

Swala Oil and Gas
(Tanzania) Public Limited Company

Consolidated and Separate Financial Statements for
Year ended 31 December 2017

Swala Oil and Gas (Tanzania) Plc

Consolidated and Separate Financial Statements for the year ended 31 December 2017

Table of Contents

	Page No.
Corporate Information	1
Report of the Directors	2-7
Statement of Directors' Responsibilities	8
Declaration of the Accountant	9
Independent Auditors' Report	10-13
Consolidated and Separate Statements of Profit or Loss and Other Comprehensive Income	14
Consolidated and Separate Statements of Financial Position	15
Consolidated and Separate Statements of Changes in Equity	16
Consolidated and Separate Statements of Cash Flows	17
Notes to the Consolidated and Separate Financial Statements	18-41

Swala Oil and Gas (Tanzania) Plc

Consolidated and Separate Financial Statements
for the year ended 31 December 2017

Corporate 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

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

4. Auditors

KPMG
2nd Floor, The Luminary
Plot No.574, Haile Selassie Road
Msasani Peninsula
P.O Box 1160
Dar es salaam, TANZANIA

5. Tax Advisor

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

6. Brokers

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

7. Bankers

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

Swala Oil and Gas (Tanzania) Plc

Consolidated and Separate Financial Statements for the year ended 31 December 2017

Report of the Directors

The Directors present their annual report together with the consolidated and separate audited financial statements for the year ended 31 December 2017 which disclose the state of affairs of Swala Oil and Gas (Tanzania) Public Limited Company ("the Company" or "Swala"), and its subsidiaries Swala (Burundi) Limited, Swala (Mauritius) Limited and Swala (PAEM) Limited, (together, the "Group"), as at that date.

INCORPORATION

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

PRINCIPAL ACTIVITIES

The Group and Company's principal activity is exploration for oil and gas 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.

On 26th September 2016 the Company acquired a 100% interest in Block D (Republic of Burundi) from Surestream Petroleum Limited (UK) in exchange for 6,247,154 ordinary shares in the Company.

COMPOSITION OF BOARD OF DIRECTORS

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

Name	Position	Nationality	Date of Appointment	Date of Resignation
Mr. Ernest Massawe	Non-Executive Chairman	Tanzanian	29 th July 2011	29 th Sep 2017
Dr. David Mestres Ridge***	Chief Executive Officer and Director	British	29 th July 2011	
Mr. Neil Taylor	Non-Executive Director	Australian	5 th July 2013	12 nd Oct 2017
Professor Simon Mbilinyi	Non-Executive Director	Tanzanian	1 st July 2012	20 th Oct 2017
Mr. Abdullah Mwinyi	Non-Executive Chairman	Tanzanian	1 st July 2012	
Mr. Harold Temu	Non-Executive Director	Tanzanian	1 st June 2017	
Mr. Salem Balleith	Non-Executive Director	Tanzanian	1 st June 2017	
Mr. Justin Massawe*	Non-Executive Director	Tanzanian	1 st June 2017	
Mr. Scott Gilbert**	Non-Executive Director	British	7 th July 2017	

Swala Oil and Gas (Tanzania) Plc

Consolidated and Separate Financial Statements for the year ended 31 December 2017

Report of the Directors (Continued)

COMPOSITION OF BOARD OF DIRECTORS (CONTINUED)

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

Name	Ordinary Shares	Ordinary Shares
	2017	2016
Mr. Harold Temu	701,909	701,909
Mr. Abdullah Mwinyi	484,101	484,101
Mr. Salem Balleith	19,590	19,590

*Mr. Justin Massawe is an Executive Director and Minority shareholder of Erncon Holdings Ltd. Erncon Holding Ltd holds 8,335,033 shares in Swala (7.85% of the issued capital) and a further 889,539 shares in Swala indirectly through its holding in SWE Creditors Trust. Together, Erncon Holding Ltd directly and indirectly holds 9,224,572 shares in Swala (8.68% of the total)

**Mr. Scott Gilbert is an Executive Director and 50% Shareholder of the Group de Clermont whose wholly-owned subsidiary Clermont Capital owns 1,091,634 shares in the Company (1.03%).

***Dr. David Mestres Ridge holds 8,529,352 shares indirectly through SWE Creditors Trust.

Company Secretary is Christina Eugene appointed to the position on 1st January 2018. Prior to that date Yohana Mganga was the Company Secretary of the Company.

MANAGEMENT

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

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

COMPANY SHAREHOLDING

As at 31st December 2017 the Company had 1,957 shareholders (31st December 2016: 1,957). The shares of the Company are held as follows:

	Shareholder's Name	Number of Shares	Ownership percentage
1	SWE Creditors Trust	58,453,561	55.0%
2	Erncon Holding Ltd	8,335,033	7.85%
3	Swala Tanzania Trust Company Limited *	6,351,746	5.98%
4	SureStream Petroleum Limited (UK)	6,247,154	5.88%
5	Energy Tanzania Limited	5,333,334	5.02%
6	Ameir Munif Abdallah Nahdi	2,420,520	2.28%
7	De Clermont Capital Limited	1,091,634	1.03%
8	Gabriel Michael Kessy	767,206	0.72%
9	Maryanne Massawe	734,891	0.69%
10	Harold Enock Temu	701,909	0.66%
11	Other shareholders and General Public	15,764,630	14.72%
	Total	106,201,618	100.00%

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

**Consolidated and Separate Financial Statements
for the year ended 31 December 2017**

Report of the Directors (Continued)

STOCK EXCHANGE INFORMATION

In 2014 the Company listed with Dar es Salaam Stock exchange. The average share price during the year was TShs.400. In 2017 the performance of the Company's shares in the secondary market was as follows: Market capitalization as at 31 December 2017 was Tshs 42.5 million (previous year - Tshs 42.5 million).

OPERATING AND FINANCIAL REVIEW

Performance for the year

The results of the group's and company's operations for the year are set out on page 14.

Operating review

During the year, the Company suspended Kito-1 exploration well to 2018 because of delays in obtaining site access permits which would allow them to drill during the dry season. Operations were suspended in full while the process of obtaining the permits from stakeholders was undertaken.

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.

FUTURE DEVELOPMENT PLANS

The Company will continue with its work commitments for the second year on the first extension period in the Kilosa - Kilombero area, continue with business development by applying for other licences in Tanzania and elsewhere and grow its position in ownership of PAE Panafrican Energy Corporation (PAEM).

DIVIDEND

Directors do not recommend payment of dividends for the year ended 31 December 2017.

CORPORATE GOVERNANCE

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

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

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

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

Consolidated and Separate Financial Statements
for the year ended 31 December 2017

Report of the Directors (Continued)

RISK MANAGEMENT AND INTERNAL CONTROL

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

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

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

The Board assessed the internal control systems throughout the financial year ended 31st December 2017 and is of the opinion that they met accepted criteria.

GOING CONCERN

The Group's and the Company's state of affairs as at 31 December 2017 is set out on page 15 of these consolidated and separate financial statements. Refer to note 2(e) to these consolidated and separate financial statements for further discussion on the Group's and Company's ability to continue as a going concern.

CORPORATE SOCIAL RESPONSIBILITY (CSR)

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

As part of the CSR and Capacity building the Group set aside 7.2 million shares (2016: 7.4 million shares) in the Company managed by Swala Tanzania Trust Company Limited to the benefit of local communities in the areas of operations.

Ten Students sponsored by the Group through the University of Dar es salaam (Geology Department) graduated in 2017. The scholarship scheme is part of the Group's commitment to the development of local capacity and support local participation in Tanzania's hydrocarbon economy.

