

Swala Oil and Gas
(Tanzania) Public Limited Company
Financial Statements for
Year ended 31 December 2016

Swala Oil and Gas (Tanzania) Plc
Financial Statements for the period ended 31 December 2016
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Swala Oil and Gas (Tanzania) Plc
Financial Statements for the period ended 31 December 2016
General Information

1. Registered Number

115280066

2. Registered Office

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

3. Company Secretary

Yohana Mganga
2nd Floor Oyster Plaza
Plot No. 1196 - Oysterbay,
Haile Selassie Road,
P.O Box 105266
Dar es Salaam, TANZANIA

4. Auditors

BDO East Africa - Tanzania
P.O Box 9912
Dar es salaam, TANZANIA

5. Tax Advisor

PriceWaterHouseCoopers
Pemba House
369 Toure Drive, Oster Bay
PO Box 45
Dar es Salaam, TANZANIA

6. Brokers

Arch Financial & Investment Advisors Ltd
Life House, Wing C, Second Floor, Ohio Street
PO Box 38024
Dar es Salaam, TANZANIA

7. Bankers

Stanbic Bank Tanzania Limited
Stanbic Centre, Corner of Kinondoni & Ali
Hassan Mwinyi Roads, Kinondoni
PO Box 72647
Dar es Salaam, TANZANIA

Swala Oil and Gas (Tanzania) Plc
 Financial Statements for the period ended 31 December 2016
 Directors Report

The Directors present their annual report together with the audited financial statements for the period ended 31 December 2016 which disclose the state of affairs of Swala Oil and Gas (Tanzania) Public Limited Company ("the Company").

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 Public Company in 2013 followed by listing on Enterprise Growth Market of the Dar es Salaam stock exchange in August 2014.

DIRECTORS

The Directors of the Company at the date of this report all whom have served since 1 January 2016 are:

Name	Position	Nationality	Date of Appointment	Date of Resignation
Mr. Ernest Massawe	Non-Executive Chairman	Tanzanian	29 th July 2011	
Dr. David Mestres Ridge	Chief Executive Officer and Director	British	29 th July 2011	
Mr. Selemani Pongolani	Finance Director	Tanzanian	5 th July 2013	9 th May 2016
Mr. Neil Taylor	Non-Executive Director	Australian	5 th July 2013	
Professor Simon Mbilinyi	Non-Executive Director	Tanzanian	1 st July 2012	
Mr. Abdullah Mwinyi	Non-Executive Director	Tanzanian	1 st July 2012	

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

Name	Ordinary Shares 2016	Ordinary Shares 2015
Mr. Ernest Massawe*	8,835,035	8,835,035
Professor Simon Mbilinyi	484,102	484,102
Mr. Abdullah Mwinyi	484,101	484,101

* Ernest Massawe holds 500,002 (2015: 500,002) shares directly and 8,335,033 (2015: 8,335,033) through Erncon Holdings Limited.

Dr. David Mestres Ridge and Mr. Neil Taylor hold shares of Swala Energy Limited, major shareholder of Swala Oil and Gas (Tanzania) Plc.

Company Secretary is Yohana Mganga appointed to the position of on 11th September 2014. Prior to that date Envision Consulting (T) Limited was the Company Secretary of the Company.

Swala Oil and Gas (Tanzania) Plc
Financial Statements for the period ended 31 December 2016
Directors Report (continued)

SHAREHOLDERS OF THE COMPANY

As at 31st December 2016, the shares of the Company are held as follows:

	Shareholder's Name	Number of Shares	Ownership percentage
1	Swala Energy Limited	58,453,561	58.5%
2	Other shareholders and General public	34,057,526	34.1%
3	Swala Tanzania Trust Company Limited *	7,443,380	7.4%
	Total	99,954,467	100.00%

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

PRINCIPAL ACTIVITIES

The Company's principal activity is exploration for oil and gas reserves. In February 2012, the Company entered into Production Sharing Agreements (PSAs) with the Government of Tanzania and Tanzania Petroleum Development Corporation (TPDC) to undertake exploration of Oil and gas in connection with two onshore blocks, Pangani and Kilosa Kilombero.

OPERATING AND FINANCIAL REVIEW

Performance for the period

The results of the Company's operations for the period are set out on page 10.

Operating review

During the period the Company made the decision to delay the Kito-1 exploration well to 2017 as site access permits were pending with no guarantee of receiving the required permits in a timeframe that would be consistent with the dry season weather window required for the project to move forward. Operations were suspended in full while the process of obtaining the permits from the various required stakeholders was undertaken.

As a result of the technical review of Pangani Licence showing no structure of commercial interest the Company and the other Joint Venture Participants confirmed to the Tanzania Development Petroleum Corporation (TPDC) that they intended to relinquish the license. Final consent to relinquish the Pangani Licence had not been received by the end of the period.

FUTURE DEVELOPMENT PLANS

The Company will continue with its work commitments for the first year on the first extension period in the Kilosa - Kilombero area and continue with business development by applying for other licences in Tanzania and elsewhere.

Swala Oil and Gas (Tanzania) Plc
Financial Statements for the period ended 31 December 2016
Directors Report (continued)

DIVIDEND

There were no dividends paid during the period.

CORPORATE GOVERNANCE

As at the reporting date, the Board of the Company consists of 5 Directors. Apart from the Chief Executive Officer no other Directors hold executive positions in the Company. The Board has overall responsibility for the successful operations of the Company, including ensuring that the Company complies with all of its contractual, statutory and any other legal obligations, responsibility for identifying key risk areas, considering and monitoring investment decisions, considering significant financial matters, and reviewing the performance of management. 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's role is to govern the Company rather than to manage it. The Board delegates the day to day management of the business to the Chief Executive Officer assisted by the management team.

