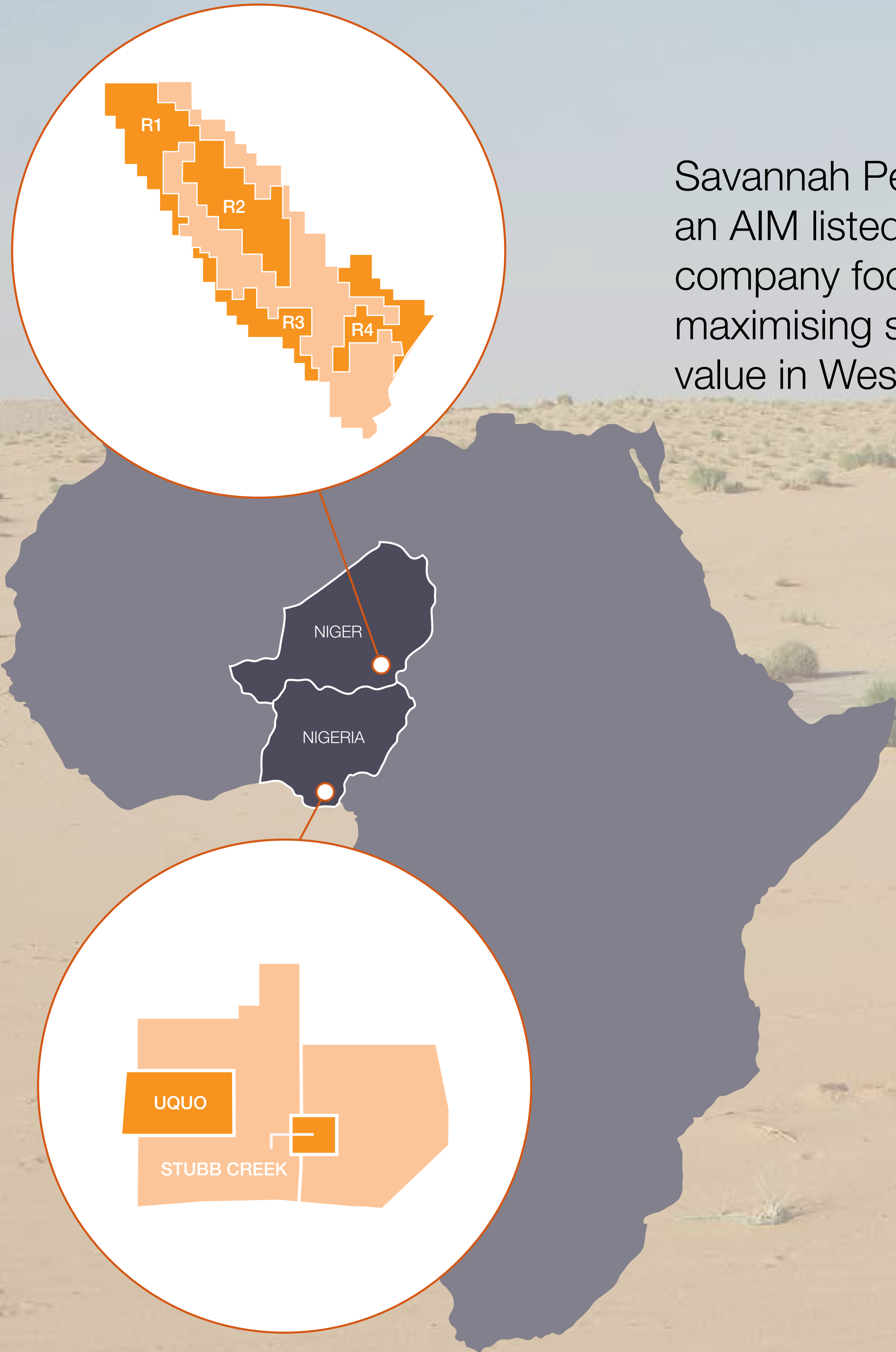
# SAVANNAH PETROLEUM
## Annual Report and Accounts 2017

# Positioned to become a leading African-focused E&P company

Savannah Petroleum is an AIM listed oil & gas company focused on maximising stakeholder value in West Africa.



# Contents

# Seven Energy – A Transformational Deal

Savannah's proposed acquisition of assets from Seven Energy is expected to create a full cycle, cash flow generative exploration and production company with a strategic interest in the midstream operations, which distribute and sell upstream production. The upstream assets include interests in the Uquo and Stubb Creek fields which have been certified* to have net 2P reserves of 92 mmboe.

## PROPOSED ACQUISITION OF SIGNIFICANT PRODUCING ASSET BASE AND INFRASTRUCTURE

**+92 MMBOE**
NET 2P RESERVES

**+20%**
INTEREST IN ACCUGAS MIDSTREAM BUSINESS

**+>20 KBOEPD**
2018E NET PRODUCTION

## COMBINED GROUP CASH FLOW GENERATIVE AND ACTIVITY HEAVY WITH STRONG REINVESTMENT OPPORTUNITIES

**>100 MMBBLS**
TARGETED IN LOW-RISK NIGER DRILLING CAMPAIGN

**+86 MMBOE**
GROSS STUBB CREEK CONTINGENT RESOURCE DEVELOPMENT

**+**
MULTIPLE REINVESTMENT OPPORTUNITIES

## ENHANCEMENT OF CORPORATE PROFILE

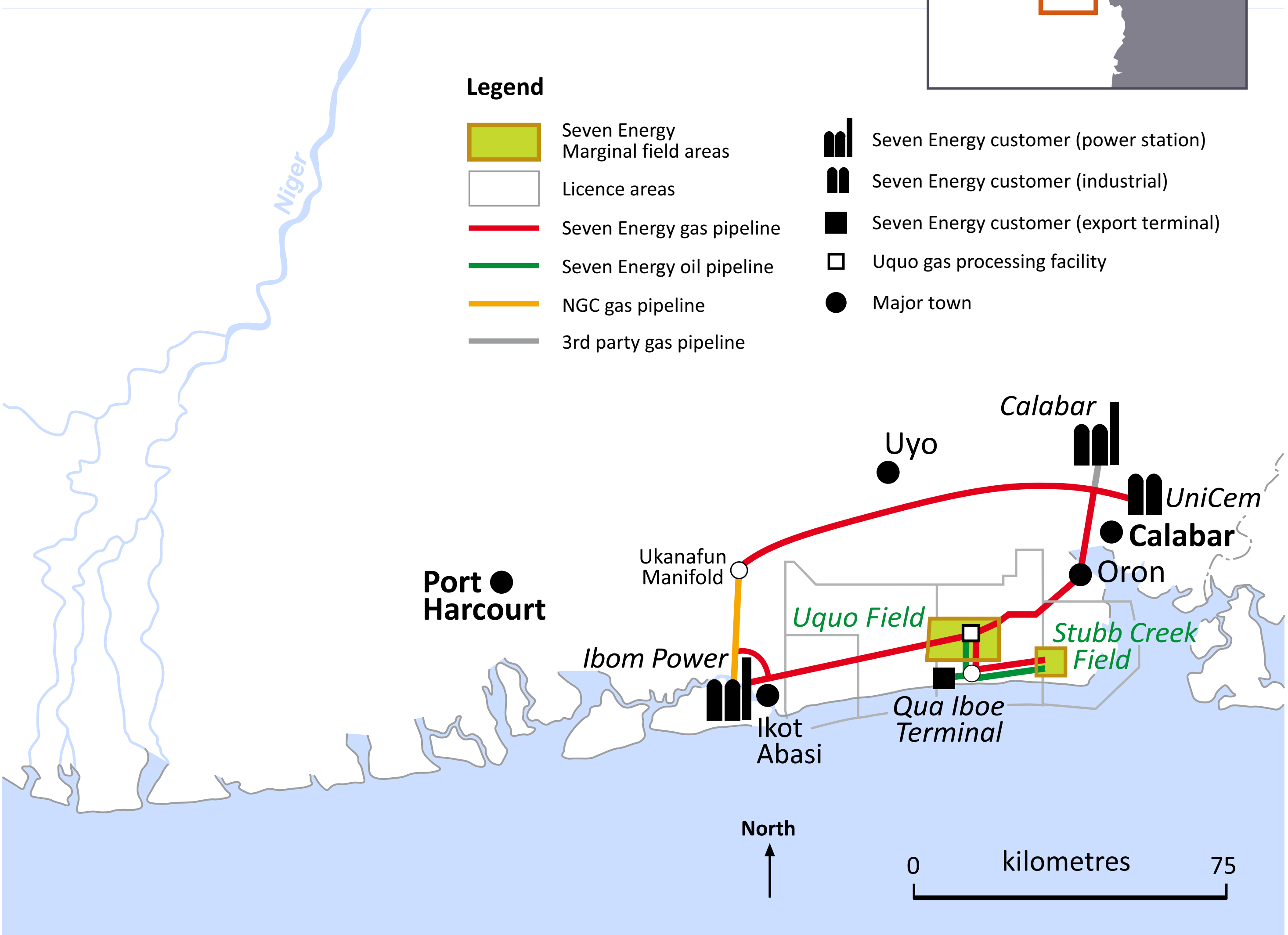
**+4**
ADDED 4 DIRECTORS TO OUR BOARD

ADDING TALENT TO OUR TEAM

**$**
POTENTIAL DIVIDEND

* LR Senergy Competent Persons Report – Reserves as at 1 November 2017

# Seven Energy Asset Map



# Chairman's Statement

I am pleased to report on Savannah Petroleum's operations and activities for the year ended 31 December 2017, our third full year of trading on the London Stock Exchange's AIM market.

From a macro-economic perspective, 2017 was a more encouraging year for the oil and gas industry. Oil prices stabilised in the $60 – $65 per barrel range, with a resulting increase in activity across the sector. This trend points to a more positive outlook for the industry than when I addressed you a year ago. However, the recent travails of the sector have presented opportunities for the fleet of foot. I am pleased to say that we were able to capitalise on one such opportunity with our ongoing Seven Energy transaction, more details of which you will read throughout this report.

2017 has been a truly transformational year for Savannah. In Niger, we made significant progress by completing our 3D seismic campaign over a portion of the R3 part of the R3/R4 PSC which confirmed our view of the significant prospectivity of the exploration targets in this area and of our assets in general. At the time of writing we are making final preparations for our forthcoming high-impact drilling campaign.

In July we confirmed that we had entered into a binding exclusivity agreement with Seven Energy International Limited, a Nigerian focused oil and gas company, in relation to the proposed acquisition of certain of its assets. 2017 ended for Savannah with the company raising US$125 million to fund this transaction, which is expected to give us access to net 2P reserves of 92 mmboe, net 2C resources of 44 mmboe and expected 2018 net production in excess of 20 kboepd. The Niger Delta is one of the most prolific oil and gas basins in the world, with an established oil and gas industry, and this transaction will give our shareholders access to the upside of Nigeria's rapid industrial growth. I believe the deal has been struck on very attractive terms and on completion is expected to add high quality, cash flow generative assets with material upside to our portfolio. We look forward to shareholders quickly benefitting from our increased scale as we expect to pay a maiden dividend of US$12.5 million in respect of FY 2018 subject to appropriate business performance (i.e. expected to be payable in 2019).

We are pleased to have made such significant strides in the delivery of our clear growth strategy, which is designed not only to maximise value and generate returns for our shareholders, but also to afford us some diversity within the portfolio and to protect us from any future buffeting resulting from the cyclical nature of the oil and gas industry.

As we become a larger business, it is appropriate to broaden our corporate expertise. To that end, we were very pleased to have strengthened the Board at the end of last year. We welcomed the Rt. Hon. Sir Stephen O'Brien as Vice Chairman, and David Clarkson and Michael Wachtel as Non-executive Directors, who bring many years of highly relevant operational, commercial and political experience. Sir Stephen joins us after a distinguished career in business and then politics, having held various positions in the UK Government, including Parliamentary Under-Secretary of State for International Development and UK Special Representative for the Sahel. He also served as UN Under-Secretary-General for Humanitarian Affairs and Emergency Relief Coordinator. David has over 40 years experience in the oil and gas industry, mainly at BP where he was Senior Vice President for Projects and Engineering (Upstream) and a member of BP's leadership team, and he brings a wealth of operational and technical experience to the Board. Michael is currently a member of the Management Board of law firm Clyde & Co, where he provides a full range of services including corporate, mergers and acquisitions, financing, governance and regulatory compliance. We were also pleased to welcome our VP Finance, Isatou Semega-Janneh, to the Board as CFO on an interim basis.

Looking ahead, 2018 will be a key year for Savannah. In the near-term, the commencement of our high-impact drilling campaign in Niger is something we are very optimistic about. The completion of the Seven Energy transaction and the integration of the assets into our portfolio is expected to transform the company into a fully funded business that is capable of generating significant cash flow which can be reinvested in high return opportunities such as our operations in Niger. We remain open to other value accretive opportunities that may arise, with our immediate focus firmly centred around Nigeria.

Savannah will continue to place high priority on our corporate governance and corporate social responsibility ("CSR"). The Board fully recognises the importance of corporate governance, commensurate with the size and nature of the enlarged Company, and in the interests of its shareholders. We recognise how crucial it is to make a positive contribution through our operations, not only as part of our financial license commitments, but also by making a positive impact on the communities close to our areas of operation. We continue to work closely with, and build relationships with, our local stakeholders, in order to bring about sustainable development in these areas.

Exercising strict capital discipline on our expanded asset portfolio, supported by an improving macro-economic outlook, I believe Savannah is well positioned to continue growing and creating shareholder value. Our excellent team is focused and strongly aligned with shareholders, and I look forward to reporting on our progress throughout the year ahead.

Finally, I would like to thank our shareholders (both existing and new) for their support over the past year. I would also like to thank the governments of Niger and Nigeria for their support and trust. On behalf of everyone at Savannah, I look forward to welcoming our new colleagues from Seven Energy who have been active participants in progressing the transaction. I thank them, and all of our staff, for their hard work and dedication over what has been a hugely important year for our company.

**Steve Jenkins**
Chairman

Looking ahead, 2018 will undoubtedly be another key year for Savannah.

# Chief Executive Officer's 2017 Review

"The combined business will provide a strong and unique platform for further growth."

Dear fellow shareholders,

I am pleased to report Savannah's 2017 progress to you. Last year, our busiest yet, was dominated by two major and potentially transformational events. The first was the finalisation of our preparations for the commencement of drilling activity on our R3/R4 PSC Area in South East Niger. The second was our planned US$280m acquisition of interests in two producing oil and gas fields, and associated infrastructure, from Seven Energy (the "Seven Transaction"). In this letter I will discuss each of these events in turn, before going on to describe how we intend to position the company to deliver future growth and share price performance over the course of the coming years.

In early 2017 we announced the successful completion of our 806km$^2$ 3D seismic survey, acquired over a portion of the R3 part of the R3/R4 PSC Area ("R3 East"), which is located in the Agadem Rift Basin ("ARB"). The survey was completed safely with no lost-time incidents, ahead of schedule, with 25 fewer acquisition days than planned, and c.US$1.2m under budget. This equipped the team with a high-quality data set for our technical team to develop well targets for the planned 3 well programme in R3 East. This strong performance is testament to the strong working relationship that developed between our operational team and our highly experienced seismic contractor, BGP Niger SARL.

We signed a contract with Great Wall Drilling Company Niger SARL ("GWDC") for use of the GWDC 215 rig ("Rig GW-215") for three firm wells with the option to drill up to another six. Rig GW-215 has successfully drilled over 40 wells in the ARB. In total GWDC has drilled over 200 wells in the area, and has acquired a deep knowledge of the geological and technical aspects of drilling on the ARB. This underpinned the principal reasons for appointing GWDC as our drilling contractor. To support the drilling operations, we constructed a logistics camp and pipe yard on R3 using a local contractor, and completed the procurement of the necessary long-lead items (including casing and wellheads) for our initial three wells. At the time of writing, our first well site (Bushiya) has been fully constructed, is now manned and operational, and Rig GW-215 is on site and preparing to spud.

The three wells that we have selected to drill are known as Bushiya, Amdigh and Kunama. Each well is primarily targeting the Eocene Sokor Alternances (the formation in which the majority of discoveries have been made in the ARB to date). An additional "upside case" in the Eocene Upper Sokor Formation has also been recognised as the secondary target. Each well is expected to take c.30-35 days from spud to reach target depth. A Competent Person's Report by CGG Robertson ("CGG"), has assessed these targets to carry a similar risk profile to those drilled elsewhere in the basin to date (which has seen a c.75% geological success rate) and has assessed total mean un-risked recoverable resources across the three wells at 110 mmbbls. CGG has also assessed as reasonable a Net Present Value per barrel of US$5.5/bbl[1]. Importantly, these wells are testing only a fraction of the ultimate prospectivity which sits within our ARB permit areas. We have identified a large prospect inventory of at least 115 other potential targets to drill from our existing seismic dataset and we believe that this should be fully recognised when assessing the value creation potential of our ARB project.

1 Source: CGG Competent Person's Report dated 31 October 2017. NPV per barrel based on conceptual studies for a notional 73mmbbl cluster development, and assuming an oil price of US$60/bbl (escalated at 2% p.a.) and export via a newbuild pipeline from Agadem to Kaduna (in northern Nigeria).

I would also like to emphasise the focus our company has around seeking to ensure the timely commercialisation of any discoveries that we make in Niger. We have commenced various work-streams relating to this, including an early production concept, and expect to further advance these over the course of 2018. With respect to development options, I would highlight the statements by Minister Gado of Niger and Minister Kachikwu of Nigeria in February 2018, where they jointly announced their plans for the formal establishment of a Niger-Nigeria crude oil export route (the most profitable of the available potential export solutions in our view). We look forward to further progress on this front being announced.

We have provided significant levels of detail in relation to the Seven Transaction on our website, which I would urge shareholders who have not done so to review. In particular, I would highlight our most recent corporate presentation and the Seven Transaction video. Both of these are available on our website, at www.savannah-petroleum.com, and contain a wealth of information for shareholders to refer to. The valuation we have agreed to acquire the Seven assets for (US$3.1/boe upstream acquisition cost and 36% of capital invested to date) is highly attractive. The deal will enable us to become one of the larger oil & gas producing companies listed in London, capable of generating material cash flows going forward, and the assets to be acquired are expected to serve as a strong and unique platform for future value accretive growth, especially in Nigeria. I believe this is a transformational deal for Savannah which establishes the foundation upon which we can continue to build shareholder value.

We announced a US$125m equity placing in December, the proceeds of which were designated for partial consideration and costs of the Seven Transaction, our Niger drilling campaign, ongoing working capital requirements and other corporate purposes. The placing was very well supported by both existing and new shareholders, who I would like to thank for their support. The placing served as a clear endorsement of our strategy to expand into Nigeria, and as a continued vote of confidence in our existing Nigerien assets.

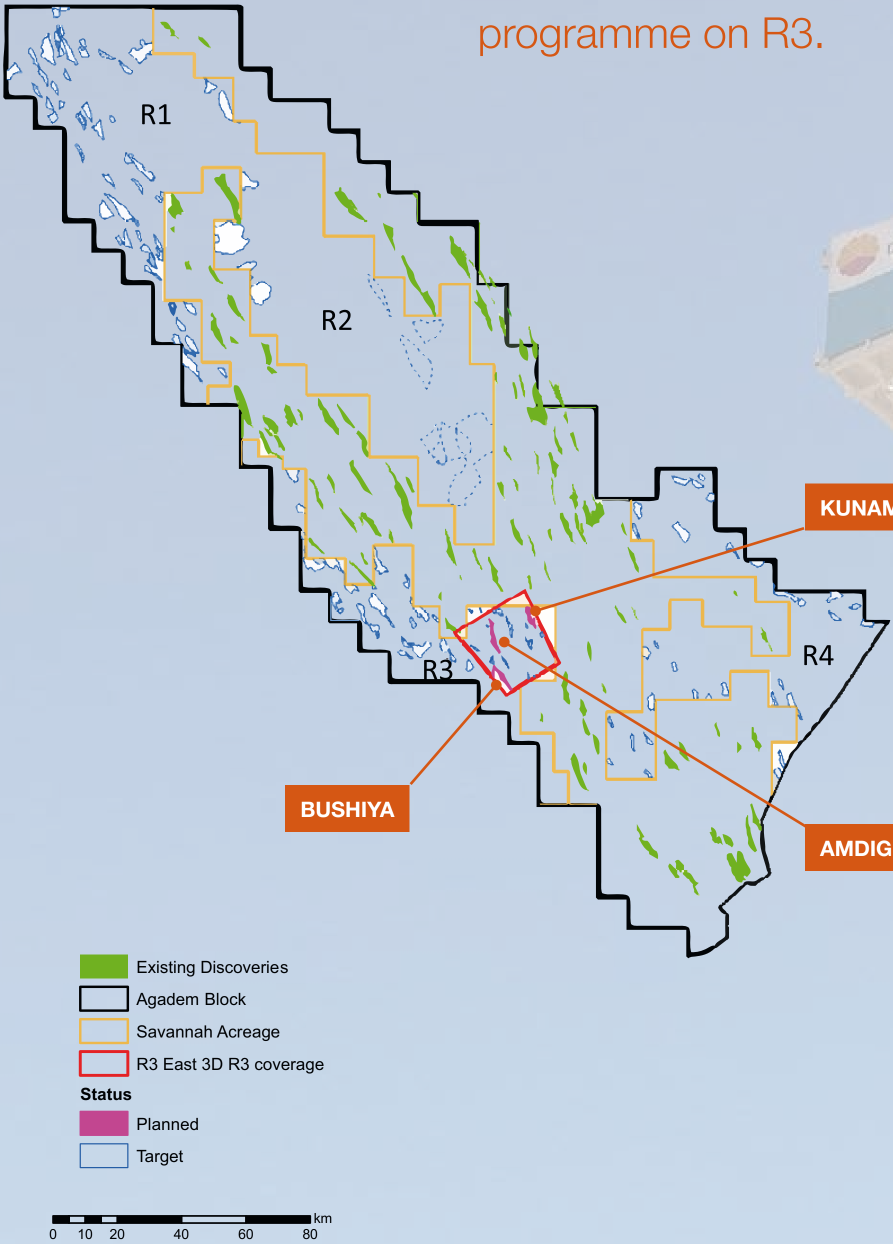
The message I would like to leave shareholders with from this update is my excitement for Savannah's 2018 activities and plans, and how pleased we are to have taken major steps in transforming the company into a full-scale operating business. In the near-term, we are extremely close to delivering the first results from our drilling campaign in Niger, and over the course of the year we expect to continue to demonstrate the high-quality performance from the Seven Assets in Nigeria. I look forward to sharing updates on our progress, and again thank all of our shareholders for their ongoing support.

