

Swala Oil and Gas
(Tanzania) Public Limited Company

Consolidated and Separate Financial Statements for
Year ended 31 December 2020

Swala Oil and Gas (Tanzania) Public Limited Company

Consolidated and Separate Financial Statements
for the year ended 31 December 2020

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Swala Oil and Gas (Tanzania) Public Limited Company

Consolidated and Separate Financial Statements for the year ended 31 December 2020

Corporate Information

1. Registered Number

115280066

2. Registered Office

Swala Oil and Gas (Tanzania) Public Limited Company
2nd Floor Oyster Plaza
Plot No. 1196 - Oysterbay,
Haile Selassie Road,
P.O. Box 105266
Dar es Salaam, Tanzania

3. Company Secretary

Christina Eugene
2nd Floor Oyster Plaza
Plot No. 1196 - Oysterbay,
Haile Selassie Road,
P.O. Box 105266
Dar es Salaam, Tanzania

4. Auditors

BDO East Africa
Certified Public Accountants
4th Floor, ZO Space
Plot No.4, New Bagamoyo Road
P.O Box 9912
Dar es salaam, Tanzania

5. Tax Advisor

PriceWaterHouseCoopers
Pemba House
369 Toure Drive, Oster Bay
P.O. Box 45
Dar es Salaam, Tanzania

6. Brokers

Arch Financial & Investment Advisors Ltd
Life House, Wing C, Second Floor, Ohio Street
P.O. Box 38024
Dar es Salaam, Tanzania

7. Bankers

Stanbic Bank Tanzania Limited
Stanbic Centre, Corner of Kinondoni & Ali
Hassan Mwinyi Roads, Kinondoni
P.O. Box 72647
Dar es Salaam, Tanzania

Swala Oil and Gas (Tanzania) Public Limited Company

Consolidated and Separate Financial Statements for the year ended 31 December 2020

Report of the Directors

The Directors present their report together with the audited consolidated and separate financial statements for the year ended 31 December 2020 which disclose the state of affairs of Swala Oil and Gas (Tanzania) Public Limited Company ("the Company "or "Swala"), and its subsidiaries Swala (Mauritius) Limited and Swala (PAEM) Limited, (together, the "Group"), as at that date.

INCORPORATION

The Company was incorporated in Tanzania on 29th July 2011 under the Companies Act, 2002 as a private Company limited by shares, and changed to a Public Company in 2013 followed by listing on Enterprise Growth Market of the Dar es Salaam Stock Exchange in August 2014. The registered office is disclosed on corporate information on page one of these consolidated and separate financial statements.

PRINCIPAL ACTIVITIES

The Group and Company's principal activity is exploration for oil and gas. In February 2012, the Company entered into a Production Sharing Agreement (PSA) with the Government of Tanzania and the Tanzania Petroleum Development Corporation (TPDC) to undertake exploration of oil and gas over the Kilosa - Kilombero onshore licence area.

On 15th January 2018, the Group acquired 7.93% of PAE Panafrican Energy Corporation ("PAEM") for gross proceeds of US\$ 21,022,450 (US\$ 17,055,950 in cash and US\$ 3,966,500 face value of Swala convertible preference shares) through acquisition of 7,933 Class A PAEM shares from Orca (the "PAEM Shares").

COMPOSITION OF BOARD OF DIRECTORS

The Directors of the Group and Company who held office during the year and up to the date of this report were:

Name	Position	Nationality	Date of Appointment
Dr. David Mestres Ridge	Chief Executive Officer and Director	British	29 th July 2011
Mr. Abdullah Mwinyi	Non-Executive Chairman	Tanzanian	1 st July 2012
Mr. Harold Temu	Non-Executive Director	Tanzanian	1 st June 2017
Mr. Salem Balleith	Non-Executive Director	Tanzanian	1 st June 2017
Mr. Justin Massawe*	Non-Executive Director	Tanzanian	1 st June 2017
Mr. Scott Gilbert**	Non-Executive Director	British	7 th July 2017

As at the date of this report, the Directors holding shares are listed below:

Name	Ordinary Shares 2020	Ordinary Shares 2019
Mr. David Mestres Ridge	4,975,708	4,975,708
Mr. Harold Temu	908,030	908,030
Mr. Abdullah Mwinyi	573,559	573,559
Mr. Salem Balleith	59,590	59,590

Swala Oil and Gas (Tanzania) Public Limited Company

Consolidated and Separate Financial Statements for the year ended 31 December 2020

Report of the Directors (Continued)

COMPOSITION OF BOARD OF DIRECTORS (CONTINUED)

*Mr. Justin Massawe is an Executive Director and minority shareholder of Erncon Holdings Ltd. Erncon Holding Ltd holds 9,224,572 shares in Swala (8.69% of the issued capital).

**Mr. Scott Gilbert is an Executive Director and 50% shareholder of the Group De Clermont whose wholly-owned subsidiary De Clermont Capital Limited owns 1,131,634 shares in the Company (1.03%).

Company secretary is Christina Eugene appointed to the position on 1st January 2018.

MANAGEMENT

The Management of the Group and Company is under the Chief Executive Officer and is organized in the following departments.

- Technical Department
- Commercial Department
- Finance Department
- Business Development Department

COMPANY SHAREHOLDING

As at 31st December 2020 the Company had 2,157 shareholders (31st December 2019: 2,139). The shares of the Company are held as follows:

	Shareholder's Name	Number of Shares	Ownership percentage
1	SWE Creditors Trust**	13,791,812	12.99%
2	Erncon Holdings Ltd	9,224,572	8.69%
3	Swala Tanzania Trust Company Limited*	7,443,380	7.01%
4	Energy Tanzania Limited	7,049,906	6.64%
5	Neil Catto Taylor	6,428,689	6.05%
6	SureStream Petroleum Limited (UK)	6,247,154	5.88%
7	Hayaat Global SFO DMCC	4,989,643	4.70%
8	Mrs Michele Mitchell De Mestres	4,975,708	4.69%
9	Dr David Mestres Ridge	4,975,708	4.69%
10	Ameir Munif Abdallah Nahdi	2,667,815	2.51%
11	Other shareholders and General Public	38,407,234	36.16%
	Total	106,201,621	100.00%

*A number of shares are held in trust for the benefit of local communities in the areas in which Swala operates.

**The 13.8MM shares held by SWE Creditors Trust were subsequently redistributed pro-rata to the original shareholders and that the Group and the company are in the process of confirming with Capital Market and Security Authority.

Swala Oil and Gas (Tanzania) Public Limited Company

Consolidated and Separate Financial Statements for the year ended 31 December 2020

Report of the Directors (Continued)

STOCK EXCHANGE INFORMATION

In 2014 the Group (then it was a Company) listed with Dar es Salaam Stock Exchange. The average share price during the financial year 2020 was Tshs 490 equivalent to US\$ 0.21 (2019: Tshs 490 equivalent to US\$ 0.21). In 2020 the performance of the Group's shares in the secondary market was as follows: Market capitalization as at 31 December 2020 was US\$ 22.30 million (2019: US\$ 22.30 million).

OPERATING AND FINANCIAL REVIEW

Performance for the year

The results of the Group's and Company's operations for the year are set out on page 15.

Operating review

The Company has one exploration licence in Tanzania (the Kilosa-Kilombero licence). The licence requires annual renewal by the 20th of February and is automatically renewed through the operation of the 2015 Petroleum Act. The delays incurred in the operations to date mean that the Company would need to commence activity for approximately 15 months before the drilling date, (that is, from September in the year before the year in which drilling was planned) whereas the provisions of the 2015 Petroleum Act would not give certainty until a formal intention of the minister to extend the license has been provided or until the actual extension has been received. Any investment incurred during the period from September to the point where either a formal intention of the minister to extend the license has been provided or until the actual extension has been received would lack commercial certainty. To address this, the Company sought, and the Ministry of Energy agreed, a two-year licence extension that was awarded on the 18th of August 2021 and which, following clarification discussions, was advised to the market on the 13th September 2021.

The Company also has a 7.93% equity interest in PAE Panafrican Energy Corporation ("PAEM").

Consolidated and Separate Financial Statements
for the year ended 31 December 2020

Report of the Directors (Continued)

FUTURE DEVELOPMENT PLANS

The Group and the Company will continue its business development strategy in Tanzania and elsewhere. The Company aims to progress its listing on a Recognised Exchange to access liquidity that is currently unavailable on its main listing.

DIVIDEND

Directors do not recommend payment of dividends for the year ended 31 December 2020.

CORPORATE GOVERNANCE

The Board takes overall responsibility for the Group and the Company, including responsibility for identifying key risk areas, considering and monitoring investment decisions, considering significant financial matters, and reviewing the performance of management business plans and budgets.

The Board is also responsible for ensuring that a comprehensive system of internal control policies and procedures is operative, and for compliance with sound corporate governance principles.

The Board delegates day to day management of the business to the Chief Executive Officer who is assisted by management team. Management team is invited to attend board meetings and facilitates the effective control of all the Group's and the Company's operational activities, acting as a medium of communication and coordination between all the various business units.

The Group and the Company are committed to the principles of effective corporate governance. The directors also recognise the importance of integrity, transparency and accountability.

RISK MANAGEMENT AND INTERNAL CONTROL

The Board accepts final responsibility for the risk management and internal control systems of the Group. It is the task of management to ensure that adequate internal financial and operational control systems are developed and maintained on an ongoing basis in order to provide reasonable assurance regarding:

- The effectiveness and efficiency of operations;
- The safeguarding of the Group's assets;
- Compliance with applicable laws and regulations;
- The reliability of accounting records;
- Business sustainability under normal conditions; and
- Responsible behaviors towards all stakeholders.

The efficiency of any internal control system is dependent on the strict observance of prescribed measures. There is always a risk of non-compliance of such measures by staff. Whilst no system of internal control can provide absolute assurance against misstatement or losses, the Group's system is designed to provide the Board with reasonable assurance that the procedures in place are operating effectively.

The Board assessed the internal control systems throughout the financial year ended 31st December 2020 and is of the opinion that they met accepted criteria.

Consolidated and Separate Financial Statements
for the year ended 31 December 2020

Report of the Directors (Continued)

GOING CONCERN

The Group incurred a net profit of US\$ 2.95 million (Company: US\$ 2.53 million) for the year ended 31 December 2020 attributed by reversal of impairment loss on investment amounting USD 11million (Company: USD 4 million), (2019: Group incurred a net loss of US\$ 6.41 million and Company: US\$ 2.21 million). As at the reporting date the Group's liabilities exceeded its assets by US\$ 24.89 million (Company: US\$ 9.30 million) (2019: Group's liabilities exceeded its assets by US\$ 27.84 million and Company: US\$ 11.83 million) and a Group net current liability position of US\$ 13.52 million (Company: US\$ 5.02 million) (2019: Group net current liability of US\$ 7.11 million and Company: US\$ 3.85 million). These events or conditions indicate that a material uncertainty exists that may cast significant doubt on the Group and Company's ability to continue as a going concern and, therefore that they may be unable to realise their assets and discharge their liabilities in the normal course of business.

The Group and the Company are in exploration stage with no production, therefore the ability of the Group and the Company to continue as a going concern is dependent on the success in raising funds in the future to allow continuation of the work programmes in Tanzania. As part of its forward planning the company has commenced the process of cross-listing on a Recognised Exchange and is in discussions with several parties about farming down its exploration assets.

In 2017 the Group and the Company had acquired 7.93% equity interest in PAE Panafrican Energy Corporation ("PAEM"), a Mauritius registered company PAEM owns 100% of the equity of PanAfrican Energy Corporation Limited ("PAET"), which in turn operates 100% of the Songo Songo gas field in Tanzania. The field has, contrary to all past and current forecasts, failed to deliver free dividends to the shareholders (Swala 7.93% and Orca Energy Group Inc. ("Orca") 92.07%) since 2019.

The Group issued 25 million Class A1 Senior Notes to fund the acquisition of 7.93% of PAEM. On the 22nd of January 2021, the Company advised that the original Class A1 Senior Noteholder sought to divest its interest in the Notes following the continued failure by PAEM to generate any distributable income to its shareholders. The reason for this failure was said to be due to the reinvestment of revenues from the Songo Songo field, repayment of profit gas entitlements to the Tanzanian Petroleum Development Corporation and the payment of PAET tax obligations.

As subsequently advised, the Notes were sold by the original holders to a private equity group with extensive emerging markets experience ("the Buyer") on the 4th of June 2021. The previous holder's decision to sell created an opportunity for the Buyer to acquire the Notes on a basis that more closely reflected the forecast financial performance of PAEC and PAET up to the end of the Songo Songo licence in 2026. On the same date the Company referenced the start of restructuring discussions with the Buyer ("the Proposed Transaction").