Consolidated and Separate Financial Statements
for the year ended 31 December 2017

Report of the Directors (Continued)

EMPLOYEE WELFARE

Employee Relations

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

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

Training

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

Benefits

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

Health and safety

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

Disabled Persons

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

RELATED PARTY TRANSACTIONS

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

POLITICAL AND CHARITABLE DONATIONS

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

Swala Oil and Gas (Tanzania) Plc

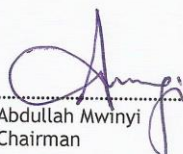
Consolidated and Separate Financial Statements
for the year ended 31 December 2017

Report of the Directors (Continued)

AUDITORS

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

By order of the Board


Abdullah Mwinyi
Chairman

Date: 27/07 2018

Swala Oil and Gas (Tanzania) Plc

Consolidated and Separate Financial Statements
for the year ended 31 December 2017

Statement of Directors' Responsibilities

The Group Directors are responsible for the preparation of the consolidated and separate financial statements that give a true and fair view of Swala Oil and Gas (Tanzania) Plc, comprising the consolidated and separate statements of financial position at 31 December 2017, and the consolidated and separate statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, and the notes to the consolidated and separate financial statements, which include a summary of significant accounting policies and other explanatory notes, in accordance with International Financial Reporting Standards and in the manner required by the Companies Act, 2002.

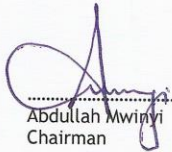
The Directors are also responsible for such internal control as the directors determine is necessary to enable the preparation of consolidated and separate financial statements that are free from material misstatement, whether due to fraud or error, and for maintaining adequate accounting records and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

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

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

Approval of the consolidated and separate financial statements

The consolidated and separate financial statements of Swala Oil and Gas (Tanzania) Plc, as identified in the first paragraph, were approved by the Board of Directors on27 July.....2018 and signed by:


.....
Abdullah Mwiriyi
Chairman


.....
David Mestres Ridge
CEO

Swala Oil and Gas (Tanzania) Plc

Consolidated and Separate Financial Statements
for the year ended 31 December 2017

Declaration of the Accountant

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

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

I, CPA Elias M. Mosses, being the Accountant of Swala Oil and Gas (Tanzania) Plc hereby acknowledge my responsibility of ensuring that the consolidated and separate financial statements for the year ended 31st December 2017 have been prepared in compliance with applicable accounting standards and statutory requirements.

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

Signed by: 

Position: Accountant

NBAA Membership No. GA 4784

Date: 27/01/.....2018

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

Report on the audit of the consolidated and separate Financial Statements

Opinion

We have audited the consolidated and separate financial statements of Swala Oil and Gas (Tanzania) Plc (“the Group and Company”), set out on pages 14 to 41 which comprise the consolidated and separate statements of financial position as at 31 December 2017, the consolidated and separate statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, and notes to the consolidated and separate financial statements, comprising significant accounting policies and other explanatory notes.

In our opinion, the accompanying consolidated and separate financial statements give a true and fair view of the consolidated and separate financial position of Swala Oil and Gas (Tanzania) Plc as at 31 December 2017, and of its consolidated and separate financial performance and its consolidated and separate cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS) and in the manner required by the Companies Act, 2002.

Basis for Opinion

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

Material Uncertainty Related to Going Concern

We draw attention to Note 2(e) in the consolidated and separate financial statements, which indicates that as at 31 December 2017, Group's and Company's liabilities exceeded the assets by US\$ 3.74 million and US\$ 3.72 million (2016 - US\$ 6.17 million and US\$ 6.17 million) respectively. In addition, the Group and Company was in a net current liability position of US\$3.75 million and US\$3.74 million (2016- US\$ 1.59 million and US\$ 1.59 million) respectively. As stated in Note 2(e), these events or conditions, along with other matters as set forth in the note, indicate that a material uncertainty exists that may cast significant doubt on the Group's and Company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

Emphasis of Matter - comparative information

We draw attention to Note 23 of the consolidated and separate financial statements which indicates that the comparative information presented as at and for the year ended 31 December 2016 has been restated. Our opinion is not modified in respect of this matter.

Other Matter relating to comparative information

The consolidated and separate financial statements of Swala Oil and Gas (Tanzania) Plc as at and for the year ended 31 December 2016 and its comparative of 31 December 2015 from which the statement of financial position as at 1 January 2016 has been derived, excluding retrospective adjustments described in Note 23 to the consolidated and separate financial statements were audited by another auditor who expressed an unmodified opinion on those financial statements on 3 August 2017.

As part of our audit of the consolidated and separate financial statements as at and for the year ended 31 December 2017, we also audited the retrospective adjustments described in Note 23 that were applied to restate the comparative information presented as at and for the year ended 31 December 2016. We were not engaged to audit, review, or apply any procedures to the comparative information other than with respect to the adjustments described in Note 23 to the consolidated and separate financial statements. Accordingly, we do not express an opinion or any other form of assurance on comparative information. However, in our opinion, the adjustments described in Note 23 are appropriate and have been properly applied.

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

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

Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated and separate financial statements of the current period. These matters were addressed in the context of our audit of the consolidated and separate financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. In addition to the matters described in the *Material Uncertainty Related to Going Concern* section, we have determined the matter described below to be a key audit matter to be communicated in our report.

Exploration and evaluation costs in the consolidated and separate financial statements	
Refer to note 26 and accounting policy note 3(c)	
Key audit matter	How the matter was addressed in audit
<p>The Group's and Company's policy is to expense exploration and evaluation expenses as incurred, and are recognized as assets when reserves are technically feasible and commercially viable. IFRS 6 allows whether to expense or capitalise the exploration and evaluation costs.</p> <p>Exploration and evaluation costs were considered key audit matters due to the following rationale:</p> <p>Exploration and evaluation costs are critical to the Group and Company since its main operation is exploration of oil and gas reserves. During the year, exploration and evaluation costs accounted for 45% of total expenses incurred. A determination of which costs to capitalise or expense can be complex for the oil and gas sector and requires exercising management judgement especially in determining whether criteria for capitalisation has been met.</p> <p>The Group and Company also operate in a joint arrangement with other partners hence a requirement to accurately allocate the share of exploration and evaluation costs among partners. This can be a complex process.</p>	<p>Our procedures include among others:</p> <p>Evaluating the Group's and Company's policy for accounting of exploration and evaluation costs to confirm if it's aligned with IFRS.</p> <p>Assessing whether the Group and Company have rights to explore in the relevant licence areas which include obtaining supporting documentation such as agreements, licences and/or concession.</p> <p>Inspecting on a sample basis, the exploration and evaluation costs to confirm the nature of the costs incurred. This involved challenging the criteria used by management to recognise the costs as expense or asset.</p> <p>Inspecting the allocation of exploration and evaluation between the operating partners to supporting source documents and challenging the allocation basis.</p> <p>Evaluating the adequacy of the disclosures in the financial statements.</p>

Other Information

The directors are responsible for the other information. The other information comprises the corporate information, Directors' Report as required by the Companies Act, 2002, Statements of Directors' responsibilities and Declaration of the Accountant. The other information does not include the consolidated and separate financial statements and our auditors' report thereon. Our opinion on the consolidated and separate financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated and separate financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated and separate financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

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

Responsibilities of Directors for the Consolidated and Separate Financial Statements

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

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

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

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

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

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



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

- Evaluate the overall presentation, structure and content of the consolidated and separate financial statements, including the disclosures, and whether the consolidated and separate financial statements represent the underlying transactions and events in a manner that achieves fair presentations.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

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

Report on Other Legal and Regulatory Requirements

As required by the Companies Act, 2002 we report that:

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

KPMG
Certified Public Accountants (T)

.....
Signed by the engagement partner: CPA Alexander Njombe (ACPA 2714)
Dar es Salaam

.....
30 July.....2018

Swala Oil and Gas (Tanzania) Plc

Consolidated and Separate Financial Statements
for the year ended 31 December 2017