Finally, I would like to echo our Chairman's sentiment, and thank our governmental stakeholders in Niger for their support and trust, as well as the Nigerian authorities as we move forward to become a participant in the country's oil and gas sector. I would also like to thank all of the Savannah and Seven Energy staff, our Board members and advisers, for their indefatigable efforts over the course of the past year as we work towards making drilling in Niger and the Seven Transaction a reality.

**Andrew Knott**
Chief Executive Officer

# Niger Drilling Campaign

Savannah is poised to commence its maiden drilling campaign in Niger with an initial three well programme on R3.

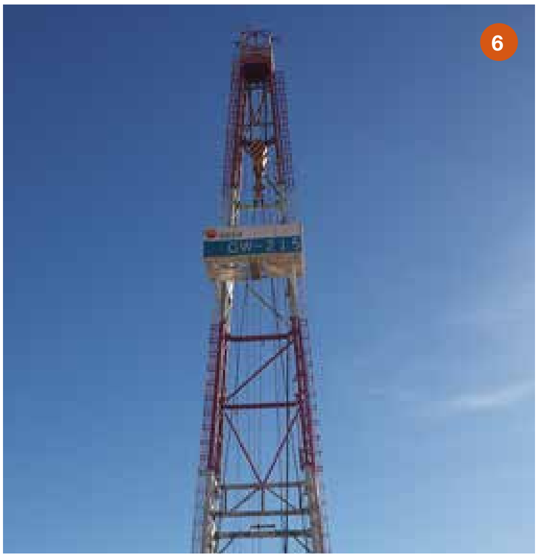




Rig GW-215 at Savannah's Bushiya well-site, preparing for spud






1. Dedicated full-time ambulance at rig site.
2. Bushiya wellsite from the mast of Rig GW-215.
3. Water well drilled and completed by Savannah at Babelmi.
4. Equipment checks being carried out ahead of drilling.
5. Casings being stored at Savannah's logistics base and pipe yard.
6. Rig GW-215 at Bushiya.

In this interview, Manish Maheshwari, the current CEO of Seven Energy, describes the investment opportunity for Savannah.

### Tell us about Seven's assets?

The principal assets which we expect Savannah to acquire from Seven Energy are interests in two large, producing oil & gas fields, Uquo and Stubb Creek. Both fields are producing oil, which is processed at our own facilities and then exported. Gas from the Uquo field is produced and then processed and transported through Seven's midstream infrastructure assets. During 2017 these fields produced, on average, 80 mmcfpd of gas and 3,000 bpd of oil, which is planned to significantly increase during 2018. Seven also owns a midstream business called Accugas, in which Savannah is expected to acquire a 20% interest, in conjunction with a private equity consortium who will acquire the remaining 80%.

Seven's assets were built by well-respected international organisations, and have had over US$800m capital invested in them to date. Combined with Seven's well-trained operations teams, this has ensured that production uptimes are in excess of 95%.

### Tell us about the Accugas infrastructure?

Accugas is a highly strategic business, which is capable of supplying c.10% of Nigeria's available power generation capacity. Gas produced from the Uquo field is processed in Accugas' 200 mmcfpd gas processing facility from where it is transported via its 260 km pipeline network to end customers. This is an extensive network of 18 inch and 24 inch diameter pipelines capable of transporting gas in both an easterly and westerly direction, and enables us to deliver gas to our existing customers with the flexibility to reach additional customers in the larger catchment area. This infrastructure, combined with the multiple undeveloped gas fields in the south east Niger Delta, present a compelling opportunity to develop gas and deliver it to end customers in the region.

> Production uptime is in excess of 95%.

### Tell us about Nigeria and the location of the Seven assets?

Nigeria is well known for its prolific oil reserves, ranking 11th in terms of global hydrocarbon provinces, with proven reserves exceeding 37 bn bbls of oil. The country also has significant gas potential, with 187 tcf of proven gas reserves. This resource, combined with a very under-developed electricity generation sector, gives rise to a huge opportunity in Nigeria (with a rapidly developing economy and a population of 170 million people, potential demand for electricity far exceeds current capacity). Where a reliable source of gas is available, we expect industrial users will be prepared to switch from diesel to gas. This is the opportunity that has been seized by Seven Energy and Accugas.

Uquo gas processing facilities

Green Team inspects pipeline Right of Way

Seven's assets are located onshore in the south east of the country, in the Akwa Ibom and Cross River states. Oil production is processed by Seven and then exported via a short 10km pipeline to Exxon's Qua Iboe terminal. Gas production feeds directly into the Accugas pipeline network.

### Given that the assets are so robust, what led to the problems experienced by Seven and how are they being mitigated?

Seven was severely impacted by a number of external challenges in the period from 2016, including a backlog of unpaid invoices relating to gas supply to certain of its customers. This was as a result of the liquidity collapse of the Nigerian power sector in 2016. September 2017, however, saw the intervention of the Federal Government of Nigeria into the power sector via the Power Sector Recovery Program ("PRSP") and a US$2.2bn Payment Assurance Facility which is guaranteed by the Ministry of Finance and supports payments to gas producers.

Further, the principal gas sales agreement, to the Calabar power station, is now protected by a World Bank Partial Risk Guarantee ("PRG") for the sales of gas.

### Can you talk about your commitment to stakeholder relations?

Seven has established effective and mutually beneficial ways of working with stakeholders and local communities, which will be shared across the combined business. Indeed, our Green Team initiative, which is a pioneering and award-winning community engagement initiative, serves as an example of what is possible through corporate-community partnership. It was launched in 2015 in a bid to ensure that our gas pipelines and associated Rights of Way ("ROW") are kept safe, accessible, clear and clean. Through this initiative, over 200 youths across 100 communities and 17 Local Government Areas in Akwa Ibom State have been engaged to play a key role in the protection and maintenance of our pipelines and related ROWs. Our communities are our partners and stakeholders in the business. We are proud that the Green Team have taken ownership of the safety and ROW maintenance.

Other initiatives Seven has championed include hydrocarbon safety awareness campaigns, community based radio programmes, and the implementation of a number of sustainable community development projects, ranging from the renovation of schools to equipping community health centres and providing drinking water sources.

### What is your view of the Savannah transaction?

We are delighted that Savannah is working with Seven Energy as it expands into Nigeria, and we welcome them as a strong partner. Seven is proud of its highly qualified workforce in country, who have many years of local and international experience, with over 95% of employees being local staff. The acquisition is expected to see staff transfer to Savannah or Accugas, the midstream gas business, bringing an enhanced operating capability to the enlarged group. The combined cash flows and increased financial strength will enable resources to be deployed efficiently across operations in Nigeria and Niger. We expect that combining the strengths of Seven and Savannah will enable us to optimise operation of Seven's existing assets and will provide a strong platform for future growth.

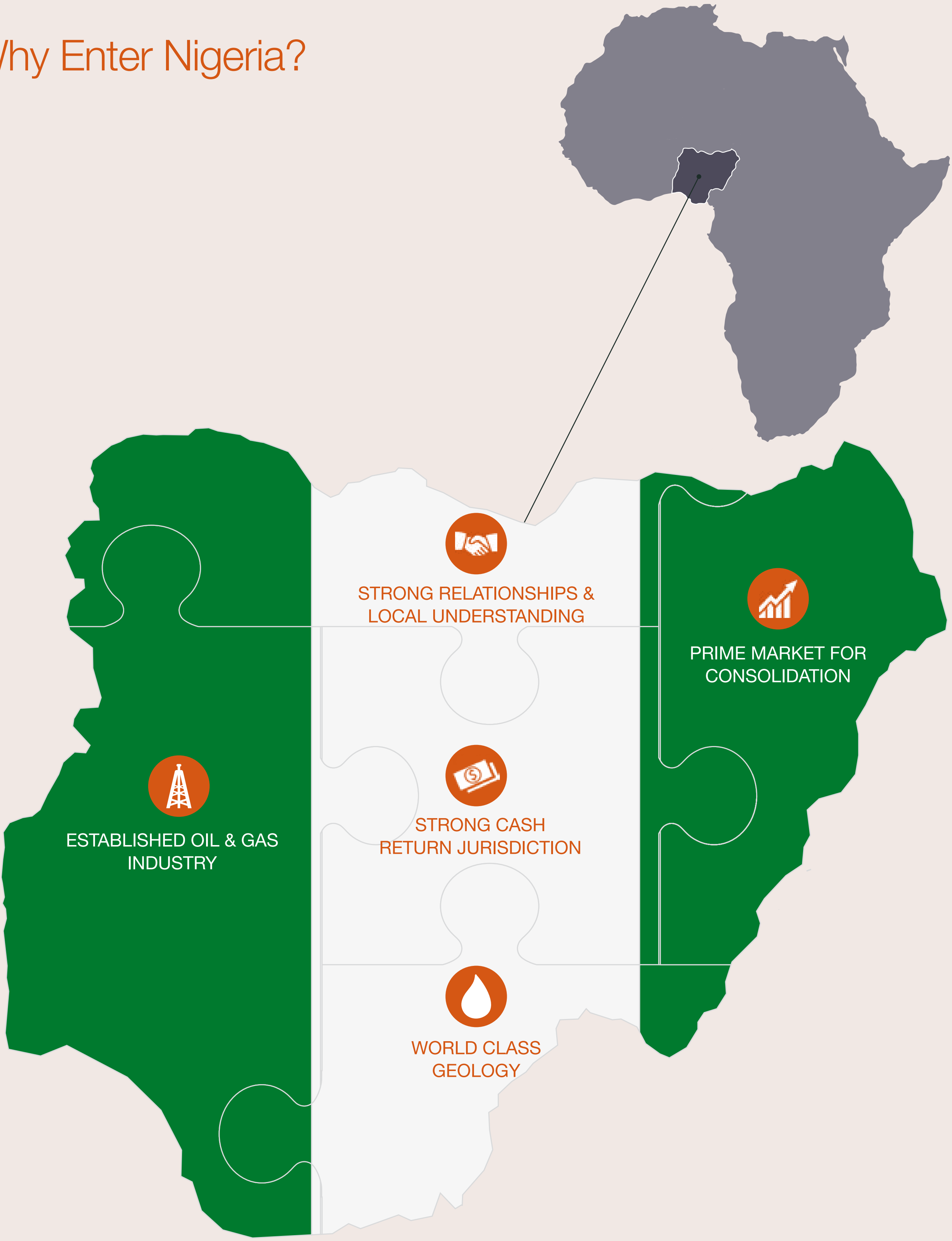
### The Calabar PRG

The gas sales agreement with Accugas' largest customer, the Calabar power station, is supported by a World Bank Partial Risk Guarantee ("PRG"). The PRG, which guarantees payments to Accugas for gas supplied to Calabar, is backed by JP Morgan, the Federal Government of Nigeria and the International Development Agency of the World Bank.

The provision of an explicit sovereign counter-guarantee, backed by the World Bank's active sector/country engagement, serves as deterrent against default; and globally there has been no call on the World Bank's project-based guarantees to date[1].

1 Source: World Bank.

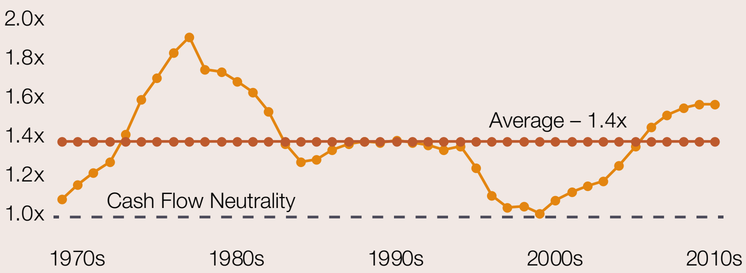
# Why Enter Nigeria?



## Strong cash return jurisdiction

- In aggregate, upstream oil & gas companies operating in Nigeria have been cash flow positive every year since 1965 on a 10 year moving average basis[1]
- Close to US$100 bn in net free cash flow has been generated in country by upstream oil & gas companies since 1965[1]
- Nigeria has driven on average 16% of the in country majors' upstream cash flows over the past 10 years[1]

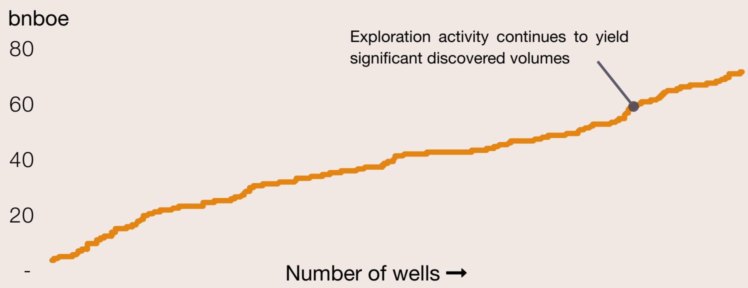
**Nigerian historic net cash flow/capex (10 year moving average)[1]**




## World class geology

- Nigeria ranks 11th in terms of global hydrocarbon provinces, with proven reserves exceeding 37 bn bbls oil and 187 tcf gas[2]
- The Niger Delta is one of the world's most prolific hydrocarbon deltas
- The Niger Delta still offers significant upside (estimated yet to find resources of 25 bn boe)[3]

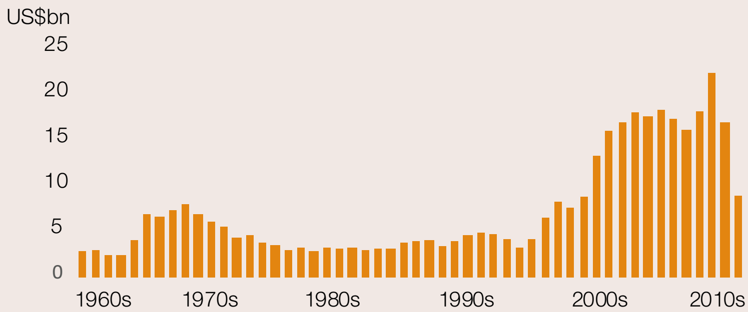
**Nigeria creaming curve by well[1]**




## Established oil & gas industry

- Nigeria boasts a long-standing oil service industry, with the majority of the major oil service firms active in country
- Over US$365 bn invested in country since 1965[1]
- Average annual oil & gas investment of c.US$7 bn p.a.[1]

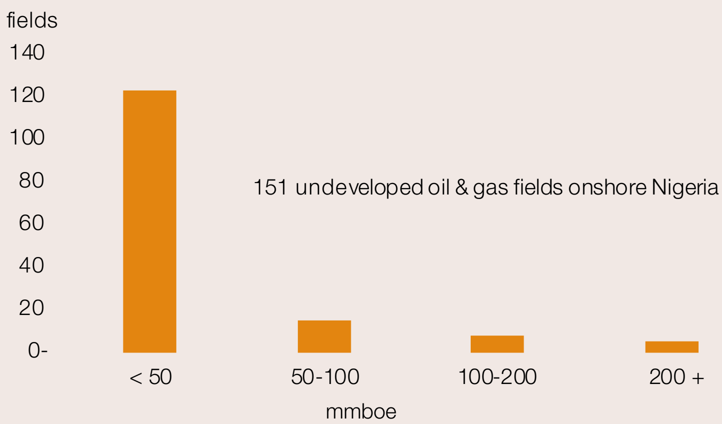
**Nigerian historic annual oil & gas capital expenditure[1]**




## Strong potential for further consolidation

- Smaller companies actively seeking partners and/or equity investment from international partners
- Major oil companies expected to continue divestment programmes
- Government and national oil company also actively seeking investment partners

**No. of undeveloped onshore oil & gas fields by size[1]**




## Strong relationships & local understanding

The Enlarged Group is expected to have relationships with many key stakeholders in Nigeria, underpinning a strong ability to operate and expand in country

1. Source: Wood Mackenzie, Upstream Data Tool 2017-Q3.
2. BP Statistical Review of World Energy June 2017, excludes Venezuela's Orinoco Belt reserves and Canada's undeveloped oil sands reserves.
3. USGS Assessment of Undiscovered Oil and Gas Resources of the Niger Delta Province, Nigeria and Cameroon, Africa (2016).

# Financial Review

## Overview

At year end, the Group had cash and cash equivalents of US$15m (2016: US$23m) and had successfully completed the acquisition of 806 $km^2$ of 3D seismic over R3 East. The operation came in US$1.2m under budget and ahead of schedule. The Group recorded an operating loss of US$27m (2016: US$8m). Net of US$18.5m exceptional business development costs associated with the Seven Energy transaction, the year-on-year operating loss remained flat at US$8m, as the Group remained in the pre-revenue exploration and development phase of operations.

## Analysis of Key Line items

**Exploration expenditure**
Over the course of the year, exploration and evaluation assets grew from US$97m at year end 2016 to US$112m at year end 2017. Much of this increase relates to the safe and successful completion of the R3 East 3D seismic survey. The Group also incurred expenditure associated with the signature of its rig contract with Great Wall Drilling Company Niger SARL, and procurement of the necessary long-lead tangible equipment in anticipation of its planned drilling program. A logistics base and pipe yard was constructed on Agadem for use in the campaign, with most of the drilling equipment mobilised on site.

**General and administration expenses**
The Group's year-on-year administration expenses, net of exceptional business development costs, remained flat at US$8m (2016: US$8m). The increase in overall general and administrative expenses during the year was as a result of exceptional business development costs of US$18.5m in relation to the Seven Energy transaction.

**Cash and short-term investments**
The Group had cash and cash equivalents at 31 December 2017 of US$15m (2016: US$23m). Cash of US$12.6m (2016: US$40m) was raised through the issue of equity shares in December 2017 (which comprised the first tranche of the US$125m placing).

**Total comprehensive loss**
Total comprehensive loss for 2017 was US$27m (2016: US$10m). The increase in this loss was primarily due to the exceptional transaction costs associated with the Seven Energy transaction.

**Summary statement of financial position**
The Group's non-current assets were US$115m at 31 December 2017 (2016: US$98m). The increase in non-current assets is attributable to additional exploration expenditure relating to seismic acquisition and drilling program expenditure incurred during the year. Current assets were US$19m at 31 December 2017 (2016: US$29m), including cash reserves of US$15m (2016: US$23m). The decrease in current assets is as a result of significant cash outflow to support the Seven Energy transaction. Current liabilities were US$31m (2016: US$9m). The increase in current liabilities is primarily due to additional payables associated with the Seven Energy transaction. The Group did not have any non-current liabilities in 2017 (2016: nil).

**Dividend**
No dividend has been recommended by the Directors for 2017 (2016: nil), although the Group has announced its intention to commence payment of an annual dividend assuming the successful completion of the Seven Energy transaction. This is initially expected to be US$12.5m, assuming appropriate business performance during 2018, and payable in 2019.

## Accounting policies

The Group's significant accounting policies are disclosed within the notes to the condensed consolidated financial statements.

## Liquidity risk management and going concern

The Group manages liquidity by regularly reviewing cash requirements by reference to short term cash flow forecasts and medium-term projections prepared by management. At 31 December 2017, the Group had cash reserves of US$15m.

The Group has reviewed the cash flow forecasts and capital projections for the next twelve months and has a reasonable expectation that it can access adequate resources to continue operating for the foreseeable future. The Group continues to adopt the going concern basis in preparing its Financial Statements.

**Isatou Semega-Janneh**
Chief Financial Officer
22 March 2018

# Highlights

- Safe completion of the R3 East 806 km$^2$ 3D seismic survey, US$1.2m under budget and ahead of schedule
- Preparations for Niger drilling campaign largely complete
- Transformational deal agreed with Seven Energy, expected to result in the acquisition of producing assets and to transform the Group into a cash generative business
- US$125m equity fund raise successfully conducted
- Year end cash position of US$15m, with the second tranche of the placing successfully completed post year end

# Principal Risks and Uncertainties

The Group is subject to various risks as a result of operating, industrial, financial, political, legal and social conditions at any given point in time.

The Group takes a proactive, robust approach to recognising, assessing, managing and mitigating the risks facing the Company with the aim of protecting its employees, contractors and other stakeholders and safeguarding the interests of the Group and its shareholders.

The identification and assessment of risks that threaten the Company's business model, future performance, solvency or liquidity and the development of action plans to manage and mitigate those risks are integral parts of the Group's business process.