The Company is committed to the principles of effective corporate governance. The Directors also recognize 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 Company. 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 Company'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 Company'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 2016 and is of the opinion that they met accepted criteria.

Swala Oil and Gas (Tanzania) Plc
Financial Statements for the period ended 31 December 2016
Directors Report (continued)

CORPORATE SOCIAL RESPONSIBILITY (CSR)

The Company Corporate Social Responsibility ("CSR") encompasses the management of relationships with shareholders, employees, contractors and the communities in areas where the Company works, together with the impact on society and the environment. The Company recognises it has 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 Company's objective is to support development in local communities and to minimize the impact on the environment. The Company 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 Company and stakeholders.

As part of the CSR and Capacity building the Company set aside 7.4 million shares (2015: 7.4 million) in the Company managed by Swala Tanzania Trust Company Limited to the benefit of local communities in the areas of operations.

The Company continues to sponsor ten students to the Department of Geology at University of Dar es Salaam. The scholarship scheme is part of the Company's commitment to the development of local capacity and support local participation in Tanzania's hydrocarbon economy.

EMPLOYEE WELFARE

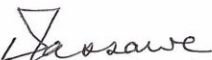
Management/employee relationship continued to be good during the year. There were no unresolved complaints by the employees at the end of the year.

The Company is an equal opportunity employer and provides on-the-job and external training to employees, in and outside Tanzania, also provides medical insurance coverage for all employees, safe working environment and pays contributions to National Social Security Fund and PPF Pension Fund, which are publicly administered mandatory pension plans and qualify to be a defined contribution plan.

AUDITOR

The Company's auditors, BDO East Africa, Certified Public Accountants, reach their final year and are not eligible for re-appointment.

By order of the Board


.....
Ernest Massawe
Chairman

Date: 3rd Aug.2017

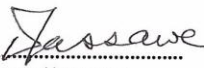
Swala Oil and Gas (Tanzania) Plc
Financial Statements for the period ended 31 December 2016
Statement of Directors' Responsibilities

The Tanzania Companies Act requires the Directors to prepare financial statements for each financial period that give a true and fair view of the state of affairs of the Company as at the end of the financial period. It also requires the Directors to ensure that the Company keeps proper accounting records that disclose, with reasonable accuracy, the financial position of the Company. They are also responsible for safeguarding the assets of the Company.

The Directors accept responsibility for the 31st December 2016 financial statements that have been prepared using appropriate accounting policies supported by reasonable and prudent judgments and estimates, in conformity with International Financial Reporting Standards and the requirements of the Tanzania Companies Act 2002. The Directors are of the opinion that the financial statements give a true and fair view of the state of the financial affairs of the Company and of its operating results. The Directors further accept responsibility for the maintenance of accounting records that may be relied upon in the preparation of financial statements, as well as adequate systems of internal financial control.

Except as explained in note 2 b) to the financial statement, nothing has come to the attention of the Directors to indicate that the Company will not remain a going concern for at least the next twelve months from the date of this statement.

Approved by the Board of Directors on 3 AUGUST 2017 and signed on its behalf by:


.....
Ernest Massawe
Chairman


.....
David Mestres Ridge
CEO


Swala Oil and Gas (Tanzania) Plc
Financial Statements for the period ended 31 December 2016
Declaration of the Head of Finance/Accounting

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 financial statements to be accompanied with a declaration issued by the Head of Finance/Accounting responsible for the preparation of financial statements of the entity concerned.

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

I CPA ELIAS M. MOSSES being the Head of Finance/Accounting of Swala Oil and Gas (Tanzania) Plc hereby acknowledge my responsibility of ensuring that financial statements for the year ended 31st December 2016 have been prepared in compliance with applicable accounting standards and statutory requirements.

I thus confirm that the financial statements give a true and fair view position of Swala Oil and Gas (Tanzania) Plc as on that date and that they have been prepared based on properly maintained financial records.

Signed by: .....

Position: ACCOUNTANT.....

NBAA Membership No.: KA 4784.....

Date: 03/08/2017.....



1st Floor, Wing B, Infotech Place
Plot No. 565, Mwai Kibaki Road, Kawe,
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**INDEPENDENT AUDITOR'S REPORT
TO THE SHAREHOLDERS OF SWALA OIL AND GAS (TANZANIA) PUBLIC LIMITED COMPANY**

Report on the Financial Statements

We have audited the accompanying financial statements of Swala Oil and Gas (Tanzania) Plc, set out on pages 10 to 33 which comprise the statement of financial position as at 31st December 2016, and the statement of profit or loss and comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Directors' Responsibility for the Financial Statements

The Directors are responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards, and comply with the requirements of the Tanzanian Companies Act 2002. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatements, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances. The Tanzanian Companies Act 2002 also requires the Directors to ensure that the Company maintains proper books of accounts which are in agreement with the statement of financial position and statement of comprehensive income.

Auditor's Responsibility

Our responsibility is to express an independent opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depended on our professional judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we considered the internal controls relevant to the company's preparation and fair presentation of the financial statements in order to design audit procedures that were appropriate in the circumstances, but not for the purpose of expressing an opinion on the company's internal controls. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at 31st December 2016 and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards and comply with the Tanzanian Companies Act 2002.



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

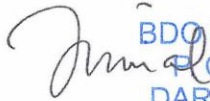
Emphasis of Matter

Without qualifying our opinion, we draw attention to Note 2 b) to the financial statements which indicate that the Company incurred a loss of USD 1,123,815 for the year ended 31st December 2016 (2015: profit of USD 4,096,912) and, as of that date, the Company's total liabilities exceeded total assets by USD 5,964,098. These conditions, along with other matters as set forth in Note 2, indicate the existence of a material uncertainty which may cast significant doubt on the Company's ability to continue as a going concern.

