, therefore, closely related or, rather, specifically conditioned by the size and geographic position of this sea. It is, indeed, a semi-enclosed sea having all the characteristics identified under Part IX of UNCLOS for that classification.

For the purposes of UNCLOS, an enclosed or semi-enclosed sea means a gulf, basin, or sea surrounded by two or more States and connected to another sea or the ocean by a narrow outlet or consisting entirely or primarily of the territorial seas and EEZs of two or more coastal States, where of course they are established. It is not clear what relation exists between the terms ‘enclosed’ and ‘semi-closed’ and the individual elements of this definition. Certainly, the Mediterranean Sea appears to have all of the three characteristics listed by UNCLOS: indeed, its shores are surrounded now by more than twenty States; it is connected to the Atlantic Ocean through the Strait of Gibraltar; and, even if it is not mainly composed of the territorial seas of the coastal States, it would certainly be made up entirely of their EEZs, if established.

On the other hand, the Mediterranean Sea also responds to the additional requirements of the doctrine for the definition of an enclosed or semi-enclosed sea: its surface is more than 50,000 sq nm; it is a sea and not the main part of a larger sea; and more than fifty per cent of the perimeter of its surface is surrounded by coasts.

7.7.2 The practice of the Mediterranean coastal States concerning the EEZ and the impact of the establishment or not of EEZs on the freedom of navigation in the Mediterranean sea basin

As far as their attitude towards the EEZ is concerned, Mediterranean States can be clustered into three categories: States which have expressly declared their opposition to the establishment of the EEZ, such as Algeria, Israel, and Turkey, during the course of the proceedings of the Third Conference on the Law of the Sea; States which have established the EEZ off their Atlantic coast and have not provided for the establishment of such zones in the Mediterranean, such as France and Spain, two great maritime powers whose behaviours, as such, are particularly important for our purposes; and States which have proclaimed, or officially announced the establishment of an EEZ, but do not actually seem to have definitively established it, such as Egypt, Lebanon, Malta, Morocco, Syria, Tunisia, Cyprus, and Croatia.

In fact, even Italy has repeatedly argued against the establishment of EEZs within the Mediterranean Sea, as well as several other coastal States of this sea. There are, however, other States, especially those of African and Adriatic coasts of the Mediterranean, perhaps for reasons related to the hoarding and the seizure of the resources of the sea, which are more favourable to the establishment of such areas.

In particular, two very important States, which are also two traditional maritime powers, i.e. France and Spain, have established the EEZ in the Atlantic Ocean, but have specifically avoided establishing the EEZs in the Mediterranean Sea.
within the Mediterranean Sea. France has established, by a law of 1976, an EEZ, whose detailed norms are contained in the decree issued to implement it in 1977. The decree under consideration states that such zone extends off the coasts of the territory of the French Republic which borders the North Sea, English Channel, and the Atlantic. Even Spain, with its 1978 law, has established the EEZ, limiting it only to the Atlantic coast and stating explicitly that the application of such provisions is limited to the Spanish peninsular and insular coasts of the Atlantic Ocean, including the Bay of Biscay (Cantabrian Sea).

Egypt declared, upon ratification of UNCLOS, its support to the establishment of the EEZ; but this declaration was not followed by any concrete behaviour, although Egypt signed a Treaty with Cyprus in 2003 for the delimitation of their respective EEZs. Cyprus declared an EEZ with the law of 2 Apr. 2004, while Syria has proceeded by the Law No. 28 of 2003. However, no decrees have been issued by the latter two States for implementing these laws. Finally, Lebanon has

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(p. 213) marked its EEZ with Cyprus in 2007, but without having made a formal proclamation of the same zone.

Finally, Malta and Morocco appeared to have established their respective EEZs. The creation of the Moroccan zone was approved in 1980 by the House of Representatives, and established by a decree of 1981; while the zone of Malta was established in 1978 by decision of the Maltese Government. In these acts, moreover, the terms of the delimitation are vague; and the determination of the nature of those zones is not accurate. As for Morocco, such zone seems to refer only to the Atlantic Ocean, excluding, then, the waters of the Mediterranean, within which a fishing area of 70 nm has been established. The Maltese zone seems to be mainly a fishing area whose extension has been enlarged several times.

Recently, this State has proclaimed an EEZ. In particular, in July 2005, the Maltese Parliament unanimously approved a framework law that authorizes the Prime Minister to extend, by decree, Maltese sovereign rights over the management of living and non-living resources of the water column beyond the Maltese territorial sea, over marine scientific research, and the protection and preservation of the marine environment. This law also provides for the establishment of artificial islands, installations, and structures.

In 2003, Croatia proclaimed an EEZ. In particular, the Croatian Sabor gave effect to the provisions of the Maritime Code in October 2003, but without fully implementing the EEZ, restricting itself to establishing a fishing zone which is, at the same time, ecologically protected, in accordance with the contents of Article 56 UNCLOS. This zone aimed at achieving sustainable fisheries and to prevent accidents, such as that of the Prestige ship, that can cause irreparable damage to the Adriatic Sea and its coast. This decision which was amended on 2004 in order to postpone the implementation of the rules of the ecological and fishing zone up to twelve months after its establishment with regard to Member States of the European Union, clearly found the legal basis of the regime of the area in Article 56 UNCLOS, and grants to other States the traditional freedoms of the high seas: navigation, overflight, and other uses provided for by international law (paragraph 4 of the Declaration).

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(p. 214) About two years later, Tunisia adopted the Law of 27 June 2005, which establishes an EEZ off its shores in order to exploit biological and non-biological resources of the seabed and the superjacent water column, and to exercise any other functional competence that UNCLOS gives to the coastal State, including the protection of the marine environment (Article 2). This Law also provides for the establishment of marine areas characterized by restricted powers of the coastal State, such as fishing in protected areas, the fisheries, and ecological protection zones, to the extent that their establishment is included in the competence of creating an EEZ (Article 4). However, the establishment of an EEZ, or any other area where the jurisdiction of the coastal State is restricted, does not seem to be directly subordinated to the 2005 Law. This only occurs as a forecasting legal framework and requires the adoption of specific implementing decrees, which have not yet been adopted.

To conclude, the EEZ has not been fully implemented in the Mediterranean. If few States have so far proclaimed an economic zone, or otherwise did not actually establish one, this seems to result from a number of different reasons. In general, the problem of the delimitation of marine areas and the need of
all States to ensure the widest possible freedom of navigation, especially military, seem to be the reason
that best explains the attitude of the Mediterranean States in abstaining from establishing EEZs.

Given the unique geographical conformation of the Mediterranean, the presence of many islands, and the
large number of coastal States, the delimitation of the various economic zones would be extremely
complicated.

Connected to the problem of delimitation, another reason that may explain the failure of the effective
expansion of the EEZ in the Mediterranean can be identified in the consequences that such measures
would have for international navigation. Considering that more than the forty per cent of world oil
production transit is in the Mediterranean, the question of freedom of navigation has greatly influenced
the choice of Mediterranean States with respect to the EEZ.

In particular, relating to fishing, given the relative scarcity of biological resources, the location of fishing
areas and the predominantly artisanal character of fisheries in the majority of the coastal States, the
abstention from proclamation, or from any implementation, of the EEZ may be the result of a modest
interest in adopting such a measure. A semi-enclosed sea and one that is poor in resources, such as the
Mediterranean, could not be subject to claims that are too ambitious. Moreover, because of the particular
geographical conformation of the Mediterranean and the high number of coastal States, many States may
only have small EEZs.

Moreover, in this basin, the question of the freedom of navigation, crucial and important, would become
even more serious because the entire basin would turn into a marine area actively supervised by an intense
naval patrol. The right of

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(p. 215) navigation exercised by other States would certainly be affected by the rights of the coastal State in
the field of the installation and use of artificial islands, installations, and structures in the seabed or
anchored, and of the scientific research and protection and conservation of flora, fauna, and the
environment. Nonetheless, it may also be affected by the rights of interference and capture of foreign
vessels which are guilty of breaches of the laws of the coastal State, and by the rights of boarding and
inspection of vessels suspected of such violations, not only within the limits of the territorial sea but even
within those of the same EEZs.

Within the Mediterranean Sea, there is also no possibility for vessels of other States to avoid the EEZs, in
order, inter alia, to eliminate the risk of losing precious hours of navigation, by using routes other than the
traditional ones, since if they were established by all the coastal States, the EEZs would occupy the entire
basin. This new scenario would inevitably create new problems for the freedom of navigation, caused by
the needs of the maritime traffic control.

In conclusion, therefore, if such EEZs were established in the Mediterranean Sea, the legal regime of
navigation would suffer such changes and influences that it could no longer be assimilated to the
traditional regime of freedom that now exists.

Of course, the legal regime of the Mediterranean basin emerges in a completely different way if some
coastal States establish sectorial functional areas whose content are more restricted, as ecological or
fisheries protection zones. The

Footnotes:

2000: un premier bilan de la pratique des États (Bruylant, 2003); TTB Koh, ‘Remarks on the Legal Status
of the Exclusive Economic Zone’ in MH Nordquist, TTB Koh, and JN Moore (eds), Freedom of Seas,


3 RJ Dupuy and D Vignes (eds), Traité du nouveau droit de la mer (Economica, 1985) 243.


6 Cf. Oda (n 4) 345. The declaration was adopted together with a joint declaration on the problems of fisheries in the South Pacific, recommending the establishment of biological stations for the study of migratory flows and breeding of the species of greater nutritional value. A further document also established the permanent Commission of the Conference on the use and conservation of marine resources in the South Pacific. On 4 Dec. 1954 Chile, Peru, and Ecuador adopted a supplementary agreement as well as an agreement on sanctions; at the same meeting, finally, a special area of marine border at a distance of 20 nm from the coast and extended for 10 nm on both sides of the parallel which constitutes the boundary line between two States was formally established. A detailed analysis of these documents is contained in DP O’Connell, The International Law of the Sea (Clarendon Press, 1984) 553–5.