Set out below are the risks and uncertainties which the Directors consider particularly relevant to the Group's business activities at the date of this report. These risks are not listed in any order of priority. Not all of these risks are within the Group's control and this list cannot be considered to be exhaustive, as other risks and uncertainties may emerge in a changing business environment.

| KEY RISK FACTOR | POTENTIAL IMPACT | MITIGATION |
|---|---|---|
| **Exploration and appraisal risks** | The exploration and development of hydrocarbons is speculative and involves a high degree of risk, there being no guarantee that the Group's activities will be successful. The Group may not discover sufficient oil or gas reserves to exploit commercially, or those reserves that are discovered may not be able to be recovered economically, or costs may increase. This may lead to a loss of anticipated or potential future cash flows. | The Group has rigorous processes and procedures to assess the geological and commercial risks involved in its exploration activities, and engages suitably qualified consultants to supplement in-house expertise. 3D seismic data has been acquired and processed over the portion of the R3 PSC Area which has been high-graded for the Group's initial drilling campaign, helping to mitigate the subsurface and technical risks of the Group's planned exploration operations. |
| **Uncertainty of reserve and resource estimates** | Estimating oil and gas reserves is complex and requires the interpretation of technical data and the making of assumptions relating to economic factors. Actual results may vary considerably from those estimated leading to changes in quantities of oil and gas recovered, the production profile achieved, operating costs, capital costs and oil and gas sale prices. | The Group carries out its own technical and subsurface analysis, and evaluates multiple scenarios on its assets, making use of external technical consultants to provide independent analysis. The Group employs competent external consultants to provide independent evaluations where necessary. |
| **Commodity prices** | The Group is exposed to commodity price fluctuations which it has no ability to influence. | The Group focuses on high-quality oil and gas assets which it believes have the opportunity to generate robust returns even in weak commodity price environments. The production from the Seven Energy assets to be acquired is largely fixed price gas production, with gas sales contracts US dollar based with escalation clauses linked to consumer prices. These are therefore independent of oil price which mitigates the impact of potentially volatile oil prices. |
| **Revenue/payment risks** | The Enlarged Group's future gas revenues from the Seven Assets depend on certain key end users, and such key end users may fail to fulfil their contractual obligations, leading to delayed payment or non-payment of invoices. | The Calabar GSA, Seven Energy's most material contract, is supported by a World Bank Partial Risk Guarantee. Payments for the supply of gas in Nigeria are currently supported by a payment assurance facility from the Central Bank of Nigeria pursuant to the Nigerian Power Sector Recovery Program. |
| **Failure of the Seven Energy transaction to complete on a timely basis or at all** | The transaction is conditional upon certain conditions precedent. Failure to complete would lead to the loss of anticipated cashflow and development opportunities from the assets to be acquired. | The Group is actively working towards completion of the transaction, currently expected to be in Q2 2018, and believes the principal completion workstreams to be at an advanced stage. |

| KEY RISK FACTOR | POTENTIAL IMPACT | MITIGATION |
|---|---|---|
| **Health, safety, security and environmental ("HSSE")/ CSR risks** | Oil and gas activities expose the Group to a wide range of HSSE/CSR risks, including loss of life, environmental damage and community disturbances with financial and reputational consequences. | The Group has HSSE and CSR policies and procedures in place which are developed and implemented across the Group and which align with and adhere to applicable local and international standards. The Group engages contractors who adhere to similar high standards and project management teams ensure strict compliance to these policies and procedures through the implementation of relevant bridging documentation. The Group has also put in place a Board level Health, Safety, Security and Environment Committee, which meets at least three times a year. The Committee ensures that the Group's framework of policies, procedures, systems and controls in relation to HSSE is appropriate, and communicates the Board's commitment to these matters to the Group's staff, contractors and other stakeholders. |
| **Financial management and FX** | The Group is currently in the pre-revenue stage of operations, and until the completion of the Seven Energy transaction will be dependent on external financing to fund its ongoing activities. Assuming the successful completion of the Seven Energy transaction, the Group will have higher levels of indebtedness with associated repayment obligations and required interest payments. Going forward, the Group will be exposed to Nigerian Naira and West African CFA foreign exchange fluctuations. | The Group closely monitors its cash position and budgeted cashflow projections to properly identify and manage revenues, costs and financial exposure to provide early warning of divergence from forecast. The Group benefits from a historically supportive investor base capable of providing incremental equity finance. Attention is paid to banking relationships and regular ongoing contact is maintained with all stakeholders. |
| **Title, licencing and other regulatory requirements** | The Group's operations are subject to government approvals and other regulatory requirements, and an unforeseen defect in title, changes in law or political events may arise to impair the claim of the Group to its assets. The Group is also subject to extensive environmental and safety legislation, which may become more stringent. | The Group maintains a fully staffed administrative presence in its areas of operations to ensure full compliance with laws, rules and regulations and to be fully aware of impending legal and regulatory changes. |
| **Bribery, corruption and ethical conduct** | The Group operates in areas exposed to bribery and corruption, and could be subject to demands by officials or private entities. Failure to adhere to high standards of ethical conduct, particularly in relation to relevant anti-corruption laws, could have a significant impact on the Group, both reputationally and financially. | Strict policies and procedures are in place across the Group, which are reviewed regularly. Strict monitoring and vetting procedures are in place for all contractors and suppliers, and staff receive regular training updates. The Group has also put in place a Board level Compliance Committee, whose purpose is to support the Board in fulfilling its responsibilities to promote and oversee compliance with all legal and regulatory obligations, and to communicate the Board's commitment to compliance to the Group's staff, contractors and other stakeholders. |
| **Loss of key employees** | The retention of key employees is essential for the successful delivery of the Group's plans. | The Group has a competitive compensation and retention package in place which is reviewed periodically and key employees participate in equity based incentive schemes. |

The Strategic Report was approved by the Board on 22 March 2018.

**Andrew Knott**
Chief Executive Officer
22 March 2018

# Board of Directors

## Stephen ("Steve") Ian Jenkins

**Non-executive Chairman, Member of the Health, Safety, Security and Environment Committee and the Remuneration and Nomination Committee**

Steve joined Savannah as Non-Executive Chairman in July 2014. He is widely recognised as one of the most capable oil and gas executives in the UK, having delivered for his investors as CEO of Nautical Petroleum a £414m sale to Cairn Energy in Q3 2012. Prior to Nautical Petroleum, Steve held a variety of senior roles at Nimir Petroleum, an emerging markets focused private Saudi Arabian company with extensive global exploration and production interests. Steve is a geologist by profession and is currently Chairman of the Oil and Gas Independents Association, one of the principal oil and gas trade bodies in the UK.

## Rt. Hon. Sir Stephen O'Brien

**Non-executive Vice Chairman, Member of the Audit and Risk Committee and the Health, Safety, Security and Environment Committee**

Sir Stephen is a former UN Under-Secretary General for Humanitarian Affairs and Emergency Relief Coordinator. Prior to this role he was a British MP, during which time he served as Parliamentary Under-Secretary of State for International Development and as the Prime Minister's Envoy & UK Special Representative for the Sahel, as well as a series of shadow ministerial roles. Before entering politics, Sir Stephen was International Director and Group Secretary of the FTSE 100 listed global building materials company, Redland plc. Sir Stephen began his career as a corporate lawyer with Freshfields Bruckhaus Deringer LLP. He is a serving member of the Privy Council and was knighted in 2017 for his achievements and commitments to international development.

## Andrew Allister Knott

**Chief Executive Officer**

Andrew was the principal founder of Savannah, becoming a Director of the Company in July 2014. He has held leading roles in the European oil and gas sector. Andrew has led all of the Company's key growth initiatives, including the acquisition of the Niger PSCs and the Company's expansion into Nigeria. Prior to establishing Savannah, Andrew was Head of Global Energy Investments for GLG Partners/MAN Group which, at December 2012, was the largest listed hedge fund in the world by assets.

## Isatou Semega-Janneh

**Chief Financial Officer (on an interim basis)**

An accountant with over 17 years' experience, Isatou has led Savannah's finance function since joining the Company in January 2015. Prior to joining Savannah, she spent nine years with BP plc in a variety of roles, most recently as Financial Controller for BP's operations in North Africa (Algeria, Libya and Morocco). Isatou has extensive experience of implementing and managing financial and regulatory compliance systems in emerging market oil and gas environments and of managing large, multi-country finance teams. Since joining Savannah, she has further strengthened the Company's internal controls, processes and procedures as well as improving the financial reporting process for the business and managing the Company's existing debt facility arrangements.

Strategic Report

Corporate Governance

Financial Statements

Additional Information

## Marco ("Mark") Iannotti

**Non-executive Director, Chairman of the Audit and Risk Committee; Member of the Remuneration and Nomination Committee and the Compliance Committee**

Mark was appointed to the Board of Savannah in July 2014. He is an experienced capital markets professional with over 20 years' experience in EMEA equities, which has been largely focused around the oil and gas sector. Previously, he acted as Managing Director and Head of Securities, UK & Europe of Canaccord Genuity Group Inc., and was a member of Bank of America Merrill Lynch's EMEA Executive Committee and Head of its EMEA Equity Research Division. Mark began his career at Wood Mackenzie Consultants, focusing on the Asian and Indian sub-Continent energy markets. He subsequently held senior equity research positions at Cazenove & Co, Credit Suisse and Citigroup.

## David Lawrence Jamison

**Non-executive Director, Chairman of the Remuneration and Nomination Committee; Member of the Compliance Committee**

David was appointed to the Board of Savannah in July 2014. He was one of the founders of the modern day Vitol, having executed a management buyout of the company alongside three partners in 1976. He left Vitol in 1986 to operate as an independent venture capitalist in the upstream oil and gas industry. David's principal investment vehicle today is DLJ Associates Limited which seeks to act as agent and advisor on upstream oil and gas transactions. David has held integral roles at Russian focused oil and gas company Sibir Energy plc (founder director) and independent gasoline company Blue Ocean Associates Limited (founder director).

## David Clarkson

**Non-executive Director, Chairman of the Health, Safety, Security and Environment Committee; Member of the Audit and Risk Committee and the Compliance Committee**

David was formerly a member of BP's Group Leadership Team and Senior Vice President for Projects and Engineering (Upstream) at BP. In this role, he was functionally accountable for embedding rigour and discipline in BP's Upstream major project investment decisions, and for building engineering capability to support the company's growth agenda. He built his career delivering safe, reliable industry-leading projects in challenging frontier locations. Throughout a 34 year career with BP, David held a variety of senior management roles in countries which include Colombia, Indonesia, Iraq, the USA and the UK. David is a Chartered Engineer and Fellow of the Institution of Mechanical Engineers.

## Michael Jon Wachtel

**Non-executive Director, Chairman of the Compliance Committee; Member of the Audit and Risk Committee**

Michael serves as Head of Corporate and Head of Energy and Natural Resources at Clyde & Co LLP, a leading international law firm. Michael's practice has a strong emerging markets focus and provides companies with a full range of legal services including corporate, M&A, financing, governance and regulatory compliance. His client list includes major oil and gas companies and oil services companies, as well as many of the leading independent oil companies. As a member of Clyde & Co LLP's management Board, he is responsible, alongside the other members, for a global turnover in excess of £500m. Prior to entering law, Michael worked as an oil and gas field engineer in various West African countries for Schlumberger and Geoservices.

# Corporate Governance Report

The Corporate Governance Report on pages 20 to 33 forms part of the Directors' Report.

## Introduction

The Board recognises its responsibility for the proper management of the Company and the importance of sound corporate governance commensurate with the size and nature of the Company and the interests of its shareholders. The Board is therefore committed to maintaining high standards of corporate governance. As an AIM-quoted company, Savannah is currently not required to comply with a particular corporate governance regime. Nevertheless, the Directors recognise the value of the Quoted Companies Alliance Corporate Governance Code for Small and Mid-Size Quoted Companies (the "QCA Code") and the 2016 UK Corporate Governance Code (the "UKCG Code"). The Company has complied with their principles and provisions where relevant and appropriate, having regard to its size, resources and the direct cost of delivering effective corporate governance. This report explains the key features of the Company's governance structure.

The Directors note that, under the recent changes to AIM Rule 26, the Company will be required to apply a recognised industry corporate governance code of its choice and publish a statement on its website by 28 September 2018, disclosing how it complies with or deviates from that code. Savannah is currently undertaking a review to determine which code would be the most appropriate to adopt going forward, in view of the changes being proposed to the UKCG Code.

## How the Board works

### The Board

The Board is collectively responsible to the Shareholders for the effective oversight and long-term success of the Company. In addition to those matters required by the Companies Act 2006, the Board is also responsible for strategy, performance, capital structure, approval of key contracts and major capital investment plans, the framework for risk management and internal controls, governance matters, and engagement with shareholders and other key stakeholders. The Board's full responsibilities are set out in a formal schedule of matters reserved for its decision.

The Board delegates certain responsibilities to its Committees, so that it can operate efficiently and give an appropriate level of attention and consideration to relevant matters. The Company has an Audit and Risk Committee, a combined Remuneration and Nomination Committee, a Health, Safety, Security and Environment Committee and a Compliance Committee, all of which operate within a scope and remit defined by specific terms of reference determined by the Board.

The composition and role of each committee is summarised on pages 22, 23, 24 and 30.

The Company has chosen not to follow the recommendations of the QCA and the UKCG Codes to establish a separate Nomination Committee or to appoint a Senior Independent Director as, at present, the Board considers that this would be unnecessarily burdensome in the context of the current size and complexity of the business. However, the Board intends to continue to keep these decisions under review as the business evolves.

The Board and its Committees are provided with high quality information on a timely basis in order to facilitate the proper assessment of the matters under consideration and the Non-executive directors are provided with access to all information they require and to external advice as necessary.

### The roles of the Chairman and the Chief Executive Officer

The role of the Chairman and Chief Executive Officer are separate, with a clear division of responsibilities. The separation of authority enhances independent oversight of the executive management by the Board and helps to ensure that no one individual on the Board has unfettered authority.

The Chairman is responsible for setting the Board's agenda, ensuring that adequate time is available for discussion of all agenda items and encouraging a particular focus on strategic issues. The Chairman promotes a culture of openness and debate within the Board, where the views of all Directors and the actions of the executive management are challenged. The Chairmen of the Board's Committees perform the same role for their Committees.

Andrew Knott is the Chief Executive Officer. Through delegation from the Board, he is responsible for managing the day to day operations and the implementation of the strategy of the Company.

### Composition, qualification and independence of the Board

The Board currently comprises eight Directors, being the Non-executive Chairman, the Non-executive Vice Chairman, four further Non-executive Directors and two executive Directors (the CEO and CFO). The names and responsibilities of the current Directors, together with their biographies, are set out on pages 18 and 19.

The Directors' biographies illustrate the wide range and high calibre of skills and experience brought to bear on matters considered by the Board. These include appropriate industry, operational, risk management, financial, legal and regulatory experience and, in the case of the Non-executive Directors, the willingness and ability to provide robust and objective challenge to the views and assumptions of senior management and other Directors.

The Chairman was deemed to have met the criteria for independence set out in the QCA and UKCG Codes upon his appointment. The Board has considered and reviewed the independence and effectiveness of each Non-executive Director, taking into account the factors set out in the UKCG Code that might, or could appear to affect, a director's judgement and therefore their independence. The UKCG Code suggests that Directors' participation in their company's share option or performance related scheme could, or could be seen to, compromise their independence. The Board considers that the performance-related shares and options awarded to certain of the Non-executive Directors encourage the alignment of their interests with those of the Company's shareholders and are not material enough to compromise their independence character and judgement. The Board is therefore of the view that all the Non-executive Directors were, and continue to be, independent in character and judgement and free from relationships or circumstances that could affect their judgement within the meaning of the UKCG Code. The Board considers that all Directors continue to be effective and committed to their roles and have sufficient time available to perform their duties.

### Appointment and Tenure

The Board may appoint a Director as it thinks fit. Appointments are made on merit, taking account of the balance of skills, experience and knowledge required.

The process followed for the appointment of the four directors is described in the report for the Remuneration and Nomination Committee.

Any Director appointed by the Board must offer himself or herself for election at the first AGM following appointment and for re-election thereafter at intervals of three years.

All Non-executive Directors, including the Chairman, serve on the basis of letters of appointment which are available for inspection at the Company's registered office. The letters of appointment set out the time commitment expected from Non-executive Directors who, on appointment, undertake that they will have sufficient time to fulfil their duties. Subject to continued satisfactory performance, the Board does not think it appropriate at this time to limit the term of appointment of the Non-executive Directors.

The Executive Directors' service contracts are also available for inspection at the Company's registered office.

### Board Evaluation

In light of the acquisition of the Seven Assets currently being pursued by the Company and the changes to the composition of the Board announced in December 2017, the Directors did not consider it appropriate to undertake an evaluation of the Board and its Committees during the year under review.

Going forward, the Board will continue to undertake its annual evaluation of the Board and its committees, including their balance of skills, experience, knowledge and independence. The Chairman will also continue to offer the Non-executive Directors the opportunity to meet regularly, as necessary, in the absence of the CEO, CFO and other members of management.

### Board Meetings

The Board has established a schedule of quarterly meetings, with additional meetings convened as required from time to time by the business of the Company. The Board addresses several recurring items at each Board meeting. These include updates from the Board Committees following any Committee meetings, in addition to reports on financial performance, technical developments, operational and Health Safety Security and Environment issues, strategic projects, investor relations and corporate communications, and company secretarial and governance matters. In addition, in-depth reports on particular aspects of the business are presented. The Directors also have an ongoing dialogue between Board meetings on a variety of issues.

The Board and its Committees are supported by the Company Secretary in organising and circulating the papers for these meetings and with governance and statutory compliance matters. Board papers for each meeting are to be circulated at least five working days (where possible) prior to the Board or Committee meetings.

The table below sets out the attendance record of individual Directors at the scheduled and unscheduled Board meetings held during 2017.

| | Meetings eligible to attend | Number of meetings attended |
|---|---|---|
| Steve Jenkins | 16 | 9 |
| Andrew Knott | 16 | 16 |
| Mark Iannotti | 16 | 13 |
| David Jamison | 16 | 15 |
| Sir Stephen O'Brien[1] | n.a. | n.a. |
| Isatou Semega-Janneh[1] | n.a. | n.a. |
| David Clarkson[1] | n.a. | n.a. |
| Michael Wachtel[1] | n.a. | n.a. |

1. Sir Stephen O'Brien, Isatou Semega-Janneh, David Clarkson and Michael Wachtel were appointed as Directors of the Company on 21 December 2017.
2. Three Board meetings were held between the end of the financial year under review and the Last Practicable Date, which were attended by all Directors apart from one meeting which Isatou Semega-Janneh was unable to attend.

### Directors' Conflicts of Interest

Directors have a statutory duty to avoid situations in which they have, or may have, interests that conflict with those of the Company, unless that conflict is first authorised by the Board. This includes potential conflicts that may arise when a Director takes up a position with another company. The Company's Articles allow the Board to authorise any potential or actual conflict of interest that a Director may have. A process has been implemented to identify and deal with any such conflicts. Should a Director become aware that they, or their connected parties, have a new potential or actual conflict of interest, they should notify the Board. The Board will deal with each conflict on its merits, taking into consideration all the relevant circumstances. All potential and actual conflicts approved by the Board are recorded in an interests register, which is reviewed by the Board at each Board meeting, to ensure the procedure is working effectively.

## Reporting and accountability

### Internal Controls and Risk Management

The Board has overall responsibility for establishing and maintaining the Group's system of internal controls and risk management and reviewing its effectiveness. As with any successful company, delivering the Company's business objectives will involve taking considered risks. The Group's internal controls and risk management framework has been designed to assist the Board in making better, more informed decisions with a view to creating and protecting shareholder value.

The Board recognises that such a system has its limitations. Internal controls can only provide reasonable, not absolute, assurance against material misstatement or loss. The purpose of risk management is to manage rather than eliminate risk entirely and involves Directors and senior management exercising judgement.

# Corporate Governance Report continued

The internal control framework within which the Group operates includes the following key elements:

- Organisational structures, delegations of authority and reporting lines;
- Group accounting and control procedures to manage the Group consolidation and reporting requirements, including;
  - Review of monthly management accounts with comparison of actual performance against budget; and consideration of the outturn for the year; and
  - Monthly reconciliation of all key control accounts;
- Budgetary process and monthly monitoring of the annual budget, business performance and deviations from the budget;
- Operational and strategic review processes for all aspects of the Group's business.

A number of policies and procedures are also in place as part of the Group's internal control framework, which include the Group Anti-Corruption and Money Laundering policy, the Delegation of Authority system, Travel and Entertainment and Petty Cash policies.

The Board has undertaken a review of the effectiveness of the Group's risk management and internal control systems, based on a report from the CFO which provided comfort regarding all material controls, including financial, operational and compliance controls. The overall conclusion was that the risk management and internal control systems were effective in terms of ensuring consistent achievement of their key objectives in the current context of the Group.

The Company's risk management and internal control systems will be re-assessed in anticipation and following completion of the acquisition of the Seven Assets, in line with management's integration plans for the enlarged Group.

The key risks faced by the business and how they are mitigated are described in the Principal Risks section, on pages 16 and 17.

**Whistleblowing and anti-bribery and corruption controls**

Savannah is committed to achieving high standards of conduct and accountability and a structure which allows employees to openly report legitimate concerns regarding improprieties in financial reporting or non-compliance with applicable laws, regulations or Group policies, danger to health and safety, damage to the environment or other matters that may harm the reputation of the Group. Any of these can be reported without fear or penalty or punishment.

The Company has adopted an anti-bribery and corruption policy which applies to the Board and all employees of the Group. It generally sets out their responsibilities in observing and upholding a zero-tolerance position on bribery and corruption in all jurisdictions in which the Group operates as well as providing guidance on how to recognise and deal with bribery and corruption issues and their potential consequences. The Group's policy is circulated to all Group employees and is provided to any new joiners and consultants employed by the Group, to ensure it is embedded across the organisation. All Group employees are required to confirm receipt of the policy and undergo anti-corruption and money laundering training on an annual basis.

The Company expects all employees, suppliers, contractors and consultants to conduct their day-to-day business activities in a fair, honest and ethical manner, be aware of and refer to this policy in all of their business activities worldwide and to conduct business on the Group's behalf in compliance with it. Management at all levels are responsible for ensuring that those reporting to them, internally and externally, are made aware of and understand this policy.

## Relations with Shareholders

The Board is committed to ensuring there is open and effective communication with the Company's Shareholders on matters such as governance and strategy, and that the Directors understand the views of major Shareholders on such matters. The Company communicates with Shareholders and potential investors through a variety of channels, including the Annual Report, regulatory announcements, operational updates and a pro-active and comprehensive investor relations programme which is managed in line with operational developments, corporate news flow and the Company's financial calendar.

The CEO and the Corporate Communications Officer maintain a regular dialogue with major institutional investors and analysts, and provide the Board with regular reports on investor and analyst feedback. The Company holds investor roadshows throughout the year as appropriate. The Company's representatives also attend a number of investor events. Presentations to investors are posted on the Company's website at www.savannah-petroleum.com. The CEO is available to meet with institutional investors to explain the Group's strategy and performance and listen to investors' views. The Chairman and Non-executive Directors are also available to meet with Shareholders on request. The AGM provides another opportunity for Shareholders to meet and speak to members of the Board directly.

The Company maintains a database of meetings held by the Directors with Shareholders, potential investors and analysts. Reports on meetings held with existing and potential investors and briefings from the Company's corporate broker are provided to the Directors and discussed at Board meetings. Analysts' reports received on the Company are reviewed and monitored by the senior management team and circulated to the Board as appropriate. Investor relations support is provided to analysts covering and initiating coverage of the Company.

## Audit and Risk Committee Report

During 2017, the Audit Committee was chaired by Mark Iannotti and its other members were David Jamison and Steve Jenkins. Following the appointment of the new directors, the composition of the Committee was refreshed, to draw upon the skills and experience of the enlarged Board. The members of the Committee now comprise Mark Iannotti, who continues to chair the Committee, David Clarkson, Sir Stephen O'Brien and Michael Wachtel. The Committee name was changed from "Audit Committee" to "Audit and Risk Committee" to emphasise its increased focus on identifying, managing and mitigating risks faced by the business.

The members of the Committee are all independent Non-executive Directors of the Company. Mark Iannotti is considered by the Board to have recent and relevant financial experience and the Committee as a whole has competence relevant to the sector in which the company operates, as required by the UKCG Code. If required, at the request of the Chairman of the Committee, the Chief Executive Officer, Chief Financial Officer and other members of the senior management team are also invited to attend meetings.