Swala and its advisors have had extensive engagements with the Buyer and its majority shareholders to progress the Proposed Transaction. Whilst there can be no guarantees that such discussions shall be successfully completed, the intention of the parties is to restructure the current debt and equity in a manner that addresses the Company's going concern capacity ahead of the listing on a Recognised Exchange.

Report of the Directors (Continued)

CORPORATE SOCIAL RESPONSIBILITY (CSR)

The Group Corporate Social Responsibility (“CSR”) encompasses the management of relationships with shareholders, employees, contractors and the communities in areas where the Group works, together with the impact on society and the environment. The Group recognizes its specific responsibilities in each of these areas and considers adherence to CSR values to be a key factor in securing our long-term success. The Group’s objective is to support development in local communities and to minimise the impact on the environment. The Group recognises the importance of engaging with local stakeholders and takes seriously concerns regarding oil and gas development. Working closely with host communities achieves the best possible outcome for both the Group and stakeholders.

As part of the CSR and capacity building the Group set aside 7.4 million shares (2019: 7.4 million shares) in the Company managed by Swala Tanzania Trust Company Limited to the benefit of local communities in the areas of operations.

EMPLOYEE WELFARE

Employee Relations

The Group continues to have strong employee relations across the Group. We practice an open-door policy with flat structures so that employees are able to get complaints dealt with quickly. We currently have no open cases internally.

The Group is an equal opportunity employer. We give equal access to employment opportunities and ensure that the best available person is appointed to any given position, free from discrimination of any kind and without regard to factors such as gender, marital status, tribes, religion and disability which does not impair ability to discharge duties.

Training

The Group provides on-the-job and external training to employees, in and outside Tanzania.

Benefits

The Group provides medical insurance coverage for all employees and pays contributions to National Social Security Fund, which is publicly administered mandatory pension plan and qualify to be a defined contribution plan.

Health and safety

The Group continued to assure safety standards as required by factory ordinance and provided safe working environment for employees.

Disabled Persons

It is the Group’s policy to accept disabled persons for employment for those vacancies that they are able to fill. The Group also maintains its policy of continued employment of employees who become disabled while in service.

Swala Oil and Gas (Tanzania) Public Limited Company

Consolidated and Separate Financial Statements
for the year ended 31 December 2020

Report of the Directors (Continued)

RELATED PARTY TRANSACTIONS

All related party transactions and balances are disclosed in note 9 to these financial statements.

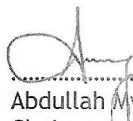
POLITICAL AND CHARITABLE DONATIONS

The Group and the Company did not make any charitable and political donations during the year.

AUDITORS

The Group and Company's auditors, BDO East Africa, Certified Public Accountants, are in their second year and are eligible for re-appointment. A resolution proposing the re-appointment of BDO East Africa as the auditors of the Group and the Company will be put to the Annual General Meeting.

By order of the Board


.....
Abdullah Mwinyi
Chairman

Date: 11/12/ 2021

Swala Oil and Gas (Tanzania) Public Limited Company

Consolidated and Separate Financial Statements
for the year ended 31 December 2020

Statement of Directors' Responsibilities

The Group and Company's Directors are responsible for the preparation of the consolidated and separate financial statements that give a true and fair view of Swala Oil and Gas (Tanzania) Public Limited Company, comprising the consolidated and separate statements of financial position at 31 December 2020, and the consolidated and separate statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, and the notes to the consolidated and separate financial statements, which include a summary of significant accounting policies and other explanatory notes, in accordance with International Financial Reporting Standards and in the manner required by the Companies Act, 2002.

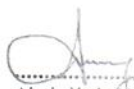
The Directors are also responsible for such internal control as the directors determine is necessary to enable the preparation of consolidated and separate financial statements that are free from material misstatement, whether due to fraud or error, and for maintaining adequate accounting records and an effective system of risk management.

The Directors have made an assessment of the ability of the Group and Company to continue as going concern and have no reason to believe that the business will not be a going concern in the year ahead.

The auditors are responsible for reporting on whether the consolidated and separate financial statements give a true and fair view in accordance with the applicable financial reporting framework.

Approval of the consolidated and separate financial statements

The consolidated and separate financial statements of Swala Oil and Gas (Tanzania) Public Limited Company, as identified in the first paragraph, were approved by the Board of Directors on11/12/2021 and signed by:


Abdullah Mwinyi
Chairman


David Mestres Ridge
CEO

Swala Oil and Gas (Tanzania) Public Limited Company

Consolidated and Separate Financial Statements
for the year ended 31 December 2020

Declaration of the Accountant

The National Board of Accountants and Auditors (NBAA) according to the power conferred under the Auditors and Accountants (Registration) Act. No. 33 of 1972, as amended by Act No. 2 of 1995, requires consolidated and separate financial statements to be accompanied with a declaration issued by the Professional Accountant responsible for the preparation of consolidated and separate financial statements of the entity concerned.

It is the duty of a Professional Accountant to assist the Board of Directors to discharge the responsibility of preparing consolidated and separate financial statements of an entity showing true and fair view of position of the entity in accordance with International Accounting Standards and statutory financial reporting requirements. Full legal responsibility for the preparation of consolidated and separate financial statements rests with the Board of Directors as under Directors Responsibilities statement on an earlier page.

I, CPA Elias M. Mosses, being the Accountant of Swala Oil and Gas (Tanzania) Public Limited Company hereby acknowledge my responsibility of ensuring that the consolidated and separate financial statements for the year ended 31st December 2020 have been prepared in compliance with applicable accounting standards and statutory requirements.

I thus confirm that the consolidated and separate financial statements comply with applicable accounting standards and statutory requirement as on that date and that they have been prepared based on properly maintained financial records.

Signed by: 

Position: Accountant

NBAA Membership No. GA 4784

Date: 11/12/2021

**INDEPENDENT AUDITORS' REPORT
TO THE SHAREHOLDERS OF SWALA OIL AND GAS (TANZANIA) PUBLIC LIMITED COMPANY**

Report on the audit of the consolidated and separate Financial Statements

Opinion

We have audited the consolidated and separate financial statements of Swala Oil and Gas (Tanzania) Public Limited Company ("the Group and Company"), set out on pages 15 to 53 which comprise the consolidated and separate statements of financial position as at 31 December 2020, the consolidated and separate statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, and notes to the consolidated and separate financial statements, comprising significant accounting policies and other explanatory information.

In our opinion, because of the significance of the matter described in the Basis for Adverse Opinion section of our report, the accompanying consolidated and separate financial statements do not give a true and fair view of the consolidated and separate financial position of Swala Oil and Gas (Tanzania) Public Limited Company as at 31 December 2020, and of its consolidated and separate financial performance and its consolidated and separate cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS) and in the manner required by the Companies Act, 2002.

Basis for Adverse Opinion

As described in Note 2(e) to the consolidated and separate financial statements, the consolidated and separate financial statements have been prepared on a going concern basis that assumes the Group and the Company will continue to operate depending on the success in raising funds in the future to allow continuation of the work programmes in Tanzania and completion of restructuring arrangements. However, there is no any evidence with regards to expected positive cashflows in the next 12 months and the expected re-structuring arrangements are not complete. As such, in our opinion the Group and Company cannot be considered to be a going concern and thus the preparation of its consolidated and separate financial statements on a going concern basis is inappropriate. In our opinion the consolidated and separate financial statements should reflect adjustments to reduce the value of assets to their recoverable amount and to provide for any further liabilities that might arise. These adjustments are likely to be substantial, but we are unable to determine the total of the required adjustments and provisions within a reasonable degree of accuracy.

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditors' Responsibilities for the Audit of the Consolidated and Separate Financial Statements* section of our report. We are independent of the Group and Company in accordance with International Ethics Standards Board for Accountants' *Code of Ethics for Professional Accountants (IESBA Code)*, together with the ethical requirements that are relevant to our audit of the financial statements in Tanzania, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our adverse opinion.

Other Information

The directors are responsible for the other information. The other information comprises the Corporate Information, Directors' Report, Statements of Directors' Responsibilities and Declaration of the Accountant. The other information does not include the consolidated and separate financial statements and our auditors' report thereon. Our opinion on the consolidated and separate financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

**INDEPENDENT AUDITORS' REPORT
TO THE SHAREHOLDERS OF SWALA OIL AND GAS (TANZANIA) PUBLIC LIMITED COMPANY (CONTINUED)**

Report on the audit of consolidated and separate Financial Statements (continued)

Other information (continued)

In connection with our audit of the consolidated and separate financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated and separate financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. 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. As described in the *Basis for Adverse Opinion* section above, the Group and Company cannot be considered to be a going concern and should reflect adjustments to reduce the value of assets to their recoverable amount and provide for any further liabilities that might arise in its consolidated and separate financial statements. Such adjustments are likely to be substantial, but could not be determined with a reasonable degree of accuracy. We have concluded that the other information provided in Directors' Report and the Statements of Directors' Responsibilities (future development plans and going concern) is materially misstated for the same reason.

Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated and separate financial statements of the current period. These matters were addressed in the context of our audit of the consolidated and separate financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. Except for the matter described in the Basis of adverse opinion section related to going concern, we have determined that there are no other key audit matters to be communicated in our report.

Directors' Responsibilities for the Consolidated and Separate Financial Statements

As stated on page 8, the directors are responsible for the preparation of consolidated and separate financial statements that give a true and fair view in accordance with International Financial Reporting Standards and in the manner required by the Companies Act, 2002, and for such internal control as directors determine is necessary to enable the preparation of the consolidated and separate financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated and separate financial statements, directors are responsible for assessing the Group's and 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 directors either intend to liquidate the Group and/or Company or to cease operations, or have no realistic alternative but to do so. Directors are responsible for overseeing the Group's and Company's financial reporting process.

Auditors' Responsibilities for the Audit of the Consolidated and Separate Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated and separate financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' 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 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 consolidated and separate financial statements.

**INDEPENDENT AUDITORS' REPORT
TO THE SHAREHOLDERS OF SWALA OIL AND GAS (TANZANIA) PUBLIC LIMITED COMPANY (CONTINUED)**

Report on the audit of consolidated and separate Financial Statements (continued)

Auditors' Responsibilities for the Audit of the Consolidated and Separate Financial Statements (continued)

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated and separate financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's and Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's and Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the consolidated and separate financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Group and/ or Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated and separate financial statements, including the disclosures, and whether the consolidated and separate financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

We communicate with directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide directors with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.



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**INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF
SWALA OIL AND GAS (TANZANIA) PUBLIC LIMITED COMPANY (CONTINUED)**

Report on the audit of consolidated and separate Financial Statements (continued)

***Auditors' Responsibilities for the Audit of the Consolidated and Separate Financial Statements
(continued)***

From the matters communicated with directors, we determine those matters that were of most significance in the audit of the consolidated and separate financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on Other Legal and Regulatory Requirements

As required by the Companies Act, 2002 we report to you, based on our audit that except for the matter described on the *Basis for Adverse Opinion* section of this report:

- in our opinion, proper accounting records have been kept by Swala Oil and Gas (Tanzania) Public Limited Company;
- the individual accounts are in agreement with the accounting records of the Group and Company; and
- we obtained all the information and explanations which, to the best of our knowledge and belief, are necessary for the purposes of our audit.

BDO EAST AFRICA
Juvinal
..... P. O. Box 9912
Juvinal Betambira (TACRA 1994)
Engagement Partner
BDO East Africa, Tanzania
Certified Public Accountant

1st December
..... 2021

Swala Oil and Gas (Tanzania) Public Limited Company

Consolidated and Separate Statements of Profit or Loss and other Comprehensive Income
for the year ended 31 December 2020

	Notes	CONSOLIDATED		SEPARATE	
		2020 USD	2019 USD	2020 USD	2019 USD
Other income	15	12,018,554	974,881	4,930,076	209,840
Prospecting and exploration expenses	25	(360,357)	(278,034)	(360,357)	(278,034)
Operating and administration expenses	24	(1,729,941)	(2,103,337)	(1,000,497)	(1,167,306)
Finance costs	25	(6,978,717)	(4,996,332)	(1,041,690)	(975,251)
Profit / (loss) before income tax		2,949,539	(6,402,822)	2,527,532	(2,210,751)
Income tax expense	4	-	-	-	-
Profit / (loss) for the year		2,949,539	(6,402,822)	2,527,532	(2,210,751)
Other comprehensive income		-	-	-	-
Total comprehensive income / (loss) for the year		2,949,539	(6,402,822)	2,527,532	(2,210,751)
(LOSS) / PROFIT PER SHARE FROM CONTINUED OPERATIONS:					
Basic earnings / (loss) per share	19	0.028	(0.060)	0.024	(0.021)
Diluted earnings / (loss) per share	19	0.028	(0.060)	0.024	(0.021)

The notes on pages 19 to 53 are an integral part of these consolidated and separate financial statements.