Consolidated and Separate Statements of Profit or Loss and other Comprehensive Income

	Notes	GROUP		COMPANY	
		2017 USD	Restated 2016 USD	2017 USD	Restated 2016 USD
Other income	15	3,920,856	372,594	3,920,856	372,594
Prospecting and exploration expenses	26	(644,880)	(1,073,890)	(644,880)	(1,073,890)
Operating and administration expenses	26	(757,385)	(1,956,250)	(743,267)	(1,954,219)
Finance costs	26	(81,777)	(113,921)	(81,777)	(113,921)
Profit / (loss) before income tax		2,436,814	(2,771,467)	2,450,932	(2,769,436)
Income tax expense	4	-	1,222	-	1,222
Profit / (loss) for the year		2,436,814	(2,770,245)	2,450,932	(2,768,214)
Other comprehensive income		-	-	-	-
Total comprehensive income / (loss) for the year		2,436,814	(2,770,245)	2,450,932	(2,768,214)
PROFIT / (LOSS) PER SHARE FROM CONTINUED OPERATIONS:					
Basic earnings (loss) per share	19	0.023	(0.026)	0.023	(0.026)
Diluted earnings (loss) per share	19	0.023	(0.026)	0.023	(0.026)

The notes on pages 18 to 41 are an integral part of these consolidated and separate financial statements.
Report of the Auditors - pages 10-13

Swala Oil and Gas (Tanzania) plc

Consolidated and Separate Financial Statements
for the year ended 31 December 2017

Consolidated and Separate Statements of Financial Position as at 31 December 2017

	Notes	GROUP		COMPANY	
		2017 USD	Restated 2016 USD	2017o USD	Restated 2016 USD
ASSETS					
Non-Current assets					
Property and equipment	5	16,656	25,357	16,656	25,357
Investment in subsidiaries	8	-	-	234	-
		16,656	25,357	16,890	25,357
Current assets					
Current account - Joint operating partner	14	200,244	558,891	200,244	558,891
Inter-company current accounts	9	-	-	12,333	-
Other receivables and prepayments	6	97,467	139,935	97,467	139,935
Cash and cash equivalent	7	3,470	16,471	3,470	16,471
		301,181	715,297	313,514	715,297
Total Assets		317,837	740,654	330,404	740,654
EQUITY					
Equity attributable to equity holders					
Share capital	11	64,918	64,918	64,918	64,918
Share premium	11	7,907,983	7,907,983	7,907,983	7,907,983
Accumulated losses		(11,708,685)	(14,145,499)	(11,692,533)	(14,143,465)
Total equity		(3,735,784)	(6,172,598)	(3,719,632)	(6,170,564)
LIABILITIES					
Non-Current liabilities					
Borrowings	10	-	4,604,929	-	4,604,929
		-	4,604,929	-	4,604,929
Current liabilities					
Borrowings	10	807,000	-	807,000	-
Short term loan	13	213,934	-	213,934	-
Current account - Joint operating partner		-	-	-	-
Convertible notes	18	13,813	-	13,813	-
Income taxes	4	-	1,118	-	1,118
Trade and other payables	12	3,018,874	2,307,205	3,015,289	2,305,171
		4,053,621	2,308,323	4,050,036	2,306,289
Total Equity And Liabilities		317,837	740,654	330,404	740,654

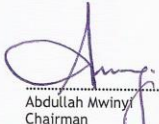
Swala Oil and Gas (Tanzania) plc

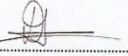
Consolidated and Separate Financial Statements
for the year ended 31 December 2017

Consolidated and Separate Statements of Financial Position as at 31 December 2017

	Notes	GROUP		COMPANY	
		2017 USD	Restated 2016 USD	2017o USD	Restated 2016 USD
ASSETS					
Non-Current assets					
Property and equipment	5	16,656	25,357	16,656	25,357
Investment in subsidiaries	8	-	-	234	-
		16,656	25,357	16,890	25,357
Current assets					
Current account - Joint operating partner	14	200,244	558,891	200,244	558,891
Inter-company current accounts	9	-	-	12,333	-
Other receivables and prepayments	6	97,467	139,935	97,467	139,935
Cash and cash equivalent	7	3,470	16,471	3,470	16,471
		301,181	715,297	313,514	715,297
Total Assets		317,837	740,654	330,404	740,654
EQUITY					
Equity attributable to equity holders					
Share capital	11	64,918	64,918	64,918	64,918
Share premium	11	7,907,983	7,907,983	7,907,983	7,907,983
Accumulated losses		(11,708,685)	(14,145,499)	(11,692,533)	(14,143,465)
Total equity		(3,735,784)	(6,172,598)	(3,719,632)	(6,170,564)
LIABILITIES					
Non-Current liabilities					
Borrowings	10	-	4,604,929	-	4,604,929
		-	4,604,929	-	4,604,929
Current liabilities					
Borrowings	10	807,000	-	807,000	-
Short term loan	13	213,934	-	213,934	-
Current account - Joint operating partner		-	-	-	-
Convertible notes	18	13,813	-	13,813	-
Income taxes	4	-	1,118	-	1,118
Trade and other payables	12	3,018,874	2,307,205	3,015,289	2,305,171
		4,053,621	2,308,323	4,050,036	2,306,289
Total Equity And Liabilities		317,837	740,654	330,404	740,654

The consolidated and separate financial statements on pages 14 to 41, were approved by the Board of Directors on 27.12.2017 and signed on its behalf by:


Abdullah Mwinyi
Chairman


David Mestres Ridge
CEO

The notes on pages 18 to 41 are an integral part of these consolidated and separate financial statements.
Report of the Auditors - pages 10-13

Consolidated and Separate Financial Statements
for the year ended 31 December 2017

Consolidated and Separate Statements of Changes in Equity

GROUP

	Notes	Share Capital USD	Share Premium USD	Accumulated losses USD	Total USD
Balance as at 1 January 2016		62,042	6,472,928	(11,375,253)	(4,840,283)
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)
Correction of prior period error	23	2,876	1,435,055	(1,646,431)	(208,500)
Restated Balance as at 31 December 2016		64,918	7,907,983	(14,145,499)	(6,172,598)
Profit for the year		-	-	2,436,814	2,436,814
Balance as at 31 December 2017		64,918	7,907,983	(11,708,685)	(3,735,784)

COMPANY

	Notes	Share Capital USD	Share Premium USD	Accumulated Losses USD	Total USD
Balance as at 1 January 2016		62,042	6,472,928	(11,375,253)	(4,840,283)
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)
Correction of prior period error	23	2,876	1,435,055	(1,644,397)	(206,466)
Restated Balance		64,918	7,907,983	(14,143,465)	(6,170,564)
Profit for the year		-	-	2,450,932	2,450,932
Balance as at 31 December 2017		64,918	7,907,983	(11,692,533)	(3,719,632)

The notes on pages 18 to 41 are an integral part of these consolidated and separate financial statements.