The terms of reference of the Committee reflect the current statutory requirements and best practice appropriate to a company of Savannah's size, nature and stage of development. Under these terms of reference, the role of the Committee is to assist the Board in discharging its responsibilities with regard to monitoring the integrity of the Group's financial reporting. It reviews reports from the external auditor relating to the accounts, oversees the relationship with the external auditor, and makes recommendations to the Board regarding their appointment. The Committee is also responsible for reviewing the adequacy and effectiveness of the Group's internal controls and risk management systems and reporting its findings to the Board. The ultimate responsibility for reviewing and approving the Annual Report and half-yearly report and accounts remains with the Board. In March 2018, reflecting the anticipated increase in the complexity of the Group following completion of the acquisition of the Seven Assets, the Committee determined that the minimum number of meetings should be increased to not less than four times a year, at appropriate times in the financial reporting and audit cycle and whenever necessary to fulfil its responsibilities. Where there is an overlap of responsibilities between the Audit and Risk, Health, Safety, Security and Environment and Compliance Committees, the respective Committee Chairmen have the discretion to agree the most appropriate Committee to fulfil any obligation. The terms of reference for the Committee are available on the Company's website at www.savannah-petroleum.com.

The Committee members' attendance at meetings during 2017 is set out below.

| | Meetings eligible to attend | Number of meetings attended |
|---|---|---|
| Mark Iannotti | 2 | 2 |
| David Jamison | 2 | 2 |
| Steve Jenkins | 2 | 2 |
| David Clarkson | n.a. | n.a. |
| Sir Stephen O'Brien | n.a. | n.a. |
| Michael Wachtel | n.a. | n.a. |

1. Sir Stephen O'Brien, David Clarkson and Michael Wachtel were formally appointed to the Committee in January 2018.
2. One Committee meeting was held between the end of the financial year under review and the Last Practicable Date, which was attended by all Committee members.

**Principal activities during the year**

During the financial year ended 31 December 2017, the Committee:

- reviewed the full year and half-year results, including the underlying accounting issues and judgements, the processes underpinning the preparation of those documents and the information supporting the statements in relation to going concern and disclosure of information to the external auditor;
- considered the external auditor's annual work plan and reports on the full and half-year results;
- reviewed and recommended the re-appointment of Grant Thornton UK LLP as the external auditor for the Group;
- reviewed the need to establish an internal audit function. The Committee concluded that it would, on an ongoing basis, assess the necessity of establishing such a function following completion of the acquisition of the Seven Assets; and
- assessed progress made in relation to enhancing the internal controls and risk management systems and procedures within the Group.

**External Auditor**

Grant Thornton UK LLP has been the external auditor for the Group as a whole since 9 October 2014. The continued appointment of Grant Thornton UK LLP is reviewed by the Committee each year, taking into account the relevant legislation, guidance and best practice appropriate for a company of its size, nature and stage of development.

In March 2018, the Committee considered the performance of the external auditor and the effectiveness of the audit process by discussing the results of the 2017 external audit, including their views on material accounting issues and key judgements and estimates; considering the robustness of the audit process; reviewing the quality of the people and service provided by Grant Thornton UK LLP; and assessing their independence and objectivity. The Committee was satisfied with the effectiveness of the external auditor.

The Committee received confirmation from Grant Thornton UK LLP that the firm was independent of the Group and had complied with the relevant auditing and ethical standards.

The breakdown of fees between audit and non-audit services paid to Grant Thornton during the financial year is set out in Note 6 to the Group's consolidated Financial Statements. The non-audit fees relate to tax and Group structuring advice. The Audit Committee is satisfied that it was appropriate for the external auditor to carry out this work, and that it did not impair their independence or objectivity.

The Committee agreed to recommend to the Board that the re-appointment of Grant Thornton UK LLP be re-appointed as the external auditor for the Group.

**Mark Iannotti**
Chairman, Audit and Risk Committee

22 March 2018

# Corporate Governance Report continued

## Remuneration and Nomination Committee Report

The Remuneration and Nomination Committee is chaired by David Jamison and its other members are Steve Jenkins and Mark Iannotti. All members of the Committee are independent Non-executive Directors. If required, at the request of the Chairman of the Committee, the Chief Executive Officer and other members of the senior management team are also invited to attend meetings.

The terms of reference of the Committee reflect the current statutory requirements and best practice appropriate to the Company's size, nature and stage of development. Under these terms of reference, the Committee is primarily responsible for determining and reviewing the terms and conditions of service (including remuneration) and termination of employment of executive Directors and senior employees and the grant of options implemented from time to time.

As part of the Company's re-admission to AIM and completion of the acquisition of the Seven Assets, a formal recruitment process was established to recruit two additional Non-executive Directors. As part of the process, the Committee sought to identify the appropriate skill sets required by the Company to enable the business' progression. Taking account of the existing balance of skills, experience and knowledge of the Board and the Company's requirements following completion of the acquisition of the Seven Assets, operational and legal skills were identified as key requirements.

The Company supplemented its internal process by engaging Preng & Associates to provide advice on benchmarking and references for potential candidates. Preng & Associates provides recruitment services to Savannah from time to time but has no other connections with the Company. A number of candidates were identified through this process and those shortlisted underwent a formal interview and vetting process prior to the selection of the preferred candidates, being David Clarkson and Michael Wachtel.

Sir Stephen O'Brien has been known to the Company since its inception. Owing to his particular set of skills and experience, he was identified by the Company as a candidate for the role of Non-executive Vice Chairman after he stepped down from his last role at the United Nations.

Following the interview process, Sir Stephen O'Brien, David Clarkson and Michael Wachtel were appointed to the Board as Independent Non-executive Directors.

Ms Isatou Semega-Janneh was appointed as the Company's CFO on an interim basis in light of the knowledge and experience gained in her position as VP Finance of the Group since 2015. The Board is committed to running a due nomination process to ensure that the candidate who undertakes this role in the longer term has the appropriate skills and experience commensurate with the Company's requirements.

The Remuneration and Nomination Committee acknowledges the importance of orderly succession planning for Board renewal and in relation to key members of the executive team. It is currently envisaged that, should a Board member or key member of the executive team be unable to fulfil their duties for a period of time, one of the other Directors with the most appropriate experience would step in to perform the role on an interim basis until a longer-term solution was identified.

Going forward, the Committee will seek to develop and review on a regular basis the succession planning for both the Board and key members of management, based on the FRC's feedback on this area published to date and the updated Guidance on Board Effectiveness when published. The Committee did not undertake an evaluation of the Board and its Committees during 2017, for the reasons explained earlier in the Corporate Governance Report (please refer to page 21).

The Committee is required to meet at least twice a year. The terms of reference for the Committee are available on the Company's website at www.savannah-petroleum.com.

The Committee members' attendance at meetings during 2017 is set out below.

| | Meetings eligible to attend | Number of meetings attended |
|---|---|---|
| Mark Iannotti | 2 | 2 |
| David Jamison | 2 | 2 |
| Steve Jenkins | 2 | 2 |

**Principal activities during the year**

During the financial year ended 31 December 2017, the Committee:

- assessed the balance of skills, experience, independence and knowledge on the board and, in the light of this evaluation, prepared job descriptions for two new independent Non-executive Directors with operational and legal skills, and selected and recommended the preferred candidates for these roles;
- reviewed and approved salaries and short term incentives for the CEO and members of the senior management;
- considered and amended the vesting and hurdle conditions for the Company's Long Term Incentive Plan and the Supplementary Plan, as described on pages 26 and 27; and
- agreed to establish new management and employee incentive schemes at an appropriate time after the re-admission of the Company to AIM, together with an employee benefit trust to facilitate these additional schemes, as described on page 27.

Following the year end, the Company appointed Aon Hewitt to provide advice on the structure and vesting criteria of the Company's Employee Benefit Trust. The fees agreed for this work amount to £15,000. Aon Hewitt is a member of the Remuneration Consultants Group and adheres to the Voluntary Code of Conduct in relation to executive remuneration consulting in the UK. Aon Hewitt does not provide other services to the Group.

The Company has not adopted a formal policy on diversity and therefore has no measurable objectives to disclose. Appointments, including appointments to the Board and senior management positions are made on merit, taking account of the balance of skills and experience required.

The Directors' Remuneration Review is set out on pages 25 to 29.

**David Jamison**
Chairman, Remuneration and Nomination Committee

22 March 2018

## Directors' Remuneration Review

As an AIM-quoted company, Savannah Petroleum is not required to disclose all of the information set out below, but has chosen to do so in the interests of transparency.

## Directors' Remuneration Policy

The Board aims to provide remuneration packages that are competitive in the market and will attract, retain and motivate high quality individuals capable of delivering the Group's objectives and promote the long-term success of the Company. The Board considers that Directors' remuneration should be structured so as to contain a significant performance-related element, designed to align their interests with those of shareholders.

The table below sets out the main elements of the Directors' remuneration. The overall package is weighted towards performance-related pay, with an appropriate focus on the Company's long-term performance through the award of long-term incentives. Andrew Knott, the Chief Executive Officer ("CEO") was the only Executive Director of the Company for the full financial year under review. Isatou Semega-Janneh, the Company's VP Finance, was appointed to the role of Chief Financial Officer (on an interim basis) and Executive Director on 21 December 2017.

| COMPONENT | PURPOSE AND LINK TO STRATEGY | OVERVIEW |
|---|---|---|
| **EXECUTIVE DIRECTORS** | | |
| **Basic salary** | To attract, retain and motivate talented individuals who are critical to the Group's success. | Normally reviewed by the Remuneration and Nomination Committee annually or in the event of a change in an individual's position or responsibilities.<br>Basic salary set to reflect individual performance, the scope and scale of the role and having regard for compensation levels in companies of a similar size and complexity in the independent oil and gas exploration industry. |
| **Performance-related bonus** | To encourage and reward delivery of the Group's objectives. | Performance-related bonus payments are made at the sole discretion of the Remuneration and Nomination Committee.<br>Capped at a maximum percentage of annual salary. |
| **Employer's pension contribution** | To help attract and retain talented individuals who are critical to the Group's success. | The Chief Executive Officer is entitled to receive an employer's pension contribution equivalent to 10 per cent. of annual salary. |
| **NON-EXECUTIVE DIRECTORS** | | |
| **Fees** | To attract and motivate talented individuals | Set at market competitive levels.<br>Reviewed by the Chairman in consultation with the CEO, periodically or in the event of a change in an individual's position or responsibilities. |
| **EXECUTIVE AND NON-EXECUTIVE DIRECTORS** | | |
| **Management Long Term Incentive Plan** | To incentivise and retain key individuals within the Company. | Participants entitled to receive ordinary shares in the Company for nil consideration subject to certain conditions, described further on pages 26 and 27.<br>Established on 28 November 2014. Now closed and not expected to be reopened. |
| **Supplementary Plan** | To further incentivise certain Directors and employees of the Group.<br>To mechanically adjust for the dilutive impact of the placing announced on 10 July 2015. | Structured principally on the same terms as the LTIP, with participants being entitled to receive ordinary shares in the Company for nil consideration subject to certain conditions, described further on page 27.<br>Established on 30 July 2015. Now closed and not expected to be reopened. |

# Corporate Governance Report continued

| COMPONENT | PURPOSE AND LINK TO STRATEGY | OVERVIEW |
|---|---|---|
| **Additional Schemes** | To incentivise management and employees of the Group. | To be established following completion of the Placing.<br><br>To include conditions, which may include long-dated vesting criteria, key business metric KPIs and future share price performance conditions with reference to the Placing Price.<br><br>Grants under the Long Term Incentive Plan, the Supplementary Plan and the Additional Schemes to be limited to 10 per cent. of the Company's fully diluted share capital from time to time. As with the Existing Plans, it is intended that up to one half of the equity available under any Additional Schemes would be made available to the Chief Executive Officer.<br><br>The Remuneration and Nomination Committee intends to attach conditions to any awards granted under the Additional Schemes, which may include long-dated vesting criteria, key business metric KPIs and future share price performance conditions with reference to the Placing Price. Such conditions will be determined by the Remuneration and Nominations Committee in consultation with Savannah's Nominated Adviser. The Board acknowledges the possible requirement, in certain circumstances, to obtain a fair and reasonable opinion from the independent directors of the Company, in consultation with the Company's nominated adviser, with regard to any particular award to be granted under the Additional Schemes.<br><br>Further details of the Additional Schemes and any awards granted pursuant thereto will be announced in due course. |

**Management Long-Term Incentive Plan**

On 28 November 2014 the Company established a management long-term incentive equity incentive plan (the "LTIP"). The LTIP is now closed and is not expected to re-open, given the material change in the Company's business.

Under the terms of the LTIP, participants subscribe for shares in Savannah Petroleum 1 Limited ("SP1L"), with an entitlement to exchange such shares for ordinary shares if the closing middle market quotation of the ordinary shares on any day equals or exceeds £1.68 (the "Hurdle Price").

The number of ordinary shares that can be acquired by participants following the Hurdle Price being achieved will be determined on the date of the share exchange in accordance with the following formula:

$X = A- ((AxB)/C)$

Where:

X is the number of ordinary shares to be issued on exchange (rounded to the nearest whole number);

A is the number of SP1L shares being exchanged;

B is £0.56 (being the price at which the ordinary shares were admitted to dealing on AIM at the time of the Company's admission to AIM); and

C is the closing middle market quotation of the ordinary shares on the date of the share exchange.

The awards issued pursuant to the LTIP are subject to a vesting date determined for each award. If the Hurdle Price is met after the vesting date, the award will vest when the Hurdle Price is met and the relevant participant can then elect to exchange his or her SP1L shares for the relevant number of ordinary shares at any time thereafter.

If the Hurdle Price is met prior to the vesting date, the award will not vest until the vesting date and the relevant participants will not be able to exchange their SP1L shares for ordinary shares until after the vesting date unless there is a change of control of the Company, or the individual ceases to be an employee or director of a member of the Group.

Awards issued pursuant to the LTIP will be subject to full or partial forfeiture if the relevant participant ceases to be either: (i) employed by a member of the Group; or (ii) a director of a member of the Group prior to the vesting date (a "Leaver") (other than awards held by Andrew Knott, which are not subject to any forfeiture provisions).

Pursuant to the terms of the forfeiture provisions, the relevant participant will be required to transfer the following proportion of his or her awards for nil consideration to the Company or a person nominated by the Company:

i) 100 per cent. if the participant becomes a Leaver within 2.5 years of being issued the awards;

ii) 0 per cent. if the participant becomes a Leaver after five years of being issued the awards; and

iii) if the participant becomes a Leaver at or after 2.5 years of being issued the awards but before the fifth anniversary of the awards being issued, the proportion will be determined by the following formula: 50 – 50((Y-2.5)/2.5), where Y is the number of years that have elapsed between the awards being issued and the participant becoming a Leaver.

The number of Ordinary Shares that may be issued pursuant to the LTIP from time to time cannot, in aggregate, exceed 15 per cent. of the Company's fully diluted ordinary share capital from time to time.

As disclosed in the Company's Admission Document dated 22 December 2017, in the view of the Remuneration and Nomination Committee, the vesting and hurdle conditions of the LTIP was too stretching to serve as a realistic incentive. Accordingly it was proposed that, following completion of the Company's US$125m Placing:

i) the Hurdle Price be reduced to £0.42 per ordinary share (being a 20 per cent. premium to the Placing Price); and

ii) the vesting date be amended to a period determined by the Remuneration and Nomination Committee.

The Company's Placing did not complete until post-period end, and such proposed changes are still to be effected. Therefore this did not result in any required modifications to share based payments in the financial year under review.

On 27 March 2015, the Company's shareholders passed an ordinary resolution approving the waiver by the Panel on Takeovers and Mergers of the obligation on the Concert Party (as defined below) to make a general offer to shareholders of the Company under Rule 9 of the City Code on Takeovers and Mergers as a result of the potential issue of new ordinary shares of the Company to Andrew Knott (who is a member of the Concert Party) under the LTIP. "Concert Party" means Andrew Knott (and companies he controls) and his family members, Aralia Capital SA (which also includes the holding of Peleng Holding Corporation, wholly owned by the same investor as Aralia Capital SA) and Luzon Investments S.A.

**Supplementary Plan**

On 30 July 2015, the Company established a supplementary share option plan (the "Supplementary Plan"). The Supplementary Plan is now closed and is not expected to re-open, given the material change in the Company's business.

The Supplementary Plan was implemented and structured principally on the same terms as the LTIP, subject to the following differences:

a) the aggregate number of any issued or unissued ordinary shares being the subject of such schemes from time to time shall not exceed 15 per cent. of the Company's fully diluted share capital;

b) one half of the equity available under the Supplementary Plan and the LTIP shall be awarded to Andrew Knott;

c) the share price hurdle rate is three times that of the share option exercise price, which, for the purposes of the issue of share options under the Supplementary Plan is £0.38 per Ordinary Share;

d) options granted pursuant to the Supplementary Plan will vest and become exercisable on the earliest to occur of: (i) the Company's share price on any day equalling or exceeding £1.14 per ordinary share; (ii) any person or group of persons acting in concert obtaining control of 30 per cent. or more of the Company's issued share capital (other than the existing concert party); (iii) the sale of a substantial proportion of the Group's assets (as shall be determined by the Company's Remuneration and Nomination Committee in its sole discretion; and (iv) the passing of a resolution for the voluntary winding up of the Company;

e) options granted pursuant to the Supplementary Plan will be granted over unissued ordinary shares, rather than shares in SP1L; and

f) options granted pursuant to the Supplementary Plan will lapse in the event that a participant ceases to be either: (i) employed by a member of the Group; or (ii) a director of a member of the Group prior to 28 November 2017.

As disclosed in the Company's Admission Document dated 22 December 2017, in the view of the Remuneration and Nomination Committee, the vesting and hurdle conditions of the LTIP were too stretching to serve as a realistic incentive. Accordingly it was proposed that, following completion of the Company's US$125m Placing, the vesting condition of the Company's share price on any day equalling or exceeding £1.14 per ordinary share be amended to refer to a target share price of £0.42 per ordinary share (being a 20 per cent. premium to the Placing Price).

The Company's Placing did not complete until post-period end, and such proposed changes are still to be effected. Therefore this did not result in any required modifications to share based payments in the financial year under review.

**Additional Schemes and Employee Benefit Trust**

As also disclosed in the Company's Admission Document dated 22 December 2017, the Remuneration and Nomination Committee intends to adopt one or more additional management and employee incentive schemes, following completion of the Placing.

At present, the LTIP and the Supplementary Plan (the "Existing Plans") permit the grant of awards over issued or unissued ordinary shares equal to, in aggregate, up to 15 per cent. of the Company's fully diluted share capital. This aggregate limit (applicable collectively to the Existing Plans and the Additional Schemes) will be reduced to 10 per cent. of the fully diluted share capital from time to time. As with the Existing Plans, it is intended that up to one half of the equity available under any Additional Schemes would be made available to the Chief Executive Officer.

The Remuneration and Nomination Committee intends to attach conditions to any awards granted under the Additional Schemes, which may include long-dated vesting criteria, key business metric KPIs and future share price performance conditions with reference to the Placing Price. Such conditions will be determined by the Remuneration and Nomination Committee in consultation with Savannah's Nominated Adviser.

The Board acknowledges the possible requirement, in certain circumstances, to obtain a fair and reasonable opinion from the independent directors of the Company, in consultation with the Company's nominated adviser, with regard to any particular award to be granted under the Additional Schemes.

Further details of the Additional Schemes and any awards granted pursuant thereto will be announced in due course.

In order to facilitate the Additional Schemes, the Company has established the Employee Benefit Trust (the "EBT"). The EBT subscribed for 42,624,837 new ordinary shares (the "EBT Shares") simultaneously with the allotment and issue of the Second Tranche Placing Shares, at a subscription price per share equal to the nominal value of the shares (£0.001 per share). Savannah Petroleum 1 Limited, a wholly owned subsidiary of the Company agreed to provide a loan facility for this amount to the Trustee of the EBT.

It has been agreed with the Trustee of the EBT that, with regard to any EBT Shares owned by the EBT:

i) subject to the Trustee's compliance with its obligations as a trustee and relevant legislation, the voting rights attaching to such shares shall be exercised in accordance with the instructions of the Board, and

ii) the Trustee will waive all rights to dividends on such shares.

**Directors' service contracts or letters of appointment**

**Andrew Knott (Chief Executive Officer)**

Andrew Knott entered into a service agreement with the Company effective from its admission to trading on AIM (1 August 2014), which provided for a 12-month notice period and an initial fixed term of two years. The agreement has been subsequently amended so that the 12-month notice period cannot expire any earlier than 31 December 2019 (the 'Service Agreement Amendment'). The Service Agreement Amendment was deemed to be a related party transaction under the AIM Rules for Companies. The Directors, other than Andrew Knott, considered, having consulted with Strand Hanson Limited, the Company's Nominated Adviser, that the terms of the Service Agreement Amendment were fair and reasonable insofar as the Company's shareholders are concerned. Under the terms of the agreement, Mr Knott is entitled to an annual salary of £400,000 and, at the sole discretion of the Company's Remuneration and Nomination Committee, a bonus of up to three times his annual salary. Mr Knott will also be entitled to participate in any management incentive programme that the Group may adopt. The service agreement includes a right to place Mr Knott on gardening leave during all or any part of his notice period. The service agreement provides for early termination, inter alia, in the event of a serious breach of the agreement and in the event that Mr Knott ceases to be a Director.

**Isatou Semega-Janneh (Chief Financial Officer, on an interim basis)**

Isatou Semega-Janneh's service agreement shall continue until terminated by either party on six months' written notice. Under the terms of the agreement, Isatou Semega-Janneh is entitled to an annual salary of £148,500, which will be payable on a monthly basis and, at the sole discretion of the Company's Remuneration and Nomination Committee, a bonus of up to 30 per cent. of her annual salary (currently under review). Isatou Semega-Janneh will also be eligible to participate in any management incentive programme that the Group may adopt. The service agreement provides for early termination, inter alia, in the event of a serious breach of the agreement.

**Non-executive Directors**

The Non-executive Directors were appointed under letters of appointment which are terminable by three months' written notice by either side. Under the terms of their letters of appointment, Mr Jenkins is entitled to an annual fee of £160,000 and the remaining Non-executive Directors are entitled to an annual fee of £50,000. David Clarkson, Sir Stephen O'Brien and Michael Wachtel are also entitled to a grant of awards over new ordinary shares with an aggregate value of £50,000 (based on the Placing Price). Subject to continued satisfactory performance, the Board does not think it appropriate to limit the term of appointment of the Non-executive Directors.