Report of the Auditors - pages 11-14

Swala Oil and Gas (Tanzania) Public Limited Company

Consolidated and Separate Statements of Financial Position
as at 31 December 2020

	Notes	CONSOLIDATED		SEPARATE	
		2020 USD	2019 USD	2020 USD	2019 USD
ASSETS					
Non-Current assets					
Property and equipment	5	11,718	17,082	11,718	17,082
Investment in subsidiaries	8(a)	-	-	3,966,734	100
Investment in PAE PanAfrican Energy Corps ("PAEM")	8(b)	18,273,091	7,017,979	-	-
		18,284,809	7,035,061	3,978,452	17,182
Current assets					
Current account - Joint operating partner	14	-	234,577	-	234,577
Inter-company current accounts	9(a)	-	-	22,976	3,175
Other receivables and prepayments	6	152,194	207,982	551,118	356,766
Cash and cash equivalent	7	34,054	114,212	22,305	15,409
		186,248	556,771	596,399	609,927
Total Assets		18,471,057	7,591,832	4,574,851	627,109
EQUITY					
Equity attributable to equity holders					
Share capital	11	64,918	64,918	64,918	64,918
Share premium	11	7,907,983	7,907,983	7,907,983	7,907,983
Accumulated losses		(32,860,030)	(35,809,569)	(17,272,800)	(19,800,332)
Total equity		(24,887,129)	(27,836,668)	(9,299,899)	(11,827,431)
LIABILITIES					
Non-Current liabilities					
14.5% inter-company Loan	10	-	-	3,524,921	3,164,689
14.5% A1 senior notes	10	23,916,291	21,937,164	-	-
10% convertible preference share	10	3,966,500	3,966,500	3,966,500	3,966,500
14.5% convertible notes	18	1,770,000	1,860,000	770,000	860,000
		29,652,791	27,763,664	8,261,421	7,991,189
Current liabilities					
Borrowing	10	-	-	-	-
16.5% inter-company loan	10	-	-	727,566	615,139
Short term loan	13	163,714	163,714	163,714	163,714
Convertible notes	18	-	-	-	-
Income taxes payable	4	-	-	-	-
Trade and other payables	12	13,541,681	7,501,122	4,722,049	3,684,498
		13,705,395	7,664,836	5,613,329	4,463,351
Total Equity and Liabilities		18,471,057	7,591,832	4,574,851	627,109

The consolidated and separate financial statements on pages 15 to 53, were approved by the Board of Directors on 2021 and signed on its behalf by:


Abdullah Mwinyi
Chairman


David Mestres Ridge
CEO

The notes on pages 19 to 53 are an integral part of these consolidated and separate financial statements.

Report of the Auditors - pages 11-14

Swala Oil and Gas (Tanzania) Public Limited Company

Consolidated and Separate Statements of Changes in Equity
for the year ended 31 December 2020

CONSOLIDATED

	Notes	Share Capital USD	Share Premium USD	Accumulated losses USD	Total USD
Balance as at 1 January 2019		64,918	7,907,983	(29,406,747)	(21,433,846)
Profit or loss and other comprehensive income					
Loss for the year		-	-	(6,402,822)	(6,402,822)
Total comprehensive loss for the year		-	-	(6,402,822)	(6,402,822)
Balance as at 31 December 2019		64,918	7,907,983	(35,809,569)	(27,836,668)
Balance as at 1 January 2020		64,918	7,907,983	(35,809,569)	(27,836,668)
Profit or loss and other comprehensive income					
Profit for the year		-	-	2,949,539	2,949,539
Total comprehensive profit for the year		-	-	2,949,539	2,949,539
Balance as at 31 December 2020		64,918	7,907,983	(32,860,030)	(24,887,129)

SEPARATE

	Notes	Share Capital USD	Share Premium USD	Accumulated Losses USD	Total USD
Balance as at 1 January 2019		64,918	7,907,983	(17,589,581)	(9,616,680)
Profit or loss and other comprehensive income					
Loss for the year		-	-	(2,210,751)	(2,210,751)
Total comprehensive loss for the year		-	-	(2,210,751)	(2,210,751)
Balance as at 31 December 2019		64,918	7,907,983	(19,800,332)	(11,827,431)
Balance as at 1 January 2020		64,918	7,907,983	(19,800,332)	(11,827,431)
Profit or loss and other comprehensive income					
Profit for the year		-	-	2,527,532	2,527,532
Total comprehensive profit for the year		-	-	2,527,532	2,527,532
Balance as at 31 December 2020		64,918	7,907,983	(17,272,800)	(9,299,899)

The notes on pages 19 to 53 are an integral part of these consolidated and separate financial statements.

Report of the Auditors - pages 11 - 14

Swala Oil and Gas (Tanzania) Public Limited Company

Consolidated and Separate Statements of Cash Flows for
the year ended 31 December 2020

	Notes	CONSOLIDATED		SEPARATE	
		2020 USD	2019 USD	2020 USD	2019 USD
CASH FLOWS FROM OPERATING ACTIVITIES					
Profit / (loss) before taxation		2,949,539	(6,402,822)	2,527,532	(2,210,751)
Adjustments for:					
Depreciation	5	3,335	4,110	3,335	4,110
Reversal of Impairment Loss		(11,255,112)	-	(3,966,634)	-
Dividend from Investment	15	-	(951,960)	-	-
Interest expense	16	6,978,717	4,996,332	1,041,690	975,251
		(1,323,521)	(2,354,340)	(394,077)	(1,231,390)
Change in receivables and prepayments		55,787	(10,801)	(194,352)	34,723
Changes in other payables, accruals and provisions		1,094,111	(165,550)	521,661	(97,328)
Changes in current accounts		234,577	(2,772)	214,776	17,003
Cash generated from / (utilised in) operating activities		60,954	(2,533,463)	148,008	(1,276,992)
Interest paid		(53,505)	(3,787,897)	(53,505)	(13,376)
Taxation paid		-	-	-	-
Net cash generated from / (utilised in) operating activities		7,449	(6,321,360)	94,503	(1,290,368)
CASH FLOW FROM INVESTING ACTIVITIES					
Purchase of property and equipment	5	-	(2,818)	-	(2,818)
Proceed from disposal of PPE	5	2,393	-	2,393	-
Dividend from PAE Investment		-	951,960	-	-
Net cash generated from / (utilised in) investing activities		2,393	949,142	2,393	(2,818)
CASH FLOW FROM FINANCING ACTIVITIES					
Proceeds from Inter- company loan		-	-	-	1,140,000
Proceeds from issuing of convertible notes		-	1,000,000	-	-
Repayment of Inter - company loan		-	-	-	(216,399)
Repayment of convertible notes		(90,000)	(107,700)	(90,000)	(107,700)
Net cash (utilised in) / generated from financing activities		(90,000)	892,300	(90,000)	815,901
Net Increase / (decrease) in cash and bank balances		(80,158)	(4,479,918)	6,896	(477,285)
Cash and bank balances at the start of the year	7	114,212	4,594,130	15,409	492,694
Cash and bank balances at the end of the year	7	34,054	114,212	22,305	15,409

The notes on pages 19 to 53 are an integral part of these consolidated and separate financial statements.

Report of the Auditors - pages 11 - 14

Notes to the Consolidated and Separate Financial Statements
for the year ended 31 December 2020

1. REPORTING ENTITY

Swala Oil and Gas (Tanzania) Public Limited Company is incorporated in the United Republic of Tanzania under Companies Act as limited liability Company. The Group is listed on the Dar es Salaam Stock Exchange and is domiciled in the United Republic of Tanzania. These consolidated and separate financial statements comprise the Company and its Subsidiaries Swala (Mauritius) Limited and Swala (PAEM) Limited, (together referred to as the “Group”). The Group and Company are primarily involved in exploration for oil and gas reserves.

For the purpose of these financial statements “consolidated” is included to refer to “Group” and “separate” is included to refer to “Company”.

2. BASIS OF PREPARATION

a) Basis of accounting

These consolidated and separate financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) as issued by the International Accounting Standards Board (‘IASB’) and in the manner required by the Companies Act, 2002.

b) Basis of Measurement

The consolidated and separate financial statements are prepared on the historical cost basis, except for certain financial instruments which are measured at fair value, as detailed in the accounting policies below.

c) Functional and Presentation Currency

These consolidated and separate financial statements are presented in United States Dollars (USD), which is the Group and Company’s presentation and functional currency.

d) Use of judgment and estimates

The preparation of consolidated and separate financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the year in which the estimate is revised and in any future years affected.

i) Judgements

Information about judgements made in applying accounting policies that have the most significant effects on the amounts recognised in the consolidated and separate financial statements is included in the following notes: Note 8 Investment and accounting policy 2 (f) basis of consolidation- which includes the policy on determination whether the Group has control over investee.

ii) Assumptions and estimation uncertainties

Information about significant areas of estimation, uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amounts recognised in the consolidated and separate financial statements are described in below;

2. BASIS OF PREPARATION (CONTINUED)

d) Use of judgment and estimates (continued)

ii) Assumptions and estimation uncertainties (continued)

Exploration and evaluation assets

Exploration and evaluation costs are initially expensed until reserves are appraised to be commercially viable and technologically feasible as commercial, at which time they are transferred to property and equipment following an impairment review and depleted accordingly. Where properties are appraised to have no commercial value or are appraised at values less than book values, the associated costs are treated as an impairment loss in the period in which the determination is made.

Asset useful lives

The useful lives of items of property and equipment are estimated annually and are required to align with the rate at which they are depreciated.

Impairment of non-financial assets

The Group assesses whether there are any indicators of impairment for all non-financial assets at each reporting date. Other non-financial assets are tested for impairment when there are indicators that the carrying amounts may not be recoverable. When value in use calculations are undertaken, management must estimate the expected future cash flows from the asset or cash generating unit and choose a suitable discount rate in order to calculate the present value of those cash flows.

Taxes

The Group operates in jurisdictions with various tax laws and regulations, which are evolving over time. The Group has taken certain tax positions in its tax filings and these filings are subject to audit and potential reassessment after the lapse of considerable time. Accordingly, the actual income tax impact may differ significantly from that estimated and recorded by management.

Deferred tax assets (if any) are recognized only to the extent it is considered probable that those assets will be recoverable. This involves an assessment of when those deferred tax assets are likely to reverse and a judgment as to whether or not there will be sufficient taxable profits available to offset the tax assets when they do reverse. This requires assumptions regarding future profitability and is therefore inherently uncertain. To the extent assumptions regarding future profitability change, there can be an increase or decrease in the amounts recognized in respect of deferred tax assets as well as the amounts recognized in profit or loss in the period in which the change occurs.

Financial Instruments classification and measurement

The Group classifies the fair value of financial instruments according to the following hierarchy based on the amount of observable inputs used to value the instrument:

Level 1 - Quoted prices are available in active markets for identical assets or liabilities as of the reporting date. Active markets are those in which transactions occur in sufficient frequency and volume to provide pricing information on an ongoing basis.

Level 2 - Pricing inputs are other than quoted prices in active markets included in Level 1. Prices in Level 2 are either directly or indirectly observable as of the reporting date. Level 2 valuations are based on inputs, including expected interest rate, share prices, and volatility factors, which can be substantially observed or corroborated in the market place. The not observable prices include contracts with certain industrial customers.

Level 3 - Valuation in this level are those with inputs for the asset or liabilities that are not based on observable market data.

2. BASIS OF PREPARATION (CONTINUED)

e) Going concern basis of accounting preparation

The Group incurred a net profit of US\$ 2.95 million (Company: US\$ 2.53 million) for the year ended 31 December 2020 attributed by reversal of impairment loss on investment amounting USD 11million (Company: USD 4 million), (2019: Group incurred a net loss of US\$ 6.41 million and Company: US\$ 2.21 million). As at the reporting date the Group's liabilities exceeded its assets by US\$ 24.89 million (Company: US\$ 9.30 million) (2019: Group's liabilities exceeded its assets by US\$ 27.84 million and Company: US\$ 11.83 million) and a Group net current liability position of US\$ 13.52 million (Company: US\$ 5.02 million) (2019: Group net current liability of US\$ 7.11 million and Company: US\$ 3.85 million). These events or conditions indicate that a material uncertainty exists that may cast significant doubt on the Group and Company's ability to continue as a going concern and, therefore that they may be unable to realise their assets and discharge their liabilities in the normal course of business.