Report of the Auditors - pages 10 - 13

Swala Oil and Gas (Tanzania) Plc

Consolidated and Separate Financial Statements
for the year ended 31 December 2017

Consolidated and Separate Statements of Cash Flows

	Notes	GROUP		COMPANY	
		2017 USD	Restated 2016 USD	2017 USD	Restated 2016 USD
CASHFLOWS FROM OPERATING ACTIVITIES					
Profit/ (loss) before taxation		2,436,814	(2,771,467)	2,450,932	(2,769,436)
Adjustments for:					
Depreciation	26	7,389	8,472	7,389	8,472
Impairment loss	26	-	1,437,931	-	1,437,931
Loss on disposal of assets	26	258	-	258	-
Interest expense	26	81,777	113,921	81,777	113,921
		2,526,238	(1,211,143)	2,540,356	(1,209,112)
Change in receivables and prepayments		25,321	466,904	25,321	466,904
Change in intercompany payable		(3,797,929)	-	(3,797,929)	-
Changes in other payables, accruals and provisions		791,998	466,223	790,213	464,192
Changes in current accounts		358,647	(514,453)	346,314	(514,453)
Cash utilised in operating activities		(95,725)	(792,469)	(95,725)	(792,469)
Interest paid		(1,060)	(11,314)	(1,060)	(11,314)
Taxation paid		(1,118)	(18,721)	(1,118)	(18,721)
Net cash outflow from operating activities		(97,903)	(822,504)	(97,903)	(822,504)
CASH FLOW FROM INVESTING ACTIVITIES					
Purchase of property and equipment	5	-	(496)	-	(496)
Proceed from disposal of Motor Vehicle		13,375	-	13,375	-
Net cash generated from / (used in) investing activities		13,375	(496)	13,375	(496)
CASH FLOW FROM FINANCING ACTIVITIES					
Proceeds from issuing of convertible notes		13,813	-	13,813	-
Proceeds from borrowings		57,714	-	57,714	-
Net cash inflow from financing activities		71,527	-	71,527	-
Net decrease in cash and bank balances		(13,001)	(823,000)	(13,001)	(823,000)
Cash and bank balances at the start of the year	7	16,471	839,471	16,471	839,471
Cash and bank balances at the end of the year	7	3,470	16,471	3,470	16,471

The notes on pages 18 to 41 are an integral part of these consolidated and separate financial statements.

Report of the Auditors - pages 10 - 13

1. REPORTING ENTITY

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. These consolidated and separate financial statements comprise the Company and its Subsidiaries Swala (Burundi) Limited, Swala (Mauritius) Limited and Swala (PAEM) Limited, (together referred to as the “Group”). The group and Company are primarily involved in exploration for oil and gas reserves.

2. BASIS OF PREPARATION

a) Basis of accounting

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

b) Basis of Measurement

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

c) Functional and Presentation Currency

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

d) Use of judgment and estimates

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

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

i) Judgements

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

ii) Assumptions and estimation uncertainties

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

Exploration and evaluation assets

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

2. BASIS OF PREPARATION (CONTINUED)

d) Use of judgment and estimates (continued)

ii) Assumptions and estimation uncertainties (continued)

Asset useful lives

The useful lives of items of property and equipment are estimated annually and are in line with the rate at which they are depreciated.

Impairment of non-financial assets

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

Taxes

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

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

Financial Instruments classification and measurement

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

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

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

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

Notes to the Consolidated and Separate Financial Statements
for the year ended 31 December 2017 (Continued)

2. BASIS OF PREPARATION (CONTINUED)

e) Going concern basis of accounting preparation

The Group incurred a net profit of US\$ 2.44 million (Company: US\$ 2.45 million) for the year ended 31 December 2017 attributed to discount on repayment of distressed loan of US\$ 3.86 million (2016: Group incurred a net loss of US\$ 2.77 million and Company: US\$ 2.77 million). As at the reporting date the Group's liabilities exceeded its assets by US\$ 3.74 million (Company: US\$ 3.72 million) (2016: Group's assets exceeded liabilities by US\$ 6.17 million and Company: US\$ 6.17 million) and a Group net current liability position of US\$3.75 million (Company: US\$3.74 million) (2016: Group net current liability of US\$ 1.59 million and Company: US\$ 1.59 million). These events or conditions, indicate that a material uncertainty exists that may cast significant doubt on the Group and Company's ability to continue as a going concern.

The Group and Company is in exploration stage with no production, therefore the ability of the Group and Company to continue as a going concern is dependent on its success in raising funds in the future to allow continuation of the work programmes in Tanzania. This mainly depends on the outcomes of corporate bond listing and net dividends from PAE PanAfrican Energy Corporation (PAEM) as disclosed further in note 24.

f) Basis of consolidation

i) Subsidiaries

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

ii) Non - controlling interest (NCI)

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

iii) Loss of control

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

iv) Transaction eliminated on consolidation

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

g) Joint operations

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a) Property, 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 group and its costs can be measured reliably. The carrying amount of the replaced part is derecognised. The cost of day to day servicing of property, 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% |

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

b) Foreign currency translation

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

c) Prospecting and exploration costs

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

d) Farm-in /Farm-out arrangement

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

e) Financial instruments

i) Financial assets

The Group 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 Group is recognised as a separate asset or liability.

Financial assets of the Group 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 amortised 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 Group'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

Group'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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

e) Financial instruments (continued)

ii) Financial liabilities (continued)

Convertible notes

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

When allocating the initial carrying amount of a convertible note to the underlying financial liability the Group first determines the fair value of the liability component. 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.

The convertible note derivative liability is removed from the Consolidated and Separate Statements 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 Group's underlying share price and the foreign exchange rate at the relevant dates.

f) Share capital

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

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 Group on terms that the Group would not consider otherwise, indications that a debtor or issuer will enter bankruptcy, the disappearance of an active market for a security.

The Group 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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

g) Impairment (continued)

i) Financial assets (including receivables) (continued)

In assessing collective impairment the Group 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 Group'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 Group'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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

h) Employee benefits

i) Defined contribution plans

The Group makes statutory Contributions to the National Social Security Fund (NSSF) and the Parastatal Provident Fund (PPF). The Group'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 Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

i) Provisions

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

j) Environmental expenditure

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

k) Decommissioning costs

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

l) 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.

m) 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.

n) Dividends

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

o) Determination of fair values

A number of the Group's accounting policies and disclosures require the determination of fair value, for both financial and non-financial assets and liabilities. Fair value of an asset or liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest. Appropriate technique is used based on fact and circumstances specific to the asset or liability. Where applicable, the fair value of 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.

p) Comparatives

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

q) Segment reporting

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

The Group has one reportable segment (see note 28).

Notes to the Consolidated and Separate Financial Statements
for the year ended 31 December 2017 (Continued)**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)****r) Relevant new standards, amendments and interpretations issued but not yet effective and not early adopted**

A number of new standards, amendments to standards and interpretations, relevant to the Group are not yet effective for the year ended 31 December 2017, and have not been applied in preparing these financial statements. The Group does not plan to adopt them early and they are not expected to have a significant impact on the Group's financial statements. These standards are summarised below:

i) IFRS 9: Financial Instruments

On 24 July 2014 the IASB issued the final IFRS 9 Financial Instruments Standard, which replaces earlier versions of IFRS 9 and completes the IASB's project to replace IAS 39 Financial Instruments: Recognition and Measurement.

IFRS 9 (2009) introduces new requirements for the classification and measurement of financial assets. Under IFRS 9 (2009), financial assets are classified and measured based on the business model in which they are held and the characteristics of their contractual cash flows. IFRS 9 (2010) introduces additions relating to financial liabilities. The IASB currently has an active project to make limited amendments to the classification and measurement requirements of IFRS 9 and add new requirements to address the impairment of financial assets and hedge accounting. The standard is effective for annual period beginning on or after 1 January 2018. Management believes that the impact is not material.

ii) IFRS 16: Leases

IFRS 16 was published in January 2016. It sets out the principles for the recognition, measurement, presentation and disclosure of leases for both parties to a contract, i.e. the customer ('lessee') and the supplier ('lessor'). IFRS 16 replaces the previous leases Standard, IAS 17 Leases, and related Interpretations. IFRS 16 has one model for lessees which will result in almost all leases being included on the Statement of Financial position. No significant changes have been included for lessors.

This standard will become effective for financial year commencing on 1 January 2019 with early adoption encouraged. The Group is assessing the potential impact on its financial statements resulting from the application of IFRS 16.

iii) IFRS 15: Revenue from Contracts with Customers

IFRS 15, "Revenue from Contracts with Customers," which replaces IAS 18 "Revenue," IAS 11 "Construction Contracts," and related interpretations, establishes a comprehensive framework for determining whether, when and how much revenue is recognised. The standard contains a single model that applies to contracts with customers and two approaches to recognising revenue: at a point in time or over time.