Report on Other Legal and Regulatory Requirements

As required by the Tanzanian Companies Act 2002 we report to you, based on our audit, that:

- i) We have obtained all the information and explanations which to the best of our knowledge and our belief were necessary for the purposes of our audit;
- ii) in our opinion proper books of account have been kept by the Company, so far as it appears from our examination of those books; and
- iii) The Company's statement of financial position and statement of profit or loss and other comprehensive income are in agreement with the books of account.


BDO EAST AFRICA
P.O. Box 9912
DAR-ES-SALAAM

.....
Juvinal Betambira
Engagement Partner
BDO East Africa, Tanzania
Certified Public Accountants

Date: 3rd August 2017

Swala Oil and Gas (Tanzania) Plc
 Financial Statements for the period ended 31 December 2016
 Statement of Profit or Loss and other Comprehensive Income

	Notes	2016 USD	2015 USD
Revenue		-	-
Other income	11	372,594	6,265,861
Prospecting and exploration expenses	20	(998,890)	(1,072,350)
Operating and administration expenses	20	(383,238)	(916,160)
Finance costs	20	(115,503)	(159,378)
Movement in fair value of financial instrument	13	-	-
(Loss) Profit before income tax		(1,125,037)	4,117,973
Income tax expense		1,222	(21,061)
(Loss) Profit for the year		(1,123,815)	4,096,912
Other comprehensive income		-	-
Total comprehensive (loss) income for the year		(1,123,815)	4,096,912
LOSS PER SHARE FROM CONTINUED OPERATIONS:			
Basic (loss) earnings per share	14	(0.011)	0.041
Diluted (loss) earnings per share	14	(0.011)	0.041

Notes and related statements forming part of these financial statements appear on pages 14 to 33.

Auditor's report on pages 8 and 9.

Swala Oil and Gas (Tanzania) plc
 Financial Statements for the period ended 31 December 2016
 Statement of Financial Position as at 31 December 2016

	Notes	2016 USD	2015 USD
ASSETS			
Non-Current assets			
Property and Equipment	4	25,357	33,333
		25,357	33,333
Current assets			
VAT Claimable		7,666	-
Current account - Joint operating partner	10	558,891	82,495
Other receivables and prepayments	5	132,269	606,840
Cash and cash equivalent	6	16,471	839,471
		715,297	1,528,806
Total Assets		740,654	1,562,139
EQUITY			
Equity attributable to equity holders			
Share Capital	8	62,042	62,042
Share Premium	8	6,472,928	6,472,928
Accumulated losses		(12,499,068)	(10,552,624)
Total equity		(5,964,098)	(4,017,654)
LIABILITIES			
Non-Current liabilities			
Borrowings	7	4,604,929	4,502,400
		4,604,929	4,502,400
Current liabilities			
VAT payable		-	45,011
Current account - Joint operating partner	10	-	38,057
Income taxes		1,118	21,061
Trade and other payables	9	2,098,705	973,264
		2,099,823	1,077,393
Total Equity And Liabilities		740,654	1,562,139

The financial statements on pages 10 to 33 were approved by the Board of Directors on 3 AUGUST 2017 and signed on its behalf by:


 Ernest Massawe
 Chairman


 David Mestres Ridge
 CEO

Swala Oil and Gas (Tanzania) Plc
 Financial Statements for the period ended 31 December 2016
 Statement of Changes in Equity

	Share Capital USD	Share Premium USD	Accumulated losses USD	TOTAL USD
Balance as at 1 January 2015	62,042	6,472,928	(14,649,536)	(8,114,566)
Share issuance	-	-	-	-
Profit for the year	-	-	4,096,912	4,096,912
Balance as at 31 December 2015	62,042	6,472,928	(10,552,624)	(4,017,654)
Correction of Prior Period Adjustment	-	-	(822,629)	(822,629)
Restated Balance	62,042	6,472,928	(11,375,253)	(4,840,283)
Share issuance	-	-	-	-
Loss for the year	-	-	(1,123,815)	(1,123,815)
Balance as at 31 December 2016	62,042	6,472,928	(12,499,068)	(5,964,098)

Notes and related statements forming part of these financial statements appear on pages 14 to 33.

Auditor's report on pages 8 and 9.

Swala Oil and Gas (Tanzania) Plc
 Financial Statements for the period ended 31 December 2016
 Statement of Cash Flows

	Notes	2016	2015
CASHFLOWS FROM OPERATING ACTIVITIES		USD	USD
(Loss) Profit before taxation		(1,125,037)	4,117,973
Adjustments for:			
Depreciation	4	8,472	9,177
Loss on disposal of assets	20	-	-
Interest Expense		113,922	139,864
Movement in fair value of financial instrument	13	-	-
		(1,002,643)	4,267,014
Change in receivables and prepayments		466,904	(499,943)
Change in interCompany payable		-	-
Changes in other payables and accruals		257,723	(2,710,383)
Changes in current accounts		(514,453)	(279,349)
Cash (utilised in) from operating activities		(792,469)	777,339
Interest paid		(11,314)	(13,965)
Taxation paid		(18,721)	-
Net cash (outflow) inflow from operating activities		(822,504)	763,374
CASH FLOW FROM INVESTING ACTIVITIES			
Purchase of property and equipment	4	(496)	(1,629)
Net cash used in investing activities		(496)	(1,629)
CASH FLOW FROM FINANCING ACTIVITIES			
Net Proceeds from issuing of shares		-	-
Proceeds from issuing of convertible notes		-	-
Proceeds from borrowings		-	1,650,000
Repayment of borrowings		-	(2,510,000)
Net cash inflow (outflow) from financing activities		-	(860,000)
Net decrease in cash and bank balances		(823,000)	(98,255)
Cash and bank balances at the start of the year	6	839,471	937,726
Cash and bank balances at the end of the year	6	16,471	839,471

Notes and related statements forming part of these financial statements appear on pages 14 to 33.