**Directors' Remuneration**

The remuneration of the Directors who served the Company during the financial year under review was as follows:

| Year ended 31 December 2017 | Salary US$ | Performance-related bonus US$ | Share options[3] US$ | Employer's Pension Contribution US$ | Other benefits US$ | Fees US$ | Total US$ |
|---|---|---|---|---|---|---|---|
| **Executive Directors** | | | | | | | |
| Andrew Knott[1,4] | 512,364 | 1,248,550 | – | 51,236 | 2,637 | – | 1,814,787 |
| Isatou Semega-Janneh[2] | 4,221 | – | – | 169 | 24 | – | 4,414 |
| **Non-executive Directors** | | | | | | | |
| Steve Jenkins | – | – | – | – | – | 204,946 | 204,946 |
| Sir Stephen O'Brien[2] | – | – | – | – | – | 1,525 | 1,525 |
| David Clarkson[2] | – | – | – | – | – | 1,525 | 1,525 |
| Mark Iannotti | – | – | – | – | – | 44,832 | 44,832 |
| David Jamison | – | – | – | – | – | 44,832 | 44,832 |
| Michael Wachtel[2] | – | – | – | – | – | 1,525 | 1,525 |
| Total | 516,585 | 1,248,550 | – | 51,405 | 2,661 | 299,185 | 2,118,386 |

1. Highest paid director.
2. Isatou Semega-Janneh, Sir Stephen O'Brien, David Clarkson and Michael Wachtel were appointed with effect from 21 December 2017. Amounts shown for Isatou Semega-Janneh represent her salary and benefits for the period from the date of her appointment to 31 December 2017, and exclude the performance bonus paid in relation to the financial year ended 31 December 2016, paid in January and February 2017, which was prior to her appointment as a director. Amounts shown for Sir Stephen O'Brien, David Clarkson and Michael Wachtel represent their fees for the period from the date of their appointment to 31 December 2017.
3. Grants awarded under the LTIP and Supplementary Plan, as set out below.
4. A vehicle beneficially owned by Andrew Knott committed to acquire £745,935 of shares in 2017 as part of the Company's US$125m equity fund raise.

Note: Directors' remuneration expenditure is incurred in GB Pounds. The average rate of exchange for the year ended 31 December 2017 was $1.29/£1.00.

The remuneration of the Directors who served the Company during the prior financial year (2016) was as follows:

| Year ended 31 December 2016 | Salary US$ | Performance-related bonus US$ | LTIPs US$ | Employer's Pension Contribution US$ | Other benefits US$ | Fees US$ | Total US$ |
|---|---|---|---|---|---|---|---|
| **Executive Directors** | | | | | | | |
| Andrew Knott[1,2] | 550,900 | 278,550 | – | 55,090 | 2,342 | – | 886,882 |
| **Non-executive Directors** | | | | | | | |
| Steve Jenkins | – | – | – | – | – | 206,587 | 206,587 |
| Mark Iannotti | – | – | – | – | – | 34,431 | 34,431 |
| David Jamison | – | – | – | – | – | 34,431 | 34,431 |
| **Total** | 550,900 | 278,550 | – | 55,090 | 2,342 | 275,449 | 1,162,332 |

1 Highest paid director.

2 A vehicle beneficially owned by Andrew Knott spent £372,141 acquiring shares in Savannah Petroleum in 2016.

Note: Directors' remuneration is incurred in GB Pounds. The average rate of exchange for the year ended 31 December 2016 was $1.37/£1.00.

### Directors' Shareholdings and Share Interests

The table below sets out the Directors' interests in the ordinary shares of the Company, including shares held by persons connected to them, together with the number of awards held by Directors under the LTIP and the Supplementary Plan as at 31 December 2017. A vehicle benefially owned by Andrew Knott acquired 2,131,000 shares as part of the second tranche of the Company's US$125m equity placing in the period between the financial year end and the Last Practicable Date.

| As at 31 December 2017 | Shares held | % of issued shares | LTIP – outstanding unvested awards | Supplementary Plan – outstanding unvested awards |
|---|---|---|---|---|
| | Number of Ordinary Shares | | Number of SP1L Shares | Number of Ordinary Shares |
| **Executive Directors** | | | | |
| Andrew Knott | 24,204,565 | 8.01 | 11,588,574 | 5,446,630 |
| Isatou Semega-Janneh | 131,579 | 0.01 | 446,429 | 358,786 |
| **Non-executive Directors** | | | | |
| Steve Jenkins | 301,800 | 0.03 | 1,785,714 | 1,019,501 |
| Sir Stephen O'Brien | – | – | – | – |
| David Clarkson | – | – | – | – |
| Mark Iannotti | 2,793,887 | 0.3 | 547,765 | 2,257,450 |
| David Jamison | 651,009 | 0.07 | 273,883 | 128,725 |
| Michael Wachtel | – | – | – | – |
| Total | | | 14,642,365 | 9,211,092 |

Further details of the LTIP and the Supplementary Plan and share-based payments are set out in Note 18 on pages 57 to 59.

The closing share price of one Savannah Petroleum PLC share on 31 December 2017 was 28.3p and the highest and lowest prices during the year were 27.25p and 42.75p respectively.

**David Jamison**
Chairman, Remuneration and Nomination Committee

22 March 2018

## Health, Safety, Security and Environment Committee Report

The Committee is chaired by David Clarkson and its other members are Steve Jenkins and Sir Stephen O'Brien. All members are independent Non-executive Directors of the Company.

The purpose of the Committee is to ensure that the Company has an appropriate framework of policies, procedures, systems and controls in place in relation to the health, safety, security and environmental risks arising from the operations of the Group, to promote the appropriate culture, behaviours and decisions and to communicate the Board's commitment to these matters to the Group's staff, contractors and other stakeholders.

In addition, the Committee is responsible for overseeing compliance with the above framework and receiving reports on all serious accidents and incidents within the Group, together with corresponding actions taken by management. The Committee oversees the effectiveness of this framework and its impact, as well as the quality and integrity of any reporting to external stakeholders regarding health, safety, security and environmental matters.

Where there is an overlap of responsibilities between the Health, Safety, Security and Environment Committee, the Compliance Committee and the Audit and Risk Committee, the respective committee chairs have the discretion to agree the most appropriate committee to fulfil any obligation.

The Committee is required to meet at least three times a year. Its terms of reference are available on the Company's website at www.savannah-petroleum.com. The Committee was formally constituted in January 2018 and therefore did not meet during the financial year under review. One Committee meeting was held between the end of the financial year under review and the Last Practicable Date, which was attended by all Committee members.

**David Clarkson**
Chairman, Health, Safety, Security and Environment Committee

22 March 2018

## Compliance Committee Report

The Compliance Committee is chaired by Michael Wachtel and its other members are David Clarkson, David Jamison and Mark Iannotti. All members are independent Non-executive Directors of the Company.

The purpose of the Committee is to support the Board in fulfilling its responsibilities to promote and oversee compliance with all legal and regulatory obligations, and to communicate the Board's commitment to compliance to the Group's staff, contractors and other stakeholders.

Under its terms of reference, the Committee is responsible for overseeing the development and implementation of, and compliance with, a strategy and framework of policies, procedures, systems and controls to identify, assess, manage and report on compliance matters. The areas of focus include the prevention of bribery, corruption, money-laundering and countering of terrorist financing, gifts and hospitality, per diem payments, business relationships, including dealings with public officials, agents, intermediaries, consultants, contractors and advisers, mergers, acquisitions and major new projects, whistleblowing arrangements and reports, conflicts of interest and legal and regulatory compliance risks.

The Committee is also responsible for regularly assessing the adequacy and effectiveness of the above framework. Where there is an overlap of responsibilities between the Compliance Committee, the Health, Safety, Security and Environment Committee and the Audit and Risk Committee, the respective committee chairs have the discretion to agree the most appropriate committee to fulfil any obligation.

The Committee is required to meet four times a year. Its terms of reference are available on the Company's website at www.savannah-petroleum.com.

The Committee was formally constituted in January 2018 and therefore did not meet during the financial year under review. One Committee meeting was held between the end of the financial year under review and the Last Practicable Date, which was attended by all Committee members.

**Michael Wachtel**
Chairman, Compliance Committee

22 March 2018

# Directors' Report

The Directors' Report, prepared in accordance with the Companies Act 2006, comprises pages 31 to 32. The Corporate Governance Statement on pages 20 to 30 forms part of the Directors' Report.

## Corporate structure

Savannah Petroleum PLC (Registered No. 09115262) is a public company limited by shares, incorporated in England and Wales. Its shares are traded on the Alternative Investment Market of the London Stock Exchange ('AIM').

## Principal activity, review of the business and future developments

The principal business and activities of the Group during the financial year, together with the factors likely to affect its future developments are set out in the Strategic Report on pages 2 to 17, which are deemed to form part of this Directors' Report by reference.

## Research and development

The Company does not undertake any material research and development activities.

## Existence of branches outside the UK

The Group's activities in overseas jurisdictions are carried out through subsidiary companies. The Company does not have any branches outside the UK. Details of the Company's subsidiaries are set out in Note 14 to the Group's consolidated Financial Statements.

## The Board

The Directors in office at the date of this Annual Report are shown on pages 18 and 19. All (with the exception of those highlighted below) served throughout the year under review.

David Clarkson, Sir Stephen O'Brien, Isatou Semega-Janneh and Michael Wachtel were appointed on 21 December 2017.

## Directors' Indemnity

As permitted by its Articles of Association ("Articles"), the Company has granted a third-part indemnity to each of the Directors appointed in 2014 against any liability that attaches to them in defending proceedings brought against them, to the extent permitted by English law. This indemnity was in force during the financial year and up to the date of signing of this report. Similar arrangements are being put in place for the Directors appointed in 2017. In addition, all Directors and officers of the Company and its subsidiaries are covered by Directors' and Officers' liability insurance.

## Purchase of own shares

The Company has not acquired any of its own shares in the period to 31 December 2017, nor in the period up to the date of approval of this Annual Report.

## Post-balance sheet events

On 8 January 2018, as part of the Company's proposal to acquire the Seven Assets (detailed on pages 2 to 17 in the Strategic Report), the Company held a general meeting to approve, inter alia, the acquisition of the Seven Assets and the issue and allotment of the shares described below.

On 7 February 2018, the Group completed the Exchange Offer on Seven Energy's 10.25% Senior Secured Notes ("SSNs") and Savannah had received valid instructions in respect of US$305,623,123 in principal amount of outstanding SSNs, representing 96.04% of the outstanding SSNs. Consequently, on 8 February 2018, a total of 514,885,980 new ordinary shares were issued, allotted and admitted to trading on AIM in connection with the Second Tranche Placing, the shares being issued as part of consideration for the acquisition of the Seven Assets (the "Consideration Shares") and the EBT Shares. This figure was comprised of 239,000,000 Second Tranche Placing Shares, 42,624,837 EBT Shares, 224,021,689 new Ordinary Shares to be issued to the holders of the 10.25% Senior Secured Notes (which formed part of the Consideration Shares) and 9,239,454 new Ordinary Shares that were deposited in trust in accordance with the terms of the Exchange Offer. Following the issue of these shares, the Company had 816,969,427 ordinary shares in issue and there were no shares held in treasury. In addition, 133,231,000 Warrants were issued to participants in the First Tranche Placing completed in 2017 and the Second Tranche Placing referred to above.

Proceeds raised from the Second Tranche Placing amounted to approximately US$112.1 million. These proceeds are expected to be used to fund the cash consideration for the proposed acquisition of the Seven Assets, further advance the Company's Niger assets and for general corporate purposes.

## Dividends

No dividend has been recommended by the Directors for 2017. However, please refer to the Financial Review on page 14, which sets out the Group's intention to commence payment of an annual dividend assuming the successful completion of the Seven Energy transaction, subject to the Enlarged Group's financial performance.

The Board considers it highly desirable that the Company has the maximum flexibility to consider the payment of dividends and otherwise return value to shareholders. As the Company currently has negative distributable reserves, it is prohibited from returning money or distributing assets to its shareholders. To address this, the Company is proposing to effect a cancellation of its share premium account in order to create distributable reserves. If the proposed cancellation of the Company's share premium account is approved by shareholders at the forthcoming AGM, it will be subject to the scrutiny of, and confirmation by, the High Court of England and Wales to ensure that the interests of existing creditors are protected and, subject to that confirmation and registration by the Registrar of Companies in England and Wales of the order of the High Court, it is expected to take effect by the end of May 2018.

# Directors' Report continued

Assuming that there is no material change in the financial position or prospects of the Company, and subject to any undertakings which the Company may be required to offer the High Court for the protection of its creditors, the Board anticipates that the cancellation of the Company's share premium account will result in the creation of distributable reserves. It should however be noted that if the Company is required to give undertakings to the High Court, this may delay the Company's ability to pay dividends and otherwise return value to shareholders.

## Political donations

No political donations were made in 2017.

## Financial risk management objectives and policies

The Group's financial risk management objectives and policies, including its policy for managing the exposure of the Company to price risk, credit risk, liquidity risk and cash flow risk, are set out in part b of Note 22 to the Group's consolidated Financial Statements.

## Going concern

The Group's business activities, together with the factors likely to affect its future development, performance and position are set out in the Strategic Report on pages 2 to 17 and the financial position of the Group at the period end and its cash flows and liquidity position are set out in the Group's consolidated Financial Statements. Furthermore, the Group's financial risk management objectives and policies, are set out in part b of Note 22 to the Group's consolidated Financial Statements on page 61.

The Directors have reviewed the budgets and forecasts as well as the funding requirements of the business for the next 12 months. Having conducted this review, the Directors have a reasonable and strong expectation that the Group has adequate resources to continue operating for the foreseeable future. The planned acquisition of certain assets from Seven Energy is expected to see the Company acquire interests in two free cash flow generative oil and gas fields and receive incremental cash funds on close associated with the US$20m proceeds from the SSN equity issuance. This transaction is currently anticipated to complete in the second quarter of 2018, following the satisfaction of relevant conditions precedent which include, inter alia, the Implementation Agreement being entered into, the Accugas Transaction and the Accugas Waiver becoming effective, the Frontier Agreements being entered into and becoming effective, Ministerial Consent and NSEC Consent. Upon completion of the transaction the Group is therefore expected to benefit from a significant positive liquidity/working capital inflow. Were the transaction to be materially delayed from the currently anticipated second quarter completion schedule, which the Directors recognise as a potential risk, the Company would likely be required to access incremental debt facilities. The Directors have a reasonable and strong expectation that the Group would be able to achieve this. On this basis the Directors continue to adopt the going concern basis in preparing the consolidated financial statements.

## External Auditor

Each person who is a Director at the date of approval of this Annual 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 that 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.

Grant Thornton UK LLP has expressed its willingness to continue in office as auditor. Following the Audit Committee's review of the independence and performance of the auditor in respect of the financial year ended 31 December 2017, a resolution to reappoint them will be proposed at the forthcoming AGM.

## Approval of Directors' Report

This Directors' Report, including the Corporate Governance Statement, was approved for and on behalf of the Board on 22 March 2018.

**Andrew Knott**
Chief Executive Officer

22 March 2018

# Statement of Directors’ Responsibilities

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 financial statements for each financial year. Under that law the Directors have elected to prepare the financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union. 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 and profit or loss of the company and group for that period. In preparing these financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable IFRSs as adopted by the European Union have been followed, subject to any material departures disclosed and explained in the financial statements;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company’s transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors confirm that:

- so far as each director is aware, there is no relevant audit information of which the company’s auditor is unaware; and
- the Directors have taken all the steps that they ought to have taken as Directors in order to make themselves aware of any relevant audit information and to establish that the company’s auditor is aware of that information.

The Directors are responsible for preparing the annual report in accordance with applicable law and regulations.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the company’s website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

This Statement of Responsibilities and the Annual Report as a whole were approved by the Board on 22 March 2018.

**Andrew Knott**
Chief Executive Officer

22 March 2018

# Auditor's Report

## Opinion

Our opinion on the financial statements is unmodified.

We have audited the financial statements of Savannah Petroleum Plc (the 'parent company') and its subsidiaries (the 'group') for the year ended 31 December 2017 which comprise Consolidated Statement of Comprehensive Income, Consolidated and Company Statement of Financial Position, Consolidated Statement of Cash Flows, Consolidated and Company Statement of Changes in Equity and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in the preparation of the group financial statements 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.

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 2017 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.

## Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the group and the parent company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard as applied to listed entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

## Who we are reporting to

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.

## Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the group's or the parent company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

## Overview of our audit approach

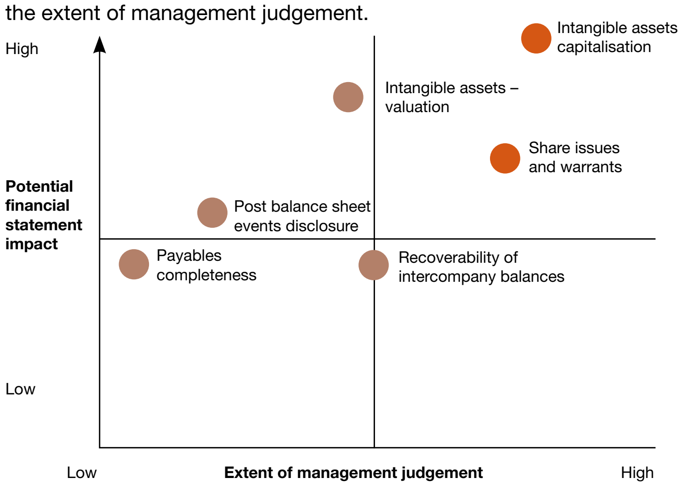
- Overall materiality: $1.3 million which represents 1% of the company's total assets

Key audit matter was identified as intangible assets capitalisation

- We performed full scope audit procedures on the financial statements of Savannah Petroleum PLC and on the financial information of Savannah Petroleum Niger R1/R2 SA and Savannah Petroleum Niger R3/R4 SA. This covered 99% of expenditure and 99% of total assets for the year.

## Key audit matters

The graph below depicts the audit risks identified and their relative significance based on the extent of the financial statement impact and the extent of management judgement.




Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those that had the greatest effect on: the overall audit strategy, the allocation of resources in the audit; and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

| Key Audit Matter – Group | How the matter was addressed in the audit – Group |
|---|---|
| **Intangible asset – capitalisation**<br>The intangible balance at 31 December 2017 is $111.7 million (31 December 2016: $96.9 million) with the movement being $14.8 million of capitalised additions in the year. As the Group is currently in the exploration phase, these costs are being capitalised. Management have to consider the specific recognition criteria of IFRS 6 for which costs can be capitalised. We note that there is management judgement required around which costs meet IFRS 6 capitalisation criteria. Due to this being the key driver of the business we have identified capitalisation of exploration costs as a significant risk, which was one of the most significant assessed risks of material misstatement. | Our audit work included, but was not restricted to:<br>• Understanding, through discussion with management, the process for identifying which costs were to be capitalised<br>• Substantive testing of additions in the period tracing to source documentation and assessing them against accounting policy and IFRS 6 criteria<br>• Consideration of expert report commissioned by management on the likelihood of exploration being successful, including challenging underlying assumptions; and<br>• Assessment of any indicators of impairment to ensure none are applicable including the status of R1/R2 lease which is due for renewal in July 2018 and how likely the renewal will be successful.<br>The group's accounting policy on exploration and evaluation assets is shown in note 3 to the financial statements and related disclosures are included in note 13.<br>**Key observations**<br>Our testing did not identify any material misstatements in the capitalisation of intangible assets in accordance with IFRS 6 and accounting policies and any significant incorrect capitalisation. |

## Our application of materiality

We define materiality as the magnitude of misstatement in the financial statements that makes it probable that the economic decisions of a reasonably knowledgeable person would be changed or influenced. We use materiality in determining the nature, timing and extent of our audit work and in evaluating the results of that work.

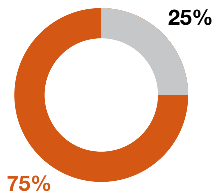
Materiality was determined as follows:

| Materiality measure | Group | Parent |
|---|---|---|
| Financial statements as a whole | $1,300,000 which is 1% of total assets. This benchmark is considered the most appropriate because the Group is currently in the exploration phase and costs are currently being capitalised into intangible assets. As such the increase of assets is a key driver for the business.<br><br>Materiality for the current year is higher than the level we determined for the year ended 31 December 2016 to reflect the significant continued investment in the development of exploration and evaluation assets by the Group during the year. | $996,000 which is 75% of group materiality. We originally calculated materiality at 1% of total assets but this was capped to reflect the value of the parent company as a proportion of the Group.<br><br>Materiality for the current year is higher than the level we determined for the year ended 31 December 2016 to reflect the significant continued investment in the development of exploration and evaluation assets by the Group during the year. |
| Performance materiality used to drive the extent of our testing | 75% of financial statement materiality. | 75% of financial statement materiality. |
| Specific materiality | We also determine a lower level of materiality for directors' remuneration and related party transactions. | We also determine a lower level of materiality for directors' remuneration and related party transactions. |
| Communication of misstatements to the audit committee | $66,400 and misstatements below that threshold that, in our view, warrant reporting on qualitative grounds. | $49,800 and misstatements below that threshold that, in our view, warrant reporting on qualitative grounds. |

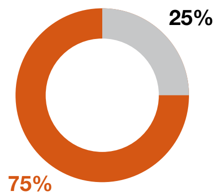
# Auditor's Report continued

The graph below illustrates how performance materiality interacts with our overall materiality and the tolerance for potential uncorrected misstatements.

**Overall materiality – group**




**Overall materiality – parent**




Tolerance for potential uncorrected mistatements

Performance materiality

## An overview of the scope of our audit

Our audit approach was based on a thorough understanding of the Group's business and is risk based. In order to address the risks described above as identified during our planning procedures, we performed a full scope audit of the consolidated financial statements of the Parent Company, Savannah Petroleum PLC.

The companies of the Group were evaluated by the Group audit team based on a measure of materiality considered as a percentage of total Group assets and earnings before income taxes to assess the significance of the component and to determine the planned audit response. For those components that we determined to be significant, either a full scope approach or specific procedures in relation to specific balances and transactions were carried out. This approach was determined based on their relative materiality to the Group and our assessment of audit risk.

The Group's companies vary in size and activity. We performed full scope audits on three companies and specific procedures on a further three companies, to give appropriate coverage of all material balances at both company and Group levels.

| Audit of financial information | Targeted | Analytical procedures |
|---|---|---|
| Savannah Petroleum PLC | Savannah Petroleum 1 Ltd | Savannah Petroleum 2 Ltd |
| Savannah Petroleum Niger R1/R2 SA | SPN Ltd | Savannah Petroleum Nigeria |
| Savannah Petroleum Niger R4/R3 SA | Savannah Petroleum SAS | Savannah Petroleum International Limited |

For significant components requiring a full scope approach we carried out an interim visit to undertake substantive procedures prior to the year end and to evaluate the Group's internal control environment including its IT systems. For all significant transactions and material account balances in the Group and significant components, we carried out substantive testing including the procedures outlines above. Non-significant components were subjected to analytical review procedures taking into account the risks noted above and the significance to the Group. All procedures were carried out by the Group audit team therefore no group instructions or component visits were deemed necessary.