The new standard is effective for annual periods beginning on or after January 1, 2018, with early adoption permitted. The Group is currently evaluating the impact of adopting IFRS 15 on its financial statements. The Group had no revenue for the year ended 31 December 2017.

4. TAXATION

At 31 December 2017, the Group has estimated accumulated tax losses of USD 6,732,305 (2016: USD 9,685,152) available for set-off against future taxable profit.

INCOME TAX EXPENSE	GROUP		COMPANY	
	2017 USD	Restated 2016 USD	2017 USD	Restated 2016 USD
Tax charge				
Income tax charge - recognised*	-	1,118	-	1,118
Total	-	1,118	-	1,118

*Income tax amount of US\$ 1,222 in income statement includes US\$ 2,340 adjustment on over-estimation tax for 2015.

Notes to the Consolidated and Separate Financial Statements
for the year ended 31 December 2017 (Continued)

4. TAXATION (CONTINUED)

DEFERRED TAX	GROUP		COMPANY	
	2017 USD	Restated 2016 USD	2017 USD	Restated 2016 USD
Tax charge /(credit)- current year				
Deferred tax (credit) charge - not recognised	478,232	(4,523)	478,232	(4,523)
Total	478,232	(4,523)	478,232	(4,523)

Tax reconciliation is as follows:

	GROUP		COMPANY	
	2017 USD	Restated 2016 USD	2017 USD	Restated 2016 USD
Profit / (loss) before income tax	2,436,814	(2,771,467)	2,450,932	(2,769,436)
Tax calculated at the statutory of 30%	731,044	(831,440)	735,280	(830,831)
Tax effect of:				
Alternative minimum tax	-	1,118	-	1,118
Prior year Deferred tax adjustment	(777,899)	(4,305)	(777,899)	(4,305)
Expense not deductible for tax purposes	42,619	333,888	42,619	333,888
Effect of prior year corrections	4,236	500,739	-	500,130
Total	-	-	-	-

Deferred tax

As at 31 December 2017 there is a deferred tax asset of US\$ 2,373,945 (Dec 2016: USD 2,852,177) 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:	GROUP		COMPANY	
	2017 USD	Restated 2016 USD	2017 USD	Restated 2016 USD
At beginning of the year	2,852,177	2,847,654	2,852,177	2,847,654
Movement during the year	(478,232)	4,523	(478,232)	4,523
At the end of the year - Not recognised	2,373,945	2,852,177	2,373,945	2,852,177

Deferred tax asset includes the following temporary differences:	GROUP		COMPANY	
	2017 USD	Restated 2016 USD	2017 USD	Restated 2016 USD
Estimated income tax losses	2,019,691	2,905,546	2,019,691	2,905,546
Accelerated capital deductions	334,231	(60,064)	334,231	(60,064)
Other timing differences	20,023	6,695	20,023	6,695
Net deferred income tax Assets - Not recognised	2,373,945	2,852,177	2,373,945	2,852,177

Notes to the Consolidated and Separate Financial Statements
for the year ended 31 December 2017 (Continued)

5. PROPERTY AND EQUIPMENT

GROUP AND COMPANY				
	Office equipment USD	Furniture and fittings USD	Motor vehicle USD	Total USD
Cost				
At 1 January 2016	13,794	20,741	18,460	52,995
Additions	496	-	-	496
At 31 December 2016	14,290	20,741	18,460	53,491
Disposal	-	-	(18,460)	(18,460)
At 31 December 2017	14,290	20,741	-	35,031
Depreciation				
At 1 January 2016	5,304	5,600	8,758	19,662
Charge for the year	2,182	1,933	4,357	8,472
At 31 December 2016	7,486	7,533	13,115	28,134
Charge for the period	1,676	1,680	4,032	7,388
Depreciation on Disposal	-	-	(17,147)	(17,147)
At 31 December 2017	9,162	9,213	-	18,375
Net book value				
At 31 December 2017	5,128	11,528	-	16,656
At 31 December 2016	6,804	13,208	5,345	25,357

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

6. RECEIVABLES AND PREPAYMENTS

	GROUP		COMPANY	
	2017 USD	Restated 2016 USD	2017 USD	Restated 2016 USD
Accounts receivable	27,728	122,668	27,728	122,668
Other debtors	15,511	1,197	15,511	1,197
VAT receivables	43,846	7,666	43,846	7,666
Prepayment	10,382	8,404	10,382	8,404
Total	97,467	139,935	97,467	139,935

7. BANK BALANCES

	GROUP		COMPANY	
	2017 USD	Restated 2016 USD	2017 USD	Restated 2016 USD
Cash on hand	10	617	10	617
Cash at bank	3,460	15,854	3,460	15,854
Total	3,470	16,471	3,470	16,471

8. INVESTMENT IN SUBSIDIARIES

Swala Oil and Gas (Tanzania) Plc owns shares of Swala Energy (Burundi) Limited incorporated in British Virgin Island, Swala (Mauritius) Limited incorporated in Mauritius and Swala (PAEM) limited incorporated in United Kingdom.

Notes to the Consolidated Financial Statements
for the year ended 31 December 2017 (Continued)**8. INVESTMENT IN SUBSIDIARIES (CONTINUED)**

	2017	Restated 2016
	USD	USD
Cost		
At 01 January	1,437,930	-
Additions	234	1,437,930
At 31 December	1,438,164	1,437,930
Accumulated impairment losses		
At 01 January	(1,437,930)	-
Impairment loss *	-	(1,437,930)
At 31 December	(1,437,930)	(1,437,930)
Net Investment	234	-

*Relates to full impairment of investment in Swala (Burundi) Limited.

Particulars of the subsidiaries as at 31 December 2017 are as follows:

Name	Nature of Operations	Number of shares	% holding	Country of incorporation	Cost (USD)
Swala Energy (Burundi) Limited	Exploration	50,000	100%	Burundi	1,437,930
Swala (Mauritius) Limited	Special purpose vehicle- investment	100	100%	Mauritius	100
Swala (PAEM) Limited	Investment	100	100%	UK	134

9. RELATED PARTY TRANSACTIONS AND BALANCES

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

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

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

i) Due from Related parties

	2017	Restated 2016
	USD	USD
Swala (Mauritius) Limited	12,333	-

The balance attributed by the Company settling liabilities on behalf of its subsidiary. The related party balances are not carrying any interest and are due on demand.

ii) 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.

Swala Oil and Gas (Tanzania) Plc

Notes to the Consolidated Financial Statements for the year ended 31 December 2017 (Continued)

9. RELATED PARTY TRANSACTIONS AND BALANCES (CONTINUED)

ii) Key management compensation (continued)

	GROUP		COMPANY	
	2017 USD	Restated 2016 USD	2017 USD	Restated 2016* USD
Salaries	265,714	432,689	265,714	432,689
Defined contribution plan	41,186	89,647	41,186	89,647

*This relates to restatement of salary costs not previously recognized.

No terminal or other long term benefits were paid to key management personnel during the period (2016: Nil)

iii) Directors' emoluments

	GROUP		COMPANY	
	2017 USD	Restated 2016 USD	2017 USD	Restated 2016 USD
Non-executive Chairman	12,000	12,000	12,000	12,000
Non-executive Directors	46,000	24,000	46,000	24,000
Executive director (Including key management personnel)	262,935	234,127	262,935	234,127

10. BORROWING

	2017	Restated
	USD	2016 USD
SWE Creditors Trust:		
Current Portion	807,000	-
Non- Current Portion	-	4,604,929
	807,000	4,604,929

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 USD 81,777 (2016: USD 113,922).

