

Swala Oil and Gas  
(Tanzania) Public Limited Company  
Financial Statements for  
Year ended 31 December 2014

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## General Information

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### 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

### 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

## Directors Report

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The Directors present their annual report together with the audited financial statements for the year ended 31 December 2014 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 29<sup>th</sup> 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 2014 are:

Name	Position	Nationality	Date of Appointment
Mr. Ernest Massawe	Non-Executive Chairman	Tanzanian	29 <sup>th</sup> July 2011
Dr. David Mestres Ridge	Chief Executive Officer and Director	British	29 <sup>th</sup> July 2011
Mr. Selemani Pongolani	Finance Director	Tanzanian	5 <sup>th</sup> July 2013
Ms. Elizabeth Obiero	Non-Executive Director	Kenyan	29 <sup>th</sup> July 2011
Mr. Neil Taylor	Non-Executive Director	Australian	5 <sup>th</sup> July 2013
Professor Simon Mbilinyi	Non-Executive Director	Tanzanian	1 <sup>st</sup> July 2012
Mr. Abdullah Mwinyi	Non-Executive Director	Tanzanian	1 <sup>st</sup> July 2012

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

Name	Ordinary Shares 2014	Ordinary Shares 2013
Mr. Ernest Massawe*	8,835,035	3,458,395
Mr. Selemani Pongolani	56,000	-
Professor Simon Mbilinyi	484,102	212,823
Mr. Abdullah Mwinyi	484,101	212,823

\* Ernest Massawe holds 500,002 (2013: 1) shares directly and 8,335,033 (2013: 3,458,394) through Erncon Holdings Limited.

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

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

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Financial Statements for the year ended 31 December 2014  
Directors Report (continued)

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#### SHAREHOLDERS OF THE COMPANY

As at 31 December 2014, 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 Energy Limited – (In trust) *	7,443,380	7.4%
	<b>TOTAL</b>	<b>99,954,467</b>	<b>100.00%</b>

\* 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 year

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

##### Operating review

During the year, Swala committed to entering Years 3 and 4 exploration phase of the Initial Exploration Term in both its Pangani and Kilosa – Kilombero PSAs licence areas. The work commitment in each licence during this period includes additional 2D seismic acquisition in the third contract year and drilling of one exploration well in the fourth contract year.

During the period the Company completed the seismic acquisition programmes in the Kilosa-Kilombero and Pangani licenses onshore Tanzania. The work undertaken in these licenses was in satisfaction of the exploration work commitment programme for the third contract year and a total of 630 km of 2D seismic data was acquired over both licenses allowing the Company to fulfill the minimum work program for the first three contract years as stipulated in the PSAs.

The Company's application for the Eyasi licence was terminated by the Tanzania Petroleum Development Corporation ("TPDC") following the withdrawal of its joint bidding partner. TPDC declared that the licence would be re-issued for tender and the Company has stated its intention to re-apply.

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Financial Statements for the year ended 31 December 2014  
Directors Report (continued)

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**Financial review**

During the year the Company raised \$4 million (before costs and expenses) by way of an Initial Public Offering (IPO) in June 2014. The Company used the funds raised from the IPO in a manner consistent with its business objectives. Prior to the IPO the Company raised \$1.2 millions (before costs and expenses) by way of convertible notes issued in February 2014. These Convertible Notes were converted into shares of the Company at IPO.

Following successful initial Public Offer (IPO), the Company was accepted and listed onto the Dar es Salaam Stock Exchange (“DSE”) in Tanzania on Monday 11<sup>th</sup> August 2014.

**FUTURE DEVELOPMENT PLANS**

The Company will continue with its work commitments for the fourth contract year of the Initial Exploration Term in the Kilosa- Kilombero and Pangani Licences areas and continue with business development by applying for other licences in Tanzania and elsewhere.

**DIVIDEND**

There were no dividends paid during the period

**CORPORATE GOVERNANCE**

The Board of the Company consists of 7 Directors. Apart from the Chief Executive Officer and Finance Director 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 recognise the importance of integrity, transparency and accountability.

Swala Oil and Gas (Tanzania) plc  
Financial Statements for the year ended 31 December 2014  
Directors Report (continued)

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**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 as well as adverse 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 31 December 2014 and is of the opinion that they met accepted criteria.