## Other information

The directors are responsible for the other information. The other information comprises the information included in the annual report set out on pages 1 to 33, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

## Our opinion on other matters prescribed by the Companies Act 2006 is unmodified

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.

## Matters on which we are required to report under the Companies Act 2006

In the light of the knowledge and understanding of the Group and the parent company and its environment obtained in the course of the audit, we have not identified material misstatements in the strategic report or the directors' report.

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

We have nothing to report in respect of the following matters in relation to which 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.

## Responsibilities of directors for the financial statements

As explained more fully in the statement of directors' responsibilities set out on page 33, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the Group's and the parent company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or the parent company or to cease operations, or have no realistic alternative but to do so.

## Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

**James Chadwick**
Senior Statutory Auditor
for and on behalf of Grant Thornton UK LLP
Statutory Auditor, Chartered Accountants
Glasgow
22 March 2018

# Consolidated Statement of Comprehensive Income
## as at 31 December 2017

| | Note | Year ended 31 December 2017 US$'000 | Year ended 31 December 2016 US$'000 |
|---|---|---|---|
| **Operating expenses** | | **(27,091)** | (8,412) |
| **Operating loss** | 6 | **(27,091)** | (8,412) |
| Finance income | 8 | **283** | 207 |
| Finance costs | 9 | **(561)** | (126) |
| **Loss before tax** | | **(27,369)** | (8,331) |
| **Income tax** | 10 | **(13)** | (1,502) |
| **Net loss and total comprehensive loss** | | **(27,382)** | (9,833) |
| **Total comprehensive loss attributable to:** | | | |
| **Owners of the group** | 11 | **(27,350)** | (9,818) |
| **Non-controlling interests** | 21 | **(32)** | (15) |
| | | **(27,382)** | (9,833) |
| **Loss per share** | | | |
| Basic (US$) | 11 | **(0.10)** | (0.04) |
| Diluted (US$) | 11 | **(0.10)** | (0.04) |

All results in the current financial period derive from continuing operations.

# Consolidated Statement of Financial Position
## as at 31 December 2017

| | Note | 2017 US$'000 | 2016 US$'000 |
|---|---|---|---|
| **Assets** | | | |
| **Non-current assets** | | | |
| Property, plant and equipment | 12 | **2,933** | 954 |
| Exploration and evaluation assets | 13 | **111,733** | 96,913 |
| Total non-current assets | | **114,666** | 97,867 |
| **Current assets** | | | |
| Receivables and prepayments | 15 | **3,999** | 6,074 |
| Cash and cash equivalents | 16 | **14,904** | 23,061 |
| Total current assets | | **18,903** | 29,135 |
| **Total assets** | | **133,569** | 127,002 |
| **Equity and liabilities** | | | |
| **Capital and reserves** | | | |
| Share capital | 17 | **520** | 483 |
| Share premium | 17 | **157,188** | 146,892 |
| Capital contribution | 17 | **458** | 458 |
| Share based payment reserve | 17 | **4,551** | 2,938 |
| Accumulated deficit | | **(59,317)** | (31,967) |
| Equity attributable to owners of the Group | | **103,400** | 118,804 |
| Non-controlling interests | 21 | **(397)** | (365) |
| Total equity | | **103,003** | 118,439 |
| **Current liabilities** | | | |
| Trade and other payables | 19 | **17,888** | 7,777 |
| Borrowings | 20 | **12,678** | – |
| Corporation tax liability | | **–** | 786 |
| Total current liabilities | | **30,566** | 8,563 |
| **Total equity and liabilities** | | **133,569** | 127,002 |

Savannah Petroleum PLC (Company number: 09115262).

The financial statements were approved by the Board of Directors and authorised for issue on 22 March 2018 and are signed on its behalf by:

**Andrew Knott**
Director

# Company Statement of Financial Position
## as at 31 December 2017

| | Note | 2017 US$'000 | 2016 US$'000 |
|---|---|---|---|
| **Assets** | | | |
| **Non-current assets** | | | |
| Property, plant and equipment | 12 | **203** | 236 |
| Investment in subsidiaries | 14 | **79,710** | 78,098 |
| Total non-current assets | | **79,913** | 78,334 |
| **Current assets** | | | |
| Other receivables and prepayments | 15 | **50,025** | 35,212 |
| Cash and cash equivalents | 16 | **13,522** | 21,794 |
| Total current assets | | **63,547** | 57,006 |
| **Total assets** | | **143,460** | 135,340 |
| **Equity and liabilities** | | | |
| **Capital and reserves** | | | |
| Share capital | 17 | **520** | 483 |
| Share premium | 17 | **157,188** | 146,892 |
| Capital contribution | 17 | **458** | 458 |
| Share based payment reserve | 17 | **4,551** | 2,938 |
| Accumulated deficit | | **(35,565)** | (16,413) |
| Total equity | | **127,152** | 134,358 |
| **Current liabilities** | | | |
| Trade and other payables | 19 | **14,560** | 196 |
| Borrowings | 20 | **1,748** | – |
| Corporation tax liability | | **–** | 786 |
| Total current liabilities | | **16,308** | 982 |
| **Total equity and liabilities** | | **143,460** | 135,340 |

Savannah Petroleum PLC (Company number: 09115262)

The Company has elected to take the exemption under section 408 of the Companies Act 2006 to not present the parent Company income statement. The loss of the legal parent Company for the year to 31 December 2017 was US$19,152,476 (2016: US$1,822,000).

The financial statements were approved by the Board of Directors and authorised for issue on 22 March 2018 and are signed on its behalf by:

**Andrew Knott**
Director

# Consolidated Statement of Cash Flows
## as at 31 December 2017

| | Note | Year ended 31 December 2017 US$'000 | Year ended 31 December 2016 US$'000 |
|---|---|---|---|
| **Cash flows from operating activities:** | | | |
| Net cash used in operating activities | 24 | **(15,677)** | (8,457) |
| **Cash flows from investing activities:** | | | |
| Payments for property, plant and equipment | | **(2,253)** | (441) |
| Proceeds from disposal of property, plant and equipment | | **–** | 97 |
| Exploration and evaluation costs paid | | **(17,313)** | (9,315) |
| Net cash used in investing activities | | **(19,566)** | (9,659) |
| **Cash flows from financing activities:** | | | |
| Finance costs | | **(221)** | (126) |
| Proceeds from issues of equity shares, net of issue costs | | **14,966** | 33,454 |
| Borrowings | 20 | **12,341** | – |
| Net cash provided by financing activities | | **27,086** | 33,328 |
| **Net (decrease)/increase in cash and cash equivalents** | | **(8,157)** | 15,212 |
| **Cash and cash equivalents at beginning of year** | | **23,061** | 7,849 |
| **Cash and cash equivalents at end of year** | | **14,904** | 23,061 |

# Company Statement of Cash Flows
## as at 31 December 2017

| | Note | Year ended 31 December 2017 US$'000 | Year ended 31 December 2016 US$'000 |
|---|---|---|---|
| **Cash flows from operating activities:** | | | |
| Net cash used in operating activities | 24 | **(8,013)** | (54) |
| **Cash flows from investing activities:** | | | |
| Parent company funding of subsidiaries | | **(16,787)** | (18,810) |
| Payments for property, plant and equipment | | **(13)** | – |
| Net cash used in investing activities | | **(16,800)** | (18,810) |
| **Cash flows from financing activities:** | | | |
| Finance costs | | **(11)** | (436) |
| Proceeds from issues of equity shares, net of issue costs | | **14,966** | 33,454 |
| Borrowings | 20 | **1,586** | – |
| Net cash provided by financing activities | | **16,541** | 33,018 |
| **Net (decrease)/increase in cash and cash equivalents** | | **(8,272)** | 14,154 |
| Cash and cash equivalents at beginning of year | | **21,794** | 7,640 |
| Cash and cash equivalents at end of year | | **13,522** | 21,794 |

# Consolidated Statement of Changes in Equity
## as at 31 December 2017

| | Share capital US$'000 | Share premium US$'000 | Capital contribution US$'000 | Share based payment reserve US$'000 | Accumulated deficit US$'000 | Total US$'000 | Non-controlling interest US$'000 | Total US$'000 |
|---|---|---|---|---|---|---|---|---|
| Balance at 01 January 2016 | 321 | 108,576 | 458 | 1,223 | (22,149) | 88,429 | (350) | 88,079 |
| Loss for the year | – | – | – | – | (9,818) | (9,818) | (15) | (9,833) |
| Other comprehensive income | – | – | – | – | – | – | – | – |
| **Total comprehensive income for the period** | – | – | – | – | (9,818) | (9,818) | (15) | (9,833) |
| **Transactions with shareholders:** | | | | | | | | |
| Equity settled share based payments | – | – | – | 1,715 | – | 1,715 | – | 1,715 |
| Issue of ordinary shares to shareholders, net of issue costs | 162 | 38,316 | – | – | – | 38,478 | – | 38,478 |
| **Balance at 31 December 2016** | 483 | 146,892 | 458 | 2,938 | (31,967) | 118,804 | (365) | 118,439 |
| Loss for the year | – | – | – | – | (27,350) | (27,350) | (32) | (27,382) |
| Other comprehensive income | – | – | – | – | – | – | – | – |
| **Total comprehensive income for the period** | – | – | – | – | (27,350) | (27,350) | (32) | (27,382) |
| **Transactions with shareholders:** | | | | | | | | |
| Equity settled share based payments | – | – | – | 1,613 | – | 1,613 | – | 1,613 |
| Issue of ordinary shares to shareholders, net of issue costs | 37 | 10,296 | – | – | – | 10,333 | – | 10,333 |
| **Balance at 31 December 2017** | **520** | **157,188** | **458** | **4,551** | **(59,317)** | **103,400** | **(397)** | **103,003** |

# Company Statement of Changes in Equity
## as at 31 December 2017

| | Share capital US$'000 | Share premium US$'000 | Capital contribution US$'000 | Share based payment reserve US$'000 | Accumulated deficit US$'000 | Total US$'000 |
|---|---|---|---|---|---|---|
| Balance at 01 January 2016 | 321 | 108,576 | 458 | 1,223 | (14,591) | 95,987 |
| Loss for the year | – | – | – | – | (1,822) | (1,822) |
| Other comprehensive income | – | – | – | – | – | – |
| **Total comprehensive income for the period** | – | – | – | – | (1,822) | (1,822) |
| **Transactions with shareholders:** | | | | | | |
| Equity settled share based payments | – | – | – | 1,715 | – | 1,715 |
| Issue of ordinary shares to shareholders, net of issue costs | 162 | 38,316 | – | – | – | 38,478 |
| **Balance at 31 December 2016** | 483 | 146,892 | 458 | 2,938 | (16,413) | 134,358 |
| Loss for the year | – | – | – | – | (19,152) | (19,152) |
| Other comprehensive income | – | – | – | – | – | – |
| **Total comprehensive income for the period** | – | – | – | – | (19,152) | (19,152) |
| **Transactions with shareholders:** | | | | | | |
| Equity settled share based payments | – | – | – | 1,613 | – | 1,613 |
| Issue of ordinary shares to shareholders, net of issue costs | 37 | 10,296 | – | – | – | 10,333 |
| **Balance at 31 December 2017** | **520** | **157,188** | **458** | **4,551** | **(35,565)** | **127,152** |

# Notes to the Financial Statements
## period ended 31 December 2017



### 1. Corporate information

The consolidated financial statements of Savannah Petroleum PLC ("Savannah" or the "Company") and its subsidiaries (together the "Group") for the year to 31 December 2017 were authorised for issue in accordance with a resolution of the Board of Directors on 22 March 2018.

Savannah was incorporated in the United Kingdom on 3 July 2014. Savannah's principal activity is the management of its investment in Savannah Petroleum 1 Limited ("SP1"). SP1 was incorporated in Scotland on 3 July 2013. SP1's principal activity is the management of its investment in Savannah Petroleum 2 Limited ("SP2"), and the provision of services to other companies within the Group. SP2 has a 95% interest in Savannah Petroleum Niger R1/R2 S.A. ("Savannah Niger") whose principal activity is the exploration of hydrocarbons in the Republic of Niger.

The Company is domiciled in the UK for tax purposes and its shares were listed on the Alternative Investments Market ("AIM") of the London Stock Exchange on 1 August 2014.

The Company's registered address is 40 Bank Street, London, E14 5NR.

The Group's functional currency is US dollars ("US$").

No dividends have been declared or paid since incorporation.

### 2. Basis of preparation

The consolidated financial statements of the Group have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union ("IFRSs as adopted by the EU"), IFRIC interpretations and those parts of the Companies Act 2006 applicable to companies reporting under IFRS. The consolidated financial statements have been prepared under the historical cost convention.

The consolidated financial statements of the Group incorporate the results for the year to 31 December 2017.

**Going concern**

The Directors have reviewed the budgets and forecasts as well as the funding requirements of the business for the next 12 months. Having conducted this review, the Directors have a reasonable and strong expectation that the Group has adequate resources to continue operating for the foreseeable future. The planned acquisition of certain assets from Seven Energy is expected to see the Company acquire interests in two free cash flow generative oil and gas fields and receive incremental cash funds on close associated with the US$20m proceeds from the SSN equity issuance. This transaction is currently anticipated to complete in the second quarter of 2018, following the satisfaction of relevant conditions precedent which include, inter alia, the Implementation Agreement being entered into, the Accugas Transaction and the Accugas Waiver becoming effective, the Frontier Agreements being entered into and becoming effective, Ministerial Consent and NSEC Consent. Upon completion of the transaction the Group is therefore expected to benefit from a significant positive liquidity/working capital inflow. Were the transaction to be materially delayed from the currently anticipated second quarter completion schedule, which the Directors recognise as a potential risk, the Company would likely be required to access incremental debt facilities. The Directors have a reasonable and strong expectation that the Group would be able to achieve this. On this basis the Directors continue to adopt the going concern basis in preparing the consolidated financial statements.

The Group is in a positive net asset position at 31 December 2017, and had at that date US$14,904,000 (2016: US$23,061,000) of cash and cash equivalents to meet its operational requirements.

In December 2017, the Company announced a US$125,000,000 equity raise, of which US$12,970,000 (gross) was received by the Company prior to year end. The remainder of the placing was successfully completed post-period end. The use of proceeds of this placing is to fund ongoing Niger operations, the Seven Energy transaction and ongoing corporate purposes.

**Basis of consolidation**

*Subsidiaries*

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries.

Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the Group controls an investee if, and only if, the Group has:

- Power over the investee (i.e. existing rights that give it the current ability to direct the relevant activities of the investee);
- Exposure, or rights, to variable returns from its involvement with the investee; and
- The ability to use its power over the investee to affect its returns.

Generally, there is a presumption that a majority of voting rights result in control. To support this presumption and when the Group has less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- The contractual arrangement with the other vote holders of the investee;
- Rights arising from other contractual arrangements; and
- The Group's voting rights and potential voting rights.

The Group re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated financial statements from the date the Group gains control until the date the Group ceases to control the subsidiary.

# Notes to the Financial Statements (continued)
period ended 31 December 2017

## 2. Basis of preparation (continued)

Profit or loss and each component of other comprehensive income are attributed to the equity holders of the parent of the Group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance.

See note 14 for the companies that have been consolidated within the Group financial statements.

*Transactions eliminated upon consolidation*

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by other members of the Group. All intra-group transactions, balances, income and expenses are eliminated in full on consolidation.

## 3. Significant accounting policies

**New and amended IFRS standards**

The following relevant new standards, amendments to standards and interpretations are mandatory for the first time for the financial year beginning 1 January 2017, but had no significant impact on the Group:

| Standard | Key requirements | Effective date as adopted by the EU |
|---|---|---|
| Amendments to IAS 7 | Disclosure initiative: additional disclosures to enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both cash and non-cash changes. | 1 January 2017 |

**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 2017, as adopted by the European Union, and have not been early adopted:

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

The Directors have assessed the relevant new standards which have been issued but are not yet effective. Other than for IFRS 15, the Directors anticipate that the adoption of these standards and interpretations in future periods will have no material impact on the financial statements of the Group when they come into effect.

Once the Group has assets which produce, IFRS 15 will be carefully considered and may impact both the measurement and disclosure of revenue, depending on the revenue contracts which are ultimately entered into by the Group.

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

**Foreign currency translation**

*Transactions and balances*

Transactions entered into in a currency other than the functional currency are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. At each statement of financial position date, the monetary assets and liabilities of the Group's entities that are not in the functional currency of that entity are translated into the functional currency at exchange rates prevailing at the statement of financial position date. The resulting exchange differences are recognised in the Statement of Comprehensive Income.

## 3. Significant accounting policies (continued)

*Functional and presentation currency*

Management has concluded that the US dollar is the functional currency of each entity of the Group due to it being the currency of the primary economic environment in which the Group operates, based on the following facts:

- Most of the expenses of the entities of the Group are denominated in US dollars; and
- The majority of funds raised from financing activities (debt or equity instruments) are either generated in US dollars or are raised in GBP and immediately converted to US dollars.

The consolidated financial statements are presented in US dollars.

**Property, plant and equipment**

Property, plant and equipment is stated at cost less accumulated depreciation and any accumulated impairment losses. Cost includes expenditure that is directly attributable to the acquisition of the items.

Depreciation is provided at rates calculated to write each asset down to its estimated residual value evenly over its expected useful life as follows:

| | (Years) |
|---|---|
| Computers | 3 |
| Motor Vehicles | 4 |
| Equipment | 5-10 |
| Furniture and fixtures | 5-10 |

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

**Investments in subsidiaries**

Investments in subsidiaries are stated in the parent company's statement of financial position at cost less any provisions for impairment. If a distribution is received from a subsidiary, then the investment in that subsidiary is assessed for an indication of impairment.

**Loan note conversion**

Loan notes converted to equity are recognised in equity at the settlement amount of the loan note, on the settlement date, being the legal amount of the debt that is released for the issue of shares.

Where a premium that would be due to a loan note holder under the terms of the loan note agreement is waived on conversion, a capital contribution is recognised in equity in respect of the value of the waived premium.

The difference between the settlement amount under the conversion, and the historic carrying value of the loan notes, is recognised as a finance cost within the statement of comprehensive income.

**Segmental analysis**

In the opinion of the Directors, the Group is primarily organised into a single operating segment. This is consistent with the Group's internal reporting to the chief operating decision maker. Separate segmental disclosures have therefore not been included.

**Exploration and evaluation assets**

Intangible assets relate to exploration, evaluation and development expenditure and are accounted for under the 'successful efforts' method of accounting per IFRS 6 'Exploration for an Evaluation of Mineral Resources'. The successful efforts method means that only costs which relate directly to the discovery and development of specific oil and gas reserves are capitalised. Exploration and evaluation costs are valued at costs less accumulated impairment losses and capitalised within intangible assets. Development expenditure on producing assets is accounted for in accordance with IAS 16, 'Property, plant and equipment'. Costs incurred prior to obtaining legal rights to explore are expensed immediately to the statement of comprehensive income.

## 3. Significant accounting policies (continued)

**Impairment**

*Property, plant and equipment and intangible assets excluding exploration and evaluation assets*

At each statement of financial position date, the Group reviews the carrying amounts of its property, plant and equipment and intangible assets 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 (if any).

The recoverable amount is the higher of fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows. 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 immediately in the statement of comprehensive income.

Non-financial assets which have suffered an impairment are reviewed for possible reversal of the impairment at each reporting date. Where an impairment loss subsequently reverses, the carrying amount of the asset (cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (cash-generating unit) in prior periods. A reversal of an impairment loss is recognised immediately in the statement of comprehensive income.

*Exploration and evaluation assets*

Impairment tests are performed when the Group identifies facts or circumstances implying a possible impairment in accordance with IFRS 6. Where the Group identifies that an asset may be impaired, the Group performs an assessment of the recoverable value in accordance with the requirements of IFRS 6. Any impairment identified is immediately charged to the statement of comprehensive income.

Management notes that the initial four year term of the R1/R2 PSC Area expires in June 2018. Management intends to seek an extension to this term, and has initiated discussions with the relevant authorities in Niger in relation to this. The Group continues to progress technical work on the R1/R2 PSC Area, and to make relevant preparations for potential operational programmes on the license.

**Financial assets**

*Cash and cash equivalents*

Cash and cash equivalents consist of cash on hand and demand deposits.

*Amounts due from Group and other receivables*

Other receivables are measured at amortised cost using the effective interest method less any impairment.

*Impairment of financial assets*

Financial assets are assessed for indicators of impairment at each statement of financial position date. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been impacted.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

**Financial liabilities and equity**

Debt and equity instruments are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangement.

*Equity instruments*

Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs, which are charged to share premium.

*Trade payables*

Trade payables are measured at fair value.

## 3. Significant accounting policies (continued)

**Taxation**

The tax expense represents the sum of the tax currently payable.

*Current tax*

The tax currently payable is based on taxable profit for the period. Taxable profit differs from profit as reported in the statement of comprehensive income because it excludes items of income or expense that are taxable or deductible in other periods and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the statement of financial position date.

*Deferred tax*

Deferred tax is recognised on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax basis used in the computation of taxable profit and is accounted for using the statement of financial position liability method.

Deferred tax liabilities are generally recognised for all taxable temporary differences, and deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries and associates, and interests in joint ventures, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each statement of financial position date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered. Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realised, based on tax rates (and tax laws) that have been enacted or substantively enacted by the statement of financial position date. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the reporting date, to recover or to settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

*Current and deferred tax for the period*

Current and deferred tax are recognised as an expense or income in profit or loss, except when they relate to items credited or debited directly to equity or other comprehensive income, in which case the tax is also recognised directly in equity or other comprehensive income, as appropriate.

*Value Added Tax*

When VAT is expected to be recoverable through the existence of future sales, the Group's policy is to record this recoverable VAT as a non-current tax asset.  In instances where the future recoverability of VAT cannot be assessed with sufficient confidence, the Group's policy is to add the potentially irrecoverable VAT to the cost of the underlying transaction and capitalise or expense the amount according to the treatment of the underlying transaction.

**Share-based payments**

The Group issues equity-settled share-based payments to some of its employees and Directors through stock options plans, restricted shares or warrants. In accordance with IFRS 2, these plans are measured at fair value on the grant date and are accounted for as an employee expense on a straight-line or graduated vesting for each tranche basis over the vesting period of the plans.

The equity settled transaction reserve accounts for the expense associated with options that have been granted but not yet vested. The cost of the share options is recognised as an increase in the equity settled transaction reserve at the time of the award and this reserve is transferred to the accumulated deficit account over time when such shares become vested.