The Group and the Company are in exploration stage with no production, therefore the ability of the Group and the Company to continue as a going concern is dependent on the success in raising funds in the future to allow continuation of the work programmes in Tanzania. As part of its forward planning the company has commenced the process of cross-listing on a Recognised Exchange and is in discussions with several parties about farming down its exploration assets.

In 2017 the Group and the Company had acquired 7.93% equity interest in PAE Panafrican Energy Corporation ("PAEM"), a Mauritius registered company PAEM owns 100% of the equity of PanAfrican Energy Corporation Limited ("PAET"), which in turn operates 100% of the Songo Songo gas field in Tanzania. The field has, contrary to all past and current forecasts, failed to deliver free dividends to the shareholders (Swala 7.93% and Orca Energy Group Inc. ("Orca") 92.07%) since 2019.

The Group issued 25 million Class A1 Senior Notes to fund the acquisition of 7.93% of PAEM. On the 22nd of January 2021, the Company advised that the original Class A1 Senior Noteholder sought to divest its interest in the Notes following the continued failure by PAEM to generate any distributable income to its shareholders. The reason for this failure was said to be due to the reinvestment of revenues from the Songo Songo field, repayment of profit gas entitlements to the Tanzanian Petroleum Development Corporation and the payment of PAET tax obligations.

As subsequently advised, the Notes were sold by the original holders to a private equity group with extensive emerging markets experience ("the Buyer") on the 4th of June 2021. The previous holder's decision to sell created an opportunity for the Buyer to acquire the Notes on a basis that more closely reflected the forecast financial performance of PAEC and PAET up to the end of the Songo Songo licence in 2026. On the same date the Company referenced the start of restructuring discussions with the Buyer ("the Proposed Transaction").

Swala and its advisors have had extensive engagements with the Buyer and its majority shareholders to progress the Proposed Transaction. Whilst there can be no guarantees that such discussions shall be successfully completed, the intention of the parties is to restructure the current debt and equity in a manner that addresses the Company's going concern capacity ahead of the listing on a Recognised Exchange.

2. BASIS OF PREPARATION (CONTINUED)

f) Basis of consolidation

i) Subsidiaries

Subsidiary is the entity controlled by the Company. The Company controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The financial statements of the subsidiary are included in the consolidated financial statements from the date on which control commences until the date on which control ceases. In the separate financial statements, the investment in subsidiary is carried at cost.

ii) Non - controlling interest (NCI)

NCI are measured at their proportionate share of the acquiree's identifiable net assets at the date of acquisition. Changes in the Company's interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions.

iii) Loss of control

When the Company loses control over a subsidiary, it derecognises the assets and liabilities of the subsidiary, and any related NCI and other components of equity. Any resulting gain or loss is recognised in profit or loss. Any interest retained in the former subsidiary is measured at fair value when control is lost.

iv) Transaction eliminated on consolidation

Intercompany balances and transactions, and any unrealised income and expenses arising from intercompany transactions, are eliminated. Unrealised gains arising from transactions with equity accounted investees are eliminated against the investment to the extent of the Company's interest in the investee. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

g) Joint operations

The Company is engaged in oil and gas exploration, through unincorporated joint arrangements; these are classified as joint operations. The Company accounts for its share of the assets, liabilities, revenue, and expenses for these joint operations. In addition, where the Company acts as Operator to the joint operation, the gross liabilities of the joint operation are included in the Company's statement of financial position, with the debit representing the partners' share recognised in amounts due from joint operating partners.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a) Property and Equipment

i) Recognition and measurement

Items of property and equipment are stated at cost less accumulated depreciation and accumulated impairment losses.

Cost includes expenditure that is directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bringing the asset to a working condition for its intended use, and the costs of dismantling and removing the items and restoring the site on which they are located. Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment. Borrowing costs related to the acquisition or construction of qualifying assets is recognised in profit or loss as incurred.

When parts of an item of property and equipment have different useful lives, they are accounted for as separate items (major components) of property and equipment.

Gains and losses on disposal of an item of property and equipment are determined by comparing the proceeds from disposal with the carrying amount of property and equipment and are recognised net within the profit or loss.

ii) Subsequent costs

The cost of replacing part of an item of property and equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Group and its costs can be measured reliably. The carrying amount of the replaced part is derecognised. The cost of day to day servicing of property and equipment are recognised in profit or loss as incurred.

iii) Depreciation

Depreciation is recognised in profit or loss on a diminishing value basis over the estimated useful lives of each part of an item of property and equipment. The annual depreciation rates for this purpose are as follows:

- | | |
|-------------------------------------|-------|
| • Computers | 25% |
| • Office equipment | 25% |
| • Furniture, fittings and equipment | 12.5% |
| • Motor vehicle | 25% |

Useful lives and residual values of the items of property and equipment are reviewed at the end of each reporting period and adjusted where appropriate.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

b) Senior notes issuance costs

i) Recognition and measurement

Senior notes issuance costs are capitalized by netting off the amount of the related loan raised.

The cost includes expenditure that is directly attributable to the acquisition of financial instruments (loans), these includes agent's costs, expenses, commission and disbursements.

ii) Amortization

Amortization is recognised in profit or loss on a straight-line method basis over the useful lives of each part of an item of financial instrument (loan).

c) Foreign currency translation

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the Consolidated and Separate Statements of Profit or Loss and Other Comprehensive Income. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value was determined. Foreign currency differences arising on retranslation are recognised in profit or loss in the year in which they arise.

d) Prospecting and exploration costs

Costs incurred in the exploration and evaluation stages of specific areas of interest are expensed against the consolidated and separate statements of profit or loss as incurred. Expenditure incurred prior to the acquisition of a licence and the costs of other exploration and evaluation activities are written off in the year incurred. Exploration and evaluation costs are capitalised if there is reasonable assessment of the existence of economically recoverable reserve. Once commercial viability is demonstrated the capitalized exploration costs are transferred to property and equipment or intangibles as appropriate after being assessed for impairment.

e) Farm-in /Farm-out arrangement

The Group may enter into farm-in or farm-out arrangements, where it may introduce partners and assign participating interest in the licence for the development of an asset. The Group adopts accounting policy such that it recognizes as income on expenditure made on its behalf under a 'carried interest' by the farm-in partner ('the farmee') and record respective expenditure to the respective line item in the Statement of Profit or Loss. Where applicable past costs are reimbursed, any consideration relating to expenditure previously written off is credited in the Statement of Profit or Loss as other income during year and any consideration relating to expenditure previously capitalized is credited against costs previously capitalised in relation to the whole interest with any excess accounted as gain on disposal. Farmed-out oil and gas properties are accounted for in accordance with IAS 16 'Property, Plant and Equipment'.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

f) Financial instruments

i) Recognition and initial measurement

The Group initially recognises loans and receivables and debt securities issued on the date when they originated. All other financial assets and financial liabilities are initially recognised on the trade date at which the Group becomes a party to the contractual provisions of the instrument.

A financial asset (unless it is a trade receivable without a significant financing component) or financial liability is initially measured at fair value plus, for an item not at FVTPL, transaction costs that are directly attributable to its acquisition or issue. A trade receivable without a significant financing component is initially measured at the transaction price.

ii) Classification and subsequent measurement

Financial assets - policy applicable from 1 January 2018

On initial recognition, a financial asset is classified as measured at: amortised cost; FVOCI - debt investment; FVOCI - equity investment; or FVTPL.

Financial assets are not reclassified subsequent to their initial recognition unless the Group changes its business model for managing financial assets, in which case all affected financial assets are reclassified on the first day of the first reporting period following the change in the business model.

A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated as at FVTPL:

- it is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

A debt investment is measured at FVOCI if it meets both of the following conditions and is not designated as at FVTPL:

- it is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

All financial assets not classified as measured at amortised cost or FVOCI as described above are measured at FVTPL.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

f) Financial instruments (continued)

ii) Classification and subsequent measurement (continued)

Financial assets - Business model assessment: policy applicable from 1 January 2018

The Group makes an assessment of the objective of the business model in which a financial asset is held at a portfolio level, because this best reflects the way the business is managed and information is provided to management. The information considered includes:

- the stated policies and objectives for the portfolio and the operation of those policies in practice. These include whether management's strategy focuses on earning contractual interest income, maintaining a particular interest rate profile, matching the duration of the financial assets to the duration of any related liabilities or expected cash outflows or realising cash flows through the sale of the assets;
- how the performance of the portfolio is evaluated and reported to the Group's management;
- the risks that affect the performance of the business model (and the financial assets held within that business model) and how those risks are managed;
- how managers of the business are compensated - e.g. whether compensation is based on the fair value of the assets managed or the contractual cash flows collected; and
- the frequency, volume and timing of sales of financial assets in prior periods, the reasons for such sales and expectations about future sales activity.

Financial assets - Assessment whether contractual cash flows are solely payments of principal and interest: policy applicable from 1 January 2018

For the purposes of this assessment, 'principal' is defined as the fair value of the financial asset on initial recognition. 'Interest' is defined as consideration for the time value of money and for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs (e.g. liquidity risk and administrative costs), as well as a profit margin.

In assessing whether the contractual cash flows are solely payments of principal and interest, the Group considers the contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition. In making this assessment, the Group considers:

- contingent events that would change the amount or timing of cash flows;
- terms that may adjust the contractual coupon rate, including variable-rate features;
- prepayment and extension features; and
- terms that limit the Group's claim to cash flows from specified assets (e.g. non-recourse features).

A prepayment feature is consistent with the solely payments of principal and interest criterion if the prepayment amount substantially represents unpaid amounts of principal and interest on the principal amount outstanding, which may include reasonable additional compensation for early termination of the contract. Additionally, for a financial asset acquired at a discount or premium to its contractual par amount, a feature that permits or requires prepayment at an amount that substantially represents the contractual par amount plus accrued (but unpaid) contractual interest (which may also include reasonable additional compensation for early termination) is treated as consistent with this criterion if the fair value of the prepayment feature is insignificant at initial recognition.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

f) Financial instruments (continued)

ii) Classification and subsequent measurement (continued)

Financial assets - Subsequent measurement and gains and losses: policy applicable from 1 January 2018

Financial assets at FVTPL	These assets are subsequently measured at fair value. Net gains and losses, including any interest or dividend income, are recognised in profit or loss.
Financial assets at amortised cost	These assets are subsequently measured at amortised cost using the effective interest method. The amortised cost is reduced by impairment losses. Interest income, foreign exchange gains and losses and impairment are recognised in profit or loss. Any gain or loss on derecognition is recognised in profit or loss.
Debt instruments at FVOCI	These assets are subsequently measured at fair value. Interest income calculated using the effective interest method, foreign exchange gains and losses and impairment are recognised in profit or loss. Other net gains and losses are recognised in OCI. On derecognition, gains and losses accumulated in OCI are reclassified to profit or loss.
Equity instruments at FVOCI	These assets are subsequently measured at fair value. Dividends are recognised as income in profit or loss unless the dividend clearly represents a recovery of part of the cost of the investment. Other net gains and losses are recognised in OCI and are never reclassified to profit or loss.

Financial assets - policy applicable before 1 January 2018

The Group classified its financial assets into one of the following categories:

- loans and receivables;
- held to maturity;
- available for sale; and
- at FVTPL, and within this category as:
 - held for trading;
 - derivative hedging instruments; or
 - designated as at FVTPL.

Financial assets - Subsequent measurement and gains and losses: policy applicable before 1 January 2018

Financial assets at FVTPL	Measured at fair value and changes therein, including any interest or dividend income, were recognised in profit or loss.
Held-to-maturity financial assets	Measured at amortised cost using the effective interest method.
Loans and receivables	Measured at amortised cost using the effective interest method.
Available-for-sale financial assets	Measured at fair value and changes therein, other than impairment losses, interest income and foreign currency differences on debt instruments, were recognised in OCI and accumulated in the fair value reserve. When these assets were derecognised, the gain or loss accumulated in equity was reclassified to profit or loss.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

f) Financial instruments (continued)

ii) Classification and subsequent measurement (continued)

Financial liabilities - Classification, subsequent measurement and gains and losses

Financial liabilities are classified as measured at amortised cost or FVTPL. A financial liability is classified as at FVTPL if it is classified as held-for-trading, it is a derivative or it is designated as such on initial recognition. Financial liabilities at FVTPL are measured at fair value and net gains and losses, including any interest expense, are recognised in profit or loss. Other financial liabilities are subsequently measured at amortised cost using the effective interest method. Interest expense and foreign exchange gains and losses are recognised in profit or loss. Any gain or loss on derecognition is also recognised in profit or loss.

iii) Derecognition

Financial assets

The Group derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred or in which the Group neither transfers nor retains substantially all of the risks and rewards of ownership and it does not retain control of the financial asset.