Auditor's report on pages 8 and 9.

Swala Oil and Gas (Tanzania) Plc
Notes to the Financial Statements for the period ended 31 December 2016

1. CORPORATE INFORMATION

Swala Oil and Gas (Tanzania) Plc is incorporated in the United Republic of Tanzania under Companies Act as limited liability Company. The Company is listed on the Dar es Salaam stock Exchange and is domiciled in the United Republic of Tanzania. The principal activities of the Company are disclosed in the report of Directors and Company's general information are disclosed on page 1.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a) Basis of preparation

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs). The measurement basis applied is the historical cost basis except where otherwise stated in the accounting policies below. The financial statements are presented in United States Dollars (USD), which is the Company's presentation and functional currency.

The preparation of 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. In particular, 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 financial statements are described in note 4.

b) Going Concern

The historical financial information has been prepared on a going concern basis, which contemplates the continuity of normal business activity and the realisation of assets and the settlement of liabilities in the normal course of business.

As an exploration company, the Company incurred a net loss of USD 1,123,815 for the year ended 31st December 2016 (2015: net profit USD 4,096,912) as a result of investing in its exploration assets and has future work commitment of US\$ 2.6 million. Notwithstanding this, the financial report has been prepared on a going concern basis.

The Company is in exploration stages with no production, therefore the ability of the Company to continue as a going concern is dependent on the Company's ability to raise funds in the future to allow continuation of the Company's work programmes in Tanzania. Should the Company's efforts to raise funds not succeed there will be material uncertainty that may cast significant doubt on the Company's ability to continue as a going concern and therefore whether it will be able to pay its debts as and when they fall due.

The Company is in ongoing discussions with its investors to ensure it is properly capitalised. In addition, in October 2016 it engaged Exotix Partners LLP to raise \$130 million to fund a material transaction involving production assets. This process, originally expected to complete at the end of June, is now awaiting only the conclusion of legal due diligence, expected in mid-August 2017.

No adjustments have been made relating to the recoverability and classification of liabilities that might be necessary should the Company not continue as a going concern.

Swala Oil and Gas (Tanzania) Plc
Notes to the Financial Statements for the period ended 31 December 2016 (Continued)

c) Property, Plant and Equipment

i) Recognition and measurement

Items of property, plant 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, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

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

ii) Subsequent costs

The cost of replacing part of an item of property, plant 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 Company 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, plant 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, plant 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%

d) Joint arrangements

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.

Swala Oil and Gas (Tanzania) Plc
Notes to the Financial Statements for the period ended 31 December 2016 (Continued)

e) 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 Statement 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.

f) Prospecting and exploration costs

Costs incurred in the exploration and evaluation stages of specific areas of interest are expensed against the Statement 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 capitalized if there is reasonable assessment of the existence of economically recoverable reserve. Once commercial viability is demonstrated the capitalised exploration costs are transferred to property, plant and equipment or intangibles as appropriate after being assessed for impairment.

g) Farm-in /Farm-out arrangement

The Company 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 Company adopts accounting policy such that it recognises 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 capitalised 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'.

Swala Oil and Gas (Tanzania) Plc
Notes to the Financial Statements for the period ended 31 December 2016 (Continued)

h) Financial instruments

i) Financial assets

The Company initially recognises loans and receivables and deposits on the date that they are originated. All other financial assets (including assets designated at fair value through profit or loss) are recognised initially on the trade date at which the Company becomes a party to the contractual provisions of the instrument.

The Company derecognises a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in transferred financial assets that is created or retained by the Company is recognised as a separate asset or liability.

Financial assets of the Company are classified as loans and receivables, based on the purpose for which financial assets were acquired. Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, where time value of money is material, loans and receivables are measured at amortized cost using the effective interest method, less any impairment losses.

Cash and cash equivalents comprise cash and bank balances. Bank overdrafts that are repayable on demand and form an integral part of the Company's cash management are included as a component of cash and cash equivalents for the purpose of the statement of cash flows.

ii) Financial liabilities

Company's trade and other payables and borrowings are classified as other financial liabilities and are initially measured at fair value less directly attributable transaction costs and subsequently recorded at amortised cost using effective interest method.

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Company has a legal right to offset the amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

Convertible Note at Fair Value through Profit or Loss

Convertible Notes issued by the Company comprise convertible notes that could be converted to share capital and convertible note embedded derivatives whose fair value changes with the Company's underlying share price and the foreign exchange rate.

The embedded derivative component of a convertible note is recognised initially at the fair value of a similar liability that does not have an equity conversion option. Subsequent to initial recognition, the fair value of the embedded derivative is valued using valuation techniques that include reference to the foreign exchange rate and Company's underlying share price at reporting date and/or at conversion date. The convertible note derivative is measured at fair value through profit or loss.

Swala Oil and Gas (Tanzania) Plc
Notes to the Financial Statements for the period ended 31 December 2016 (Continued)

The convertible note derivative liability is removed from the Statement of Financial Position when the obligations specified in the Contract are discharged. This can occur at maturity date, when the convertible notes convert to equity.

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 Company's underlying share price and the foreign exchange rate at the relevant dates.

i) Share capital

Ordinary shares are classified as equity

j) Impairment

i) Financial assets (including receivables)

A financial asset not carried at fair value through profit or loss is assessed at each reporting date to determine whether there is objective evidence that it is impaired. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of that asset that can be estimated reliably.

Objective evidence that financial assets are impaired can include default or delinquency by a debtor, restructuring of an amount due to the Company on terms that the Company would not consider otherwise, indications that a debtor or issuer will enter bankruptcy, the disappearance of an active market for a security.

The Company considers evidence of impairment for receivables at both a specific asset and collective level. All individually significant receivables are assessed for specific impairment. All individually significant receivables found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified. Receivables that are not individually significant are collectively assessed for impairment by grouping together receivables with similar risk characteristics.