7 O’Connell (n 6) 555–7.

8 Indochina, under French sovereignty, had established a conservation area of 20 km in 1936. Costa Rica and Honduras established areas of 200 nm in 1949 and in 1951; India and Ceylon (Sri Lanka) have established zones of 100 nm, beyond the limit of the territorial sea, in turn, in 1956 and in 1957. In the Indian Proclamation, in particular, the special interest to maintain the productivity of natural resources of the high seas is claimed. For the Argentine position, see Decree No. 14708 of 1946. See also the Final Act of the Inter-American Conference on conservation of natural resources, the continental shelf and oceanic waters, Ciudad Trujillo, 15–28 Mar. 1956, as well as Art. 1 para 2(C) of the Final Act of the Third Meeting of the Inter-American Council of jurists, Mexico, 17 Jan.–4 Feb. 1956 (cf. Pan American Union, Washington, DC, 1956, 36 and UNGA (XI), Doc A/C.6/L.388 of 21 Dec. 1956). For a doctrinal position on the proceedings of the Inter-American Conference of 1956, cf. KG Nweihed, La vigencia del mar (Universidad Simon Bolivar, 1974), vol. II, 377 ff. On the origins of the discipline on the conservation of the living resources of the high seas, among others, cf. JJ Caicedo Cestella, ‘La Conferencia de Ciudad Trujillo sobre el Mar Territorial’ (1956) REDI 731 ff.; O De Ferron, L’évolution du régime juridique de la

9 Cf. Scovazzi (n 8) vol. II, 122.

10 For an analysis of the relevant Geneva Conventions of 1958, see U Leanza, Il nuovo diritto del mare e la sua applicazione nel Mediterraneo (Giappichelli, 1993) 328 ff.


12 European Fisheries Convention (London, concluded 9 Mar. 1964, entered into force 15 Mar. 1966) 581 UNTS 57, was signed by the following States: Belgium, Denmark, France, Great Britain, Ireland, Italy, Luxembourg, Netherlands, Portugal, Federal Republic of Germany, Spain, and Sweden.


15 L Lucchini and M Voelckel, Droit de la mer. Vol. I: La mer et son droit: Les espaces maritimes (Pédone, 1990) 203; they remind us that probably a Malagasy law of 1973 used this term for the first time, though intending the continental shelf. Actually, the first State that used this term with its actual meaning was Bangladesh in 1974.


17 The complete list of the documents submitted by the States during the Caracas session is contained in UNCLOS III, Official Documents, vols III and V–VIII; for the text of the proposals, 213 ff. Particularly significant in order to identify the scope of the concerned concept, have been the projects submitted respectively by the United States (A/CONF.62/C.2/L.47, vol. III, 257) and by the Soviet Union and other socialist States (A/CONF.62/C.2/L.38, 248 ff.).


20 On the different rights exercisable by coastal States in the EEZ, see e.g. Attard (n 1) 86 ff.; L Caflisch and J Piccard, ‘The Legal Regime of the Marine Scientific Research and the Third Conference on the Law of the Sea’ (1978) 38 HJIIL 848; Del Vecchio (n 18) in particular 115–85; U Jenisch, ‘The Exclusive

21 On State practice concerning the creeping of jurisdiction offshore, see Section 3.5 of this Chapter and T Treves, ‘Codification du droit international et pratique des États dans le droit de la mer’ (1990) 4 *Recueil des cours* 25.


23 On coercive measures which can be generally adopted by the coastal State to protect the living resources in its EEZ, see FAO, *Report on an Expert Consultation on Monitoring, Control and Surveillance System for Fisheries Management* (Rome, 1981); FAO, *Code of Conduct* (n 22); FAO, *Fisheries Management, 4, Marine Protected Areas and Fisheries, FAO Technical Guidelines for Responsible Fisheries, No. 4, Suppl. 4* (FAO, 2011) 1. See also T Dux, *Specially Protected Marine Areas in the Exclusive Economic Zone (EEZ): The Regime for the Protection of Specific Areas of the EEZ for Environmental Reasons under International Law* (LIT, 2011). It was also argued that the restriction provided by United Nations Convention on the Law of the Sea (Montego Bay, opened for signature 10 Dec. 1982, entered into force 16 Nov. 1994) 1833 UNTS 3, Art. 73(3) (UNCLOS), which excludes that coastal States may adopt measures such as imprisonment or any other form of corporal punishment, should be applied only to violations committed by vessels authorized to fish under UNCLOS, Arts 62, 69, and 70. See also S Oda, ‘Fisheries under the Unites Nations Convention on the Law of the Sea’ (1983) 77 *AJIL* 739. See also Attard (n 1).

Scholars have highlighted the risk that, in the absence of detailed criteria set by the Convention, to distinguish the different categories of research mentioned respectively in paras 3 and 5 of Art. 246 UNCLOS, the coastal State could easily withhold its consent, even in cases in which, according to Art. 246 para 3, it would be required to grant it, citing the more or less direct impact of the research activities on the exploration and exploitation of their natural resources. In this regard, see R Pisillo-Mazzeschi, ‘La ricerca scientifica nella zona economica esclusiva e sulla piattaforma continentale’ in Conforti (n 20) 168; T Treves, La ricerca scientifica nell’evoluzione del diritto del mare (Giuffrè, 1978) 69 ff.

This is essentially a hypothesis of tacit consent, originally proposed by Italy during the works of the Committee for the peaceful use of the seabed (Sea-bed Committee Documents, Doc A/AC.138/SC.III/L.50, vol. 33). On this point, see also Caflisch and Piccard (n 20) 868.

N Parisi, ‘La cooperazione interstatale per la protezione dell’ambiente marino nel Mare Mediterraneo: tendenze evolutive nella prassi più recente’ in Leanza and Sico (n 25) 173.


UNCLOS, Art. 59 has been seen as the basis for the ‘creeping jurisdiction’ by coastal States: N Esters (n 32).


38 On 23 Jan. 1968, the USS *Pueblo* (AGER-2) was attacked by North Korean vessels and MiG jets. One crew member died, and the remaining 82 crew members were captured and held prisoner for 11 months. On 15 Apr. 1969, a North Korea MiG-17 shot down a US Navy EC-121 reconnaissance aircraft over the Sea of Japan. All 31 crew members died. North Korea claimed that it had shot down the aircraft because it had violated its territorial airspace.

39 On 24 Apr. 1992, two Peruvian Air Force SU-22 aircraft opened fire on a US C-130 aircraft that was conducting a routine counter-narcotics surveillance mission some 60 nm off the coast of Peru in international airspace, after the US aircraft refused to obey an order to land. One US service member was killed and two others were wounded.


44 Straddling stocks are fish stocks that migrate through more than one EEZ. Highly migratory fish refers to fish species which undertake ocean migrations and also have wide geographic distributions, such as tuna, shark, marlin, and swordfish.

45 Between 1976 and 1978, more than 60 countries extended their sovereignty over biological resources up to 200 nm. In late 1978, among 130 States, 98 had extended their fisheries jurisdiction beyond 12 nm, and 80 claimed the 200 nm limit. Out of these 80 States, 41 had proclaimed an exclusive economic zone,
27 an exclusive fishing zone, and 14 even a territorial sea. Among the States that to this date had extended their jurisdiction to 200 nm there were also States previously hostile to the concept of an EEZ: such as the USSR, USA, Japan, Great Britain, and France. The former Soviet Union, in 1976, and Japan, in 1977, enacted such laws on an interim basis. For a detailed analysis of the unilateral practice of States, before the opening of the Third Conference, see Attard (n 1) 3–31.


FAO drafted a programme to assist the development and management of biological resources in the EEZ in 1979. The purpose of this programme was to assist States in developing national legislation for the rational management of living resources. More than 40 States, usually developing States, used such collaboration for the regulation of fishing within the EEZ in 1982. See FAO, Fisheries Management. 4 (n 23); FAO, Code of Conduct (n 22). For an analysis of its content, see Moore (n 22) 85.


After 1978, world production has not registered more downturns: between 1980 and 1985 production has increased at an annual growth rate of 3%; in 1985, production reached a record level of 85 million tons, with an increase of 7% compared to 1983. According to FAO estimates, in 2009 the world production of fisheries products amounted to 144.6 million tons, of which 61.5% came from fishing (catches), and the remaining part, i.e. the 38.5%, from breeding (aquaculture). In marine waters the catches prevail on aquaculture, constituting in 2009 about 82% of the fish production. Vice versa, in the internal waters the breeding assumes a greater weight, which, with 38.1 million tons, represents about 79% of the entire production. Basically then, while most of the fishing activity is carried out in marine water (more than 88% of all catches), activities of aquaculture are concentrated in the internal waters (more than 68%).
World production of fisheries products increased in 2009 over the previous year of about 2 million tones (+1.5%), confirming the growth of the sector identified as early as 2004. The increased production derives particularly from the increase in the aquaculture sector (+2.7 million tons; up 5.1% compared to 2008), being since 2006 a substantial stability of catches, which in the period 2006–2009 were maintained at between 89 and 90 million tones. It is no coincidence that the production in the internal waters grew in 2009, about 5%, while the products derived from the marine environment remained stable for about four years, at about 96 million tones.

The following 5 cases may be mentioned as examples of rampant jurisdiction of coastal States: 

Maldives: Law No. 30/76 of 27 Nov. 1976, which establishes an EEZ of the Republic of Maldives beyond the limit of 200 nm offshore from its coast, and Law No. 32/76 of 5 Dec. 1976 relating to the navigation and passage by foreign ships and aircrafts through the airspace, territorial waters, and the economic zone of the Republic of Maldives, which provides that innocent passage is subject to the prior consent of the Government of the Republic of Maldives, also within its EEZ. Cf. Circular of the Ministry of Foreign Affairs of the Republic of Maldives, cir/91/02 of 7 Mar. 1991. Chile: Fisheries Laws No. 19,079 and 19,080 (in Diario Oficial de la Republica de Chile, 6 Sept. 1991) which introduced the concept of ‘Mar presencial’ (or ‘the Sea in which we are present’) meaning that ‘part of the ocean space between the outer limits of Chile’s continental EEZ and the meridian which, passing through the western edge of Easter Island continental shelf, extends north to the international boundary with Peru and south to the South Pole. Within this space, qualified as an international sea, Chile intends to exercise its jurisdiction to different purposes, among others, the exploitation of resources, on the basis of the need of their rational exploitation, in order to prevent the depletion’. According to this interpretation, Chile is allowed to extend its jurisdiction within a certain range beyond the EEZ to protect and conserve maritime resources, including straddling and migratory fish stocks (cf. the text of the Conference held by Admiral Bush at the opening of the Program of celebrations for the month of the Sea in 1991). Canada: Coastal Fisheries Protection Act (SRC 1979, Chap. C-21, as modified on 11 May 1987): despite the reaffirmation of freedom of navigation in the EEZ in the Verbal Note of 16 Aug. 1988 of the Canadian Ministry of Foreign Affairs addressed to the Embassy of Spain in Ottawa, Canada applies to its EEZ the provision of Art. 3.1 of the Coastal Fisheries Protection Act, according to which no foreign fishing vessel shall enter Canadian fisheries waters for any purpose unless authorized by (a) this Act or the regulations, (b) any other law of Canada (c) or a treaty. Furthermore, the draft legislation C-39 of 2 Oct. 1989 (Art. 13, which amends the previous law on the protection of coastal fisheries) prohibited any persons on board a foreign vessel ‘de pêcher ou se préparer à pêcher toute espèce de poissons’.