The Group enters into transactions whereby it transfers assets recognised in its statement of financial position, but retains either all or substantially all of the risks and rewards of the transferred assets. In these cases, the transferred assets are not derecognised.

Financial liabilities

The Group derecognises a financial liability when its contractual obligations are discharged or cancelled, or expire. The Group also derecognises a financial liability when its terms are modified and the cash flows of the modified liability are substantially different, in which case a new financial liability based on the modified terms is recognised at fair value.

On derecognition of a financial liability, the difference between the carrying amount extinguished and the consideration paid (including any non-cash assets transferred or liabilities assumed) is recognised in profit or loss.

iv) Offsetting

Financial assets and financial liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Group currently has a legally enforceable right to set off the amounts and it intends either to settle them on a net basis or to realise the asset and settle the liability simultaneously.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

f) Financial instruments (continued)

Convertible notes

Convertible notes issued by the Group comprise convertible notes that could be converted to share capital.

The liability component of compound financial instruments is initially recognised at the fair value of a similar liability that does not have an equity conversion option. The equity component is initially recognised at the difference between the fair value of the compound financial instrument as a whole and the fair value of the liability component. Any directly attributable transaction costs are allocated to the liability and equity components in proportion to their initial carrying amounts.

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

Convertible note derivative liabilities are classified as current or non-current based on the maturity date of the convertible note.

Fair values of convertible note derivatives

On initial recognition, at reporting date and/or at conversion date, the fair value of the convertible note derivative has been determined by reference to the Group's underlying share price and the foreign exchange rate at the relevant dates.

g) Share capital

Ordinary shares

Ordinary shares are classified as equity. Any premium received over and above the par value of the shares is classified as 'share premium' in equity.

Preference shares

The Group's redeemable preference shares are classified as financial liabilities, because they bear non-discretionary dividends and are redeemable in cash by the holders. Non-discretionary dividends thereon are recognised as interest expense in profit or loss as accrued.

h) Impairment

i) Non-derivative financial assets

Policy applicable from 1 January 2018

Financial instruments and contract assets

The Group recognises loss allowances for ECLs on:

- financial assets measured at amortised cost;
- debt investments measured at FVOCI; and
- contract assets.

The Group measures loss allowances at an amount equal to lifetime ECLs. Loss allowances for trade receivables and contract assets are always measured at an amount equal to lifetime ECLs.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

h) Impairment (continued)

i) Non-derivative financial assets (continued)

Policy applicable from 1 January 2018 (continued)

When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating ECLs, the Group considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Group's historical experience and informed credit assessment and including forward-looking information.

The Group assumes that the credit risk on a financial asset has increased significantly if it is more than 90 days past due.

The Group considers a financial asset to be in default when:

- the borrower/customer is unlikely to pay its credit obligations to the Group in full, without recourse by the Group to actions such as realising security (if any is held); or
- the financial asset is more than 180 days past due.

Measurement of ECL's

ECLs are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Group expects to receive). ECLs are discounted at the effective interest rate of the financial asset.

Credit-impaired financial assets

At each reporting date, the Group assesses whether financial assets carried at amortised cost and debt securities at FVOCI are credit-impaired. A financial asset is 'credit-impaired' when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

Evidence that a financial asset is credit-impaired includes the following observable data:

- significant financial difficulty of the customer or borrower;
- a breach of contract such as a default or being more than 90 days past due;
- the restructuring of a loan or advance by the Group on terms that the Group would not consider otherwise;
- it is probable that the customer/borrower will enter bankruptcy or other financial reorganisation; or
- the disappearance of an active market for a security because of financial difficulties.

The Group measures loss allowances at an amount equal to lifetime ECLs. Loss allowances for receivables and contract assets are always measured at an amount equal to lifetime ECLs.

When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating ECLs, the Group considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Group's historical experience and informed credit assessment and including forward-looking information.

Write-off

The gross carrying amount of a financial asset is written off when the Group has no reasonable expectations of recovering a financial asset in its entirety or a portion thereof. The Group expects no significant recovery from the amount written off. However, financial assets that are written off could still be subject to enforcement activities in order to comply with the Group's procedures for recovery of amounts due.

Notes to the Consolidated and Separate Financial Statements
for the year ended 31 December 2020 (Continued)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

h) Impairment (continued)

i) Non-derivative financial assets (continued)

Policy applicable before 1 January 2018

Financial assets not classified as at FVTPL were assessed at each reporting date to determine whether there was objective evidence of impairment.

Objective evidence that financial assets were impaired included:

- default or delinquency by a debtor;
- restructuring of an amount due to the Group on terms that the Group would not consider otherwise;
- indications that a debtor or issuer would enter bankruptcy;
- adverse changes in the payment status of customer or borrower;
- the disappearance of an active market for a security because of financial difficulties; or
- observable data indicating that there was a measurable decrease in the expected cash flows from a Group of financial assets.

For an investment in an equity instrument, objective evidence of impairment included a significant or prolonged decline in its fair value below its cost.

<p>Financial assets measured at amortised cost</p>	<p>The Group considered evidence of impairment for these assets at both an individual asset and a collective level. All individually significant assets were individually assessed for impairment. Those found not to be impaired were then collectively assessed for any impairment that had been incurred but not yet individually identified. Assets that were not individually significant were collectively assessed for impairment. Collective assessment was carried out by grouping together assets with similar risk characteristics.</p> <p>In assessing collective impairment, the Group used historical information on the timing of recoveries and the amount of loss incurred, and made an adjustment if current economic and credit conditions were such that the actual losses were likely to be greater or lesser than suggested by historical trends.</p> <p>An impairment loss was calculated as the difference between an asset's carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. Losses were recognised in profit or loss and reflected in an allowance account. When the Group considered that there were no realistic prospects of recovery of the asset, the relevant amounts were written off. If the amount of impairment loss subsequently decreased and the decrease was related objectively to an event occurring after the impairment was recognised, then the previously recognised impairment loss was reversed through profit or loss.</p>
<p>Available for sale financial assets</p>	<p>Impairment losses on available-for-sale financial assets were recognised by reclassifying the losses accumulated in the fair value reserve to profit or loss. The amount reclassified was the difference between the acquisition cost (net of any principal repayment and amortisation) and the current fair value, less any impairment loss previously recognised in profit or loss. If the fair value of an impaired available-for-sale debt security subsequently increased and the increase was related objectively to an event occurring after the impairment loss was recognised, then the impairment loss was reversed through profit or loss. Impairment losses recognised in profit or loss for an investment in an equity instrument classified as available-for-sale were not reversed through profit or loss.</p>

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

h) Impairment (continued)

ii) Non- financial assets

At each reporting date, the Group reviews the carrying amounts of its non-financial assets (other than biological assets, investment property, inventories and deferred tax assets) to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated.

For impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or CGUs.

The recoverable amount of an asset or CGU is the greater of its value in use and its fair value less costs to sell. Value in use is based on the estimated future cash flows, 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 or CGU.

An impairment loss is recognised if the carrying amount of an asset or CGU exceeds its recoverable amount. Impairment losses are recognised in profit or loss. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

i) Employee benefits

i) Defined contribution plans

The Group makes statutory Contributions to the National Social Security Fund (NSSF) . The Group's obligations in respect of contributions to such fund are 10% of the employees' gross emoluments and at agreed amount for executive Directors and foreign employees.

Contributions to this pension fund are recognized as an expense in the year the employees render the related services.

ii) Termination benefits

Termination benefits are recognised as an expense in the year when it becomes payable. Termination benefits are determined in accordance with the Tanzanian Labour Law.

iii) Short term benefit

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided.

A liability is recognised for the amount expected to be paid under short-term cash bonus or profit-sharing plans if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

j) Provisions

A provision is recognised if, as a result of a past event, the Group has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The unwinding of the discount is recognised as finance cost.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

k) Environmental expenditure

The Group has remediation obligations comprising decommissioning and restoration liabilities relating to its past operations which are based on the Company's environmental management plans, in compliance with current environmental and regulatory requirements.

l) Decommissioning costs

Provision is made at the start of the life of the producing asset for the decommissioning of oil and gas wells and other oilfield facilities at the end of the life of the asset. The cost of decommissioning is determined through discounting the amounts expected to be payable to their present value at the date the provision is recorded and is reassessed at each balance sheet date. This amount is included within exploration and evaluation assets or the developed and producing assets as appropriate and the liability is included in provisions. Such cost is depleted over the life of the field on a unit of production basis and charged to the income statement. The unwinding of the discount is reflected as a finance cost in the income statement over the remaining life of the well. Changes in estimates are recognised prospectively, with corresponding adjustments to the provision and the associated asset. The Company is still at its early exploration stage as such no provision has been made.

m) Operating lease payments

Lease payments made under operating leases are recognised in profit or loss on a straight-line basis over the term of the lease. Lease incentives received are recognised as an integral part of the total lease expense, over the term of the lease.

n) Taxation

Income tax expense comprises current and deferred tax. Current and deferred taxes are recognised in profit or loss except to the extent that it relates to items recognised directly in equity or other comprehensive income. Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority.

A deferred tax asset is recognised for unused tax losses, tax credits and deductible temporary differences, to the extent that it is probable that future taxable profits will be available against which they can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

o) Dividends

Dividends payable or receivable are recognised as a liability or asset in the period in which they are declared and approved.

Swala Oil and Gas (Tanzania) Public Limited Company

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

p) Determination of fair values

A number of the Group's accounting policies and disclosures require the determination of fair value, for both financial and non-financial assets and liabilities. Fair value of an asset or liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest. Appropriate technique is used based on fact and circumstances specific to the asset or liability. Where applicable, the fair value of a receivable is estimated as the present value of future cash flows, discounted at the market rate of interest at the reporting date. And fair value non-derivative financial liabilities, is calculated based on the present value of future principal and interest cash flows, discounted at the market rate of interest at the reporting date.

Group classification of fair values of financial instruments has been described in Note 2(d)

q) Leases - IFRS 16

At inception of a contract, the Group assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

i) As a Lessee

At commencement or on modification of a contract that contains a lease component, the Group allocates the consideration in the contract to each lease component on the basis of its relative stand-alone prices. However, for the leases of property the Group has elected not to separate non-lease components and account for the lease and non-lease components as a single lease component.

The Group recognises a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentives received.

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the end of the lease term, unless the lease transfers ownership of the underlying asset to the Group by the end of the lease term or the cost of the right-of-use asset reflects that the Group will exercise a purchase option. In that case the right-of-use asset will be depreciated over the useful life of the underlying asset, which is determined on the same basis as those of property and equipment. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Group's incremental borrowing rate. Generally, the Group uses its incremental borrowing rate as the discount rate.

The Group determines its incremental borrowing rate by obtaining interest rates from various external financing sources and makes certain adjustments to reflect the terms of the lease and type of the asset leased.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

q) Lease - IFRS 16 (Continued)

Lease payments included in the measurement of the lease liability comprise the following:

- fixed payments, including in-substance fixed payments;
- variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;
- amounts expected to be payable under a residual value guarantee; and
- the exercise price under a purchase option that the Group is reasonably certain to exercise, lease payments in an optional renewal period if the Group is reasonably certain to exercise an extension option, and penalties for early termination of a lease unless the Group is reasonably certain not to terminate early.

The lease liability is measured at amortised cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in the Group's estimate of the amount expected to be payable under a residual value guarantee, if the Group changes its assessment of whether it will exercise a purchase, extension or termination option or if there is a revised in-substance fixed lease payment.

When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

The Group presents right-of-use assets that do not meet the definition of investment property in 'property, plant and equipment' and lease liabilities in 'loans and borrowings' in the statement of financial position.

Short-term leases and leases of low-value assets

The Group has elected not to recognise right-of-use assets and lease liabilities for leases of low-value assets and short-term leases. The Group recognises the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

ii) As a lessor

At inception or on modification of a contract that contains a lease component, the Group allocates the consideration in the contract to each lease component on the basis of their relative stand-alone prices.