The proceeds received net of any directly attributable costs are credited to share capital (nominal value) and share premium in the Company.

The Company has the obligation to deliver the shares, and it is a Group subsidiary company that employs the individuals. In the Company's separate financial statements, there is no share-based payment charge, as no employees are providing services to the Company. The Company recognises an increase in the investment in the employing subsidiary as a capital contribution from the parent and a corresponding increase in equity.

## 3. Significant accounting policies (continued)

**Capital**

The capital structure of the Group consists of equity attributable to the owners of the Company, comprising issued capital, the capital contribution reserve, the other reserve in respect of stamp tax arising on the issue of equity, the share based payment reserve and the accumulated deficit.

*Share capital*

Share capital comprises issued capital in respect of issued and paid up shares, at their par value.

*Share premium*

Share premium comprises the difference between the proceeds received and the par value of the issued and paid up shares.

*Capital contribution*

The capital contribution reserve comprises the capital contribution that was made by shareholders of the Company as part of the debt to equity conversion.

*Share based payment reserve*

The share based payment reserve relates to equity-settled share-based payments provided to employees, including key management personnel, as part of their remuneration.

*Warrants*

The Company has granted one warrant to subscribe for ordinary shares for every two placing shares subscribed for by each participant in the placing (announced in December 2017), exercisable within 12 months at the placing price. The warrants that are attributable to the first tranche placing shares will not be granted until after the issue of the second tranche placing shares, and as such are conditional upon, amongst other things, the passing of certain resolutions.

The warrants constitute a financial instrument and should be accounted for based on the outcome of the 'fixed for fixed test'. The warrants are denominated in Sterling, when the Group's functional and reporting currency is the US Dollar. A derivative therefore arises on the first tranche placing (the "fixed for fixed" test does not pass) however the fair value of this derivative is immaterial and therefore is not separately recognised or disclosed.

*Accumulated deficit*

Accumulated deficit comprises the accumulated deficit retained by the Company.

The Group's objective when managing capital is to maintain adequate financial flexibility to preserve its ability to meet financial obligations, both current and long term and to maintain an optimal capital structure to reduce the cost of capital.

The capital structure of the Group is managed and adjusted to reflect changes in economic conditions.

The Group funds its expenditures on commitments from existing cash and cash equivalent balances, received from the issue of shares. There are no externally imposed capital requirements. Financing decisions are made by the Directors based on forecasts of the expected timing and level of capital and operating expenditure required to meet the Group's commitments and development plans.

**Leasing**

Operating lease payments are recognised as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

**Earnings per share**

*(i) Basic earnings per share*

Basic earnings per share is determined by dividing net profit after income tax attributable to members of the Company, excluding any costs of servicing equity other than ordinary shares, by the weighted average number of ordinary shares outstanding during the financial year, adjusted for bonus elements in ordinary shares issued during the year.

*(ii) Diluted earnings per share*

Diluted earnings per share adjusts the figures used in the determination of basic earnings per share to take into account the post-income tax effect of interest and other financing costs associated with dilutive potential ordinary shares and the weighted average number of shares assumed to have been issued for no consideration in relation to dilutive potential ordinary shares.

## 4. Critical accounting judgements and key sources of estimation uncertainty

In the application of the Group's accounting policies, which are described above, the Directors are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of revision and future periods if the revision affects both current and future periods.

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

***Recoverability of exploration and evaluation costs***

The outcome of ongoing exploration, and therefore the recoverability of the carrying value of intangible exploration and evaluation assets, is inherently uncertain. Management makes the judgements necessary to implement the Group's policy with respect to exploration and evaluation assets and considers these assets for impairment at least annually with reference to indicators in IFRS 6.

The amount for intangible exploration and evaluation assets represents active exploration projects. These will ultimately be written off to the statement of comprehensive income as exploration costs if commercial reserves are not established but are carried forward in the statement of financial position whilst the determination process is not yet completed and there are no indications of impairment having regard to the indicators in IFRS 6. On the R3/R4 license area, the Group has committed to a 3 well drilling campaign in 2018. On the R1/R2 license area, the Group continues to progress technical work, and to make relevant preparations for potential operational programmes on the license while discussions are ongoing with relevant authorities in relation to the potential extension of the initial license term.

***Share based payments***

The share-based payment charge is determined based on a number of judgements, including the selection of an appropriate valuation model, and is based on the estimation of the number of awards that will ultimately vest, and vesting periods. Further details are provided in note 18.

## 5. Segmental reporting

The Group complies with IFRS 8 Operating Segments, which requires operating segments to be identified on the basis of internal reports about components of the Group that are regularly reviewed by the Chief Executive to allocate resources to the segments and to assess their performance.

In the opinion of the Directors, the operations of the Group comprise one class of business, being oil and gas exploration and related activities in only one geographical area, Niger.

## 6. Operating loss

Operating loss has been arrived at after charging:

| Year Ended 31 December | **2017 US$'000** | 2016 US$'000 |
|---|---|---|
| Depreciation of property, plant and equipment | **274** | 124 |
| Staff costs (note 7) | **5,097** | 4,766 |
| Operating lease rental | **189** | – |

During the year, an amount of US$18,500,000 (2016: US$0) related to costs associated with the proposed acquisition of the Seven Assets and Seven Energy Creditor Group and was included within operating loss.

During the year the Group (including its overseas subsidiaries) obtained the following services from the Company's auditor:

| Year Ended 31 December | **2017 US$'000** | 2016 US$'000 |
|---|---|---|
| **Fees payable to Grant Thornton UK LLP for the audit of the Company's annual accounts** | **86** | 77 |
| **Total audit fees payable to Grant Thornton UK LLP and their associates** | **86** | 77 |
| **Fees payable to Grant Thornton UK LLP and their associates for other services to the Group** | | |
| Audit-related assurance services | **17** | 11 |
| Other taxation compliance services | **8** | 25 |
| **Total non-audit fees payable to Grant Thornton UK LLP and their associates** | **25** | 36 |

# Notes to the Financial Statements (continued)
period ended 31 December 2017

## 7. Staff costs

The average monthly number of employees, (including executive Directors) during the year was:

| Year Ended 31 December | **2017 No.** | 2016 No. |
|---|---|---|
| Employees | **19** | 13 |

Employee benefits recognised as an expense during the period comprised:

| Year Ended 31 December | **2017 US$'000** | 2016 US$'000 |
|---|---|---|
| Wages and salaries | **2,974** | 2,551 |
| Share based payments | **1,613** | 1,715 |
| Pension costs | **97** | 76 |
| Social security costs & benefits | **413** | 424 |
| | **5,097** | 4,766 |

Director's remuneration during the year comprised:

| Year Ended 31 December | **2017 US$'000** | 2016 US$'000 |
|---|---|---|
| Wages and salaries | **2,061** | 1,105 |
| Share based payments | **1,387** | 1,508 |
| Pension costs | **51** | 55 |
| Social security costs & benefits | **288** | 156 |
| | **3,787** | 2,824 |

Further details of Director's remuneration are provided in the Directors' Remuneration Report.

## 8. Finance income

| Year Ended 31 December | **2017 US$'000** | 2016 US$'000 |
|---|---|---|
| Bank interest | **3** | – |
| Foreign exchange gain[1] | **280** | 207 |
| | **283** | 207 |

## 9. Finance costs

| Year Ended 31 December | **2017 US$'000** | 2016 US$'000 |
|---|---|---|
| Bank charges | **220** | 15 |
| Other finance costs | **341** | 111 |
| | **561** | 126 |

[1] The net foreign exchange gain booked is US$280,000 (2016 gain: US$207,000) and is mainly the result of the movements of GBP and XOF against the US dollar during the period.

## 10. Income tax

The tax expense for the Group is:

| Year Ended 31 December | **2017 US$'000** | 2016 US$'000 |
|---|---|---|
| UK Corporation tax | **–** | 1,502 |
| Foreign Income Tax | **13** | – |
| | **13** | 1,502 |

| Year Ended 31 December | **2017 US$'000** | 2016 US$'000 |
|---|---|---|
| The charge for the period can be reconciled per the statement of comprehensive income as follows: | | |
| Loss on ordinary activities before taxes | **27,368** | 8,331 |
| Loss before taxation multiplied by the UK corporation tax rate of 19.25% (2016: 20%) | **5,268** | 1,666 |
| Effects of: | | |
| Expenses disallowed for tax | **(1,913)** | (485) |
| Tax losses carried forward | **(3,355)** | (1,203) |
| Controlled foreign entity charge | **–** | (1,480) |
| Effect of different tax rates of subsidiaries operating in other jurisdictions | **(13)** | – |
| Tax charge for the period | **(13)** | (1,502) |

As of 1 April 2017, the corporation tax rate is 19%.

Taxation for other jurisdictions is calculated at the rates prevailing in the respective jurisdictions.

At 31 December 2017, tax losses were US$25,670,000 (2016: US$22,315,000). Tax losses will be carried forward and are potentially available for utilisation against taxable profits in future years. The potential tax benefit of the tax losses carried forward at 19% is US$4,877,000 (2016: US$4,463,000).

At 31 December 2017, a temporary difference for corporation tax purposes in respect of share based payments of US$4,551,000 (2016: US$2,938,000) existed, which is potentially available for utilisation against taxable profits in future years.

The Group has not recognised a deferred tax asset in respect of tax losses and temporary differences as it does not currently meet the recognition criteria of IAS 12 'Income Taxes'. The asset will be recognised in future periods when its recovery (against appropriate taxable profits) is considered probable.

# Notes to the Financial Statements (continued)

period ended 31 December 2017

### 11. Earnings per share

Basic loss per share amounts are calculated by dividing the loss for the period attributable to owners of the parent by the weighted average number of ordinary shares outstanding during the period.

Diluted loss per share amounts are calculated by dividing the loss for the periods attributable to owners of the parent by the weighted average number of ordinary shares outstanding during the period, plus the weighted average number of shares that would be issued on the conversion of dilutive potential ordinary shares into ordinary shares. The effect of share options and warrants are therefore excluded from the calculation of diluted loss per share.

| Year ended 31 December | **2017 US$'000** | 2016 US$'000 |
|---|---|---|
| Earnings | | |
| Net loss attributable to owners of the parent | **(27,350)** | (9,818) |

| | **Number of shares** | Number of shares |
|---|---|---|
| Basic and diluted weighted average number of shares | **274,922,400** | 229,221,183 |

| | | |
|---|---|---|
| Loss per share | **US$** | US$ |
| Basic and diluted | **(0.10)** | (0.04) |

In July 2016 the Company issued 81,280,000 new ordinary shares as part of an equity fund raising to the value of US$40 million (gross).

In December 2017 the Company issued 27,462,000 new ordinary shares as part of an equity fund raising to the value of US$13 million (gross).

Refer to Note 27 (Post Balance Sheet Events) for more detail on the placing of the second tranche of shares.

### 12. Property, plant and equipment

**Group**

| Cost | Computer equipment US$'000 | Equipment US$'000 | Furniture & fixtures US$'000 | Motor Vehicle US$'000 | Drilling Property, Plant & Equipment US$'000 | Drill Bits US$'000 | Wellhead equipment US$'000 | New Base Camp US$'000 | Total US$'000 |
|---|---|---|---|---|---|---|---|---|---|
| Balance at 01 January 2016 | 2 | 614 | 220 | – | – | – | – | – | 836 |
| Additions | 1 | – | 45 | 395 | – | – | – | – | 441 |
| Disposals | – | (97) | – | – | – | – | – | – | (97) |
| Balance at 31 December 2016 | 3 | 517 | 265 | 395 | – | – | – | – | 1,180 |
| Additions | 1 | 530 | 47 | 52 | 3 | 146 | 991 | 483 | 2,253 |
| **Balance at 31 December 2017** | **4** | **1,047** | **312** | **447** | **3** | **146** | **991** | **483** | **3,433** |

## 12. Property, plant and equipment (continued)

| Accumulated depreciation | Computer equipment US$'000 | Equipment US$'000 | Furniture & fixtures US$'000 | Motor Vehicle US$'000 | Drilling Property, Plant & Equipment US$'000 | Drill Bits US$'000 | Wellhead equipment US$'000 | New Base Camp US$'000 | Total US$'000 |
|---|---|---|---|---|---|---|---|---|---|
| Balance at 01 January 2016 | (1) | (55) | (46) | – | – | – | – | – | (102) |
| Depreciation charge | (1) | (47) | (46) | (30) | – | – | – | – | (124) |
| Balance at 31 December 2016 | (2) | (102) | (92) | (30) | – | – | – | – | (226) |
| Depreciation charge | (1) | (74) | (57) | (108) | – | – | – | (34) | (274) |
| **Balance at 31 December 2017** | **(3)** | **(176)** | **(149)** | **(138)** | **–** | **–** | **–** | **(34)** | **(500)** |
| **Net Book Value** | | | | | | | | | |
| Balance at 31 December 2016 | 1 | 415 | 173 | 365 | – | – | – | – | 954 |
| **Balance at 31 December 2017** | **1** | **871** | **163** | **309** | **3** | **146** | **991** | **449** | **2,933** |

### Company

| Cost | Equipment US$'000 | Furniture & fixtures US$'000 | Total US$'000 |
|---|---|---|---|
| Balance at 01 January 2016 and 31 December 2016 | 194 | 128 | 322 |
| Additions | – | 13 | 13 |
| **Balance at 31 December 2017** | **194** | **141** | **335** |

| Accumulated depreciation | | | |
|---|---|---|---|
| Balance at 01 January 2016 | (18) | (23) | (41) |
| Depreciation charge | (19) | (26) | (45) |
| Balance at 31 December 2016 | (37) | (49) | (86) |
| Depreciation charge | (19) | (27) | (46) |
| **Balance at 31 December 2017** | **(56)** | **(76)** | **(132)** |

| Net book value | | | |
|---|---|---|---|
| Balance at 31 December 2016 | 157 | 79 | 236 |
| **Balance at 31 December 2017** | **138** | **65** | **203** |

# Notes to the Financial Statements (continued)
period ended 31 December 2017

## 13. Exploration and evaluation assets

**Group**

Exploration and evaluation assets consist of acquisition costs relating to the acquisition of exploration licenses and other costs associated directly with the discovery and development of specific oil and gas reserves in the R1/R2 and R3/R4 licence area in the Republic of Niger.

| | Total US$'000 |
|---|---|
| Balance at 01 January 2016 | 80,529 |
| Additions | 16,384 |
| Balance at 31 December 2016 | 96,913 |
| Additions | 14,820 |
| **Balance at 31 December 2017** | **111,733** |

The amount for intangible exploration and evaluation assets represents active exploration projects. These will ultimately be written off to the statement of comprehensive income as exploration costs if commercial reserves are not established but are carried forward in the statement of financial position whilst the determination process is not yet completed and there are no indications of impairment having regard to the indicators in IFRS 6. On the R3/R4 license area, the Group has committed to a 3 well drilling campaign in 2018. On the R1/R2 license area, the Group continues to progress technical work, and to make relevant preparations for potential operational programmes on the license while discussions are ongoing with relevant authorities in relation to the potential extension of the initial license term.

**Company**

No exploration and evaluation assets were capitalised by the Company as at the statement of financial position date.

## 14. Investment in subsidiaries

| | **Company 2017 US$'000** | Company 2016 US$'000 |
|---|---|---|
| Savannah Petroleum 1 Limited | **4,550** | 2,938 |
| SPN Limited | **75,160** | 75,160 |
| | **79,710** | 78,098 |

The Group subsidiaries are disclosed below. Transactions between subsidiaries and parent company are eliminated on consolidation.

| Name | Nature of business | Country of incorporation | Type of share | Group shareholding |
|---|---|---|---|---|
| Savannah Petroleum 1 Limited | Investment company | United Kingdom | Ordinary | 100% |
| Savannah Petroleum 2 Limited | Investment company | United Kingdom | Ordinary | 95% |
| Savannah Petroleum International Limited | Service | United Kingdom | Ordinary | 100% |
| SPN Limited | Holding | Jersey | Ordinary | 100% |
| Savannah Petroleum SAS | Service | France | Ordinary | 100% |
| Savannah Niger R1/R2 SA | Oil exploration company | Niger | Ordinary | 95% |

The table below shows details of non-wholly owned subsidiaries of the Group that have material non-controlling interests:

| Name | Proportion of ownership interests and voting rights held by non-controlling interests | Loss allocated to non-controlling interests in year ended 31 December 2017 US$'000 | Accumulated non-controlling interests US$'000 |
|---|---|---|---|
| Savannah Petroleum 2 Limited | 5% | – | – |
| Savannah Niger R1/R2 SA | 5% | (32) | (397) |
| Total | | (32) | (397) |

## 14. Investment in subsidiaries (continued)

| Name | Proportion of ownership interests and voting rights held by non-controlling interests | Loss allocated to non-controlling interests in year ended 31 December 2016 US$'000 | Accumulated non-controlling interests US$'000 |
|---|---|---|---|
| Savannah Petroleum 2 Limited | 5% | – | – |
| Savannah Niger R1/R2 SA | 5% | (15) | (365) |
| Total | | (15) | (365) |

## 15. Other receivables and prepayments

| As at 31 December | **Group 2017 US$'000** | **Company 2017 US$'000** | Group 2016 US$'000 | Company 2016 US$'000 |
|---|---|---|---|---|
| Prepayments | **436** | **364** | 761 | 656 |
| VAT receivables | **1,214** | **1,180** | 192 | 169 |
| Amounts owed from other group companies | **–** | **46,140** | – | 29,269 |
| Other receivables | **2,349** | **2,341** | 5,121 | 5,118 |
| | **3,999** | **50,025** | 6,074 | 35,212 |

In 2016, $5,024,824 worth of called up share capital had been recognised in other receivables. This amount was received in full after the 2016 year-end. Due to the timing of the equity placing, other receivables include US$392,000 relating to unpaid called up share capital.

Company receivables of US$46,140,000 (2016: US$29,269,000) and other receivables of US$2,341,000 (2016: US$5,118,000) are receivable within one year by the Group and are not interest bearing.

The Directors consider that the carrying amount of other receivables and prepayments approximates to their fair value and no amounts are provided against them. The Directors consider any change in the credit quality of the receivable from the date credit was granted to the reporting date.

## 16. Cash and cash equivalents

| As at 31 December | **Group 2017 US$'000** | **Company 2017 US$'000** | Group 2016 US$'000 | Company 2016 US$'000 |
|---|---|---|---|---|
| Cash and cash equivalents | **14,904** | **13,522** | 23,061 | 21,794 |

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

Cash and cash equivalents includes US$1,300,000 of cash collateral on the Orabank revolving facility.

The amount of cash and cash equivalents denominated in currencies other than US$ is shown in note 22 to these financial statements.

## 17. Capital and reserves

| As at 31 December | **2017** | 2016 |
|---|---|---|
| Fully paid ordinary Shares in issue (number) | **301,793,177** | 264,489,510 |
| Called up ordinary Shares in issue (number) | **290,270** | 10,131,937 |
| Par value per share in GBP | **0.001** | 0.001 |

| | Number of Shares | Share Capital US$'000 | Share Premium US$'000 | Total US$'000 |
|---|---|---|---|---|
| At 01 January 2016 | 193,341,447 | 321 | 108,576 | 108,897 |
| Shares issued | 81,280,000 | 162 | 38,316 | 38,478 |
| At 31 December 2016 | 274,621,447 | 483 | 146,892 | 147,375 |
| Shares issued | 27,462,000 | 37 | 10,296 | 10,333 |
| **At 31 December 2017** | **302,083,447** | **520** | **157,188** | **157,708** |

In July 2016, 81,280,000 ordinary shares of £0.001 were issued as part of an equity fund raising to the value of US$40 million (gross).

In December 2017 the Company issued 27,462,000 new ordinary shares as part of the first tranche placing of an equity fund raising, to the value of US$13 million (gross). Due to the timing of the equity placing, US$392,000 of new shares issued were unpaid as at the year-end and are included as part of other debtors. The second tranche placing of the equity fund raising was completed after the year-end.

| **Group and Company** | Capital contribution US$'000 | Share based payment reserve US$'000 | Total US$'000 |
|---|---|---|---|
| At 01 January 2016 | 458 | 1,223 | 1,681 |
| Share based payments expense during the year | – | 1,715 | 1,715 |
| At 31 December 2016 | 458 | 2,938 | 3,396 |
| Share based payments expense during the year | – | 1,613 | 1,613 |
| **At 31 December 2017** | **458** | **4,551** | **5,009** |

***Nature and purpose of reserves***

***Share based payment reserve***

The share based payment reserve is used to recognise the value of equity-settled share-based payments provided to employees, including key management personnel, as part of their remuneration. Further details of share based payments are at note 18.

***Capital risk management***

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while seeking to maximise the return to shareholders through the optimisation of the debt and equity balance.

Details of the Group's capital structure can be found in the capital accounting policy.

The proceeds of capital raised by the business are used to finance the Group's ongoing development, appraisal of its exploration and evaluation assets, inorganic acquisitions and other business development in line with the Group's strategy.

## 18. Share-based payments

The Group operates a share option plan as part of the remuneration of employees.

**Share option plan**

| | **For the year ended 31 December 2017 US$'000** | For the year ended 31 December 2016 US$'000 |
|---|---|---|
| Share-based payments | **1,613** | 1,715 |

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 Group signed agreements with the key management personnel setting out the terms of the options in 2014. Under IFRS 2 the options were therefore deemed to have been granted in 2014. Once the Remuneration Committee has confirmed the successful completion of the milestone, a certain number of share options will be granted and vest for each participant.

| Milestone | Number of options | Assumed Exercise price | Market vesting condition | Assumed Vesting period |
|---|---|---|---|---|
| 1 | 15,737,896 | £0.01 | PLC share price to equal or exceed £1.68 | 10 years |

The options were valued on the grant date using a Monte-Carlo 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.

For valuation purposes an exercise price of £0.01 was used however shares in the Company will be issued at an effective exercise price of £0.56.

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

| | Charge during the period US$'000 | Number of options No. | Assumed exercise price in US$ per share |
|---|---|---|---|
| Outstanding at 01 January 2016 | | 15,737,896 | |
| Charge during the year | 595 | – | – |
| Granted, lapsed, exercised during the year | – | – | – |
| Outstanding at 31 December 2016 | | 15,737,896 | |
| Charge during the year | 554 | – | – |
| Granted, lapsed, exercised during the year | – | – | – |
| **Outstanding at 31 December 2017** | | **15,737,896** | **–** |

The calculation of the share option charge per share using the Monte-Carlo Pricing model has been calculated to be US$0.37. Based on the modelling assumptions vesting conditions, a charge of US$554,000 for the year to 31 December 2017 (2016: $595,000) has been recognised.