35 The texts of the agreements referred to have been published in B Conforti et al. (eds), Atlante dei confine sottomarini (Giuffrè, 1979–1987) vols I–II. The Agreement between Australia and the Solomon Islands of 1988 is published in (1989) 2 IJECL 152.

36 Conforti et al. (n 55).

37 For this agreement, see UN, Office of the Special Representative of the Secretary General for the Law of the Sea, Current Developments in State Practice (1992) vol. III, 203 ff.


42 In 2009 Cuba adopted the Decree-Law No. 266 on the outer limits of the EEZ of the Republic of Cuba in the Gulf of Mexico.

43 Philippines adopted in 2009 the Republic Act No. 9522 (An Act to Amend Certain Provisions of Republic Act No. 3046, as amended by Republic Act No. 5446, to Define the Archipelagic Baselines of the Philippines, and for Other Purposes).

44 Netherlands adopted the Kingdom Act of 27 May 1999 establishing an EEZ of the Kingdom (Exclusive Economic Zone (Establishment) Act) and the Netherlands Decree of 13 Mar. 2000 determining the outer
limits of the EEZ of the Netherlands and effecting the entry into force of the Kingdom Act establishing an EEZ (Exclusive Economic Zone of the Netherlands (Outer Limits) Decree).


66 Proclamation by the President of the United States of America on the Exclusive Economic Zone of the United States of America, 10 Mar. 1983.

67 The Russian Duma adopted in Nov. 1998 and the Federation Council approved on 2 Dec. 1998 a Federal Act on the EEZ of the Russian Federation: this Federal Act defines the status of the EEZ of the Russian Federation, the sovereign rights and jurisdiction of the Russian Federation in its EEZ, and the exercise thereof in accordance with the Constitution of the Russian Federation, the generally recognized principles and norms of international law and the international treaties to which the Russian Federation is a party. Matters relating to the EEZ of the Russian Federation and activities therein not provided for in this Federal Act are regulated by other federal laws applicable to the EEZ of the Russian Federation and to activities therein.


70 DW Bowett, ‘Exploitation of Mineral Resources and Continental Shelf’ in Leanza (n 16) 25.

71 In this regard, see L Caflisch, ‘Les zones maritimes sous juridiction nationale: leurs limites et leur délimitation’ in D Bardonnet and M Virally (eds), Le nouveau droit international de la mer (Pedone, 1983) 104.


73 France is in the process of declaring an EEZ in the Mediterranean Sea. In this basin France established an ecological protection zone and a surveillance zone, in which the coastal State ensures surveillance against offences breaking international regulations. For a detailed analysis see: Policy Research Corporation, The potential of Maritime Spatial Planning in the Mediterranean Sea Case Study Report: The Western Mediterranean, Study carried out on behalf of the European Commission (2011).

74 Although Spain has established an EEZ in the Atlantic Ocean, the country did not decide upon the establishment of an EEZ in the Mediterranean Sea.

75 In particular, in 1981, Morocco created a 200 nm EEZ (Dahir No. 1-81-179 of 8 April 1981), without distinguishing between the Mediterranean and the Atlantic coasts; Egypt, upon ratifying UNCLOS on 26 Aug. 1983, declared that it ‘will exercise as from this day the rights attributed to it by the provisions of parts V and VI of the...Convention...in the EEZ situated beyond and adjacent to its territorial sea in the Mediterranean Sea and in the Red Sea’. Syria in 2003, by Law No. 28 of 19 Nov. 2003 provided for the establishment of an EEZ. Moreover, in 2004 Cyprus proclaimed an EEZ under the Law adopted on 2 Apr. 2004. And in 2005 Tunisia established an EEZ under the Law No. 2005-60 of 27 June 2005, but the modalities for the implementation of such law will be determined by decree. In 2009, Libya proclaimed an EEZ with a declaration of 27 May 2009 and a decision of 31 May 2009, No. 260, and the external limit of the zone shall be determined by agreements with the neighbouring States concerned. And finally, in 2011 Lebanon established its EEZ by a framework Law adopted on 19 Sept. 2011 and defined in the text of three annexes the limits of the zone between Lebanon and, respectively, Syria, Cyprus, and Palestine. See: T Scovazzi and C Samier, ‘Fisheries Legislation of the GFCM Mediterranean and Black Sea Members’, FAO,
On 3 Oct. 2003, the Croatian Parliament adopted a decision on the extension of the jurisdiction of the Republic of Croatia in the Adriatic Sea and proclaimed the content of the EEZ related to the sovereign rights for the purpose of exploring and exploiting, conserving and managing the living resources beyond the outer limits of the territorial sea, as well as the jurisdiction with regard to marine scientific research and the protection and preservation of the marine environment, whereby the ecological and fisheries protection zone of the Republic of Croatia is established as of today (Art. 1).

On 3 June 2004, the Croatian Parliament amended the 2003 decision in order to postpone implementation of the ecological and fishing zone with regard to Member States of the European Union.

Some Mediterranean coastal States have proclaimed sui generis zones, i.e. fishing zones or ecological protection zones. While neither of them is mentioned in UNCLOS, they are not forbidden either. In particular, five States have declared a fishing zone beyond the limit of the territorial sea: Tunisia has established along its southern coastline (from Ras Kapoudia to the frontier with Libya) a fishing zone delimited according to the criterion of the 50-metre isobaths, based on a legislation of 1951 (Decree of the Bey of 26 July 1951) which was subsequently confirmed (Law No. 63-49 of 30 Dec. 1963 and Law No. 73-49 of 2 Aug. 1973); Malta, in 1978, established a 25-nm exclusive fishing zone with the Territorial Waters and Contiguous Zone Amendment Act of 18 July 1978. Under Legislative Act No. X of 26 July 2005, fishing waters may be designated beyond the limits laid down in the 1978 Act and jurisdiction in these waters may also be extended to artificial islands, marine scientific research, and the protection and preservation of the marine environment; Algeria created, in 1994, a fishing zone whose extent is 32 nm from the maritime frontier with Morocco to Ras Ténès and 52 nm from Ras Ténès to the maritime frontier with Tunisia (Legislative Decree No. 94-13 of 28 May 1994). Spain, in 1997, established a fishing protection zone in the Mediterranean (Royal Decree 1315/1997 of 1 Aug. 1997, modified by Royal Decree 431/2000 of 31 Mar. 2000). The zone is delimited according to the line which is equidistant between Spain and the opposite or adjacent coasts of Algeria, Italy, and France; Libya, in 2005, established a fisheries protection zone whose limits extend seaward for a distance of 62 nm from the external limit of the territorial sea (General People’s Committee Decision No. 37 of 24 Feb. 2005), according to the geographical coordinates set forth in General People’s Committee Decision No. 105 of 21 June 2005. Furthermore, three other States have adopted legislation for the establishment of an ecological protection zone: in 2003, France adopted Law No. 2003-346 of 15 Apr. 2003 which provides that an ecological protection zone may be created. In this zone France exercises only some of the powers granted to the coastal State under the EEZ regime, namely the powers relating to the protection and preservation of the marine environment, marine scientific research, and the establishment and use of artificial islands, installations, and structures. A zone of this kind was established along the French Mediterranean coast by Decree No. 2004-33 of 8 Jan. 2004 which specifies the coordinates to define the external limit of the zone. The French zone partially overlaps with the Spanish fishing zone; in 2005, Slovenia provided for the establishment of an ecological protection zone (Law of 4 Oct. 2005). In 2006, Italy adopted a framework legislation for ecological protection zones (Law No. 61 of 8 Feb. 2006) to be established by decrees. Within the ecological zones, Italy exercises powers which are not limited to the prevention and control of pollution, but extend also to the protection of marine mammals, biodiversity, and the archaeological and historical heritage. The first of the implementing enactments is the Decree of the President of the Republic of 27 Oct. 2011, No. 209, establishing an ecological protection zone in the Ligurian and Tyrrhenian Seas. See Scovazzi and Samier (n 75).
Annex 185

Exclusive Economic Zone

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Subject(s):
Natural resources — UNCLOS (UN Convention on the Law of the Sea) — Sovereignty — Territorial sea — Baselines — Exclusive economic zone

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A. Introduction

1 It was at the Third United Nations Conference on the Law of the Sea (‘UNCLOS III’; → Conferences on the Law of the Sea) that the concept of the exclusive economic zone (‘EEZ’) was introduced into the international → law of the sea. The EEZ can briefly be defined as a maritime zone beyond and adjacent to the → territorial sea extending up to 200 nautical miles (‘nm’) from the baseline of a coastal State where the coastal State has sovereign rights over the living and non-living resources of the superjacent waters and its seabed and subsoil—rights of an essentially economic nature—whereas in that zone other States enjoy the freedoms of navigation and → overflight (see Art. 56 UN Convention on the Law of the Sea; → Baselines; → Navigation, Freedom of).

B. Genesis of the Concept

1. Initial Development

2 Claims to maritime zones beyond the territorial sea, then usually of 3nm in breadth, began with the Truman Proclamations. On 24 September 1945 United States of America (‘US’) President Truman issued two proclamations: Proclamation No 2667 relating to the natural resources of the seabed and subsoil of the → continental shelf and Proclamation No 2668 with respect to coastal fisheries in certain areas of the → high seas (→ Fisheries, Coastal). Proclamation No 2667 is of particular significance. It stated, inter alia, that

   Having concern for the urgency of conserving and prudently utilizing its natural resources, the Government of the United States regards the natural resources of the subsoil and sea bed of the continental shelf beneath the high seas but contiguous to the coasts of the United States as appertaining to the United States, subject to its jurisdiction and control. (Proclamation No 2667).

This proclamation made clear that ‘[t]he character as high seas of the waters above the continental shelf and the right to their free and unimpeded navigation are in no way thus affected’ (ibid). These proclamations, especially Proclamation No 2667 concerning the continental shelf, constituted the fons et origo of the extensive maritime claims which have been such a distinctive feature of the latter part of the 20th century.

3 Several coastal States took similar actions. However, certain States, particularly some Latin American States, went further than the US in that they claimed → sovereignty not only over the continental shelf but also over the waters above the continental shelf: the so-called epicontinental sea. The Argentine Republic’s Presidential Declaration Proclaiming Sovereignty over the Epicontinental Sea and the Continental Shelf (issued 9 October 1946] (1947) 41 AJIL Supp 11) provided an instance of this type of claim.