**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 minimise 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 (2013: 3.2 million) in the company that will be 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.

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Directors Report (continued)

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**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, have expressed their willingness to continue in office and are eligible for re-appointment.

By order of the Board

  
Ernest Massawe      Date: 13 March 2015  
Chairman

Swala Oil and Gas (Tanzania) plc

Financial Statements for the year ended 31 December 2014

## Statement of Directors' Responsibilities

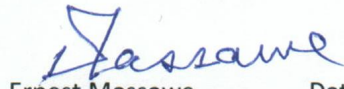
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The Tanzania Companies Act requires the Directors to prepare financial statements for each financial year that give a true and fair view of the state of affairs of the company as at the end of the financial year. It also requires the Directors to ensure 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 year 2014 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.

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 and signed on its behalf by:



Ernest Massawe  
Chairman

Date: 13 March 2015

## **INDEPENDENT AUDITOR'S REPORT**

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### **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 31 December 2014, 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.



## INDEPENDENT AUDITOR'S REPORT (CONTINUED)

### To the Shareholders of Swala Oil and Gas (Tanzania) Public Limited Company

#### Opinion

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at 31 December 2014 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

#### Emphasis of Matter

Without qualifying our opinion, we draw attention to Note 2 of the financial statements which indicates that the financial statements have been prepared on a going concern basis. The Company is still dependent on shareholder support to meet its funding requirement for both working capital and capital expenditure. These conditions indicate the existence of a material uncertainty which may cast significant doubt about the ability of the Swala Oil and Gas (Tanzania) Public Limited Company 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**

Date: 13/03/ 2015

Juvinal Betambira  
Engagement Partner

**BDO East Africa, Tanzania**  
**Certified Public Accountants**

## Statement of Profit or Loss and other Comprehensive Income for the year ended 31 December 2014

	Notes	2014 USD	2013 USD
Revenue		-	-
Other income	11	372,814	285,944
Prospecting and exploration expenses	20	(6,512,635)	(5,247,795)
Operating and administration expenses	20	(657,110)	(603,947)
Finance costs	12	(219,813)	(15,515)
Movement in fair value of financial instrument	13	(789,929)	-
<b>Loss before income tax</b>		<b>(7,806,373)</b>	<b>(5,581,312)</b>
Income tax		-	-
<b>Loss for the year</b>		<b>(7,806,673)</b>	<b>(5,581,312)</b>
Other comprehensive income		-	-
<b>Total comprehensive loss for the year</b>		<b>(7,806,673)</b>	<b>(5,581,312)</b>
<b>LOSS PER SHARE FROM CONTINUED OPERATIONS:</b>			
Basic loss per share	14	(0.078)	(0.159)
Diluted loss per share	14	(0.078)	(0.159)

Notes and related statements forming part of these financial statements appear on pages 14 to 33. Auditor's report on pages 8 and 9.

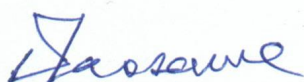
Swala Oil and Gas (Tanzania) plc

Financial Statements for the year ended 31 December 2014

Statement of Financial Position as at 31 December 2014

	Notes	2014 USD	2013 USD
<b>ASSETS</b>			
<b>Non-Current assets</b>			
Property and Equipment	5	40,881	14,117
		40,881	14,117
<b>Current assets</b>			
Tax claimable		81,964	18,408
Current account - Joint operating partner		-	234,596
Other receivables and prepayments	6	24,933	15,131
Cash and cash equivalent	7	937,726	1,601,481
		1,044,623	1,869,616
<b>Total Assets</b>		<b>1,085,504</b>	<b>1,883,733</b>
<b>EQUITY</b>			
<b>Equity attributable to equity holders</b>			
Share Capital	9	62,042	22,309
Share Premium	9	6,472,928	595,229
Accumulated losses		(14,649,536)	(6,842,864)
<b>Total equity</b>		<b>(8,114,566)</b>	<b>(6,225,326)</b>
<b>LIABILITIES</b>			
<b>Non-Current liabilities</b>			
Share capital advance	8	-	179,448
Borrowings	8	5,236,522	-
		5,236,522	179,448
<b>Current liabilities</b>			
Intercompany payable	8	-	4,335,677
Current account - Joint operating partner		234,912	-
Trade and other payables	10	3,728,636	3,593,934
		3,963,548	7,929,611
<b>Total Equity And Liabilities</b>		<b>1,085,504</b>	<b>1,883,733</b>