When the Group acts as a lessor, it determines at lease inception whether each lease is a finance lease or an operating lease.

To classify each lease, the Group makes an overall assessment of whether the lease transfers substantially all of the risks and rewards incidental to ownership of the underlying asset. If this is the case, then the lease is a finance lease; if not, then it is an operating lease. As part of this assessment, the Group considers certain indicators such as whether the lease is for the major part of the economic life of the asset.

When the Group is an intermediate lessor, it accounts for its interests in the head lease and the sub-lease separately. It assesses the lease classification of a sub-lease with reference to the right-of-use asset arising

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

q) Lease - IFRS 16 (Continued)

from the head lease, not with reference to the underlying asset. If a head lease is a short-term lease to which the Group applies the exemption described above, then it classifies the sub-lease as an operating lease.

If an arrangement contains lease and non-lease components, then the Group applies IFRS 15 to allocate the consideration in the contract.

The Group applies the derecognition and impairment requirements in IFRS 9 to the net investment in the lease. The Group further regularly reviews estimated unguaranteed residual values used in calculating the gross investment in the lease.

The Group recognises lease payments received under operating leases as income on a straight-line basis over the lease term as part of 'other revenue'.

r) Comparatives

Where necessary, comparative figures have been adjusted to conform to changes in presentation in the current period.

s) Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Chief Executive Officer that makes strategic decisions.

The Group has one reportable segment (see note 27).

t) Relevant new standards, amendments and interpretations issued

At the date of authorisation of the financial statements of the Group and the Company for the year ended 31 December 2020, the following Standards and Interpretations were in issue:

Effective for the financial year commencing 1 January 2020

- Amendments to References to Conceptual Framework in IFRS Standards.
- Definition of a Business (Amendments of IFRS 3).
- Definition of Material (Amendments to IAS 1 and IAS 8).

t) Relevant new standards, amendments and interpretations issued (Continued)

Definition of a Business (Amendments of IFRS 3)

The amendments in Definition of a Business (Amendments to IFRS 3) are changes to Appendix A Defined terms, the application guidance, and the illustrative examples of IFRS 3 only.

- They clarify that to be considered a business, an acquired set of activities and assets must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create outputs;
- narrow the definitions of a business and of outputs by focusing on goods and services provided to customers and by removing the reference to an ability to reduce costs;
- add guidance and illustrative examples to help entities assess whether a substantive process has been acquired;
- remove the assessment of whether market participants are capable of replacing any missing inputs or processes and continuing to produce outputs; and
- add an optional concentration test that permits a simplified assessment of whether an acquired set of activities and assets is not a business.

Definition of Material (Amendments to IAS 1 and IAS 8)

The changes in Definition of Material (Amendments to IAS 1 and IAS 8) all relate to a revised definition of 'material' which is quoted below from the final amendments:

Information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of General purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity.

Three new aspects of the new definition should especially be noted:

- i) **Obscuring** -The existing definition only focused on omitting or misstating information, however, the Board concluded that obscuring material information with information that can be omitted can have a similar effect.

The amendments stress especially five ways material information can be obscured;

- if the language regarding a material item, transaction or other event is vague or unclear;
 - if information regarding a material item, transaction or other event is scattered in different places in the financial statements;
 - if dissimilar items, transactions or other events are inappropriately aggregated;
 - if similar items, transactions or other events are inappropriately disaggregated; and
 - if material information is hidden by immaterial information to the extent that it becomes unclear what information is material.
- ii) **Could reasonably be expected to influence** -The existing definition referred to 'could influence' which the Board felt might be understood as requiring too much information as almost anything 'could' influence the decisions of some users even if the possibility is remote.
 - iii) **Primary users** -The existing definition referred only to 'users' which again the Board feared might be understood too broadly as requiring to consider all possible users of financial statements when deciding what information to disclose.

Notes to the Consolidated and Separate Financial Statements
for the year ended 31 December 2020 (Continued)

t) Relevant new standards, amendments and interpretations issued (Continued)

However, based on the information currently available, the Group estimates that these standards will not have significant impact on the Group's consolidated financial statements.

Effective for the financial year commencing 1 January 2021

- Amendments to IFRS 17 and IFRS 4, 'Insurance contracts' deferral of IFRS 9
- Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 Interest Rate Benchmark Reform - Phase 2

Effective for the financial year commencing 1 January 2022

- Amendments to IAS 1, Presentation of financial statements' on classification of liabilities
- A number of narrow-scope amendments to IFRS 3, IAS 16, IAS 17 and some annual improvements on IFRS 1, IFRS 9, IAS 41 and IFRS 16

Effective for the financing year commencing 1 January 2023

- IFRS 17, 'Insurance contracts'

All Standards and Interpretations will be adopted at their effective date (except for those Standards and Interpretations that are not applicable to the entity).

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Notes to the Consolidated and Separate Financial Statements
for the year ended 31 December 2020 (Continued)

4. TAXATION

At 31 December 2020, the Group has estimated accumulated tax losses of USD 9,534,675 (2019: USD 9,184,552) available for set-off against future taxable profit.

INCOME TAX EXPENSE	CONSOLIDATED		SEPARATE	
	2020 USD	2019 USD	2020 USD	2019 USD
Tax charge	-	-	-	-
Income tax charge - recognised*	-	-	-	-
Total	-	-	-	-

DEFERRED TAX	CONSOLIDATED		SEPARATE	
	2020 USD	2019 USD	2020 USD	2019 USD
Tax charge /(credit)- current year	-	-	-	-
Deferred tax (credit) charge - not recognised	(1,087,019)	109,923	(1,087,019)	109,923
Total	(1,087,019)	109,923	(1,087,019)	109,923

Tax reconciliation is as follows:

	CONSOLIDATED		SEPARATE	
	2020 USD	2019 USD	2020 USD	2019 USD
Profit/(loss) before income tax	2,527,532	(2,210,751)	2,527,532	(2,210,751)
Tax calculated at the statutory of 30%	758,260	(663,225)	758,260	(663,225)
Tax effect of:				
Alternative minimum tax	-	-	-	-
Provision current year - deferred tax	(1,087,019)	370,554	(1,087,019)	370,554
Expense not deductible for tax purposes	328,760	292,671	328,760	292,671
Effect of prior year adjustments	-	-	-	-
Total	-	-	-	-

Deferred tax

As at 31 December 2020 there is a deferred tax asset of US\$ 3,609,772 (Dec 2019: USD 3,080,546) arising mainly on account of the estimated accumulated tax losses. In the opinion of the Directors, it is prudent not to recognise this asset, as the Company is yet to start making taxable profits from ordinary course of the business.

The gross movement on the deferred tax account is as follows:	CONSOLIDATED		SEPARATE	
	2020 USD	2019 USD	2020 USD	2019 USD
At the beginning of the year	3,080,546	2,970,623	3,080,546	2,970,623
Prior year	1,616,245	-	1,616,245	-
Movement during the year	(1,087,019)	109,923	(1,087,019)	109,923
At the end of the year - not recognised	3,609,772	3,080,546	3,609,772	3,080,546

Deferred tax asset includes the following temporary differences:	CONSOLIDATED		SEPARATE	
	2020 USD	2019 USD	2020 USD	2019 USD
Estimated income tax losses	2,860,403	2,755,366	2,860,403	2,755,366
Accerated Capital deductions	192,567	235,656	192,567	235,656
Revaluations	431,379	-	431,379	-
Other timing differences	125,423	89,524	125,423	89,524
Net deferred income tax Assets - Not recognised	3,609,772	3,080,546	3,609,772	3,080,546

Swala Oil and Gas (Tanzania) Public Limited Company

Notes to the Consolidated and Separate Financial Statements
for the year ended 31 December 2020 (Continued)

5. PROPERTY AND EQUIPMENT

GROUP AND COMPANY	Office equipment USD	Furniture and fittings USD	Total USD
Cost			
At 1 January 2019	19,815	20,741	40,556
Additions	2,818	-	2,818
At 31 December 2019	22,633	20,741	43,374
At 1 January 2020	22,633	20,741	43,374
Disposal	(2,556)	(2,968)	(5,524)
At 31 December 2020	20,077	17,773	37,850
Depreciation			
At 1 January 2019	11,508	10,674	22,182
Charge for the year	2,838	1,272	4,110
At 31 December 2019	14,346	11,946	26,292
At 1 January 2020	14,346	11,946	26,292
Charge for the year	2,269	1,066	3,335
Accumulated depreciation on disposed assets	(1,575)	(1,920)	(3,495)
At 31 December 2020	15,040	11,092	26,132
Net book value			
At 31 December 2020	5,037	6,681	11,718
At 31 December 2019	8,287	8,795	17,082

The Group's Property and Equipment are the same as Company's Property and Equipment since Subsidiaries had no Property and Equipment.

6. RECEIVABLES AND PREPAYMENTS

	CONSOLIDATED		SEPARATE	
	2020 USD	2019 USD	2020 USD	2019 USD
Accounts receivable	-	-	-	-
Other debtors	30,604	27,767	30,604	27,767
Accrued Income	-	2,360	400,000	202,360
VAT receivables	120,514	120,655	120,514	120,655
Prepayment	1,076	57,200	-	5,984
Total	152,194	207,982	551,118	356,766

7. BANK BALANCES

	CONSOLIDATED		SEPARATE	
	2020 USD	2019 USD	2020 USD	2019 USD
Cash on hand	316	264	316	264
Cash at bank	33,738	113,948	21,989	15,145
Total	34,054	114,212	22,305	15,409

Swala Oil and Gas (Tanzania) Public Limited Company

Notes to the Consolidated and Separate Financial Statements for the year ended 31 December 2020 (Continued)

8. INVESTMENTS

a) In subsidiaries

Swala Oil and Gas (Tanzania) Public Limited Company owns shares of Swala (Mauritius) Limited incorporated in Mauritius and Swala (PAEM) limited incorporated in United Kingdom.

	2020 USD	2019 USD
Cost		
At 01 January	5,404,664	5,404,664
Relinquishment of Burundi Subsidiary	(1,437,930)	-
At 31 December	3,966,734	5,404,664
Accumulated impairment losses**		
At 01 January	(5,404,564)	(5,404,564)
Relinquishment of Burundi Subsidiary	1,437,930	-
Reversal of impairment loss	3,966,634	-
At 31 December	-	(5,404,564)
Net Investment	3,966,734	100

On the 18th of August 2020, the Group and the company confirmed to the Ministry of Energy and Mines of the Republic of Burundi its relinquishment of Block D, Lake Tanganyika, which the group and the company acquired in 2016. There are no outstanding obligations remaining on Block D.

In 2020 the Group and the company reassessed the impairment of investment in Swala (PAEM) Limited and reversed it by US\$ 3,966,634.

Particulars of the subsidiaries as at 31 December 2020 are as follows:

Name	Nature of Operations	Number of shares	% holding	Country of incorporation	Cost (USD)
Swala (Mauritius) Limited	Special purpose vehicle- investment	100	100%	Mauritius	100
Swala (PAEM) Limited	Investment	2,829,380	100%	UK	3,966,634

b) Other investment

During the year of 2018, the Group acquired investment in PAE Panafrican Energy Corps. ("PAEM") through acquisition of 7,933 Class A PAEM shares from ORCA (the "PAEM Shares") which is equal to 7.93% that Swala (PAEM) Limited acquired for gross proceed of US\$ 21,022,450 paid in US\$ 17,055,950 cash and US\$ 3,966,500 face value of Swala Oil and Gas (Tanzania) Public Limited Company (the Parent) convertible preference shares.

	2020 USD	2019 USD
Cost		
At 01 January	21,022,450	21,022,450
Additions	-	-
At 31 December	21,022,450	21,022,450
Accumulated Fair Value changes		
At 01 January	(14,004,471)	(14,004,471)
Reversal of impairment loss	11,255,112	-
At 31 December	(2,749,359)	(14,004,471)
Net investment at fair value	18,273,091	7,017,979

The Group reassessed the impairment loss using 2019 CPR and reference profile of PDP, the group believes the outstanding impairment loss of USD 2,749,359 is substantially caused by uncertainty of obtaining the licence extension on the Songo Songo field from 2027 to 2033.

Swala Oil and Gas (Tanzania) Public Limited Company

Notes to the Consolidated and Separate Financial Statements
for the year ended 31 December 2020 (Continued)

9. RELATED PARTY TRANSACTIONS AND BALANCES

The Group and Company enter into transactions with parties that fall within the definition of a related party as contained in International Financial Reporting Standards (IFRS). Related parties comprise companies and entities under common ownership and/or common management and control, and their partners and key Management personnel.