4 A few Latin American States which possessed little or no continental shelf sought to make good this deficiency by claiming to exercise ‘protection and control’ in the seas adjacent to their coasts to a distance of 200nm: the Republic of Chile (‘Chile’) by the Presidential Declaration Concerning Continental Shelf of 23 June 1947, the Republic of Peru (‘Peru’) by Presidential Decree No 781 concerning Submerged Continental or Insular Shelf of 1 August 1947, the Republic of Costa Rica (‘Costa Rica’) by Law No 116 (27 July 1948), and the Republic of El Salvador (‘El Salvador’) under then Art. 7 Constitution of the Republic of El Salvador (1950). It has been stated that the distance of 200 miles claimed by the Latin American States had not been chosen arbitrarily: it corresponded to the outer limit of the Peruvian (Humboldt) current, which had a decisive influence on the living resources of the sea areas affected. These claims expressly recognized the freedom of
navigation. However, as was to be expected, they attracted vigorous protests from the maritime States (→ Protest).

5 In 1952 at the first conference on the exploitation and conservation of the marine wealth of the Southern Pacific, Chile, the Republic of Ecuador (‘Ecuador’), and Peru adopted the Declaration on the Maritime Zone, which later became known as the Declaration of Santiago ([signed and entered into force 18 August 1952] 1006 UNTS 323). This seminal instrument has been considered ‘the manifesto of the new trend in the law of the sea’, perhaps as significant a milestone as the Truman Proclamations. These republics proclaimed as a principle of their international maritime policy that each possessed sole sovereignty and jurisdiction over the area of sea adjacent to the coast of its own country, and extending not less than 200nm from the coast (→ Maritime Jurisdiction). It is of some significance that the Declaration of Santiago preserved only the right of ‘innocent and inoffensive passage of vessels of all nations through the zone’—a right, which is in fact identified with the territorial sea (at 326; → Innocent Passage; → Transit Passage).

6 The spread of these extensive maritime claims was not arrested by the adoption of the 1958 Convention on Fishing and Conservation of the Living Resources of the High Seas (‘Living Resources Convention’), as might have been hoped. Though it was conceded that the recognition that ‘[a] coastal State has a special interest in the maintenance of the productivity of the living resources in any area of the high seas adjacent to its territorial sea’, was to be welcomed, the general view among these States was that the restrictions imposed on these rights rendered them almost illusory (Art. 6 Living Resources Convention). The effort to halt these claims therefore failed.

2. Regional Conferences

7 In 1970 two more Latin American conferences took place: the first at Montevideo and the second at Lima. These conferences revealed a divergence among Latin American States with regard to the juridical status of the 200nm zone. Both the Declaration of Montevideo on the Law of the Sea (‘Montevideo Declaration’) and the Declaration of Latin American States on the Law of the Sea (‘Lima Declaration’) purported to preserve the freedom of navigation and overflight for other States in that zone. However, there were some States, eg the Federative Republic of Brazil (‘Brazil’), Republic of Panama, Republic of Nicaragua, and Ecuador, which expressed reservations in that they adopted what was to be called a territorialist approach to the maritime area within the 200nm limit. This divergence was to play a crucial role in the evolution of the concept of the EEZ.

8 As UNCLOS III approached, further regional developments took place. In 1972 the Caribbean States met in Santo Domingo where the Declaration of Santo Domingo was adopted. This instrument in fact contained the lineaments of the concept of the EEZ. The Declaration of Santo Domingo gave a coastal State ‘sovereign rights over the renewable and non-renewable natural resources, which are found in the waters, in the seabed... adjacent to the territorial sea called the patrimonial sea’ (at 892). It established a 12nm territorial sea limit and stated that the whole of the area of both the territorial sea and the patrimonial sea, taking into account geographical circumstances, should not exceed a maximum of 200nm.

In this zone ships and aircraft of all States, whether coastal or not, should enjoy the right of freedom of navigation and overflight with no restrictions other than those resulting from the exercise by the Coastal State of its rights within the area. Subject
only to these limitations, there will also be freedom for the laying of submarine cables and pipelines. (at 892; → Pipelines)

9 The regional seminar which was held in the same year at Yaounde reached similar conclusions. These conclusions spoke of ‘economic zone’ rather than ‘patrimonial sea’. No specific limit was established for the zone. Most importantly, these conclusions took into account the attempt to secure the interests of → land-locked States.

C. The Legal Regime of the Exclusive Economic Zone

10 The UN Convention on the Law of the Sea gives the coastal State in the EEZ sovereign rights for the purpose of exploring and exploiting, conserving and managing the natural resources, whether living or non-living, of the waters superjacent to the seabed and of the seabed and its subsoil, and with regard to other activities for the economic exploitation and exploration of the zone, such as the production of energy from the water, currents and winds. (Art. 56 (1) (a); see → Conservation of Natural Resources; → Natural Resources, Permanent Sovereignty over)

The coastal State then has a resource-oriented functional competence in the zone. It is of some importance to point out that the coastal State possesses sovereign rights and not sovereignty in the EEZ (cf Art. 2 (1) Convention on the Continental Shelf). At the heart of the concept of the EEZ is the fact that the coastal State exercises sovereign rights in the EEZ for economic purposes.

11 The coastal State also has jurisdiction (→ Jurisdiction of States), as provided for in Art. 56 (1) (b) UN Convention on the Law of the Sea, with regard to:

(i) the establishment and use of artificial islands, installations and structures;

(ii) marine scientific research;

(iii) the protection and preservation of the marine environment.

12 The informal negotiating texts gave coastal States exclusive jurisdiction with respect to such matters. The change from ‘exclusive jurisdiction’ to ‘jurisdiction’ came in 1977 with the appearance of the Informal Composite Negotiating Text (‘ICNT’). Hence, States which had based their legislation on the language of the pre-1977 negotiating texts used the term ‘exclusive jurisdiction’ in regard to such matters, which in certain cases was retained even after the adoption of the UN Convention on the Law of the Sea (see para. 88 below). This provision also makes clear that the substance of these matters—i.e the establishment and use of → artificial islands, installations, and structures, → marine scientific research, and the protection and preservation of the marine environment—are developed elsewhere in the UN Convention on the Law of the Sea (see → Marine Environment, International Protection). Under Art. 57 UN Convention on the Law of the Sea, the EEZ cannot extend beyond 200nm, thus enshrining early Latin American → State practice.

13 In the EEZ other States enjoy the freedoms referred to in Art. 87 UN Convention on the Law of the Sea, of navigation and overflight, and the laying of submarine cables and pipelines, and other internationally lawful uses of the sea related to these freedoms, such as those associated with the operation of ships, aircraft, and submarine cables and pipelines. During the negotiations of the text an earlier version used the expression ‘and other...
internationally lawful uses of the sea related to navigation and communication’ (Art. 47 (1) Informal Single Negotiating Text [‘ISNT’]). This was replaced by the present version:

[A]nd other internationally lawful uses of the sea related to these freedoms, such as those associated with the operation of ships, aircraft and submarine cables and pipelines, and compatible with the other provisions of this Convention. (Art. 58 (1))

The acceptance of this amendment, it has been said, represented a serious effort of compromise by maritime powers, which favoured the wider formulation ‘other lawful uses of the sea’, without any qualification.

14 The UN Convention on the Law of the Sea in particular declares that the EEZ is subject to ‘a specific legal regime’ (Art. 55). In the light of Art. 55 it seems difficult to maintain the thesis that the EEZ is part of the high seas. It is sui generis, with the important consequence that it is neither the territorial sea nor the high seas but partakes of the characteristics of both regimes.

15 There are other provisions which concern the relationship between the EEZ and the high seas. By the operation of Art. 58 (2) UN Convention on the Law of the Sea, almost all the high seas provisions (Arts 88–115 UN Convention on the Law of the Sea) apply to the EEZ, save those relating naturally enough to the conservation and management of the living resources of the high seas (→ Marine Living Resources, International Protection). Several of these provisions (Arts 91–96 UN Convention on the Law of the Sea) deal with the regime of ships and are of general application. Others deal with matters which are the concern of the international community, such as the prohibition of transport of slaves, → piracy, traffic in drugs, and unauthorized broadcasting (Arts 99–109 UN Convention on the Law of the Sea) and must necessarily apply to the EEZ (see also → Pirate Broadcasting; → Slavery).

16 Articles 88 and 89 UN Convention on the Law of the Sea are of some significance for the regime of the EEZ. Article 88 UN Convention on the Law of the Sea stipulates that ‘[t]he high seas shall be reserved for peaceful purposes’. According to the terms of Art. 89 UN Convention on the Law of the Sea, States are prohibited from subjecting any part of the high seas to their sovereignty. None of the above-mentioned provisions has the effect of rendering the EEZ part of the high seas.

1. Residual Rights

17 With respect to the EEZ, do uses of the sea which are not mentioned or covered by the relevant provisions of the UN Convention on the Law of the Sea, including future uses of the sea—the so-called residual rights—remain with the → international community, or do they fall within the competence of the coastal State? This issue has been considered as having special significance with regard to military activities in the EEZ. It is a crucial question, which has always been difficult to resolve, and one which is still of abiding importance.

18 The response of the UN Convention on the Law of the Sea to this problem lies in Art. 59, which reads as follows:

In cases where this Convention does not attribute rights or jurisdiction to the coastal State or to other States within the exclusive economic zone, and a conflict arises between the interests of the coastal State and any other State or States, the conflict should be resolved on the basis of equity and in the light of all the relevant
circumstances, taking into account the respective importance of the interests involved to the parties as well as to the international community as a whole.

19 It is generally acknowledged that this formula does not provide a dispute settlement mechanism (→ Law of the Sea, Settlement of Disputes). It must be regarded as embodying substantial guidelines for obtaining a solution to the problem. Where no rights have been granted either to the coastal State or to third States, that lacuna must be filled, under Art. 59 UN Convention on the Law of the Sea, by the application of equity ‘taking into account the respective importance of the interests involved to the parties as well as to the international community as a whole’, balancing the interests of the parties involved as well as those of the international community (→ Equity in International Law). As Castañeda, the author of this provision, has stated:

Precisely, because the zone was defined as a sui generis zone, which was neither territorial sea nor high seas, it was indispensable to rely on some guideline or criterion to settle disputes that might arise out of concurrent uses of the sea within the exclusive economic zone, that is by the presence of competitive rights between the coastal State and the other States. (at 615)

20 Resolution of the problem of residual rights seems to lie with the evolving State practice as well as the jurisprudence of → international courts and tribunals (→ Judicial Settlement of International Disputes).

2. The Exclusive Economic Zone and the Continental Shelf

21 Article 56 (3) UN Convention on the Law of the Sea states that the rights set out in this article with respect to the seabed and subsoil of the EEZ shall be exercised in accordance with Part VI ‘Continental Shelf’ UN Convention on the Law of the Sea. This provision preserved the separateness of the two regimes, the EEZ and the continental shelf, at least as far as the seabed and subsoil of the economic zone is concerned, thus avoiding the continental shelf being subsumed within the EEZ.