Under the terms of Deed of assignment of Debts and Securities dated 20th June 2017 between the Company and the SWE Creditors Trust ("the Trust"), the Company paid the Trust the sum of Australian Dollar (A\$)1 million (USD 807,000) on 9th February 2018 in full and final settlement of the Intercompany loan agreed between the Company and Swala Energy Limited on 3rd July 2014.

11. SHARE CAPITAL

	2017 USD	*Restated 2016 USD
Authorised		
150,000,000 Ordinary shares of Tzs 1 (USD 0.00062500) each	93,750	93,750
Issued and fully paid up		
106,201,618 (2016:106,201,618) Ordinary shares of Tzs 1 (USD 0.00061127) each	64,918	64,918
Share Premium		
Share premium at the start and end of the year	7,907,983	7,907,983

Swala Oil and Gas (Tanzania) Plc

Notes to the Consolidated Financial Statements for the year ended 31 December 2017 (Continued)

11. SHARE CAPITAL (CONTINUED)

*This relates to shares issued to Surestream Petroleum Limited (UK) not previously recognised in the books on 26th September 2016, the Company acquired Surestream Petroleum (Burundi) Limited by issuing its Majority shareholder Surestream Petroleum Limited (UK) with a total consideration of USD 1,437,931 (in terms of 6,247,154 units of Ordinary Share in the Company) which is equivalent to USD 2,876 share capital and USD 1,435,055 share premium, this transaction was approved by the Annual General Meeting of the Company on 31st January 2018 and thus the 2016 numbers have been restated.

Swala Energy Limited (“SWE”), which at the time held 58.5% (now 55%) 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 share 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 Australian Dollars (A\$)1,000,000 which was paid on 9th February 2018 (equivalent USD 807,000) and this requires SWE to release the shares it held in Swala to the SWE shareholders in an intermediated in-specie distribution for nil consideration.

12. TRADE AND OTHER PAYABLES

	GROUP		COMPANY	
	2017 USD	Restated 2016 USD	2017 USD	Restated 2016* USD
Account payables & other payable	1,428,905	1,591,412	1,425,320	1,589,378
Accruals	1,529,703	715,793	1,529,703	715,793
Provisions	60,266	-	60,266	-
Total	3,018,874	2,307,205	3,015,289	2,305,171

*Relates to the recognition of staff cost previously not recognized (Group and Company) and de-recognition of liabilities for subsidiary (Swala PAEM Limited) in the Company's books.

The Account Payable and Other payables above includes a settlement to Otto whereby 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 27th September 2017 Tanzania Revenue Authority instructed Swala Oil and Gas (Tanzania) Plc to suspend the transfer for the compensation to OTTO until TRA issues Swala with TRA's determination regarding OTTO's Tax liability and the extent of Swala agency obligation out of the agreement.

13. SHORT TERM LOAN

	GROUP		COMPANY	
	2017 USD	Restated 2016 USD	2017 USD	Restated 2016 USD
Swala Energy Trust Co. Ltd	57,714	-	57,714	-
Erncon Holdings Ltd	110,000	-	110,000	-
Neil Tayrol	25,100	-	25,100	-
Frank Whitehead	21,120	-	21,120	-
Total	213,934	-	213,934	-

USD 156,220 out of USD 213,934 attributed by redemption of convertible notes (USD142,018 at redemption premium of 10%) and the balance (USD 57,714) attributed by utilizing the funds resulted by selling 244,200 shares of Swala Energy Trust Co. Ltd to De Clermont Capital Limited at the cost of USD 0.23633907 each.

Swala Oil and Gas (Tanzania) Plc

Notes to the Consolidated Financial Statements for the year ended 31 December 2017 (Continued)

14. 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 consolidated and separate financial statements. The Company and partners interests in joint arrangement as at 31 December 2017 are detailed below. Exploration is principle activity performed across these licence areas.

	Kilosa Kilombero Licence		Pangani Licence	
	2017	2016	2017	2016
Swala Oil and Gas (Tanzania) plc - Operator	75%	25%	-	25%
TATA Petrodyne Limited	25%	25%	-	25%
Otto Energy (Tanzania) Limited	-	50%	-	50%

As at 31 December 2017 the Company has a current account due from JOA partners of USD 200,244 (2016: USD 558,891).

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 and paid 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.

15. OTHER INCOME

	GROUP		COMPANY	
	2017	Restated 2016	2017	Restated 2016
	USD	USD	USD	USD
Overhead charge - 3%	10,574	58,435	10,574	58,435
Discount on repayment of distressed loan	3,858,746	-	3,858,746	-
Consideration from farm-out transactions *	51,536	314,159	51,536	314,159
	3,920,856	372,594	3,920,856	372,594

* 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.

Notes to the Consolidated Financial Statements
for the year ended 31 December 2017 (Continued)

16. FINANCE COSTS

	GROUP		COMPANY	
	2017 USD	Restated 2016 USD	2017 USD	Restated 2016 USD
Interest on loan	81,777	113,921	81,777	113,921
	81,777	113,921	81,777	113,921

17. FAIR VALUES OF FINANCIAL INSTRUMENTS

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

GROUP 2017:	Designated at fair value USD	Held to maturity USD	Loans and receivables USD	Other liabilities USD	Total carrying amount USD
ASSETS					
Cash and cash equivalents	-	-	3,470	-	3,470
Current account	-	-	200,244	-	200,244
Accounts receivables	-	-	27,728	-	27,728
Other debtors	-	-	15,511	-	15,511
	<u>-</u>	<u>-</u>	<u>246,953</u>	<u>-</u>	<u>246,953</u>
LIABILITIES					
Accounts and other payables	-	-	-	1,428,905	1,428,905
Accruals	-	-	-	1,529,703	1,529,703
Short term loan	-	-	-	213,934	213,934
Convertible notes	13,813	-	-	-	13,813
Borrowings	-	-	-	807,000	807,000
	<u>13,813</u>	<u>-</u>	<u>-</u>	<u>3,979,542</u>	<u>3,993,355</u>
COMPANY 2017:					
ASSETS					
Cash and cash equivalents	-	-	3,470	-	3,470
Current account	-	-	200,244	-	200,244
Accounts receivables	-	-	27,728	-	27,728
Other debtors	-	-	15,511	-	15,511
	<u>-</u>	<u>-</u>	<u>246,953</u>	<u>-</u>	<u>246,953</u>
LIABILITIES					
Accounts and other payables	-	-	-	1,425,320	1,425,320
Accruals	-	-	-	1,529,703	1,529,703
Short term loan	-	-	-	213,934	213,934
Convertible notes	13,813	-	-	-	13,813
Borrowings	-	-	-	807,000	807,000
	<u>13,813</u>	<u>-</u>	<u>-</u>	<u>3,975,957</u>	<u>3,989,770</u>
GROUP 2016:					
ASSETS					
Cash and cash equivalents	-	-	16,471	-	16,471
Current account	-	-	558,891	-	558,891
Accounts receivable	-	-	122,668	-	122,668
Other debtors	-	-	1,197	-	1,197
	<u>-</u>	<u>-</u>	<u>699,227</u>	<u>-</u>	<u>699,227</u>

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

Notes to the Consolidated Financial Statements
for the year ended 31 December 2017 (Continued)

17. FAIR VALUES OF FINANCIAL INSTRUMENTS (CONTINUED)

GROUP 2016:	Designated at fair value USD	Held to maturity USD	Loans and receivables USD	Other liabilities USD	Total carrying amount USD
LIABILITIES					
Accounts and other payables	-	-	-	1,591,412	1,591,412
Accruals	-	-	-	715,793	715,793
	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,307,205</u>	<u>2,307,205</u>
COMPANY 2016:					
	USD	USD	USD	USD	USD
ASSETS					
Cash and cash equivalents	-	-	16,471	-	16,471
Current account	-	-	558,891	-	558,891
Accounts receivables	-	-	122,668	-	122,668
Other debtors	-	-	1,197	-	1,197
	<u>-</u>	<u>-</u>	<u>699,227</u>	<u>-</u>	<u>699,227</u>
LIABILITIES					
Accounts and other payables	-	-	-	1,589,378	1,589,378
Accruals	-	-	-	715,793	715,793
	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,305,171</u>	<u>2,305,171</u>

Transfers

During the period ended 31 December 2017, 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.