The Group and Company provide/receive funds to/from related parties as and when required to meet the business/transaction needs to meet cash flow requirement from time to time.

The management believes that the terms of such transactions are not of significantly different from those that could have been obtained from third parties.

a) Due to/from Related parties

Name of related party	2020 USD	2019 USD
Due from related party		
Swala (Mauritius) Limited	-	-
Swala (Burundi) Limited	-	3,175
Swala (PAEM) Limited	22,976	-
Total	22,976	3,175
Due to related party		
14.5% intercompany loan- Swala PAEM	3,294,022	2,922,338
14.5% Intercompany loan - Swala Mauritius	958,465	857,490
	4,252,487	3,779,828

The balances due from related party with no interest, attributed by the Company settling liabilities on behalf of its subsidiaries.

b) Key management compensation

Key management compensations are for those persons having authority and responsibility for planning, directing and controlling the activities of the entity, directly or indirectly including any director of the Company.

	CONSOLIDATED		SEPARATE	
	2020 USD	2019 USD	2020 USD	2019 USD
Salaries	230,004	230,004	230,004	230,004
Defined contribution plan	18,075	18,650	18,075	18,650

No terminal or other long-term benefits were paid to key management personnel during the period (2019: Nil)

c) Directors' emoluments

	CONSOLIDATED		SEPARATE	
	2020 USD	2019 USD	2020 USD	2019 USD
Non-executive Chairman	24,000	24,000	24,000	24,000
Non-executive Directors	96,000	96,000	96,000	96,000
Executive director	178,929	179,354	178,929	179,354

Swala Oil and Gas (Tanzania) Public Limited Company

Notes to the Consolidated and Separate Financial Statements for the year ended 31 December 2020 (Continued)

10. BORROWINGS

	CONSOLIDATED		SEPARATE	
	2020 USD	2019 USD	2020 USD	2019 USD
Non- current liabilities				
14.5% intercompany loan	-	-	3,524,921	3,164,689
14.5% A1 senior notes	23,916,291	21,937,164	-	-
10% convertible preference shares	3,966,500	3,966,500	3,966,500	3,966,500
	27,882,791	25,903,664	7,491,421	7,131,189
Current liabilities				
16.5% intercompany loan	-	-	727,566	615,139
	-	-	727,566	615,139
	27,882,791	25,903,664	8,218,987	7,746,328

Information about Group's and Company's exposure to interest rate, foreign currency and liquidity risk is included in note 21.

Movement of borrowings during the year was as follows:

	CONSOLIDATED		SEPARATE	
	2020 USD	2019 USD	2020 USD	2019 USD
At the start of the year	25,903,664	25,255,315	7,746,328	6,418,820
Proceeds from borrowings:-				
14.5% intercompany loan - with Swala PAEM	-	-	-	140,000
14.5% intercompany loan - with Swala Mauritius	-	-	-	1,000,000
14.5% A1 senior notes	-	-	-	-
10% preference share	-	-	-	-
Interest on borrowings:-				
14.5% intercompany loan - with Swala PAEM	-	-	371,683	330,019
14.5% intercompany loan - with Swala Mauritius	-	-	100,976	73,361
Repayments:-				
14.5% borrowings- SWE creditors	-	-	-	-
14.5% intercompany loan - with Swala Mauritius	-	-	-	(215,872)
Borrowing costs -14.5% A1 senior notes	1,979,127	648,349	-	-
At end of the year	27,882,791	25,903,664	8,218,987	7,746,328

14.5% Intercompany loan relates to a loan between the parent company and its subsidiary (Swala PAEM limited) issued to fund the payment of certain outstanding liabilities of the borrower as identified in the agreement. The loan carries an interest of 14.5% per annum which is due and payable on December 31 and June 30 of each year. Unless otherwise agreed between the parties, this loan is repayable in full by the borrower on 31 December 2023. This loan has no security.

14.5% unsecured Intercompany loan is between the parent company and its subsidiary (Swala Mauritius limited) to fund general working capital requirement of the borrower. The interest is per annum which is due and payable on December 31 and June 30 of each year. Unless otherwise agreed between the parties, this loan is repayable in full by the borrower on the fourth anniversary.

A1 senior notes relates to the five years senior notes (maturity date being 15th of January 2023) issued by Swala (PAEM) Limited (Subsidiary) to facilitate the acquisition of 7.93% equity interest in PAE Panafrican Energy Corporation ("PAEM"), a Mauritius-registered company. These notes carry an interest of 14.5% per annum which is due and payable on July 15th and Jan 15th of each year. This loan is collateralised secured by 7.93% investment of Swala (PAEM) Limited in PAE Panafrican Energy Corporation ("PAEM").

Preference shares relates to the Six years redeemable preference shares issued by Swala Oil and Gas (Tanzania) Public Limited Company("the parent") to Orca Exploration Group Inc. as part of consideration on the acquisition of 7.93% equity interest in PAE Panafrican Energy Corporation ("PAEM"), a Mauritius-registered company. The holders of these Preference shares are entitled to receive out of the distributable profits or reserves, USD dollars cash distribution in an amount equal to 10% per annum of the face value of each preference shares which is paid quarterly.

Swala Oil and Gas (Tanzania) Public Limited Company

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11. SHARE CAPITAL

	2020 USD	2019 USD
Authorised		
9,098,424,000 (2018:150,000,000 Ordinary shares of Tzs 1 (USD 0.00062500) each	5,686,515	5,686,515
Issued and fully paid up		
106,201,621 Ordinary shares of Tzs 1 (USD 0.00061127) each	64,918	64,918
Share Premium		
Share premium at the start and end of the year	7,907,983	7,907,983

13.8MM (13.99%) issued and fully paid shares held by SWE Creditors Trust were subsequently redistributed pro-rata to the original shareholders and that the Group and the company are in the process of confirming with Capital Market and Security Authority. SWE is no longer a shareholder

12. TRADE AND OTHER PAYABLES

	CONSOLIDATED		SEPARATE	
	2020 USD	2019 USD	2020 USD	2019 USD
Account payables & other payable	1,678,682	967,492	1,388,119	865,604
Accruals	11,603,733	6,274,364	3,128,108	2,613,072
Provisions	259,266	259,266	205,822	205,822
Total	13,541,681	7,501,122	4,722,049	3,684,498

The Trade and other payable above, include US\$ 1,267,683 training and surface licence fees to Tanzania Petroleum Development Corporation for the period starting 2016 .The Company has withheld payment of these on the grounds that they arise from the failure of TPDC and the Government to allow the Company access to the drilling site in order to complete the drilling of Kito-1, originally expected in 2016. This delay has resulted in the Company spending an additional US\$ 2,361,714 excluding the claimed training and licence fees. The Company and TPDC have initially agreed to defer payments until the Kilosa-Kilombero licence is drilled and the Company is awaiting a formal response.No such response has been received as at this date.

13. SHORT TERM LOAN

	CONSOLIDATED		SEPARATE	
	2020 USD	2019 USD	2020 USD	2019 USD
Swala Energy Trust Co. Ltd	-	-	-	-
Erncon Holdings Ltd	110,000	110,000	110,000	110,000
Neil Tayrol	32,594	32,594	32,594	32,594
Frank Whitehead	21,120	21,120	21,120	21,120
Total	163,714	163,714	163,714	163,714

The outstanding short-term loan attributed by redemption of convertible notes at redemption premium of 10%.

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14. JOINT OPERATING AGREEMENT

The Company (Swala) entered into a joint operating agreement (JOA) with Otto Energy (Tanzania) Pty Limited (Otto) for the Kilosa-Kilombero exploration licence in 2012. TATA Petrodyne Limited (TATA) became part of the JOA after farm-in to the licence in October 2015.

	Kilosa Kilombero Licence	
	2020	2019
Swala Oil and Gas (Tanzania) Public Limited Company- Operator	100%	75%
TATA Petrodyne Limited	-	25%

Following Otto's withdraw from the licence in 2016, Swala and Otto entered into agreement on the 25th May 2017, following which Otto has retained a 2% Gross Over-Riding Royalty Interest over possible future production from the Kito prospect.

Invenire Petrodyne Limited ("IPL", formerly, Tata Petrodyne limited) withdrawn from the Kilosa Kilombero licence area, so now the Group and the company has 100% interest ownership of the Kilosa Kilombero licence area. Settlement of US\$ 1,000,000 (US\$ 725,000 after legal cost) made by IPL on the 24th of August 2020 removes all actions against IPL and clarifies ownership.

15. OTHER INCOME

	CONSOLIDATED		SEPARATE	
	2020 USD	2019 USD	2020 USD	2019 USD
Dividend from investment in PAE	-	951,960	-	-
Management services fees	-	-	200,000	200,000
Interest from Bank deposit	-	13,081	-	-
Overhead charge - 3%	-	4,945	-	4,945
Gain on asset disposal	365	-	365	-
Consideration from farm-out transaction*	763,077	4,895	763,077	4,895
Reversal of impairment loss	11,255,112	-	3,966,634	-
	12,018,554	974,881	4,930,076	209,840

* Consideration from farm-out transactions represents 25% carried interest from TATA Petrodyne Limited pursuant to the Article 4.1 of the Kilosa Kilombero farm-out agreement completed in October 2015.

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for the year ended 31 December 2020 (Continued)

16. FINANCE COSTS

	CONSOLIDATED		SEPARATE	
	2020 USD	2019 USD	2020 USD	2019 USD
Interest on 14.5% convertible notes	265,451	229,926	120,451	129,817
Interest on A1 senior notes	6,316,617	4,369,757	-	-
Interest on preference share	396,649	396,649	396,649	396,649
Interest on other loan facilities (Incl. inter-company loan)	-	-	524,590	448,785
	6,978,717	4,996,332	1,041,690	975,251

17. FAIR VALUES OF FINANCIAL INSTRUMENTS

The following table shows the carrying amounts and fair value of financial assets and financial liabilities, including their levels in the fair value hierarchy as described in note 2(d):

CONSOLIDATED 2020:	Amortised cost USD	Other liabilities at amortised cost USD	Total carrying amount USD
ASSETS			
Cash and cash equivalents	34,054	-	34,054
Other debtors	30,604	-	30,604
	64,658	-	64,658
LIABILITIES			
Accounts and other payables	-	1,678,682	1,678,682
Accruals	-	11,603,733	11,603,733
Short term loan	-	163,714	163,714
14.5% A1 senior notes	-	23,916,291	23,916,291
10% convertible preference share	-	3,966,500	3,966,500
14.5% convertible notes	-	1,770,000	1,770,000
	-	43,098,920	43,098,920
SEPARATE 2020:			
ASSETS			
Cash and cash equivalents	22,305	-	22,305
Other debtors	430,604	-	430,604
	452,909	-	452,909
LIABILITIES			
Accounts and other payables	-	1,388,119	1,388,119
Accruals	-	3,128,108	3,128,108
Short term loan	-	163,714	163,714
16.5% Inter-company loan -STL	-	727,566	727,566
14.5% Inter - company loan -LTL	-	3,524,921	3,524,921
10% convertible preference share	-	3,966,500	3,966,500
14.5% convertible notes	-	770,000	770,000
	-	13,668,928	13,668,928

Swala Oil and Gas (Tanzania) Public Limited Company

Notes to the Consolidated and Separate Financial Statements
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17. FAIR VALUES OF FINANCIAL INSTRUMENTS (CONTINUED)

CONSOLIDATED 2019:			
	Amortised cost USD	Other liabilities at amortised cost USD	Total carrying amount USD
ASSETS			
Cash and cash equivalents	114,212	-	114,212
Current account - Joint operating partner	234,577	-	234,577
Other debtors	30,127	-	30,127
	378,916	-	378,916
LIABILITIES			
Accounts and other payables	-	967,492	967,492
Accruals	-	6,274,364	6,274,364
Short term loan	-	163,714	163,714
14.5% A1 senior notes	-	21,937,164	21,937,164
10% convertible preference share	-	3,966,500	3,966,500
14.5% convertible notes	-	1,860,000	1,860,000
	-	35,169,234	35,169,234
SEPARATE 2019:			
ASSETS			
Cash and cash equivalents	15,409	-	15,409
Current account -Joint Operating Partner	234,577	-	234,577
Other debtors	230,127	-	230,127
	480,113	-	480,113
LIABILITIES			
Accounts and other payables	-	865,604	865,604
Accruals	-	2,613,072	2,613,072
Short term loan	-	163,714	163,714
16.5% Inter-company loan - STL	-	615,139	615,139
14.5% A1 senior notes -LTL	-	3,164,689	3,164,689
10% convertible preference share	-	3,966,500	3,966,500
14.5% convertible notes	-	860,000	860,000
	-	12,248,718	12,248,718

The Company has not disclosed fair values for financial instruments such as bank balances, receivables, payables and loans because their carrying values are a reasonable approximation of their fair values.