22 There were States, particularly the land-locked and → geographically disadvantaged States, which desired that the continental shelf should be absorbed within a 200nm EEZ. The broad-margin States could not accept this view. They envisaged a continuous continental shelf regime from the territorial sea to the outer edge of the continental margin. This view prevailed.

23 In the first place, the right of a coastal State over its continental shelf, whether it applies to the seabed and subsoil within or outside the zone, need not be proclaimed. These rights are exclusive and exist ipso facto and ab initio. On the other hand, the rights of the coastal State over the superjacent waters of its EEZ are not inherent but will have to be declared and this has been the practice of States in this matter.

24 Second, sedentary species do not form part of the natural resources of the EEZ:

[T]hat is to say, organisms which, at the harvestable stage, either are immobile on or under the seabed or are unable to move except in constant physical contact with the seabed or the subsoil. (Art. 77 UN Convention on the Law of the Sea)

These fall under the regime of the continental shelf. As a consequence the elaborate provisions on the management and conservation of the living resources in the EEZ do not


apply to sedentary species (→ Fisheries, Sedentary). Thus there is no duty to give access to these resources.

25 The UN Convention on the Law of the Sea grants other States, inter alia, the freedom to lay submarine cables and pipelines on the seabed and subsoil of the EEZ (Art. 58 (1)). By the operation of Arts 56 (3) and 58 (2) UN Convention on the Law of the Sea, the laying of such cables and pipelines is regulated by the regime established for the continental shelf. This regime can be found in the cluster of articles dealing with the protection of submarine cables and pipelines (Arts 112–115 UN Convention on the Law of the Sea). The delineation of the course of pipelines in the EEZ is subject to the → consent of the coastal State.

3. Artificial Islands, Installations, and Structures

26 The coastal State exercises exclusive jurisdiction in the EEZ over artificial → islands and installations for the purposes provided for in Art. 56 UN Convention on the Law of the Sea and other economic purposes and installations and structures which may interfere with the exercise of the rights of the coastal State in the EEZ. Installations and structures which are not established for economic purposes remain outside the ambit of coastal State jurisdiction. Not all types of installations and structures in the EEZ are within the competence of the coastal State (see para. 88 below). This limitation throws into relief the notion that the coastal State essentially possesses a resource-oriented competence in the EEZ. It is important to note that in the EEZ the coastal State is empowered to apply its custom, fiscal, health, safety, and immigration laws and regulations in respect of such artificial islands, installations, and structures (see M/V ‘SAIGA’ [No 2] Case [Saint Vincent and the Grenadines v Guinea] [Merits] ITLOS Case No 2 [1 July 1999] at 54).

4. Marine Scientific Research

27 Coastal States have the right to regulate, authorize, and conduct marine scientific research in their EEZ and on the continental shelf. The principle of consent is made the cornerstone of the provisions dealing with marine scientific research. Marine scientific research in the EEZ and on the continental shelf must be conducted with the consent of the coastal State. Such consent must in normal circumstances be granted when such research is carried out exclusively for → peaceful purposes and in order to increase scientific knowledge of the marine environment for the benefit of all mankind. Coastal States are required to establish rules and procedures to ensure that consent shall not be denied or delayed unreasonably (Art. 246 UN Convention on the Law of the Sea; → Reasonableness in International Law).

28 However, the coastal State is entitled to withhold its consent if the marine scientific research:

(a) is of direct significance for the exploration and exploitation of natural resources, whether living or non-living;

(b) involves drilling into the continental shelf, the use of explosives or the introduction of harmful substances into the marine environment;

(c) involves the construction, operation or use of artificial islands, installations and structures referred to in articles 60 and 80;

(d) contains information communicated pursuant to article 248 regarding the nature and objectives of the project which is inaccurate or if the researching State or competent international organization has outstanding obligations to
Coastal States may not exercise their discretion to withhold consent in respect of projects to be undertaken beyond the 200nm limit, ie on the outer continental shelf outside of those specific areas which coastal States may at any time publicly designate as areas in which exploitation or detailed exploratory operations focused on those areas are occurring or will occur within a reasonable period of time. (Art. 246 (6) UN Convention on the Law of the Sea)

The consent of the coastal State shall be implied unless the coastal State within four months of the receipt of the communication containing information about a research project, informs the researching State that it is withholding its consent or that the information given by the researching State does not conform to the manifestly evident facts, or that it requires supplementary information or outstanding objections exist in respect to a previous research project.

The UN Convention on the Law of the Sea sets out specific conditions with which States and international organizations, when undertaking marine scientific research in the EEZ and on the continental shelf, must comply. They are, inter alia,

(a) ensure the right of the coastal State, if it so desires, to participate or be represented in the marine scientific research project...;
(b) provide the coastal State, at its request, with preliminary reports...;
(c) undertake to provide access for the coastal State, at its request, to all data and an assessment of such data...;
(f) inform the coastal State immediately of any major change in the research programme;
(g) unless otherwise agreed, remove the scientific research installations or equipment once the research is completed. (Art. 249 (1) UN Convention on the Law of the Sea)

The UN Convention on the Law of the Sea also contains provisions regarding suspension or cessation of research activities, the rights of neighbouring land-locked and geographically disadvantaged States, measures to facilitate marine scientific research and assistance to research vessels.

The term ‘marine scientific research’ is not defined in the UN Convention on the Law of the Sea. It is therefore not surprising that this lack of a definition has given rise to the question: what constitutes such research? There is controversy for instance as to whether activities such as hydrographic surveying—the purpose of which is to obtain information for the making of navigational charts and the collection of information that is to be used for military purposes—constitutes marine scientific research under the UN Convention on the Law of the Sea. States such as the US and the United Kingdom of Great Britain and Northern Ireland (‘UK’) maintain that States have the right to engage in military data-
gathering anywhere outside foreign territorial seas or archipelagic waters. This raises the whole question of military activities in the EEZ (see paras 85–87 below).

5. The Protection and Preservation of the Marine Environment

(a) Vessel-Source Pollution

Coastal States have, for the purpose of enforcement, the right to adopt laws and regulations with respect to pollution from foreign vessels in their economic zones ‘conforming to and giving effect to generally accepted international rules and standards established through the competent international organization or general diplomatic conference’ (Art. 211 UN Convention on the Law of the Sea; Marine Pollution from Ships, Prevention of and Responses to). It is generally agreed that the international organization referred to here is the International Maritime Organization (IMO). This requirement ensures that national legislation embodying national standards should not exceed or be at variance with international standards (Art. 211 (5) UN Convention on the Law of the Sea). There is no such requirement for the enactment of such legislation in the territorial sea where the coastal State enjoys sovereignty (Art. 211 (4) UN Convention on the Law of the Sea).

A coastal State may adopt ‘special mandatory measures for the prevention of pollution from vessels’ in certain ‘special areas’ of its EEZ where there exist, inter alia, certain ‘oceanographical and ecological conditions, as well as its utilization or the protection of its resources and the particular character of its traffic’ (Art. 211 (6) (a) UN Convention on the Law of the Sea). Such measures require IMO’s approval. The ‘special areas’ as used in the UN Convention on the Law of the Sea must be distinguished from MARPOL 73/78 special areas (see International Convention for the Prevention of Pollution from Ships, 1973, Protocol of 1978 Relating to the International Convention for the Prevention of Pollution from Ships, 1973), which apply to enclosed or semi-enclosed seas, including often the high seas.

The UN Convention on the Law of the Sea empowers a coastal State to take enforcement measures to combat vessel-source pollution in its EEZ. The coastal State is entitled to require a vessel to give information where there are clear grounds for believing that a vessel navigating in the EEZ or the territorial sea has committed violations in the EEZ of national and international standards relating to pollution (Art. 220 (3) UN Convention on the Law of the Sea). Such information is required to discover whether a violation has in fact occurred.

The coastal State can take further action if the pollution violation in the EEZ results ‘in a substantial discharge causing or threatening significant pollution of the marine environment’ (Art. 220 (5) UN Convention on the Law of the Sea). In such cases it can ‘undertake a physical inspection of the vessel’ under certain specific circumstances (ibid; Ships, Visit and Search). If the pollution violation in the EEZ causes ‘major damage or threat of major damage to the coastline or related interests of the coastal State, or to any resources of its territorial sea or exclusive economic zone’, the response of the coastal State can be stepped up (Art. 220 (6) UN Convention on the Law of the Sea). It has the power to institute proceedings ‘including detention of the vessel’ (ibid; see Ships, Diverting and Ordering into Port).

The UN Convention on the Law of the Sea sets out a series of safeguards designed to preserve the rights of flag States (Flag of Ships). These procedural or other safeguards seek to curb any abuse in the exercise of enforcement power by the coastal State. These safeguards relate, inter alia, to measures to facilitate proceedings involving foreign witnesses and admission of evidence submitted by another State (Art. 223 UN Convention on the Law of the Sea); the investigation of foreign vessels (Art. 222 UN Convention on the
Article 226 (1) (b) UN Convention on the Law of the Sea expressly provides for the prompt release of a ship ‘subject to reasonable procedures such as bonding or other appropriate financial security’ (→ Prompt Release of Vessels and Crews). The procedure for prompt release embodied in Art. 292 UN Convention on the Law of the Sea is therefore applicable to this provision, as is Art. 220 UN Convention on the Law of the Sea.

The safeguard clauses attempt to strike a balance between the need to preserve the marine environment from vessel-source pollution and the necessity to protect freedom of navigation and trade. This notion of balance is the quintessential feature of the EEZ.

**Ice-Covered Areas**

Coastal States are entitled to take certain non-discriminatory measures to combat vessel-source pollution in ice-covered areas within the limits of the EEZ. Such measures can be taken where particularly severe climatic conditions and the presence of ice covering such areas for most of the year create obstructions or exceptional hazards to navigation, and pollution of the marine environment could cause major harm to, or irreversible disturbance of, the ecological balance (Art. 234 UN Convention on the Law of the Sea). They must have due regard to navigation and the protection and preservation of the marine environment based on the best scientific evidence.