18. CONVERTIBLE NOTES

Name	Details	Unit Price In USD	Number of Units	Amounts in USD
Mr. Neil Tayrol	Convertible notes	1	6,813	6,813
Ms. Neema Kiwelu	Convertible notes	1	5,000	5,000
Mr. Harold Temu	Convertible notes	1	2,000	2,000
			<u>13,813</u>	<u>13,813</u>

19. EARNINGS PER SHARE

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

	GROUP		COMPANY	
	2017	Restated 2016	2017	Restated 2016*
Profit / (Loss) attributable to shareholders	2,436,814	(2,770,245)	2,450,932	(2,768,214)
Weighted average number of shares in issue	106,201,618	106,201,618	106,201,618	106,201,618
Basic earnings / (loss) per share	<u>0.023</u>	<u>(0.026)</u>	<u>0.023</u>	<u>(0.026)</u>

*Relates to recognition of staff expenses for 2016 not previously recognized (Group and Company) and de-recognition of expenses relating to Swala (Mauritius) Limited in Company's books.

Notes to the Consolidated Financial Statements
for the year ended 31 December 2017 (Continued)**19. EARNINGS PER SHARE (CONTINUED)**

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

	GROUP		COMPANY	
	2017	Restated 2016	2017	Restated 2016
Profit / (loss) attributable to shareholders	2,436,814	(2,770,245)	2,450,932	(2,768,214)
Weighted average number of shares in issue	106,201,618	106,201,618	106,201,618	106,201,618
Diluted earnings / (loss) per share	0.023	(0.026)	0.023	(0.026)

20. CAPITAL MANAGEMENT

The primary objective of the Group's capital management is to ensure that it maintains a strong credit rating and healthy capital ratios in order to support its business and maximize shareholder value. Rate of return on capital employed at 31 December 2017 was -0.65 (At 31 December 2016: 1.77).

The Groups manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may return capital to shareholders or issue new shares. No changes were made in the objectives, policies or processes during the period ending 31 December 2017.

21. FINANCIAL RISK MANAGEMENT

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

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

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

Credit risk

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

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

Notes to the Consolidated Financial Statements
for the year ended 31 December 2017 (Continued)

21. FINANCIAL RISK MANAGEMENT (CONTINUED)

Credit risk (continued)

GROUP	2017 USD		Restated 2016 USD	
	Loans & receivables	Exposure to Credit risk	Loans & receivables	Exposure to Credit risk
Current account- Joint operating partner	200,244	200,244	558,891	558,891
Account receivables	27,728	27,728	122,668	122,668
Other debtors	15,511	15,511	1,197	1,197
Total	243,483	243,483	682,756	682,756
COMPANY				
Current account- Joint operating partner	200,244	200,244	558,891	558,891
Account receivables	27,728	27,728	122,668	122,668
Other debtors	15,511	15,511	1,197	1,197
Total	243,483	243,483	682,756	682,756

Management has not identified any indicators of impairment of the receivable balances.

Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation. Management monitors rolling forecasts of the Group's liquidity on the basis of expected cash flows on monthly basis.

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

As at 31 December 2017

	Note	Less than 1 year USD	Between 1 and 2 years USD	Between 2 and 5 years USD	Over 5 years USD
Trade and other payables	12	3,018,874	-	-	-
Short term loan	13	213,934	-	-	-
Convertible notes	18	13,813	-	-	-
Borrowings	10	807,000	-	-	-
		4,053,621	-	-	-

As at 31 December 2016

	Note	Less than 1 year USD	Between 1 and 2 years USD	Between 2 and 5 years USD	Over 5 years USD
Trade and other payables	12	2,307,205	-	-	-
Borrowings	10	-	4,604,929	-	-
		2,307,205	4,604,929	-	-

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

Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates etc will affect the Group's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return. The Group is in exploration stage with no production therefore market risk is not material as at 31st December 2017.

Notes to the Consolidated Financial Statements for the year ended 31 December 2017 (Continued)

21. FINANCIAL RISK MANAGEMENT (CONTINUED)

Currency risk

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

The Group's strategy to manage currency risk is by transacting mainly in US Dollars therefore the Group's currency risk exposure is not material as at 31 December 2017.

22. COMMITMENTS

As of 31st December 2017, the Company has contractual work commitments in respect of Production Sharing Agreement with Tanzania Petroleum Development Corporation (TPDC) for the Kilosa-Kilombero licence area, suppliers and office rental obligation as shown below:

Capital commitments: (net to Swala's working interest)	2017 USD	Restated 2016 USD
Approved but not contracted for: Exploration	8,038,189	2,449,321
Approved and contracted: Drilling costs	565,885	205,566
	8,604,074	2,654,887

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 2,868,025.

The increase in commitment from USD 2.6m to USD 8.6m resulted by OTTO withdraw from the Licence which gave Swala addition 50% participating interest.

Lease commitment:	2017 USD	Restated 2016 USD
Non-cancellable operating leases - future minimum lease payments payable:		
Within one year	318,471	321,601
Later than one year but not later than 5 years	-	-
	318,471	321,601

23. PRIOR YEAR ADJUSTMENTS

On 26th September 2016, the Company acquired Surestream Petroleum (Burundi) Limited by issuing its Majority shareholder Surestream Petroleum Limited (UK) with a total consideration of USD 1,437,931 (in terms of 6,247,154 units of Ordinary Share in the Company) which is equivalent to USD 2,876 share capital and USD 1,435,055 share premium, this transaction was approved by the Annual General Meeting of the Company on 31st January 2018 and thus the adjustment for 2016 has been made.

The Company recognized USD 1,437,931 consideration for Surestream Petroleum Limited as Goodwill in its books of accounts but after assessing that the Burundi Block is no longer profitable, the Company decided to carry out an Impairment test and impaired the whole goodwill through operating and administration expenses line. The adjustment was made accordingly for 2016 numbers hence restated.

Prior to 24 June 2016, Swala Oil and Gas (Tz) Plc was a subsidiary of Swala Energy Limited ("SWE") and the two entered into a technical services agreement for Swala Oil and Tanzania (Tz) Plc to receive head office support at certain agreed terms on managerial, financial and technical services. On 24th June 2016 Swala Energy Limited ("SWE") was placed under voluntary administration as part of a corporate restructuring, but even after this the two members from SWE namely Chief Executive Office and Exploration Manager continued to support Swala Oil and Gas (Tz) Plc even though there was no contract between the parties, during 2017 Swala Oil and Gas Plc thought it was necessary to keep and still use the two members and decided to acknowledge their services from July 2016 and made the necessary adjustment of USD 131,468 (in the operating and administration expenses) and USD 75,000 (in the prospecting and exploration expenses) respectively.

Notes to the Consolidated Financial Statements
for the year ended 31 December 2017 (Continued)**23. PRIOR YEAR ADJUSTMENTS (CONTINUED)**

See below on the summary of the adjustment made. None of the adjustments affects consolidated and separate financial statements for the year ended 31 December 2015 from which the statements of financial position as at 1 January 2016 have been derived as such, no third balance sheets are required.