In assessing collective impairment the Company uses historical trends of the probability of default, timing of recoveries and the amount of loss incurred, adjusted for management's judgement as to whether current economic and credit conditions are such that the actual losses are likely to be greater or less than suggested by historical trends.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. Losses are recognised in profit or loss and reflected in an allowance account against receivables. Interest on the impaired asset continues to be recognised through the unwinding of the discount. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

Swala Oil and Gas (Tanzania) Plc
Notes to the Financial Statements for the period ended 31 December 2016 (Continued)

ii) Non-financial assets

The carrying amounts of the Company's non-financial assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. For goodwill and intangible assets (if any) that have indefinite useful lives or that are not yet available for use, the recoverable amount is estimated each year at the same time.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For the purpose of impairment testing, assets that cannot be tested individually 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 groups of assets (the "cash-generating unit, or CGU"). Subject to an operating segment ceiling test, for the purposes of goodwill impairment testing, CGUs to which goodwill has been allocated are aggregated so that the level at which impairment is tested reflects the lowest level at which goodwill is monitored for internal reporting purposes.

The Company's corporate assets do not generate separate cash inflows. If there is an indication that a corporate asset may be impaired, then the recoverable amount is determined for the CGU to which the corporate asset belongs.

An impairment loss is recognised if the carrying amount of an asset or its CGU exceeds its estimated recoverable amount. Impairment losses are recognised in profit or loss. Impairment losses recognised in respect of CGUs are allocated first to reduce the carrying amount of any goodwill allocated to the units, and then to reduce the carrying amounts of the other assets in the unit (group of units) on a pro rata basis.

An impairment loss in respect of goodwill is not reversed. In respect of other assets, impairment losses recognised in prior years are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. 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.

Swala Oil and Gas (Tanzania) Plc
Notes to the Financial Statements for the period ended 31 December 2016 (Continued)

k) Employee benefits

i) Defined contribution plans

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

Contributions to these pension funds 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 Company 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.

l) Provisions

A provision is recognised if, as a result of a past event, the Company 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.

m) Environmental expenditure

The Company 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.

n) Decommissioning costs

The provision for decommissioning represents the cost that will arise from rectifying damage caused before production commenced due to the stage of exploration, no provision has been provided.

Swala Oil and Gas (Tanzania) Plc
Notes to the Financial Statements for the period ended 31 December 2016 (Continued)

o) Restoration costs

The provision for restoration represents the cost of restoring site damage after the start of production. Increases in the provision are charged to the income statement as a cost of production. These costs are estimated at the present value of expenditures expected to settle the obligation, using estimate cash flows based on current prices. The estimates are discounted at a pre-tax rate that reflects current market assessments of the time value of money and risks specific to the liability.

p) 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.

q) 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.

r) Dividends

Dividends are recognised as a liability in the period in which they are declared.

s) Determination of fair values

A number of the Company'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 other receivables 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.

Swala Oil and Gas (Tanzania) Plc
 Notes to the Financial Statements for the period ended 31 December 2016 (Continued)

t) Comparatives

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

3. TAXATION

At 31 December 2016, the Company has estimated accumulated tax losses of USD 9,685,152 (2015: USD 9,440,985) available for set-off against future taxable profit. The current tax charge of USD 1,118 relates to alternative minimum tax charged on revenue (other income) for the companies with perpetual unrelieved losses for three consecutive years.

	2016 USD	2015 USD
Tax charge /(Credit)		
Income tax charge - recognised	1,118	21,061
Deferred tax (credit) charge - not recognised	(4,523)	1,278,267
Total	(3,405)	1,299,328

Tax reconciliation is as follows:

	2016 USD	2015 USD
(Loss) Profit before income tax	(1,125,037)	4,120,972
Tax calculated at the statutory of 30%	(337,511)	1,236,291
Tax effect of:		
Alternative minimum tax	1,118	21,061
Prior year Deferred tax adjustment	(900)	-
Expense not deductible for tax purposes	333,888	41,976
Total	(3,405)	1,299,328

Swala Oil and Gas (Tanzania) Plc
Notes to the Financial Statements for the period ended 31 December 2016 (Continued)

TAXATION (Continued)

Deferred tax

As at 31 December 2016 there is a deferred tax asset of US\$ 2,852,177 (Dec2015: USD 2,847,654) 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:	2016 USD	2015 USD
At beginning of the year	2,847,654	4,125,921
Movement during the year	4,523	(1,278,267)
At the end of the year - Not recognised	2,852,177	2,847,654

Deferred tax asset includes the following temporary differences:	2016 USD	2015 USD
Estimated income tax losses	2,905,546	2,832,295
Accelerated capital deductions	(60,064)	(588)
Other timing differences	6,695	15,946
Net deferred income tax Assets/(liability) - Not recognised	2,852,177	2,847,654

4. PROPERTY AND EQUIPMENT

Cost	Office equipment USD	Furniture and fittings USD	Motor vehicle USD	Total USD
At 1 January 2015	12,278	20,628	18,460	51,366
Additions	1,516	113	-	1,629
Disposal	-	-	-	-
At 31 December 2015	13,794	20,741	18,460	52,995
Additions	496	-	-	496
Disposal	-	-	-	-
At 31 December 2016	14,290	20,741	18,460	53,491
Depreciation				
At 1 January 2015	2,863	3,375	4,247	10,485
Charge for the year	2,441	2,225	4,511	9,177
Depreciation on Disposal	-	-	-	-
At 31 December 2015	5,304	5,600	8,758	19,662
Charge for the period	2,182	1,933	4,357	8,472
Depreciation on Disposal	-	-	-	-
At 31 December 2016	7,486	7,533	13,115	28,134
Net book value				
At 31 December 2016	6,804	13,208	5,345	25,357
At 31 December 2015	8,490	15,141	9,702	33,333