This provision, Art. 234 UN Convention on the Law of the Sea, was the product of negotiations among Canada, the US, and the Union of Soviet Socialist Republics (‘USSR’), coastal States with direct concern in protecting the marine environment of the Arctic, and was submitted by these States to UNCLOS III. It has been observed that

The purpose of Art. 234, which was negotiated directly among the key states concerned (Canada, the United States and the Soviet Union), is to provide the basis for implementing the provisions applicable to commercial and private vessels found in the 1970 Canadian Arctic Waters Pollution Prevention Act. (‘Commentary—The 1982 United Nations Convention on the Law of the Sea and the Agreement on Implementation of Part XI’ [February 1995] vol 6 supp 1 United States Department of State Dispatch 5; see also Arctic Waters Pollution Prevention Act (1970) 9 ILM 543)

This provision therefore seems to apply to a specific maritime area in the Arctic.

**Fisheries**

The EEZ was designed primarily to give coastal States sovereign rights over the resources of the zone, in particular the coastal State has ‘sovereign rights for the purpose of exploring and exploiting, conserving and managing the natural resources, whether living or non-living, of the waters superjacent to the seabed and of the seabed and its subsoil’ (Art. 56 (1) (a) UN Convention on the Law of the Sea). It is within the sole prerogative of the coastal State both to determine the allowable catch of the living resources in its EEZ (Art. 61 UN Convention on the Law of the Sea) and to determine its own capacity to harvest those resources (Art. 62 UN Convention on the Law of the Sea; → Fish Stocks; → Fishery Zones and Limits). The coastal State is under an obligation to ensure that the maintenance of the living resources in the EEZ is not endangered by over-
exploitation (Art. 61 (2) UN Convention on the Law of the Sea). To this end the coastal State has to adopt proper conservation and management measures:

Such measures shall also be designed to maintain or restore populations of harvested species at levels which can produce the maximum sustainable yield, as qualified by relevant environmental and economic factors, including the economic needs of coastal fishing communities and the special requirements of developing States, and taking into account fishing patterns, the interdependence of stocks and any generally recommended international minimum standards, whether subregional, regional or global. (Art. 61 (3) UN Convention on the Law of the Sea)

43 To this may be added through the operation of the 1995 Agreement for the Implementation of the Provisions of the United Nations Convention on the Law of the Sea of 10 December 1982 relating to the Conservation and Management of Straddling Fish Stocks and Highly Migratory Fish Stocks (‘Fish Stocks Agreement’), the duty to apply the precautionary approach and the general principles for the conservation and management of straddling fish stocks and highly migratory fish stocks such as the duty to apply biodiversity in the marine environment and to ensure compatibility of conservation and management measures for straddling fish stocks in the EEZ with such measures taken for the high seas (Arts 3, 5, 6 Fish Stocks Agreement; → Straddling and Highly Migratory Fish Stocks).

(a) Access to Resources

44 Where the coastal State does not have the capacity to harvest the entire allowable catch, it has the duty to give other States access to the surplus of the allowable catch. It should be noted that access is not automatic since it operates through the mechanism of agreements and arrangements in accordance with Art. 62 UN Convention on the Law of the Sea, and more importantly it depends on the existence of a surplus, which exists only where the coastal State does not have the capacity to harvest the entire allowable catch (→ Fisheries Agreements).

45 The coastal State, in giving access to other States, has to take into account all relevant factors. They include factors such as the significance of the living resources of the area to the economy of the coastal State, its other national interests, the provisions of Arts 69 and 70 UN Convention on the Law of the Sea, the requirements of developing States in the subregion or region in harvesting part of the surplus, and the need to minimize economic dislocation in States whose nationals have habitually fished in the EEZ or which have made substantial efforts in research and identification of stocks (Art. 62 (3) UN Convention on the Law of the Sea). The fact that the coastal State can take factors such as its ‘other national interests’ into account gives it fairly wide discretion with regard to access by other States to the living resources of the EEZ with the result that the right of other States to the surplus is in fact quite circumscribed.

(b) Land-Locked and Geographically Disadvantaged States

46 One of the more difficult problems facing UNCLOS III concerned the right of access of land-locked and geographically disadvantaged States to the living resources of the EEZ of coastal States. It was one of the ‘hard-core issues’ for which a negotiating group was specifically established.

47 The ICNT gave land-locked States ‘the right to participate in the exploitation of the living resources of the exclusive economic zones of adjoining coastal States on an equitable basis’ (Art. 69 ICNT). This provision applied to both developing and developed land-locked States, with the proviso that developed land-locked States could only exercise their rights in the EEZ of adjoining developed coastal States (ibid). With respect to geographically
disadvantaged States only developing geographically disadvantaged States—then defined as

developing coastal States which are situated in a subregion or region whose geographical peculiarities make such States particularly dependent for the satisfaction of the nutritional needs of their populations upon the exploitation of the living resources in the exclusive economic zones of their neighbouring States and developing coastal States which can claim no exclusive economic zones of their own were granted the right to participate on an equitable basis in the exploitation of the living resources in the EEZ of other States in a region or subregion (Art. 70 ICNT).

48 Both Arts 69 and 70 ICNT were subject to Arts 61 and 62 ICNT (Art. 69 (2), 70 (3) ICNT). Thus as the text then stood, the right of the land-locked and geographically disadvantaged States to participate in the exploitation of the living resources of the EEZ was limited to the surplus of the allowable catch. If there were no surplus the right would in fact be without purpose. Moreover, these provisions gave these States no preferential status vis-à-vis other third States seeking access.

49 It was through the mechanism of Negotiating Group 4 that a compromise formula emerged, now embodied in the text of the UN Convention on the Law of the Sea, which was generally acceptable to both the coastal States and the land-locked and geographically disadvantaged States. The UN Convention on the Law of the Sea accords to land-locked and geographically disadvantaged States, both developing and developed,

the right to participate, on an equitable basis, in the exploitation of an appropriate part of the surplus of the living resources of the exclusive economic zones of coastal States of the same subregion or region. (Arts 69 (1), 70 (1))

50 On the issue of access to the surplus Art. 69 (3) UN Convention on the Law of the Sea states that

When the harvesting capacity of a coastal State approaches a point which would enable it to harvest the entire allowable catch of the living resources in its exclusive economic zone, the coastal State and other States concerned shall co-operate in the establishment of equitable arrangements on a bilateral, subregional or regional basis to allow for participation of developing land-locked States of the same subregion or region in the exploitation of the living resources of the exclusive economic zones of coastal States of the subregion or region, as may be appropriate in the circumstances and on terms satisfactory to all parties. In the implementation of this provision the factors mentioned in paragraph 2 shall also be taken into account.

This provision is repeated mutatis mutandis in Art. 70 (3) UN Convention on the Law of the Sea, and provides a device, perhaps the best that could have been produced within the context of UNCLOS III, for dealing with the difficult problem raised by the fact that access for the land-locked and geographically disadvantaged States to the living resources of the EEZ was limited to the surplus.

51 As noted above in granting access to the surplus the coastal State has to have ‘particular regard to the provisions of articles 69 and 70, especially in relation to the developing States mentioned therein’ (Art. 62 (2) UN Convention on the Law of the Sea). This phrase was introduced into the text as a result of the work of the negotiating group. It gives these States some kind of status in the process, though not necessarily the preferential one which they desired. In contradistinction to the ICNT the UN Convention on the Law of the Sea does not disregard the existence of developed geographically
disadvantaged States since these States are now entitled to participate in the exploitation of the living resources in the EEZ of developed coastal States.

52 It was difficult to produce a generally acceptable definition of the term ‘geographically disadvantaged States’, though a definition of the term as used in Part V UN Convention on the Law of the Sea is now contained in Art. 70 (2). For a long time there was great reluctance among some coastal States to accept the use of the term ‘geographically disadvantaged States’ in Part V UN Convention on the Law of the Sea. The Drafting Committee itself had noted that two expressions appeared in the negotiating texts — ‘geographically disadvantaged States’ and ‘States with special geographical characteristics’ — but was, however, unable to harmonize the use of the terms. Almost at the close of UNCLOS III at the resumed 11th session, the use of the term ‘geographically disadvantaged States’ in Arts 69 and 70 UN Convention on the Law of the Sea was accepted for the purposes of Part V.

53 Where a State is overwhelmingly dependent on the exploitation of the living resources of its EEZ, Arts 69 and 70 UN Convention on the Law of the Sea do not apply (Art. 71). In addition the UN Convention on the Law of the Sea places restrictions on the transfer of rights to exploit living resources to other States (Art. 70).

(c) Straddling Stocks

54 The UN Convention on the Law of the Sea requires States to take measures in order to co-ordinate and ensure the conservation and development of stocks where ‘the same stock or stocks of associated species occur within the exclusive economic zones of two or more coastal States’ (Art. 63 (1)). In cases where such stocks occur both within the EEZ and in an area adjacent to it, provision is made for both the coastal States and the States fishing such stocks to take measures to conserve these stocks in the ‘adjacent areas’. These areas would of course fall under the regime of the high seas. In both situations, States may utilize appropriate subregional or regional organizations in seeking to agree upon the measures to be taken (→ Regional Co-operation).

55 There was a proposal at the 11th session of UNCLOS III to amend Art. 63 UN Convention on the Law of the Sea, in particular para. 2, which envisaged invoking the dispute settlement mechanism of the UN Convention on the Law of the Sea to determine the measures to be applied in ‘the adjacent areas’ for the conservation of these stocks where no agreement on such measures could be reached by the parties concerned. This amendment was not pressed to a vote and was thus withdrawn.

(d) Highly Migratory Species

56 Article 64 UN Convention on the Law of the Sea responds to the fact that the conservation of highly migratory species requires a high degree of international co-operation (see → Co-operation, International Law of). The coastal State and other States whose nationals fish for highly migratory species both within and beyond the EEZ are under a duty to co-operate to ensure conservation and also promote the objective of optimum utilization of such species. Such co-operation is to take place either directly or through appropriate international organizations. In addition, States are obliged to co-operate in establishing such organizations ‘in regions for which no appropriate international organization exists’ (Art. 64 UN Convention on the Law of the Sea). As was to be expected, a clear role is thus envisaged for appropriate international organizations and the UN Convention on the Law of the Sea rightly places emphasis on the role of such organizations (→ Fisheries, Commissions and Organizations). Relevant organizations dealing with highly migratory species are: Inter-American Tropical Tuna Commission, International Commission for the Conservation of Atlantic Tunas, Indian Ocean Tuna Commission,
Western Indian Ocean Tuna Organization, and the Commission for the Conservation of the Southern Bluefin Tuna.

57 Article 64 (2) UN Convention on the Law of the Sea states that the provision of para. 2 applies in addition to the other provisions of this Part. It may be argued that the formulation of this paragraph simply lays emphasis on the necessity for international co-operation. However, it was not intended that Art. 64 (2) UN Convention on the Law of the Sea should override the provisions contained in articles such as Arts 56, 61, and 62 UN Convention on the Law of the Sea.