The financial statements on pages 10 to 33 were approved by the Board of Directors on 13 March 2015 and signed on its behalf by:

  
Ernest Massawe

Chairman

  
David Mestres Ridge

CEO

Statement of Changes in Equity for the Year ended  
 31 December 2014

	Notes	Share Capital USD	Share Premium USD	Accumulated losses USD	TOTAL USD
Balance as at 1 January 2013		22,309	595,229	(1,261,552)	(644,014)
Share issuance		-	-	-	-
Loss for the period		-	-	(5,581,312)	(5,581,312)
<b>Balance as at 31 December 2013</b>		<b>22,309</b>	<b>595,229</b>	<b>(6,842,864)</b>	<b>(6,225,326)</b>
Share issuance	9	39,734	5,877,699	-	5,917,432
Loss for the year		-	-	(7,806,673)	(7,806,673)
<b>Balance as at 31 December 2014</b>		<b>62,043</b>	<b>6,472,928</b>	<b>(14,649,537)</b>	<b>(8,114,566)</b>

Notes and related statements forming part of these financial statements appear on pages 14 to 33 Auditor's report on pages 8 and 9

## Statement of Cash Flows for the year ended 31 December 2014

	Notes	2014 USD	2013 USD
<b>CASHFLOWS FROM OPERATING ACTIVITIES</b>			
Loss before taxation		(7,806,673)	(5,581,312)
Adjustments for:			
Depreciation	5	8,167	2,475
Loss on disposal of assets	5	3,848	-
Movement in fair value of financial instrument	13	789,929	-
		<b>(7,004,728)</b>	<b>(5,578,837)</b>
Change in receivables and prepayments		(73,358)	(8,301)
Change in intercompany payable		721,397	4,171,362
Changes in other payables and accruals		134,702	3,230,859
Current accounts		469,508	(247,277)
Taxation paid		-	-
<b>Net cash outflow from operating activities</b>		<b>(5,752,480)</b>	<b>1,567,806</b>
<b>CASH FLOW FROM INVESTING ACTIVITIES</b>			
Purchase of property and equipment	5	(38,778)	(4,980)
<b>Net cash used in investing activities</b>		<b>(38,778)</b>	<b>(4,980)</b>
<b>CASH FLOW FROM FINANCING ACTIVITIES</b>			
Net Proceed from issuing of shares		3,904,550	-
Proceed from issuing of convertible notes		1,222,953	-
<b>Net cash inflow from financing activities</b>		<b>5,127,503</b>	-
<b>Net increase in cash and bank balances</b>		<b>(663,755)</b>	<b>1,562,826</b>
Cash and bank balances at the start of the year	7	1,601,481	38,655
<b>Cash and bank balances at the end of the year</b>	7	<b>937,726</b>	<b>1,601,481</b>

Notes and related statements forming part of these financial statements appear on pages 14 to 33. Auditor's report on pages 8 and 9.

# Notes to the Financial Statements for the year ended 31 December 2014

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## 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.

The Company incurred a net loss of US\$ 7,806,673 for the period ended 31 December 2014 and has future work commitment costs of US\$ 6,613,000. Notwithstanding this, the financial report has been prepared on a going concern basis.

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. The Directors believe that the Company will continue as a going concern. As a result the financial information has been prepared on a going concern basis.

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.

## Notes to the Financial Statements for the year ended 31 December 2014 (Continued)

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### 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%

## Notes to the Financial Statements for the year ended 31 December 2014 (Continued)

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### d) 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.

### e) Prospecting and exploration costs

The company is in the initial stages of the exploration activities in the two blocks hence all costs spent are charged to the Statement of Profit or Loss. The company follows the successful method of accounting for oil and natural gas exploration costs. Expenditure incurred prior to the acquisition of a licence and the costs of other exploration activities which are not specifically directed to an identified structure are written off in the year incurred. Costs that lead directly to the discovery, acquisition, or development of a specific, discrete oil and gas reserve are capitalized on well by well basis (cost centre) pending determination and evaluation. Capitalised costs are considered abortive and written off on completion of a well unless the results of the drilling indicates that hydrocarbon reserve exists and there is a reasonable prospect that these reserves are commercial. Once commercial viability is demonstrated the capitalized exploration costs are transferred to property, plant and equipment or intangibles as appropriate after being assessed for impairment.