Transfers

During the period ended 31 December 2020, there were no transfers of equity securities or derivatives measured at FVOCI between levels 1 and 2 of the fair value hierarchy. There were no transfers into or out of level 3 during the period.

18. CONVERTIBLE NOTES

2020			CONSOLIDATED	SEPARATE
Name	Unit Price In USD	Number of Units	Amounts in USD	Amounts in USD
Dr. David Mestres Ridge - (Six years convertible notes)	1	360,000	360,000	360,000
Company scene Limited - (Six years convertible notes)	1	410,000	410,000	410,000
Lars Baders - (Five years convertible notes)	1	1,000,000	1,000,000	-
			1,770,000	770,000

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18. CONVERTIBLE NOTES (CONTINUED)

2019 Name	Unit Price In USD	Number of Units	CONSOLIDATED	SEPARATE
			Amounts in USD	Amounts in USD
Dr. David Mestres Ridge - (Six years convertible notes)	1	450,000	450,000	450,000
Company scene Limited - (Six years convertible notes)	1	410,000	410,000	410,000
Lars Baders - (Five years convertible notes)	1	1,000,000	1,000,000	-
			1,860,000	860,000

These notes carry an interest of 14.5% per annum which is due and payable semi-annually.

19. EARNINGS PER SHARE

- a) Basic earnings (loss) per share are calculated by dividing the earnings (loss) attributable to shareholders by the weighted average number of ordinary shares in issue during the period.

	CONSOLIDATED		SEPARATE	
	2020	2019	2020	2019
Earnings / (loss) attributable to shareholders	2,949,539	(6,402,822)	2,527,532	(2,210,751)
Weighted average number of shares in issue	106,201,621	106,201,621	106,201,621	106,201,621
Basic earnings / (loss) per share	0.028	(0.06)	0.024	(0.021)

- b) Diluted earnings (loss) per share is calculated by dividing the earnings (loss) attributable to shareholders by the weighted average number of ordinary shares adjusted to assume conversion of all dilutive potential ordinary shares during the period.

	CONSOLIDATED		SEPARATE	
	2020 USD	2019 USD	2020 USD	2019 USD
Earnings / (loss) attributable to shareholders	2,949,539	(6,402,822)	2,527,532	(2,210,751)
Weighted average number of shares in issue	106,201,621	106,201,621	106,201,621	106,201,621
Diluted earnings / (loss) per share	0.028	(0.06)	0.024	(0.021)

20. CAPITAL MANAGEMENT

The primary objective of the Group's capital management is to ensure that it maintains a strong credit rating and healthy capital ratios in order to support its business and maximize shareholder value. Rate of return on capital employed at 31 December 2020 was -0.12 (At 31 December 2019: 0.23).

The Groups manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may return capital to shareholders or issue new shares. No changes were made in the objectives, policies or processes during the period ending 31 December 2020.

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for the year ended 31 December 2020 (Continued)

21. FINANCIAL RISK MANAGEMENT

The Group is exposed to the following risks from its use of financial instruments; Credit risk, Liquidity risk, Market risk.

This note presents information about the Group's exposure to each of the above risks, the Group's objectives, policies and processes for measuring and managing risk, and the Group's management of capital. Further quantitative disclosures are included throughout these consolidated financial statements. The Group's Directors have overall responsibility of the establishment and oversight of the Group's risk management framework. The Group's risk management policies are established to identify and analyse the risks faced by the Group, to set appropriate risk limits and controls, and to monitor risk adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions, products and services offered.

The Group, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment, in which all employees understand their roles and obligations. The Directors are responsible for monitoring compliance with the risk management policies and procedures, and for reviewing the adequacy of the risk management framework in relation to the risk faced by the Group. The Directors are assisted in these functions by the management.

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 trade receivables and other receivables and cash at bank.

Receivables are not having similar credit characteristics; they differ depending on whether they are debtors or other receivables (mainly staff advances and sundry debtors), "governed by specific receivables loan and/or loan terms" or the creditworthiness of party from which they are receivable. The Group is in exploration stage with no production and banks with financial institution with strong financial standing. Therefore, the management does not believe there is significant exposure to credit risks.

CONSOLIDATED	2020 USD		2019 USD	
	Loans & receivables	Exposure to Credit risk	Loans & receivables	Exposure to Credit risk
Current account- Joint operating partner	-	-	234,577	234,577
Account receivables	-	-	-	-
Other debtors	30,604	30,604	27,767	27,767
Total	30,604	30,604	262,344	262,344
SEPARATE				
Current account- Joint operating partner	-	-	234,577	234,577
Account receivables	-	-	-	-
Other debtors	30,604	30,604	27,767	27,767
Total	30,604	30,604	262,344	262,344

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21. FINANCIAL RISK MANAGEMENT (CONTINUED)

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, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation. Management monitors rolling forecasts of the Group's liquidity on the basis of expected cash flows on monthly basis.

The table below analyses the Group's non-derivative financial liabilities into relevant maturity grouping based on the remaining period at the balance sheet to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

As at 31 December 2020

	Note	Less than 1 year USD	Between 1 and 2 years USD	Between 2 and 5 years USD	Over 5 years USD
Trade & other payables	12	1,678,682	-	-	-
Accruals	12	11,603,733	-	-	-
Short term loan	13	163,714	-	-	-
Convertible notes	18	-	-	1,770,000	-
Borrowings - A1 Senior notes	10	-	-	23,916,291	-
Preference Shares	10	-	-	3,966,500	-
		13,446,129	-	29,652,791	-

As at 31 December 2019

	Note	Less than 1 year USD	Between 1 and 2 years USD	Between 2 and 5 years USD	Over 5 years USD
Trade & other payables	12	967,492	-	-	-
Accruals	12	6,274,364	-	-	-
Short term loan	13	163,714	-	-	-
Convertible notes	18	-	-	1,860,000	-
Borrowings - A1 Senior notes	10	-	-	21,937,164	-
Preference Shares	10	-	-	-	3,966,500
		7,405,570	-	23,797,164	3,966,500

All liquidity policies and procedures are subject to review and approval by the Group's Board of Directors.

Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates etc. will affect the Group's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return. The Group is in exploration stage with no production therefore market risk is not material as at 31st December 2020.

Currency risk

The Group is exposed to currency risk on purchases that are denominated in a currency other than the functional currency i.e. US Dollars. The currency (-ies) in which Group's transactions are primarily denominated other than the functional currency is the Tanzanian Shillings (Tzs) and Great British Pound (GBP).

The Group's strategy to manage currency risk is by transacting mainly in US Dollars therefore the Group's currency risk exposure is not material as at 31 December 2020.

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22. COMMITMENTS

As of 31st December 2020, the Company has contractual work commitments in respect of Production Sharing Agreement with Tanzania Petroleum Development Corporation (TPDC) for the Kilosa-Kilombero licence area, suppliers and office rental obligation as shown below:

Capital commitments: (net to Swala's working interest)	2020 USD	2019 USD
Approved but not contracted for: Drilling Costs	304,448	304,448
Approved and contracted: Drilling costs	-	-
	304,448	304,448

The Group and the Company is expecting to keep the same commitment for 2021 for reasons mentioned under Operating Review on Page 4 of the Report of Directors, but will be reviewed for 2022 and 2023 the periods in which the drilling is expected to happen. The Company has not contracted any services.

Lease commitment:	2020 USD	2019 USD
Non-cancellable operating leases - future minimum lease payments payable:		
Within one year	362,471	362,471
Later than one year but not later than 5 years	-	-
	362,471	362,471

23. EVENTS AFTER THE REPORTING PERIOD

The Group and the Company has received a two years licence extension from the date of 18th August 2021 and allows the company to refresh the Environmental Impact Assessment first completed for operations in 2016 and which has a validity of five years, refresh the rig evaluation and selection studies to include rig-sharing or shallower rigs from neighbouring jurisdictions, secure all necessary permits including those from the Tanzanian Wildlife Authority ("TAWA"), Tanroads and the Rufiji Water Board, and finally to drill one exploration well targeting the Kito prospect ('best estimate' net to the Company 147mmbbls).

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24. DETAILED EXPENSES

	CONSOLIDATED		SEPARATE	
	2020 USD	2019 USD	2020 USD	2019 USD
Operating and administration expenses				
Wages and salaries	352,554	463,774	352,554	463,774
Administration charges	4,819	1,606	-	-
Directors fees	120,000	120,000	120,000	120,000
Auditor remuneration fees	21,000	20,000	21,000	20,000
Financial services	42,745	229,321	41,070	96,968
Rent	42,666	68,828	42,666	68,828
Public relation costs	-	87	-	87
Staff training	4,226	254	4,226	254
WHT accrued	100,987	44,879	48,529	-
Computer consumables	3,460	3,929	3,460	3,929
Printing and stationery	948	2,549	948	2,549
Employer Pension NSSF contribution	18,255	29,469	18,255	29,469
Workers compensation fee	3,526	4,614	3,526	4,614
Employer SDL contribution	15,004	20,912	15,004	20,912
Employees Leave accrual	-	(4,465)	-	(4,465)
Employees - other benefits	-	921	-	921
Consultants fees	248,524	350,981	74,161	180,680
Licenses, registrations, permits	2,525	7,030	-	355
Insurance	4,274	7,561	4,274	7,561
Accommodation	988	13,178	988	13,178
Depreciation	3,335	4,110	3,335	4,110
Legal expenses	403,323	598,307	280,030	72,355
Travelling expenses	2,589	17,927	2,589	17,927
Other interest expenses	(62,466)	11,753	(62,466)	11,753
Management fees	10,204	-	-	-
Other expenses	50,021	35,462	23,216	28,324
Foreign exchange loss	336,434	35,165	3,132	3,223
Provisions	-	15,185	-	-
	1,729,941	2,103,337	1,000,497	1,167,306

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25. DETAILED EXPENSES (CONTINUED)

Prospecting and exploration expenses	CONSOLIDATED		SEPARATE	
	2020 USD	2019 USD	2020 USD	2019 USD
Drilling project management & planning costs	-	58,425	-	58,425
Levy (PURA)	70,000	-	70,000	-
Overhead charge - 1% recoverable	-	1,235	-	1,235
Overhead charge - 2% non-recoverable	-	2,473	-	2,473
Storage	18,882	14,162	18,882	14,162
Surface licence fees	68,329	50,453	68,329	50,453
Training fees (TPDC)	203,146	150,000	203,146	150,000
Travelling expenses	-	1,286	-	1,286
	360,357	278,034	360,357	278,034
Finance costs				
Interest expense	265,451	229,926	120,451	129,817
Interest on preference share	396,649	396,649	396,649	396,649
Interest on loan	6,316,617	4,369,757	524,590	448,785
	6,978,717	4,996,332	1,041,690	975,251
Grand Total	9,069,015	7,377,703	2,402,544	2,420,591

26. CONTINGENT LIABILITIES

Undetermined tax assessment

In the year 2017, the Group was assessed by Tanzania Revenue Authority (TRA) for Corporate Tax 2015, Value Added Tax (VAT) 2014, Pay As You Earn (PAYE) 2014-2015, Skills and Development Levy (SDL) 2014-2015 and Withholding Tax (WHT) 2014-2015. As result of that demand note of TZS 1,428,674,653 was received. The Company formally objected these assessments and tax deposit of TZS 50 million was paid during the year 2018 as required by tax laws. TRA and the Company went through the assessments and during March 2019, TRA issued the company with amended assessments amounting TZS 251,886,353. The Company responded to these amended assessments by conceding TZS 141,427,153 and disputing TZS 110,459,200, the Directors believe that the Group and Company have strong cases against this amended assessment and no additional provisions are required in the financial statements. The Directors also confirm that there are no other commitments or contingent liabilities against the Group and Company other than those already disclosed as at 31 December 2020.

27. SEGMENT INFORMATION

Financial information for the operating segment are reported to the Board of Directors. The Board of Directors monitors the operating results of its segment for the purpose of making decisions about resource allocation and performance assessment. The Group is still under exploration stage and operates in only one geographical location (Kilosa- Kilombero) which is the only reportable segment. No other operational segmentation has been determined by the chief operating decision maker.