58 The question whether the coastal State has sovereign rights over highly migratory species in its EEZ has ceased to be controversial. The US, which was the principal proponent of the view that the coastal State did not have sovereign rights over these resources, has retreated from that position.

(e) The 1995 Fish Stocks Agreement

59 The 1995 Fish Stocks Agreement seeks to ensure that the conservation and management measures established for the high seas and those adopted for areas under national jurisdiction shall be compatible in order to ensure conservation and management of the straddling fish stocks and highly migratory fish stocks in their entirety (Art. 7 (2) Fish Stocks Agreement).

60 Article 7 Fish Stocks Agreement sets out a list of factors which are to be taken into account: the conservation and management measures adopted and applied in accordance with Art. 61 UN Convention on the Law of the Sea in respect of the same stocks by coastal States within areas under national jurisdiction and ensuring that measures established in respect of such stocks for the high seas do not undermine the effectiveness of such measures; previously agreed measures established and applied in accordance with the UN Convention on the Law of the Sea in respect of the same stocks by a subregional or regional fisheries management organization or arrangement; and the biological unity and other biological characteristics of the stocks and relationships between the distribution of the stocks, the fisheries, and the geographical particularities of the region concerned, including the extent to which the stocks occur and are fished in areas under national jurisdiction. Furthermore, Art. 7 Fish Stocks Agreement requires that States ensure that such measures do not result in harmful impact on the living marine resources as a whole.

61 This emphasis on the need for compatibility with respect to conservation and management measures between the two regimes reflected the simple truth that there exists a biological unity among most species to be found in both the EEZ and in the high seas. As a result the fisheries management regime for the EEZ and that for the high seas should necessarily be concordant.

(f) Marine Mammals

62 Marine mammals enjoy special protection under Art. 65 UN Convention on the Law of the Sea. It should be noted that successive versions of the relevant provision of the negotiating texts in fact progressively strengthened the protection accorded marine mammals. In the ISNT this article formed part of the general provision on highly migratory species (Art. 53 ISNT). When this text was revised, the provision appeared as an article on its own. The Revised Single Negotiating Text (‘RSNT’), as it then stood, allowed coastal States to ‘prohibit, regulate and limit the exploitation of marine mammals’ and also
expressly obliged States to co-operate with appropriate international organizations ‘in the protection and management of marine mammals’ (Art. 54 RSNT).

63 Article 65 UN Convention on the Law of the Sea reflects the modifications introduced into the text by a US proposal. Coastal States can ‘prohibit, limit or regulate the exploitation of marine mammals’ more strictly than is provided for in Part V UN Convention on the Law of the Sea. Cetaceans are especially singled out among the marine mammals requiring protection and management through the appropriate international organizations.

(g) Anadromous Stocks

64 With respect to anadromous stocks the UN Convention on the Law of the Sea adopts a type of ‘species approach’ in the sense that it has established a special regime for the fishing of anadromous stocks, salmon being the prime example. This regime is centred on the fact that the State of origin of anadromous stocks, ie the State in whose rivers anadromous stocks originate, enjoys a preferential status in that it has ‘the primary interest in and responsibility for such stocks’ (Art. 66 UN Convention on the Law of the Sea).

65 Fishing for anadromous stocks can only be conducted in waters landward of the outer limits of the EEZ, and it is naturally the State of origin which shall establish appropriate regulatory measures for fishing these stocks in the waters landward of its EEZ. It should be pointed out that the equivalent expression in the ISNT for ‘waters landward of the outer limits of the exclusive economic zone’ was ‘waters within its exclusive economic zone’ (Art. 54 ISNT). The intent of the change was, it seemed, to include both the territorial sea and the → internal waters of the coastal State.

66 Where the restriction that fishing for anadromous stocks shall be conducted only in waters landward of the outer limits of EEZ causes economic dislocation to a State other than the State of origin, fishing for such stocks may be conducted beyond the outer limits of the EEZ. With respect to such fishing, Art. 66 (3) (a) UN Convention on the Law of the Sea, goes on to state that the States concerned shall maintain consultations with a view to achieving agreement on terms and conditions of such fishing giving due regard to the conservation requirements and the needs of the State of origin in respect of these stocks.

This provision further highlights the primary interest of the State of origin. It should be observed that the above provision was introduced in the first revision of the ICNT on the basis of a text agreed upon by Canada, the Kingdom of Denmark, Republic of Iceland, Ireland, Japan, the Kingdom of Norway, the USSR, the UK, and the US.

67 This interest of the State of origin is to a certain extent also protected with respect to anadromous stocks migrating through the waters landwards of outer limits of the EEZ of a State other than the State of origin. In such cases the third State is under a duty to co-operate with the State of origin for the conservation and management of such stocks.

68 The State of origin of anadromous stocks and other States fishing these stocks shall make arrangements for the implementation of Art. 66 UN Convention on the Law of the Sea through regional organizations. Relevant organizations are the Standing Commission for the Baltic Sea Salmon, the International Commission for the Fisheries of the Pacific Salmon, and the Organization for the Conservation of the North Atlantic Salmon.
The Convention for the Conservation of Anadromous Stocks in the North Pacific Ocean ([signed 11 February 1992, entered into force 16 February 1993] 22 UN Law of the Sea Bulletin 21) to which Canada, Japan, the Russian Federation, and the US are parties, has prohibited the fishing of anadromous stocks in waters beyond the EEZ. It also established the North Pacific Commission for Anadromous Fish Stocks.

(h) **Catadromous Species**

The UN Convention on the Law of the Sea also adopts a ‘species approach’ to the management of catadromous species, a prominent example being the fresh water eel. There are three main issues concerning this regime. First, the responsibility for the management of catadromous species rests with the coastal State in whose waters these species spend the greater part of their life cycle. Second, harvesting of such species shall be conducted only in waters landward of the outer limits of the EEZ. Third, where such species migrate through the EEZ of another State, that State and the State which has responsibility for the species shall ensure the rational management and harvesting of the species through agreements (Art. 67 UN Convention on the Law of the Sea).

(i) **Sedentary Species**

As has been observed (see para. 24 above), these species are defined as ‘organisms which, at the harvestable stage, either are immobile on or under the seabed or are unable to move except in constant physical contact with the seabed or the subsoil’ (Art. 77 UN Convention on the Law of the Sea). This definition is based on Art. 2 (4) Convention on the Continental Shelf. It is important to note that sedentary species are not subject to the provisions of Part V UN Convention on the Law of the Sea dealing with the regime of the EEZ (Art. 68 UN Convention on the Law of the Sea). In particular Arts 61 and 62 UN Convention on the Law of the Sea do not apply. As a consequence there is no right of access as such for third States to these resources. These species fall under the regime of the continental shelf and thus form part of the ‘natural resources’ of the continental shelf.

(j) **Enforcement**

In the exercise of its sovereign rights over the living resources in the EEZ, the coastal State is empowered to take a wide range of enforcement measures (Art. 73 UN Convention on the Law of the Sea). They include ‘boarding, inspection, arrest and judicial proceedings’ (ibid). In this respect the coastal State has certain obligations: a) to release arrested vessels and their crews promptly ‘upon the posting of reasonable bond or other security’ and b) penalties for violations of its fisheries laws and regulations may not include, in the absence of agreement, imprisonment or any other form of corporal punishment (ibid). The coastal State is also under a duty to notify the flag State of any action taken or penalty imposed in this matter.

The duty to release arrested vessels and their crews promptly upon the posting of a reasonable bond or other security has been invoked in a series of prompt release cases before the International Tribunal for the Law of the Sea (ITLOS). ITLOS has a residual compulsory jurisdiction with respect to the prompt release of vessels (Art. 292 UN Convention on the Law of the Sea; International Courts and Tribunals, Jurisdiction and Admissibility of Inter-State Applications). In the nine prompt release cases, Art. 73 UN Convention on the Law of the Sea was the relevant provision for the application of Art. 292 UN Convention on the Law of the Sea.
(k) Settlement of Disputes Arising in the Exclusive Economic Zone

74 Article 286 UN Convention on the Law of the Sea reads as follows:

Subject to section 3, any dispute concerning the interpretation or application of this Convention shall, where no settlement has been reached by recourse to section 1, be submitted at the request of any party to the dispute to the court or tribunal having jurisdiction under this section.

Thus any dispute concerning the interpretation and application of the UN Convention on the Law of the Sea which is not excluded by the automatic limitations set out in Art. 297 UN Convention on the Law of the Sea or by the optional limitations specified in Art. 298 UN Convention on the Law of the Sea falls under the binding dispute settlement procedures provided for in the UN Convention on the Law of the Sea.

75 There are three categories of disputes with regard to the exercise by a coastal State of its sovereign rights and jurisdiction which are subject to binding dispute settlement:

(a) when it is alleged that a coastal State has acted in contravention of the provisions of this Convention in regard to the freedoms and rights of navigation, overflight or the laying of submarine cables and pipelines, or in regard to other internationally lawful uses of the sea specified in article 58;

(b) when it is alleged that a State in exercising the aforementioned freedoms, rights or uses has acted in contravention of this Convention or of laws or regulations adopted by the coastal State in conformity with this Convention and other rules of international law not incompatible with this Convention; or

(c) of specified international rules and standards for the protection and preservation of the marine environment which are applicable to the coastal State and which have been established by this Convention or through a competent international organization or diplomatic conference in accordance with this Convention. (Art. 297 (1) UN Convention on the Law of the Sea)

It may be argued that the above categories of dispute are already covered by the terms of Art. 286 UN Convention on the Law of the Sea. However, they form part of the delicate equilibrium which Art. 297 UN Convention on the Law of the Sea seeks to maintain with respect to the settlement of disputes arising in the EEZ.

76 With respect to disputes concerning marine scientific research and disputes concerning fisheries, especially with regard to the latter, UNCLOS III was faced with a clear divergence of views. The Chairman of Negotiating Group 5, which dealt with the question of the settlement of disputes relating to the exercise of the sovereign rights of the coastal States in the EEZ, summarized the two opposing views. He stated that on the one hand there were those who wanted all rights granted under the UN Convention on the Law of the Sea protected by effective dispute settlement provisions, on the other hand there were those who felt that sovereign rights and discretions would not be effectively exercised if they were to be harassed by an abuse of legal process and a proliferation of applications to dispute settlement procedures. Those delegates that feared an abuse of legal process were unwilling to accept compulsory adjudication, while those who desired an effective protection of all rights insisted upon it.
The compromise which emerged can be found in Art. 297 (2) and (3) UN Convention on the Law of the Sea. Disputes concerning marine scientific research shall be submitted in binding dispute settlement with the proviso that the coastal State is not obliged to accept the submission to such settlement of any dispute arising out of the exercise by the coastal State of a right or discretion in accordance with Art. 246 UN Convention on the Law of the Sea; or a decision by the coastal State to order suspension or cessation of a research project in accordance with Art. 253 UN Convention on the Law of the Sea.