### f) Financial instruments

#### i) Non derivative financial instruments

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 derecognizes 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.

## Notes to the Financial Statements for the year ended 31 December 2014 (Continued)

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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.

The Company non-derivative financial assets includes loans and receivables.

### *Loans and receivables*

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 loans and receivables are measured at amortised cost using the effective interest method, less any impairment losses. Loans and receivables comprise trade and other receivables.

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) 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.

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 date at the relevant dates.

### **iii) Share capital**

Ordinary shares are classified as equity.

## Notes to the Financial Statements for the year ended 31 December 2014 (Continued)

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### g) 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.

#### 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

## Notes to the Financial Statements for the year ended 31 December 2014 (Continued)

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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.

### **h) 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.

## Notes to the Financial Statements for the year ended 31 December 2014 (Continued)

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i) 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.

**i) 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.

**j) 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.

**k) 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.

**l) 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.

## Notes to the Financial Statements for the year ended 31 December 2014 (Continued)

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### 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.

### o) Taxation

#### Income tax

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.

### p) Dividends

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

### q) 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 values have been determined for measurement and/or disclosure purposes based on the following methods:

#### (a) Other receivables

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.

## Notes to the Financial Statements for the year ended 31 December 2014 (Continued)

### (b) Non-derivative financial liabilities

Fair value, which is determined for disclosure purposes, 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.

### r) Comparatives

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

### 4. TAXATION

In view of the fact that no taxable revenue has been earned, no taxable profit and tax charge arises for the year. The estimated tax charge /(credit) for the years ended 31 December 2014 and 31 December 2013 is as shown below. At 31 December 2014, the estimated accumulated tax loss of USD 12,946,859 (2013: USD 6,785,295) is available for set-off against future taxable profit subject to approval by Tanzania Revenue Authority.

	<b>2014 USD</b>	<b>2013 USD</b>
<b>Tax charge /(Credit)</b>		
Income tax charge	-	-
Deferred tax credit – not recognised	(2,081,272)	(1,666,184)
	<b>(2,081,272)</b>	<b>(1,666,184)</b>

### Tax reconciliation is as follows:

	<b>2014 USD</b>	<b>2013 USD</b>
Loss before income tax	(7,806,673)	(5,581,312)
Tax calculated at the statutory of 30%	(2,342,002)	(1,674,394)
Tax effect of:		
Prior year Deferred tax adjustment	6,862	-
Expense not deductible for tax purposes	253,868	8,210
Deferred income tax assets not recognised	<b>(2,081,272)</b>	<b>(1,666,184)</b>

### Deferred tax

As at 31 December 2014 there is a deferred tax asset of US\$ 4,125,921 (2013: USD 2,044,649 ) arising mainly on account of the estimated accumulated tax loss. In the opinion of the Directors, it is prudent not to recognise this asset, as the Company is yet to start making taxable profits.

# Notes to the Financial Statements for the year ended 31 December 2014 (Continued)

## 4. TAXATION (Continued)

The gross movement on the deferred tax account is as follows:	2014 USD	2013 USD
At beginning of the year	2,044,649	378,466
Movement during the year	2,081,272	1,666,184
At the end of the year	<b>4,125,921</b>	<b>2,044,649</b>

Deferred tax asset includes the following temporary differences:	2014 USD	2013 USD
Estimated income tax losses	3,884,058	2,035,588
Accelerated capital deductions	(9,847)	(47)
Other timing differences	251,710	9,108
Net deferred income tax Assets/(liability)	<b>4,125,921</b>	<b>2,044,649</b>