Swala Oil and Gas (Tanzania) Plc
 Notes to the Financial Statements for the period ended 31 December 2016 (Continued)

5. RECEIVABLES AND PREPAYMENTS

	2016 USD	2015 USD
Accounts Receivable	122,668	-
Receivable - TPL & OTTO	-	580,503
Other Debtors	1,197	1,379
Prepayment	8,404	24,958
Total	132,269	606,840

6. BANK BALANCES

	2016 USD	2015 USD
Cash on hand	617	198
Cash at bank	15,854	839,273
Total	16,471	839,471

7. RELATED PARTY TRANSACTIONS AND BALANCES

Swala Oil and Gas (Tanzania) Plc is a subsidiary of Swala Energy Limited a Company incorporated in BVI which is wholly owned subsidiary of Swala Energy Limited (ASX) incorporated in Australia. Swala Energy Limited (BVI) has other subsidiaries in Australia, Kenya and Uganda namely Swala Energy Australia Pty Ltd, Swala Energy (Kenya) Limited and Swala Energy (Uganda) Limited respectively.

The Company entered into technical service agreements with Swala Energy Limited, Swala Energy Limited (BVI) and Swala Energy Pty to receive head office support at certain agreed terms on managerial, financial and technical services.

i) Head office support services and administration charges

	2016 USD	2015 USD
Swala Energy Limited	52,181	161,260
Swala Energy Ltd (BVI)	11,926	23,408
Swala Energy Pty Ltd	-	-

Intercompany balances arising from the technical service agreement are disclosed on note 9 to the accounts.

Swala Oil and Gas (Tanzania) Plc
 Notes to the Financial Statements for the period ended 31 December 2016 (Continued)

ii) Intercompany loan

	2016 USD	2015 USD
Swala Energy Limited	4,604,929	4,502,400

This loan was issued for the purpose of funding Company's petroleum operations and secured by fixed and floating charges over Company's all assets. The applicable interest rate is LIBOR plus 2%. Principal and interest are repaid in cash or converted into variable number of shares at each repayment date. The total facility is USD 10 million with availability period ended 30 June 2016. Interest charge for the period \$113,922 (2015: \$139,864).

On the 24th June 2016, the Company's largest shareholder, Swala Energy Limited, placed itself in voluntary administration. On the 30th June 2017, Swala reached an agreement with the administrator of Swala Energy Limited under the terms of which it shall redeem the outstanding inter-company loan for A\$1 million (approximately US\$750, 000) on or by the 10th October 2017.

iii) Key management compensation

Key management compensation 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.

	2016 USD	2015 USD
Salaries	318,864	298,860
Defined contribution plan	54,466	49,164

No terminal or other long term benefits were paid to key management personnel during the period (2015: Nil)

iv) Director's emoluments

	2016 USD	2015 USD
Non-executive Chairman	12,000	12,000
Non-executive Directors	24,000	24,000
Executive director (Including key management personnel)	98,160	112,648

Swala Oil and Gas (Tanzania) Plc

Notes to the Financial Statements for the period ended 31 December 2016 (Continued)

8. SHARE CAPITAL

	2016 USD	2015 USD
Authorised		
100,000,000 Ordinary shares of Tzs 1 (USD 0.00063431) each	63,431	63,431
Issued and fully paid up		
99,954,467 (2014 :99,954,467) Ordinary shares of Tzs 1 (USD 0.000607) each	62,042	62,042
Share Premium		
Share premium at the start and end of the year	6,472,928	6,472,928

Swala Energy Limited ('SWE'), which at the time held 58.5% of the issued share capital of Swala Oil & Gas (Tanzania) plc ('Swala') was placed in voluntary administration as part of a corporate restructuring on the 24th June 2016. On the 18th October 2016 the administrator sold the listed shell to Trident Capital, in a transaction that was approved by the shareholders of SWE at an Extraordinary General Meeting on the 22nd June 2017. On the 30th June 2017 SWE and Swala announced that they had agreed that Swala would redeem an outstanding inter-company loan for A\$1,000,000 on or by 10th October 2017 and upon this SWE would release the shares it held in Swala to the SWE shareholders in an intermediated in-specie distribution for nil consideration.

9. TRADE AND OTHER PAYABLES

	2016 USD	2015 USD
Swala Energy Pty Limited	-	57,471
Swala Energy Limited (BVI)	1,446	26,481
Swala Energy Limited	4,715	485,912
Other payables and accruals	2,092,544	403,400
Total	2,098,705	973,264

The Other payables and accruals above includes a settlement to Otto where by On the 25th May 2017 Swala and Otto settled commercially a dispute brought by Otto against a number of parties in respect of the Pangani licence before the Federal Court in Australia. As part of this settlement of all outstanding matters concerning this licence, Swala shall make a net payment of \$800,000 to Otto on or before the 31st August 2017.

Swala Oil and Gas (Tanzania) Plc
Notes to the Financial Statements for the period ended 31 December 2016 (Continued)

10. JOINT OPERATING AGREEMENT

The Company (Swala) has entered into a joint operating agreement (JOA) with Otto Energy (Tanzania) Pty Limited (Otto) for the Kilosa-Kilombero and Pangani exploration licences in 2012. TATA Petrodyne Limited (TATA) became part of the JOA after farm-in to the licences in October 2015. The JOA details the rights and obligations of each partner together with detailed criteria of allocation of the joint assets, liabilities, expenses and income. The joint rights and obligations are allocated according to the participating interest of JOA partners. In the JOA the partners are charged 3% overhead on all expenses to cover indirect costs incurred by the operator and this forms the other income component in these financial statements. The Company and partners interests in joint arrangement as at 31 December 2016 are detailed below. Exploration is principle activity performed across these license areas.