Where a dispute arises that in the case of a specific project the coastal State ‘is not exercising its rights under articles 246 and 253 in a manner compatible with this Convention’ such dispute shall be submitted to → conciliation (Art. 297 (2) (b) UN Convention on the Law of the Sea). The convention goes on to provide that the conciliation commission may not call in question the exercise of the discretion of the coastal State in such matters.

A compromise formula is also to be found with respect to disputes with regard to fisheries. Under the UN Convention on the Law of the Sea disputes with regard to fisheries are subject to binding dispute settlement. However, a coastal State is not obliged to submit to any form of compulsory settlement procedure any dispute relating to its sovereign rights with respect to the living resources in the EEZ or their exercise, including its discretionary powers for determining the allowable catch, its harvesting capacity, the allocation of surpluses to other States and the terms and conditions established in its conservation and management laws and regulations. (Art. 297 (3) (a) UN Convention on the Law of the Sea)

At the request of any party a dispute shall be submitted to conciliation when it alleged that

(i) obligations to ensure through proper conservation and management measures that the maintenance of the living resources in the exclusive economic zone is not seriously endangered;

(ii) request of another State, the allowable catch and its capacity to harvest living resources with respect to stocks which that other State is interested in fishing; or

(iii) a coastal State has arbitrarily refused to allocate to any State, under articles 62, 69 and 70 and under the terms and conditions established by the coastal State consistent with this Convention, the whole or part of the surplus it has declared to exist. (Art. 297 (3) (b) UN Convention on the Law of the Sea)

As in the case of disputes relating to marine scientific research the conciliation commission may not substitute its discretion for that of the coastal State.

There are other provisions which are linked to Art. 297 UN Convention on the Law of the Sea in the sense that they were designed to curb the abuse of legal process. Under Art. 294 UN Convention on the Law of the Sea a court or tribunal may determine whether a claim with respect to a dispute referred to in Art. 297 UN Convention on the Law of the Sea constitutes an abuse of legal process or whether prima facie it is well-founded. Also of relevance here is Art. 300 UN Convention on the Law of the Sea, a general provision
enjoining States to ‘exercise the rights, jurisdiction and freedoms recognized in this
Convention in a manner which would not constitute an abuse of right’.

82 The formula embodied in Art. 297 UN Convention on the Law of the Sea reflects the
legal status of the EEZ. It protects the freedoms granted to other States in the EEZ and
throws into relief the notion that coastal States have sovereign rights over the resources of
the EEZ.

83 Under the UN Convention on the Law of the Sea, as was noted, ‘disputes with regard to
fisheries’ are subject to binding dispute settlement. However, disputes relating to a State’s
sovereign rights over living resources in its EEZ are not subject to binding settlement. In a
sense the UN Convention on the Law of the Sea has created a kind of dichotomy with
regard to the settlement of fisheries disputes. It may be noted here that the Fish Stocks
Agreement itself contains important provisions on the settlement of disputes. In particular,
it provides for the application of the dispute settlement provisions of the UN Convention on
the Law of the Sea to disputes between States Parties to the Fish Stocks Agreement
whether or not parties to the UN Convention on the Law of the Sea. Under the terms of Art.
32 Fish Stocks Agreement, Art. 297 (3) UN Convention on the Law of the Sea applies to the
Fish Stocks Agreement. Thus the dichotomy created by Art. 297 (3) UN Convention on the
Law of the Sea may present problems with respect to disputes arising under Art. 7 Fish
Stocks Agreement since this provision in fact applies both to the EEZ and the high seas.

D. State Practice with Respect to the Exclusive Economic Zone

84 The legislation and interpretative declarations of certain coastal States have thrown
into relief some basic questions concerning the legal nature of the EEZ which, it can be
argued, are still controversial today. One such question relates to the so-called residual
rights, that is those uses of the seas which are not mentioned or covered by the relevant
provisions of the UN Convention on the Law of the Sea. Uruguay, for instance, has declared
that

Regulation of the uses and activities not provided for expressly in the Convention
(residual rights and obligations) relating to the rights of sovereignty and to the
jurisdiction of the coastal State in its exclusive economic zone falls within the
competence of that State, provided that such regulation does not prevent enjoyment
of the freedom of international communication which is recognized to other States.
(Declaration of the Oriental Republic of Uruguay Made upon Signature of the UN
Bulletin 22; see also Declaration of the Republic of Cape Verde Made Upon
Signature of the UN Convention on the Law of the Sea [done 10 December 1982] 1
UN Law of the Sea Bulletin 22)

85 On the other hand both the Italian Republic (‘Italy’) and the Federal Republic of
Germany (‘Germany’) have stated in their declarations thata

according to the Convention, the coastal State does not enjoy residual rights in the
exclusive economic zone. In particular, the rights and jurisdiction of the coastal
State in such zone do not include the right to obtain notification of military
exercises or manoeuvres or to authorize them. (Declaration of the Federal Republic
of Germany Made upon Accession to the UN Convention on the Law of the Sea
[done 14 October 1994] 27 UN Law of the Sea Bulletin 6, 7; Declaration of the
On the specific question of military manoeuvres in the EEZ of coastal States, Brazil made the following declaration:

The Brazilian Government understands that the provisions of the Convention do not authorize other States to carry out in the exclusive economic zone military exercises or manoeuvres, in particular those that imply the use of weapons or explosives, without the consent of the coastal State. (Declaration of the Federative Republic of Brazil Made upon Signature of the UN Convention on the Law of the Sea [done 10 December 1982] 1 UN Law of the Sea Bulletin 21)

It should be noted that several coastal States among them Republic of Cape Verde (‘Cape Verde’), Malaysia, the Islamic Republic of Pakistan, Republic of India, Uruguay, and the People’s Republic of Bangladesh made declarations or adopted legislation to the same effect.

As has been discussed (see para. 26 above), the installations and structures which have been established for non-economic purposes remain outside the exclusive jurisdiction of the coastal State, highlighting the functional and resource-oriented nature of the regime of the EEZ. However, certain coastal States, for instance, Brazil, Uruguay, and Cape Verde, make no such distinction and claim to have the exclusive right to regulate the establishment, operation, and use of all types of artificial islands, installations, and structures in the EEZ. Germany and Italy have raised objections to these claims.

These are matters for interpretation where international courts and tribunals may have a role in their resolution. However, it must be borne in mind that under Art. 298 UN Convention on the Law of the Sea certain categories of disputes which are especially relevant to this inquiry may be excluded from the compulsory dispute settlement procedures. States may exclude from mandatory procedures disputes, inter alia, concerning military activities, which would include military manoeuvres in the EEZ and perhaps the deployment of listening and other security-related devices on the continental shelf of coastal States.

**E. Conclusions**

Several coastal States established an EEZ or exclusive fishing zones during the course of UNCLOS III, in some cases long before the UN Convention on the Law of the Sea itself was adopted. The work of the ongoing UNCLOS III guided State practice. It can be said that it was the → consensus existing within UNCLOS III that determined the course of State practice especially with regard to the new concept of the EEZ. The provisions in the informal negotiating texts were subject to change and indeed were changed over the years. Thus the legislation of a number of coastal States did not reflect the changes made to these texts, which are now incorporated in the UN Convention on the Law of the Sea. Many States have modified their legislation to conform to the relevant provisions of the UN Convention on the Law of the Sea and this process has been continuing.

As of 27 July 2007 the number of parties to the UN Convention on the Law of the Sea stood at 155, including the European Union. It has therefore to be recognized that these entities are bound by the terms of the UN Convention on the Law of the Sea. As a matter of
law, parties to the UN Convention on the Law of the Sea are bound by the whole panoply of provisions relating to the EEZ.

91 However, there are a number of coastal States which have not ratified or acceded to the UN Convention on the Law of the Sea and therefore are not bound by the UN Convention on the Law of the Sea qua treaty. Such States may be bound by the norms of the UN Convention on the Law of the Sea, especially those relating to the EEZ by international customary law (→ Customary International Law). It will be remembered that in 1985 the → International Court of Justice (ICJ) had asserted in the Continental Shelf Case (Libyan Arab Jamahiriya/Malta) ([1985] ICJ Rep 13; → Continental Shelf Case [Libyan Arab Jamahiriya/Malta]) that

It is in the Court’s view incontestable that...the institution of the exclusive economic zone, with its rule on entitlement by reason of distance, is shown by the practice of States to have become a part of customary law. (at 33; see also Case concerning Delimitation of the Maritime Boundary in the Gulf of Maine Area [Canada/United States of America] [1984] ICJ Rep 246; Case Concerning Filleting within the Gulf of St Lawrence between Canada and France (1986) 19 RIAA 224; → Gulf of Maine Case; → Maritime Delimitation Cases before International Courts and Tribunals)

Thus judicial and arbitral jurisprudence even before the entry into force of the UN Convention on the Law of the Sea had treated the concept of the EEZ as forming part of general international law (→ General International Law [Principles, Rules, and Standards]). Given the large number of States which have now ratified or acceded to the UN Convention on the Law of the Sea, the concept of the EEZ can fairly be considered a part of international customary law and in that sense binding on non-parties to the UN Convention on the Law of the Sea.

92 Nevertheless the integrity of the UN Convention on the Law of the Sea is being challenged, an instance of this is the Argentine Republic’s Act No 23,968 of 14 August 1991 ((1991) 20 UN Law of the Sea Bulletin 20), which states that

National provisions concerning the conservation of resources shall apply beyond the two hundred (200) nautical mile zone in the case of migratory species or species which form part of the food chain of species of the exclusive economic zone of Argentina. (Art. 5; see also Law No 19,079 of 12 August 1991 [Chile] [6 September 1991] 19,076–19,100 Decretocon Fuerza de Ley 13)

It may here be pointed out that the Fish Stocks Agreement may help in containing such challenges. As to the control of pollution, the Commission of the European Union in its Green Paper has made this important observation:

The legal system relating to oceans and seas based on UNCLOS needs to be developed to face new challenges. The UNCLOS regime for EEZ and international straits makes it harder for coastal states to exercise jurisdiction over transiting ships, despite the fact that any pollution incident in these zones presents an imminent risk for them. This makes it difficult to comply with the general obligations (themselves set up by UNCLOS) of coastal states, to protect their marine environment against pollution. (at 42)

It must be admitted that the UN Convention on the Law of the Sea, and with it the EEZ regime, is not set in stone. However, any attempts to modify it should not be undertaken
lightly and certainly not by unilateral measures (→ *Unilateral Acts of States in International Law*).

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