## 5. PROPERTY AND EQUIPMENT

	Office equipment USD	Furniture and fittings USD	Motor vehicle USD	Total USD
<b>Cost</b>				
At 1 January 2013	3,441	9,100	-	12,541
Additions	2,938	2,042	-	4,980
<b>At 31 December 2013</b>	<b>6,379</b>	<b>11,142</b>	<b>-</b>	<b>17,521</b>
Additions	6,449	13,869	18,460	38,778
Disposal	(551)	(4,383)	-	(4,934)
<b>At 31 December 2014</b>	<b>12,278</b>	<b>20,629</b>	<b>18,460</b>	<b>51,366</b>
<b>Depreciation</b>				
At 1 January 2013	325	605	-	930
Charge for the year	1,180	1,294	-	2,475
<b>At 31 December 2013</b>	<b>1,505</b>	<b>1,899</b>	<b>-</b>	<b>3,405</b>
Charge for the year	1,430	2,489	4,247	8,167
Depreciation on Disposal	(72)	(1,013)	-	(1,086)
<b>At 31 December 2014</b>	<b>2,864</b>	<b>3,375</b>	<b>4,247</b>	<b>10,485</b>
<b>Net book value</b>				
At 31 December 2014	<b>9,414</b>	<b>17,254</b>	<b>14,213</b>	<b>40,881</b>
At 31 December 2013	<b>4,874</b>	<b>9,243</b>	<b>-</b>	<b>14,117</b>

## Notes to the Financial Statements for the year ended 31 December 2014 (Continued)

## 6. RECEIVABLES AND PREPAYMENTS

	<b>2014</b>	<b>2013</b>
	<b>USD</b>	<b>USD</b>
Other Debtors	4,863	1,536
Prepayment	20,070	13,595
<b>Total</b>	<b>24,933</b>	<b>15,131</b>

## 7. BANK BALANCES

	<b>2014</b>	<b>2013</b>
	<b>USD</b>	<b>USD</b>
Cash on hand	681	1,335
Cash at bank	937,045	1,600,146
<b>Total</b>	<b>937,726</b>	<b>1,601,481</b>

## 8. 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, Zambia and Uganda namely Swala Energy Australia Pty Ltd, Swala Energy (Kenya) Limited, Swala Energy (Zambia) 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.

Prior to 1 July 2014, Swala Energy Limited (ASX) provided financial support to Swala Oil and Gas (Tanzania) PIC through provision of advances. On the 1<sup>st</sup> July 2014, the company entered into loan agreement with Swala Energy Limited (ASX) with initial loan amount of US\$ 5,185,842 comprising of advances received from Swala Energy Limited (ASX) and other related parties prior to 1 July 2014.

## i) Head office support services and administration charge

	<b>2014</b>	<b>2013</b>
	<b>USD</b>	<b>USD</b>
Swala Energy Limited	257,800	109,060
Swala Energy Ltd (BVI)	15,806	51,939
Swala Energy Pty Ltd	-	9,400

Notes to the Financial Statements for the year ended 31 December 2014 **(Continued)**

ii) Interest on intercompany loan

	2014 USD	2013 USD
Swala Energy Limited	56,312	-

iii) Year - end balances arising from transaction with related parties

	2014 USD	2013 USD
<b>Due to related parties:</b>		
Swala Energy (ASX) plc	-	4,171,363
Swala Energy Limited (BVI)	-	179,448
Swala Energy Pty Limited	-	164,314
	-	<b>4,515,125</b>

iv) Intercompany loan

	2014 USD	2013 USD
Swala Energy Limited	5,236,522	-

v) Intercompany balances arising from the technical service agreement are disclosed on note to 10 to the accounts.

vi) 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.

	2014 USD	2013 USD
Salaries	167,231	110,680
Defined contribution plan	26,207	16,063

No terminal or other long term benefits were paid to key management personnel during the year (2013 : Nil)

## Notes to the Financial Statements for the year ended 31 December 2014 (Continued)

Director's emoluments	2014 USD	2013 USD
Non-executive Chairman	12,000	12,000
Non-executive Directors	24,000	24,000
Executive director (Including key management personnel)	113,807	59,944

## 9. SHARE CAPITAL

	2014 USD	2013 USD
<b>Authorised</b> 100,000,000 Ordinary shares of Tzs 1 (USD 0.0006) each	63,431	63,431
<b>Issued and fully paid up</b> 99,954,467 (2013 : 35,169,957) Ordinary shares of Tzs 1 (USD 0.0006) each	62,042	22,309
<b>Share Premium</b> Share premium at the start and end of the year	6,472,928	595,229

The company issued 64,784,510 shares during the year. The movement of issued share capital represents par value of issued shares and that of share premium is attributable to the excess of par value of shares issued at premium during the IPO and on conversion of convertible notes during the year.