	Kilosa Kilombero Licence		Pangani Licence	
	2016	2015	2016	2015
Swala Oil and Gas (Tanzania) plc - Operator	25%	25%	25%	25%
TATA Petrodyne Limited	25%	25%	25%	25%
Otto Energy (Tanzania) Limited	50%	50%	50%	50%

On the 20th February 2017 the Pangani licence reached the end of its first extension period with no further extension. Accordingly the licence terminated naturally.

On the 26th March 2017 Swala advised that it had issued Otto Energy (Tanzania) Pty Ltd (“Otto”) with a withdrawal notice requiring it to withdraw from the Kilosa-Kilombero Joint Operating Agreement and the Production Sharing Agreement. The matter was resolved on the 25th May 2017, following which Swala retained a 75% participating interest in the Kilosa-Kilombero Licence. Otto agreed to make certain payments in respect of past costs incurred by the Joint Venture and has retained a 2% Gross Over-Riding Royalty Interest over possible future production from the Kito prospect. There are no further disputes between the two companies on the Kilosa-Kilombero licence.

11. OTHER INCOME

	2016 USD	2015 USD
Overhead charge - 3%	58,435	61,575
Interest earned from call account	-	168
Consideration from farm-out transactions *	314,159	6,204,118
	372,594	6,265,861

* 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.

12. FINANCE COSTS

	2016 USD	2015 USD
Interest on loan	113,922	139,864
Foreign exchange loss	1,582	19,514
	115,504	159,378

Swala Oil and Gas (Tanzania) Plc
 Notes to the Financial Statements for the period ended 31 December 2016 (Continued)

13. FAIR VALUES OF FINANCIAL INSTRUMENTS

Fair value hierarchy

IFRS 13 Fair Value Measurement requires disclosure of fair value measurements by level in the fair value measurement hierarchy as follows:

- Level 1 - the instrument has quoted prices (unadjusted) in active markets for identical assets or liabilities
- Level 2 - a valuation technique is used using inputs other than quoted prices within level 1 that are observable for the financial instrument, either directly (i.e. as prices), or indirectly (i.e. derived from prices)
- Level 3 - a valuation technique is used using inputs that are not observable based on observable market data (unobservable inputs).

Transfers

During the period ended 31 December 2016, there were no transfers of available-for-sale equity securities or derivatives between levels 1 and 2 of the fair value hierarchy. There were no transfers into or out of level 3 during the period.

Convertible Notes.

Name	Details	Unit Price In USD	Number of Units	Amounts in USD
Erncon Holdings Ltd	Convertible notes	1	100,000	100,000
Mr. Neil Tayrol	Convertible notes	1	22,918	22,918
Mr. Frank Whitehead	Convertible notes	1	19,200	19,200
			142,118	142,118

14. EARNINGS PER SHARE

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

	2016	2015
(Loss) Profit attributable to shareholders	(1,123,815)	4,096,912
Weighted average number of shares in issue	99,954,467	99,954,467
Basic (loss) earnings per share	(0.011)	0.041

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

	2016	2015
(Loss) Profit attributable to shareholders	(1,123,815)	4,096,912
Weighted average number of shares in issue	99,954,467	99,954,467
Diluted (loss) earnings per share	(0.011)	0.041

Swala Oil and Gas (Tanzania) Plc
Notes to the Financial Statements for the period ended 31 December 2016 (Continued)

15. CAPITAL MANAGEMENT

The primary objective of the Company'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.

The Company manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Company 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 2016.

16. FINANCIAL RISK MANAGEMENT

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

This note presents information about the Company's exposure to each of the above risks, the Company's objectives, policies and processes for measuring and managing risk, and the Company's management of capital. Further quantitative disclosures are included throughout these financial statements. The Company's Directors have overall responsibility of the establishment and oversight of the Company's risk management framework. The Company's risk management policies are established to identify and analyse the risks faced by the Company, 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 Company, 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 Company. The Directors are assisted in these functions by the management.

Credit risk

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Company's trade receivables and other receivables and cash at bank.

Prepayments and other receivables are not having similar credit characteristics; they differ depending on whether they are prepayments or other receivables (mainly staff advances, prepaid rent and advance to suppliers), "governed by specific prepayment, loan and/or advance terms" or the creditworthiness of party from which they are receivable. The Company 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.

Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company'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 Company's reputation. Management monitors rolling forecasts of the Company's liquidity on the basis of expected cash flows on monthly basis.

The Company signed loan agreement with the parent Company which provided availability of funding with credit limit of USD 10,000,000 with availability period ended 30 June 2016. As at 31 December 2016 credit utilization in respect of the loan was USD 4,604,929 (December 2015: USD 4,502,400).

Swala Oil and Gas (Tanzania) Plc

Notes to the Financial Statements for the period ended 31 December 2016 (Continued)

Liquidity risk (continued)

The table below analyses the Company'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.

	Note	Less than 1 year USD	Between 1 and 2 years USD	Between 2 and 5 years USD	Over 5 years USD
Tax payable - VAT		-	-	-	-
Trade and other payables	9	2,098,705	-	-	-
		2,098,705	-	-	-

All liquidity policies and procedures are subject to review and approval by the Company'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 Company'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 Company is in exploration stage with no production therefore market risk is not material as at 31st December 2016.

Currency risk

The Company 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 Company's transactions are primarily denominated other than the functional current is the Tanzanian Shillings (Tzs) and Australian Dollars (AUD).

The Company's strategy to manage currency risk is by transacting mainly in US Dollars therefore the Company's currency risk exposure is not material as at 31 December 2016.