2016 (USD)	IMPACT OF CORRECTION OF ERRORS					
	GROUP			COMPANY		
	As previously Reported USD	Adjustment USD	As restated USD	As previously Reported USD	Adjustment USD	As restated USD
Statement of Profit or Loss and other Comprehensive Income						
Operating & administration expenses	(383,238)	(1,573,012)	(1,956,250)	(383,238)	(1,570,981)	(1,954,219)
Prospecting & exploration expenses	(998,890)	(75,000)	(1,073,890)	(998,890)	(75,000)	(1,073,890)
Finance cost	(115,503)	1,582	(113,921)	(115,503)	1,582	(113,921)
Statement of Financial Position						
Share capital	62,042	2,876	64,918	62,042	2,876	64,918
Share premium	6,472,928	1,435,055	7,907,983	6,472,928	1,435,055	7,907,983
Trade and other payable	(2,098,705)	(208,500)	(2,307,205)	(2,098,705)	(206,466)	(2,305,171)
Statement of Changes in Equity						
Share capital	62,042	2,876	64,918	62,042	2,876	64,918
Share premium	6,472,928	1,435,055	7,907,983	6,472,928	1,435,055	7,907,983
Accumulated losses	(12,499,068)	(1,646,431)	(14,145,499)	(12,499,068)	(1,644,397)	(14,143,465)

24. EVENTS AFTER THE REPORTING PERIOD

On the 2nd January 2018 the Group advised that, it had acquired a 7.93% equity interest in PAE Panafrican Energy Corporation (“PAEM”), a Mauritius-registered Company and has a right to acquire a further 32.07%. The Group has commenced the process of bond-raising to finance the remaining part of the transaction. On the 5th January 2018 the Group submitted its prospectus to list \$50 million Corporate Bonds (with up to \$30 million Greenshoe Rights) to the Capital Markets and Securities Authority (“CMSA”). On the 2nd of May 2018 the Group withdrew its application and on the 10th May 2018 commenced the process to list instead on the Stock Exchange of Mauritius (SEM). The Group expect to receive consent to list its Corporate Bonds on the SEM on the 1st August 2018.

Subsequent to year end and up to the date of this report, the Group through its subsidiary Swala (PAEM) received \$2.38 million as dividends from PAEM. Additional total net dividends flowing to the Group from PAE PanAfrican Energy Corporation (“PAEM”) are expected to be \$4.758 million in 2018.

On 28th February 2018 the Company received a comfort letter from the Ministry of Energy in respect of the tenure of the licence beyond the 20th February 2018, allowing the Company to proceed with the preparations for drilling Kito-1 exploration well while awaiting the formal extension of the Kilosa-Kilombero licence.

On 20th April 2018 the Company declared a force majeure on Kilosa - Kilombero licence because of the TPDC’s inability to provide site permits in time to allow the safe and reliable drilling of Kito-1. On 25th May 2018 the Company, Tanzania Petroleum Development Corporation and Tanzania Wildlife Management Authority signed a Memorandum of Understanding that will ensure that the Company receives in a timely fashion, all the necessary permits to drill the Kito-1 exploration well in 2019.

On 27th July 2018 the company advised that, its securities will be placed in trading halt, until the release of announcement of the company about third party equity investments in the company. Unless DSE decides otherwise the trading halt will remain up to earlier of commencement of normal trading on 6th August 2018, or release of the announcement to the market. Earlier in the year, Swala successfully raised a gross \$ 25 million from US institutions under early bird 144A USD bond offering and has submitted a planned corporate bond issue on the stock Exchange of Mauritius for \$ 50 million, with Greenshoe right. The Company intends to formally launch this bond once regulatory approval is received.

Notes to the Consolidated and Separate Financial Statements
for the year ended 31 December 2017 (Continued)**25. ULTIMATE HOLDING COMPANY**

There is no holding or ultimate parent Company. The shares in Swala BVI were transferred to the SWE Creditors Trust when SWE was sold to Trident Capital and shall be distributed to the ultimate beneficial owners in accordance with the agreement dated 20th June 2017 between Swala and the SWE Creditors Trust.

26. DETAILED EXPENSES

	GROUP		COMPANY	
	2017	Restated 2016	2017	Restated 2016
	USD	USD	USD	USD
Operating and administration expenses				
Wages and salaries	370,386	259,471	370,386	259,471
Wages and salaries-overtime	-	235	-	235
Administration charges	-	4,806	-	4,806
Directors fees	58,000	36,000	58,000	36,000
Auditor remuneration fees	26,168	29,360	26,168	29,360
Financial services	45,663	44,353	45,663	44,353
Rent	40,900	24,000	40,900	24,000
Press release /Public Relations Press release /Public Relations/ IPO costs	-	(7)	-	(7)
Sponsorship and donations	-	24,261	-	24,261
Staff training	-	3,461	-	3,461
WHT accrued	-	10,021	-	10,021
Computer consumables	10,326	2,331	10,326	2,331
Printing and stationery	997	415	997	415
Employer Pension (NSSF & PPF) contribution	37,652	29,530	37,652	29,530
Workers compensation fee	3,704	2,645	3,704	2,645
Employer SDL contribution	16,667	12,044	16,667	12,044
Employee leave accrual	(14,508)	(30,208)	(14,508)	(30,208)
Licenses, registrations, permits	14,229	2,170	111	139
Insurance	28,308	20,690	28,308	20,690
Accommodation	24,071	12,862	24,071	12,862
Depreciation	7,389	8,472	7,389	8,472
Impairment loss	-	1,437,931	-	1,437,931
HSE services	-	1,024	-	1,024
Loss on assets disposal	258	-	258	-
Other expenses	23,068	18,801	23,068	18,801
Foreign exchange loss	3,841	1,582	3,841	1,582
Provisions	60,266	-	60,266	-
	757,385	1,956,250	743,267	1,954,219

Notes to the Consolidated and Separate Financial Statements
for the year ended 31 December 2017 (Continued)**26. DETAILED EXPENSES (CONTINUED)**

Prospecting and exploration expenses	GROUP		COMPANY	
	2017	Restated 2016	2017	Restated 2016
Consultants fees	254,360	140,712	254,360	140,712
Environmental assessment	-	6,876	-	6,876
Head office support	-	59,301	-	59,301
Legal expenses	35,760	39,743	35,760	39,743
Logistic services	-	6,982	-	6,982
Long lead items (LLI)	-	49,603	-	49,603
Drilling project management & planning costs	76,867	382,361	76,867	382,361
Overhead charge - 1% recoverable	2,644	4,869	2,644	4,869
Overhead charge - 2% non-recoverable	5,287	9,739	5,287	9,739
Seismic support	-	118	-	118
Storage	18,745	-	18,745	-
Surface licence fees	56,060	36,438	56,060	36,438
Training fees (TPDC)	150,000	300,000	150,000	300,000
Safety consumables	-	(5)	-	(5)
Travelling expenses	45,157	37,153	45,157	37,153
	644,880	1,073,890	644,880	1,073,890

Finance costs				
Interest on loan	81,777	113,921	81,777	113,921
	81,777	113,921	81,777	113,921
Income tax expenses	-	(1,222)	-	(1,222)
Grand Total	1,484,042	3,142,839	1,469,924	3,140,808

27. CONTINGENT LIABILITIES**Undetermined tax assessment**

In the year 2017, the Company was assessed by Tanzania Revenue Authority (TRA) for Corporate tax 2015, VAT 2014, Pay As You Earn (PAYE) 2014-2015 and Withholding Tax (WHT) 2015-2016. As result of that demand note of TZS 1,428,674,653 was received. The Company has formally objected these assessments and tax deposit of TZS 50 million was paid subsequent to the year end. The objections are undetermined and the Directors believe that the Group and Company have strong case to object this assessment and no additional provisions are required in the financial statements. The Directors also confirm that there are no other commitments or contingent liabilities against the Group and Company other than those already disclosed as at 31 December 2017.

28. SEGMENT INFORMATION

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