## 10. TRADE AND OTHER PAYABLES

	2014 USD	2013 USD
Swala Energy Pty Limited	-	197,117
Swala Energy Limited (BVI)	8,702	202,523
Swala Energy Limited	439,207	287,130
Other payables and accruals	3,280,727	2,907,164
<b>Total</b>	<b>3,728,636</b>	<b>3,593,934</b>

## 11. JOINT OPERATING AGREEMENT

The company has entered into a joint operating agreement (JOA) with Otto Energy (Tanzania) Pty Limited for the operations in Kilosa-Kilombero Area and Pangani Area. The joint operation agreement details the rights and obligations of each operator together with detailed criteria of allocation of the joint assets and expenses. The joint expenses and assets are allocated on a 1:1 basis. In the JOA the partners are charged 3% overhead on all expenses and this forms the other income component in these financial statements.

Other Income	2014 US\$	2013 US\$
Overhead charge - 3%	347,686	285,944
Interest earned from call account	25,128	-
	<b>372,814</b>	<b>285,944</b>

## Notes to the Financial Statements for the year ended 31 December 2014 (Continued)

### 12. FINANCE COSTS

	2014	2013
	US\$	US\$
Interest on loan	56,312	-
Foreign exchange loss	163,501	15,515
	<b>219,813</b>	<b>15,515</b>

### 13. FAIR VALUES OF FINANCIAL INSTRUMENTS

#### Fair value hierarchy

AASB 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 year ended 31 December 2014, there were no transfers of available-for-sale equity securities or derivatives between levels 1 and 2 of the fair value hierarchy. There were also no transfers into or out of level 3 during the period.

#### 'Valuation techniques used to derive level 3 fair values

The following table sets out the valuation techniques used to measure fair values within Level 3 during the year, including details of the significant unobservable inputs used and the relationship between unobservable inputs and fair value.

Description	Valuation approach	Unobservable inputs	Range of inputs	Relationship between unobservable inputs and fair value
Foreign exchange derivative	The fair value is determined based on share price at the listing date; and foreign exchange rate at conversion date.	Fluctuations in share price.	Share price on issue TZS 300 based on convertible note agreement to share price of TZS 500 immediately after listing. FX rate of 0.000625 at date of convertible note agreement and fx rate of 0.000604 at conversion date.	The higher the share price the higher the liability to record and the greater the impact on profit and loss. The higher the FX rate the higher the liability to record and the greater the impact on the profit and loss.

## Notes to the Financial Statements for the year ended 31 December 2014 (Continued)

### Reconciliation of level 3 movements

	US\$
Balance at 1 January 2014	-
Convertible notes with embedded foreign exchange derivative liability	1,222,953
Unrecognised losses recognised in profit or loss	789,929
Fair value of Convertible notes at conversion date	(2,012,882)
Balance at 31 December 2014	-

### 14. EARNINGS PER SHARE

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

	2014	2013
Loss attributable to shareholders	(7,806,672)	(5,581,312)
Weighted average number of shares in issue	99,954,467	35,169,957
<b>Basic loss per share</b>	<b>(0.078)</b>	<b>(0.159)</b>

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

	2014	2013
Loss attributable to shareholders	(7,806,672)	(5,581,312)
Weighted average number of shares in issue	99,954,467	35,169,957
<b>Basic loss per share</b>	<b>(0.078)</b>	<b>(0.159)</b>

### 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 year ending 31 December 2014.

## Notes to the Financial Statements for the year ended 31 December 2014 (Continued)

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### 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.

## Notes to the Financial Statements for the year ended 31 December 2014 (Continued)

### 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. Due to the dynamic nature of the underlying businesses, the Company main flexibility in funding through intercompany short term advances and intercompany loan. Management monitors rolling forecasts of the Company's liquidity on the basis of expected cash flows.

The Company signed loan agreement with the parent company which provides availability of funding with credit limit of USD 10,000,000. As at 31<sup>st</sup> December 2014 credit utilisation in respect of the loan was USD 5,236,522.