17. COMMITMENTS AND CONTINGENCIES

As of 31st December 2016, the Company has contractual work commitments in respect of Production Sharing Agreement with Tanzania Petroleum Development Corporation (TPDC) for the Pangani and Kilosa-Kilombero licence areas, suppliers and office rental obligation as shown below:

Capital commitments: (net to Swala's working interest)	2016 USD	2015 USD
Approved but not contracted for: Exploration	2,449,321	2,563,481
Approved and contracted for but not recorded	205,566	436,519
	2,654,887	3,000,000

Pursuant to the farm-in transaction with Tata Petrodyne Limited ("Tata"), Swala Oil and Gas (Tanzania) Plc will be carried for the total commitment of USD 2,654,887.

Lease commitment:	2016 USD	2015 USD
Non-cancellable operating leases - future minimum lease payments payable:		
Within one year	54,330	85,500
Later than one year but not later than 5 years	-	21,375
	54,330	106,875

Swala Oil and Gas (Tanzania) Plc
Notes to the Financial Statements for the period ended 31 December 2016 (Continued)

18. EVENTS AFTER THE REPORTING PERIOD

After the date of reporting period, the company continued to receive necessary permits and consents to access drilling area and the Company was progressing the conditions set out within them.

On the 20th February 2017 the Pangani licence reached the end of its first extension period with no further extension. Accordingly the licence terminated naturally.

On the 26th March 2017 Swala advised that it had issued Otto Energy (Tanzania) Pty Ltd ("Otto") with a withdrawal notice requiring it to withdraw from the Kilosa-Kilombero Joint Operating Agreement and the Production Sharing Agreement. The matter was resolved on the 25th May 2017, following which Swala retained a 75% participating interest in the Kilosa-Kilombero Licence. Otto agreed to make certain payments in respect of past costs incurred by the Joint Venture and has retained a 2% Gross Over-Riding Royalty Interest over possible future production from the Kito prospect. There are no further disputes between the two companies on the Kilosa-Kilombero licence.

On the 24th June 2016, the Company's largest shareholder, Swala Energy Limited, placed itself in voluntary administration. On the 30th June 2017, Swala reached agreement with the administrator of Swala Energy Limited under the terms of which it shall redeem the outstanding inter-company loan for A\$1 million (approximately US\$750, 000) on or by the 10th October 2017.

The Company is in ongoing discussions with its investors to ensure it is properly capitalised. In addition, in October 2016 it engaged Exotix Partners LLP to raise \$130 million to fund a material transaction involving production assets. This process, originally expected to complete at the end of June, is now awaiting only the conclusion of legal due diligence, expected in mid-August 2017.

Lastly, the three bills passed by Parliament in 2017 namely Natural Wealth and Resources (Permanent Sovereignty) Bill 2017, the Natural Wealth and Resources Contracts (Review and Re-Negotiation of Unconscionable Terms) Bill 2017 and the written Laws (Miscellaneous Amendments) Bill 2017 (together, the "Acts")) bring significant uncertainty to the Natural Resources and to the Company's future investment in the Kilosa-Kilombero licence. Whilst the Production Sharing Agreement governing our rights to the licence contain no 'unconscionable terms' that act in our favour, the proposed action against fiscal stability clauses, arbitration rights and local processing obligations may significantly undermine the feasibility of our operations in Kilosa-Kilombero. The Company is reviewing the implications to its operations of this legislation.

19. ULTIMATE HOLDING COMPANY

Swala Energy Limited (incorporated in British Virgin Islands) owns 58.5% (2014: 58.5%) of the Company's issued capital. The ultimate parent company is Swala Energy Limited, incorporated in Australia.

Swala Oil and Gas (Tanzania) Plc
Notes to the Financial Statements for the period ended 31 December 2016 (Continued)

20. DETAILED EXPENSES	2016	2015
Operating and administration expenses	USD	USD
Wages and Salaries	145,646	184,864
Wages and Salaries-Overtime	235	2,717
Administration Charges	4,806	32,266
Directors fees	36,000	36,000
Auditor remuneration fees	29,360	8,150
Financial services	44,353	65,570
Rent	24,000	42,750
Press release /Public Relations Press release /Public Relations/ IPO costs	(7)	42,910
Sponsorship and Donations	24,261	24,688
Staff Training	3,461	3,343
WHT Accrued	10,021	(49,680)
Computer Consumables	2,330	4,805
Printing and Stationery	415	2,193
Employer Pension (NSSF & PPF) contribution	18,148	23,335
Workers Compensation fee	1,507	958
Employer SDL contribution	6,921	9,464
Employee Leave Accrual	(30,208)	10,563
Licenses, Registrations, Permits	139	67
Insurance	20,690	14,520
Accommodation	12,862	12,255
Depreciation	8,473	9,177
HSE Service	1,023	3,683
Success Fee	-	401,779
Other expenses	18,800	29,783
	383,238	916,160
Prospecting and exploration expenses		
Consultants Fees	65,712	47,408
Environmental Assessment	6,876	9,958
Head office support	59,301	152,402
Contracts	-	24,000
Legal expenses	39,743	121,830
Logistic Services	6,982	-
Long Lead Items (LLI)	49,603	-
Drilling project Management & planning costs	382,361	80,960
Overhead charge - 1% recoverable	4,870	9,469

Swala Oil and Gas (Tanzania) Plc
 Notes to the Financial Statements for the period ended 31 December 2016 (Continued)

Prospecting and exploration expenses (Continued)

	2016	2015
	USD	USD
Overhead charge - 2% non-recoverable	9,739	18,876
Seismic Acquisition	-	208,062
Seismic Processing	-	83,024
Seismic Support	118	13,470
Surface licence fees	36,438	67,374
Training Fees (TPDC)	300,000	200,021
Safety Consumables	(5)	5
Travelling Expenses.	37,153	35,491
	998,890	1,072,350
Finance costs		
Interest on loan	113,921	139,864
Foreign exchange loss	1,582	19,514
	115,503	159,378
Fair value adjustment	-	-
Income Tax Expenses	(1,222)	21,061
Grand Total	1,496,409	2,168,949