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

| | |
|---|---|
| Pricing model used | Monte-Carlo |
| Grant date | 28 November 2014 |
| Weighted average share price at grant date | £0.36 |
| Weighted average exercise price | £0.01 |
| Weighted average contractual life (years) | 10 |
| Share price volatility (%) | 89.69 |
| Dividend yield | – |
| Risk-free interest rate (%) | 1.924 |

The expected share price volatility of 89.69% has been determined by reference to historical prices of shares in the following comparator group companies: Tullow Oil Plc, Bowleven Plc, President Energy Plc, Sound Energy PLC (previously Sound Oil Plc) and Ascent Resources Plc.

## 18. Share-based payments (continued)

| Milestone | Number of options | Assumed Exercise price | Market vesting condition | Assumed Vesting period |
|---|---|---|---|---|
| 1 | 10,128,599 | £0.38 | PLC share price to equal or exceed £1.14 | 10 years |

The options were valued on the grant date using a Monte-Carlo 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:

| | Charge during the period US$'000 | Number of options No. | Assumed exercise price per share |
|---|---|---|---|
| Outstanding at 01 January 2016 | | 10,128,599 | |
| Charge during the year | 1,111 | – | – |
| Granted, lapsed and exercised during the year | – | – | – |
| Outstanding at 31 December 2016 | | 10,128,599 | |
| Charge during the year | 1,033 | – | – |
| Granted, lapsed, exercised during the year | – | – | – |
| **Outstanding at 31 December 2017** | | **10,128,599** | |

The calculation of the share option charge per share using the Monte-Carlo Pricing model has been calculated to be US$0.39. Based on the modelling assumptions vesting conditions, a charge of US$1,033,000 for the year to 31 December 2017 (2016: $1,111,000) has been recognised.

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

| | |
|---|---|
| Pricing model used | Monte-Carlo |
| Grant date | 30 July 2015 |
| Weighted average share price at grant date | £0.40 |
| Weighted average exercise price | £0.38 |
| Weighted average contractual life (years) | 10 |
| Share price volatility (%) | 82.34 |
| Dividend yield | – |
| Risk-free interest rate (%) | 1.519 |

The expected share price volatility of 82.34% has been determined by reference to historical prices of shares in the following comparator group companies: Tullow Oil Plc, Bowleven Plc, President Energy Plc, Sound Energy Plc and Ascent Resources Plc.

In the year to 31 December 2015 a supplementary share option plan was established.

***Supplementary share option plan***

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 Group signed agreements with the key management personnel setting out the terms of the options in 2015. Under IFRS 2 the options were therefore deemed to have been granted in 2015. Once the Remuneration Committee has confirmed the successful completion of the milestone, a certain number of share options will be granted and vest for each participant.

| Milestone | Number of options | Assumed Exercise price | Market vesting condition | Assumed Vesting period |
|---|---|---|---|---|
| 1 | 526,315 | £0.38 | PLC share price to equal or exceed £1.14 | 10 years |

## 18. Share-based payments (continued)

The options were valued on the grant date using a Monte-Carlo 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:

| | Charge during the period US$'000 | Number of options No. | Assumed exercise price per share |
|---|---|---|---|
| Outstanding at 01 January 2016 | | – | |
| Charge during the year | 10 | – | – |
| Granted, lapsed and exercised during the year | – | 526,315 | – |
| Outstanding at 31 December 2016 | | 526,315 | |
| Charge during the year | 26 | – | – |
| Granted, lapsed, exercised during the year | – | – | – |
| **Outstanding at 31 December 2017** | | **526,315** | |

The calculation of the share option charge per share using the Monte-Carlo Pricing model has been calculated to be US$0.21 for Tranche 1 and US$0.22 for Tranche 2. Based on the modelling assumptions vesting conditions, a charge of US$25,685 for the year to 31 December 2017 (2016: $9,702) has been recognised.

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

| | |
|---|---|
| Pricing model used | Monte-Carlo |
| Grant date | 10 August 2016 |
| Weighted average share price at grant date | £0.30 |
| Weighted average exercise price | £0.38 |
| Weighted average contractual life (years) | 10 |
| Share price volatility (%) | 61.28 |
| Dividend yield | – |
| Risk-free interest rate (%) | 0.13 |

The expected share price volatility of 61.28% has been determined by reference to historical prices of shares in the following comparator group companies: Tullow Oil Plc, Bowleven Plc, President Energy Plc, Sound Energy Plc.

## 19. Trade and other payables

| As at 31 December | **Group 2017 US$'000** | **Company 2017 US$'000** | Group 2016 US$'000 | Company 2016 US$'000 |
|---|---|---|---|---|
| Trade payables | **8,630** | **9,878** | 475 | 164 |
| Accruals | **9,258** | **4,682** | 7,302 | 32 |
| | **17,888** | **14,560** | 7,777 | 196 |

The Directors consider that the carrying amount of trade and other payables approximates to their fair value. All amounts are payable within one year.

## 20. Borrowings

| As at 31 December | **Group 2017 US$'000** | **Company 2017 US$'000** | Group 2016 US$'000 | Company 2016 US$'000 |
|---|---|---|---|---|
| Revolving credit facility | **10,930** | **–** | – | – |
| Loan notes | **1,748** | **1,748** | – | – |
| | **12,678** | **1,748** | – | – |

In July 2017 the Group entered into a revolving credit facility with Orabank SA for an amount of €11.4 million, bearing interest at 7.5% per annum.

In November and December 2017, the Group issued unsecured loan notes to the value of £1.2 million at 10% premium.

All borrowings were raised in the current year and no principal repayments were made as at 31 December 2017.

The movements in borrowings can be further explained as follows:

| Group US$'000 | As at 31 December 2016 | Cash Inflow/ (Outflow) | Interest Expense | **As at 31 December 2017** |
|---|---|---|---|---|
| Revolving credit facility | – | 10,755 | 175 | **10,930** |
| Loan notes | – | 1,586 | 162 | **1,748** |
| | – | 12,341 | 337 | **12,678** |

| Company US$'000 | As at 31 December 2016 | Cash Inflow/ (Outflow) | Interest Expense | **As at 31 December 2017** |
|---|---|---|---|---|
| Revolving credit facility | – | – | – | **–** |
| Loan notes | – | 1,586 | 162 | **1,748** |
| | – | 1,586 | 162 | **1,748** |

## 21. Non-controlling interests

Summarised financial information in respect of each of the Group's subsidiaries that has material non-controlling interests is set out below. The summarised financial information below represents amounts before intragroup eliminations.

**Savannah Niger**

| As at 31 December | **2017 US$'000** | 2016 US$'000 |
|---|---|---|
| Current assets | **4,504** | 16,549 |
| Non-current assets | **144,035** | 96,924 |
| Current liabilities | **(159,936)** | (124,269) |
| | **(11,397)** | (10,796) |
| Equity attributable to owners of the Group | **(11,000)** | (10,431) |
| Non-controlling interests | **(397)** | (365) |
| | **(11,397)** | (10,796) |

## 21. Non-controlling interests (continued)

| Period ended 31 December | 2017 US$'000 | 2016 US$'000 |
|---|---|---|
| Net loss and total comprehensive loss | **600** | 277 |
| Attributable to owners of the Group | **568** | 262 |
| Attributable to the non-controlling interest | **32** | 15 |
| | **600** | 277 |
| Net cash outflow from operating activities | **(600)** | (277) |
| Net cash inflow from financing activities | **742** | 1,429 |
| Net cash inflow | **142** | 1,152 |

Further information about non-controlling interests is given in note 14.

| | 2017 US$'000 | 2016 US$'000 |
|---|---|---|
| Balance at 1 January | **365** | 350 |
| Share of loss for the year | **32** | 15 |
| Balance at 31 December | **397** | 365 |

## 22. Financial instruments

*(a) Financial instruments by category*

At the end of the year, the Group and Company held the following financial instruments:

| As at 31 December | Group 2017 US$'000 | Company 2017 US$'000 | Group 2016 US$'000 | Company 2016 US$'000 |
|---|---|---|---|---|
| **Financial assets** | | | | |
| Cash and cash equivalents | **14,904** | **13,522** | 23,061 | 21,794 |
| Amounts due from group companies | **–** | **46,140** | – | 29,269 |
| Other receivables | **3,563** | **3,521** | 5,121 | 5,117 |
| | **18,467** | **63,183** | 28,182 | 56,180 |
| **Financial liabilities** | | | | |
| Trade payables | **(8,630)** | **(9,878)** | (475) | (164) |
| Accruals | **(9,258)** | **(4,682)** | (7,302) | (32) |
| Borrowings | **(12,678)** | **(1,748)** | – | – |
| | **(30,566)** | **(16,308)** | (7,777) | (196) |
| **Net financial instruments** | **(12,099)** | **46,875** | 20,405 | 55,984 |

*(b) Risk management policy*

In the context of its business activity, the Group operates in an international environment in which it is confronted with market risks, specifically foreign currency risk and interest rate risk. It does not use derivatives to manage and reduce its exposure to changes in foreign exchange rates and interest rates.

Cash and cash equivalents are generally kept in the Company's functional currency except for an amount corresponding to the needs of the local subsidiaries and such funds required for the parent company to pay its Directors, employees and vendors who are paid in Sterling. The policy of the Group is to have a balance in the currency of the local subsidiaries not higher than the expected needs in local currency for one month.

In addition to market risks, the Group is also exposed to liquidity and credit risk.

## 22. Financial instruments (continued)

*Credit risk*

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Group's receivables and deposits with financial institutions. The Group's exposure to credit risk is influenced mainly by the individual characteristics of each counterparty. The Group has an established credit policy under which each new counterparty is analysed for creditworthiness before the Group's standard terms and conditions are offered. The Group's review includes external ratings.

The maximum exposure the Group will bear with a single customer is dependent upon that counterparty's credit rating, the level of anticipated trading and the time period over which this is likely to run. The Group gives careful consideration to which organisations it uses for its banking services in order to minimise credit risk. Further details of Credit risk are included in note 15.

*Liquidity risk*

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Group's approach to managing liquidity is to ensure that it will always have sufficient liquidity to meet its liabilities when due, without incurring unacceptable losses or damage to the Group's reputation.

The Group manages liquidity risk by regularly reviewing cash requirements by reference to short term cash flow forecasts and medium term working capital projections prepared by management.

All surplus cash is aggregated to maximise the returns on deposits through economies of scale.

The Group maintains good relationships with its banks. At 31 December 2017, the Group had US$14,904,000 (2016: US$23,061,000) of cash reserves (Company: US$13,522,000 2016: US$21,794,000).

Ultimate responsibility for liquidity risk management rests with the Board of Directors. The Group manages liquidity risk by maintaining adequate cash reserves and continuously monitoring forecast and actual cash flows. The Group aims to maximise operating cash flows in order to be in a position to finance the investments required for its development.

During the period to 31st December 2017, the Group executed a revolving loan facility of €11.4 million to mitigate liquidity risk.

The Group's liquidity position and its impact on the going concern assumption are discussed further in the Financial Review and Directors' Report.

All the Group's financial liabilities are due within one year at 31 December 2016 and 2017.

*Foreign currency risk*

Foreign currency risk arises because the Group operates in various parts of the world whose currencies are not the same as the functional currency in which the Group is operating. The net assets from such overseas operations are exposed to currency risk, giving rise to gains or losses on retranslation into the presentational currency.

Foreign currency risk also arises when the Group enters into transactions denominated in a currency other than its functional currency. The main foreign currency risk in the period ended 31 December 2017 relates to transactions denominated in Sterling. The Group keeps foreign currency bank accounts in the United Kingdom.

The primary exchange rate movements that the Group is exposed to are $US:XOF and $US:GBP. Foreign exchange risk arises from recognised assets and liabilities.

**Group**

The carrying amounts of the Group's foreign currency denominated monetary assets and liabilities were as follows:

| As at 31 December 2017 | GBP US$'000 | XOF US$'000 | NGN US$'000 | EUR US$'000 |
|---|---|---|---|---|
| Cash and cash equivalents | 8,084 | 1,404 | 6 | 5,410 |
| Exposure assets | | | | |
| Borrowings | 1,748 | – | – | 10,930 |
| Trade Payables | 7,488 | – | (16) | 154 |
| Exposure liabilities | 9,236 | – | (16) | 11,084 |
| **Net exposure** | **(1,152)** | **1,404** | **22** | **(5,674)** |

## 22. Financial instruments (continued)

| As at 31 December 2016 | GBP US$'000 | XOF US$'000 | EUR US$'000 |
|---|---|---|---|
| Cash and cash equivalents | 2,947 | 1,203 | 287 |
| Exposure assets | 2,947 | 1,203 | 287 |
| Trade payables | (412) | – | (21) |
| Accruals | – | – | – |
| Exposure liabilities | (412) | – | (21) |
| **Net exposure** | **2,535** | **1,203** | **266** |

**Company**

The carrying amounts of the Company's foreign currency denominated monetary assets and liabilities were as follows:

| As at 31 December 2017 | GBP US$'000 | XOF US$'000 | EUR US$'000 |
|---|---|---|---|
| Cash and cash equivalents | 8,082 | – | – |
| Exposure assets | 8,082 | – | – |
| Trade payables | 7,374 | – | 131 |
| Accruals | – | – | – |
| Exposure liabilities | 7,374 | – | 131 |
| **Net exposure** | **708** | **–** | **(131)** |

| As at 31 December 2016 | GBP US$'000 | XOF US$'000 | EUR US$'000 |
|---|---|---|---|
| Cash and cash equivalents | 2,947 | – | 256 |
| Exposure assets | 2,947 | – | 256 |
| Trade payables | (161) | – | – |
| Accruals | | – | – |
| Exposure liabilities | (161) | – | – |
| **Net exposure** | **2,786** | **–** | **256** |

The following table shows the effect of the US$ strengthening by 10% against the foreign currencies, with all other variables held constant, on the Group's result for the period. 10% is the rate used internally when reporting to key management personnel and represents management's assessment of the reasonably possible change in exchange rates.

| As at 31 December 2017 | GBP US$'000 | XOF US$'000 | EUR US$'000 | NGN US$'000 | Total US$'000 |
|---|---|---|---|---|---|
| Impact on loss for the period – Group | 54 | 128 | 478 | 2 | 662 |
| Impact on loss for the period – Company | 64 | – | 479 | – | 543 |

## 22. Financial instruments (continued)

| As at 31 December 2016 | GBP US$'000 | XOF US$'000 | EUR US$'000 | Total US$'000 |
|---|---|---|---|---|
| Impact on loss for the period – Group | (231) | (109) | (24) | (364) |
| Impact on loss for the period – Company | (253) | – | (23) | (276) |

The following table shows the effect of the US$ weakening by 10% against the foreign currencies, with all other variables held constant, on the Group's result for the period. 10% is the rate used internally when reporting to key management personnel and represents management's assessment of the reasonably possible change in exchange rates.

| As at 31 December 2017 | GBP US$'000 | XOF US$'000 | EUR US$'000 | NGN US$'000 | Total US$'000 |
|---|---|---|---|---|---|
| Impact on loss for the period – Group | (60) | (140) | (526) | (2) | (728) |
| Impact on loss for the period – Company | (71) | – | (527) | – | (598) |

| As at 31 December 2016 | GBP US$'000 | XOF US$'000 | EUR US$'000 | Total US$'000 |
|---|---|---|---|---|
| Impact on loss for the period – Group | 231 | 109 | 24 | 364 |
| Impact on loss for the period – Company | 253 | – | 23 | 276 |

***Interest rate risk***

The Group had significant cash balances during the period. Changes in interest rates could have either a negative or positive impact on the Group's interest income. Whenever possible, cash balances are put on term deposits to maximise interest income.

The interest rate profile of the Group's financial assets and liabilities was as follows:

| As at 31 December | **2017 US$'000** | 2016 US$'000 |
|---|---|---|
| Cash at bank at floating interest rate – Group | **14,904** | 23,061 |
| Cash at bank at floating interest rate – Company | **13,522** | 21,794 |

All other financial instruments were non-interest bearing. The cash at bank at floating interest rates consist of deposits which earn interest at variable rates depending on length of term and amount on deposit.

At 31 December 2017, a 1% increase in short-term interest rates would have a positive US$149,000 (2016: US$231,000) impact on Group loss before tax and equity and a positive US$135,000 (2016: US$218,000) impact on Company loss before tax and equity. A 1% decrease in short-term interest rates would have a negative US$149,000 (2016: US$231,000) impact on Group loss before tax and equity and a negative US$135,000 (2016: US$218,000) impact on Company loss before tax and equity. A 1% movement represents management's assessment of the reasonable possible change in interest rates.

## 23. 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 individual Directors is provided in the Directors' Remuneration report.

***Trading transactions***

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

| As at 31 December | **Outstanding 2017 US$'000** | **Management services 2017 US$'000** | Outstanding 2016 US$'000 | Management services 2016 US$'000 |
|---|---|---|---|---|
| Lothian Oil & Gas Partners LLP | **33** | **243** | 30 | 453 |

Andrew Knott was a member of Lothian Oil & Gas Partners LLP ("LOGP") until 12 December 2017 and is the Chief Executive Officer of Savannah Petroleum PLC. As discussed on Page 57 of the Company's AIM Admission Document of 1 August 2014, LOGP incurred costs of US$2,002,000 relating to the Group's activities prior to Admission to AIM. US$500,000 of these costs was recharged to the Company on Admission. In addition, post-Admission, LOGP has continued to provide services to Savannah pursuant to a contract entered into on 28 July 2014, to enable Savannah to continue to benefit from the professional services of individuals affiliated to LOGP on an as required basis. Since the Company entered into this agreement with LOGP, Andrew Knott has not received remuneration from LOGP and is not expected to going forward.

Andrew Knott resigned from LOGP on 12th December 2017.

Michael Wachtel, a partner at Clyde & Co, joined the Board of Savannah Petroleum PLC on the 21 December 2017. Clyde & Co are legal advisors to Savannah Petroleum and Michael is not the matter partner for any of the Company's matters which are dealt with by different partners within the firm. Fees to Clyde & Co amounted to US$3,463,000 in 2017.

## 24. Net cash from operating activities

| **Group** | **Year ended 31 December 2017 US$'000** | Year ended 31 December 2016 US$'000 |
|---|---|---|
| Loss for the period before tax | **(27,369)** | (8,331) |
| Adjustments for: | | |
| Depreciation and amortisation | **274** | 122 |
| Finance charge | **561** | 126 |
| Finance costs | **(2)** | – |
| Share option charge | **1,613** | 1,715 |
| Operating cash flows before movements in working capital | **(24,923)** | (6,368) |
| (Increase)/decrease in other receivables and prepayments | **(2,560)** | (170) |
| Increase/(decrease) in trade and other payables | **12,604** | (638) |
| Income tax paid | **(798)** | (1,281) |
| Net cash outflow from operations | **(15,677)** | (8,457) |

# Notes to the Financial Statements (continued)
period ended 31 December 2017

## 24. Net cash from operating activities (continued)

| Company | **Year ended 31 December 2017 US$'000** | Year ended 31 December 2016 US$'000 |
|---|---|---|
| Loss for the period before tax | **(19,152)** | (343) |
| Adjustments for: | | |
| Depreciation and amortisation | **46** | 45 |
| Finance income | **173** | 436 |
| Share option charge | **1,613** | 1,715 |
| Operating cash flows before movements in working capital | **(17,320)** | 1,853 |
| (Increase)/decrease in other receivables and prepayments | **(2,576)** | (688) |
| Increase/(decrease) in trade and other payables | **11,883** | – |
| Income tax paid | **–** | (1,219) |
| Net cash outflow from operations | **(8,013)** | (54) |

## 25. Commitments

At the reporting date, the Group had outstanding commitments of US$nil in relation to seismic contract acquisition (2016: US$8m) and the Company had commitments of US$nil (2016: US$nil).

## 26. Operating lease arrangements

| Period ended 31 December | Group 2017 US$'000 | Company 2017 US$'000 | Group 2016 US$'000 | Company 2016 US$'000 |
|---|---|---|---|---|
| Lease payments under operating leases recognised as an expense during the period | **199** | **189** | 305 | 244 |

At the statement of financial position date, the group had outstanding commitments for future minimum lease payments under non-cancellable operating leases, which fall due as follows:

| As at 31 December | Group 2017 US$'000 | Company 2017 US$'000 | Group 2016 US$'000 | Company 2016 US$'000 |
|---|---|---|---|---|
| Within one year | **235** | **183** | 194 | 183 |
| In the second to fifth years inclusive | **1,019** | **975** | 975 | 975 |
| | **1,254** | **1,158** | 1,169 | 1,158 |
| Total prepaid as at 31 December | **7** | **–** | 36 | – |
| Total outstanding commitment as at 31 December | **1,901** | **1,888** | 1,900 | 1,888 |
| | **1,908** | **1,888** | 1,936 | 1,888 |

Operating lease payments represent rentals payable by the Group for certain of its office properties. Leases are negotiated with a minimum period of 2 years, for an average term of 4 years, and rentals are fixed over the lease period.

## 27. Subsequent Events (Post Balance Sheet)

On 8 January 2018, as part of the Company's proposal to acquire the Seven Assets (detailed on pages 2 to 17 in the Strategic Report), the Company held a general meeting to approve, inter alia, the acquisition of the Seven Assets and the issue and allotment of the shares described below.

On 7 February 2018, the Group completed the Exchange Offer on Seven Energy's 10.25% Senior Secured Notes and Savannah had received valid instructions in respect of US$305,623,123 in principal amount of outstanding 10.25% Senior Secured Notes, representing 96.04% of the outstanding notes. Consequently, on 8 February 2018, a total of 514,885,980 new ordinary shares were issued, allotted and admitted to trading on AIM in connection with the Second Tranche Placing, the Consideration Shares and the EBT shares. This figure was comprised of 239,000,000 Second Tranche Placing Shares, 42,624,837 EBT Shares, 224,021,689 new Ordinary Shares to be issued to the holders of the 10.25% Senior Secured Notes (which formed part of the Consideration Shares) and 9,239,454 new Ordinary Shares that were deposited in trust in accordance with the terms of the Exchange Offer. Following the issue of these shares, the Company had 816,969,427 ordinary shares in issue and there were no shares held in treasury. In addition, 133,231,000 Warrants were issued to participants in the First Tranche Placing completed in 2017 and the Second Tranche Placing referred to above.

Gross proceeds raised from the Second Tranche Placing amounted to approximately US$112.1 million. These proceeds are expected to be used to fund the cash consideration for the proposed acquisition of the Seven Assets, further advance the Company's Niger assets and for general corporate purposes.

# Company Information and Advisers

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