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
Current account with JV partner		234,912	-	-	-
Trade and other payables	10	3,728,636	-	-	-
		<b>3,963,548</b>	-	-	-

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.

### 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 2014.

## Notes to the Financial Statements for the year ended 31 December 2014 (continued)

### 17. COMMITMENTS AND CONTINGENCIES

As of December 2014, 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:

<b>Capital commitments:</b>	<b>2014 USD</b>	<b>2013 USD</b>
Approved but not contracted for: Exploration (net to Swala's working interest)	6,000,000	3,500,000
Approved and contracted for but not recorded	613,000	-
	<b>6,613,000</b>	<b>3,500,000</b>

<b>Lease commitment:</b>	<b>2014 USD</b>	<b>2013 USD</b>
Non-cancellable operating leases - future minimum lease payments payable:		
Within one year	85,500	28,728
Later than one year but not later than 5 years	106,875	71,820
	<b>192,375</b>	<b>192,375</b>

### 18. EVENTS AFTER THE REPORTING YEAR

As part of the company strategy to raise capital to progress its exploration activities including drilling a well in each of the Pangani and Kilosa-Kilombero licence areas, the company started the process of farming-down its licences.

### 19. ULTIMATE HOLDING COMPANY

Swala Energy Limited (incorporated in British Virgin Islands) owns 58.5% (2013: 65.13%) of the company issued capital. The ultimate parent Company is Swala Energy Limited, incorporated in Australia.

**Notes to the Financial Statements for the year ended 31 December****20. DETAILED EXPENSES**

	<b>2014</b>	<b>2013</b>
	<b>USD</b>	<b>USD</b>
<b>Administration Expenses</b>		
Wages and Salaries	148,104	95,678
Wages and Salaries-Overtime	2,422	6,349
Administration Charges	22,050	14,485
Directors fees	36,000	59,000
Data Purchase	-	30,573
Auditor remuneration fees	7,151	9,540
Financial services	27,098	7,261
Rent	38,048	14,365
Investor relations	40,800	117,116
Public Relations	32,606	20,947
Sponsorship and Donations	30,509	27,368
Staff Training	1,878	10,412
VAT Write off	-	23,985
WHT Accrued	92,760	49,910
Computer Consumables	3,194	13,382
Printing and Stationery	42,558	10,307
Employer Pension (NSSF & PPF) contribution	19,726	12,820
Employer SDL contribution	7,446	4,294
Employee Leave Accrual	3,718	10,668
Other employees costs - (Share based)	2,147	19,691
Insurance	14,006	2,368
Accommodation	20,098	11,138
Licences, Registrations, Permits	16,923	303
Depreciation	8,167	2,475
HSE Service	365	-
Loss on asset disposal	3,848	-
Recruitment	2,161	7,013
Other expenses	33,327	22,501
	<b>657,110</b>	<b>603,947</b>
<b>Prospecting and exploration expenses</b>		
Consultants Fees	157,706	181,136
Contracts	56,970	44,000
Environmental Assessment	40,000	59,673
Field trip expenses	5,121	2,533
Gravity Magnetic Survey	-	3,337
Head office support	251,557	155,913
Mapping	6	-
Legal expenses	76,455	34,263
Overhead charge - 1% recoverable	61,963	47,878

## Notes to the Financial Statements for the year ended 31 December

## Prospecting and exploration expenses ( Continued)

	<b>2014</b>	<b>2013</b>
	<b>US\$</b>	<b>US\$</b>
Overhead charge - 2% non recoverable	111,880	95,094
Seismic Acquisition	5,211,887	4,192,498
Seismic Processing	61,253	14,988
Seismic Support	153,999	72,509
Surface licence fees	68,446	67,724
Training Fees (TPDC)	203,666	201,613
Safety Consumables	1,500	466
Travelling Expenses	50,226	74,170
	<b>6,512,635</b>	<b>5,247,795</b>
<b>Finance costs</b>		
Interest on loan	56,312	-
Foreign exchange loss	163,501	15,515
	<b>219,813</b>	<b>15,515</b>
Fair value adjustment	789,929	-
<b>Grand Total</b>	<b>8,179,487</b>	<b>5,867,255</b>