

Swala Oil and Gas
(Tanzania) Public Limited Company

Consolidated and Separate Financial Statements for
Year ended 31 December 2018

Swala Oil and Gas (Tanzania) Public Limited Company

Consolidated and Separate Financial Statements for the year ended 31 December 2018

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Consolidated and Separate Financial Statements
for the year ended 31 December 2018

Corporate Information

1. Registered Number

115280066

2. Registered Office

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

3. Company Secretary

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

4. Auditors

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) Public Limited Company

Consolidated and Separate Financial Statements for the year ended 31 December 2018

Report of the Directors

The Directors present their report together with the audited consolidated and separate financial statements for the year ended 31 December 2018 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 a Public Company in 2013 followed by listing on Enterprise Growth Market of the Dar es Salaam Stock Exchange in August 2014. The registered office is disclosed on corporate information on page one of these consolidated and separate financial statements.

PRINCIPAL ACTIVITIES

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

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

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

COMPOSITION OF BOARD OF DIRECTORS

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

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

Swala Oil and Gas (Tanzania) Public Limited Company

Consolidated and Separate Financial Statements for the year ended 31 December 2018

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 2018	Ordinary Shares 2017
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 SWE Creditors Trust. Together, Erncon Holdings 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 De Clermont Capital Limited 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.

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 2018 the Company had 1,957 shareholders (31st December 2017: 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	55.04%
2	Erncon Holdings 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	14.85%
	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.

Swala Oil and Gas (Tanzania) Public Limited Company

Consolidated and Separate Financial Statements for the year ended 31 December 2018

Report of the Directors (Continued)

STOCK EXCHANGE INFORMATION

In 2014 the Group (then it was a Company) listed with Dar es Salaam Stock Exchange. The average share price during the financial year 2018 was Tshs 490 equivalent to USD 0.21 (2017: Tshs 490 equivalent to USD 0.22). In 2018 the performance of the Group's shares in the secondary market was as follows: Market capitalization as at 31 December 2018 was USD 22.30 million (2017: USD 23.36 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

The Company had one exploration licence (Kilosa Kilombero licence) which expired on 20th February 2018. On 28th February 2018, the Company received approval from the Ministry of Energy to proceed with the preparations for drilling kito-1 well as the Ministry is working on the application for one year extension logged by the Company. On 30th January 2019, the company requested the renewal of the licence and was advised by the Ministry of Energy that the government is reviewing the existing Production sharing Agreement (PSA). Until such time, the PSA will remain in Force Majeure whilst the Group and the Company maintains a readiness to re-commence its drilling commitments once all issues are resolved.

FUTURE DEVELOPMENT PLANS

The Group and 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 elsewhere and grow its position in ownership of PAE Panafrican Energy Corps ("PAEM").

DIVIDEND

Directors do not recommend payment of dividends for the year ended 31 December 2018.

CORPORATE GOVERNANCE

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

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

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

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

Consolidated and Separate Financial Statements
for the year ended 31 December 2018

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 2018 and is of the opinion that they met accepted criteria.

GOING CONCERN

The Group incurred a net loss of USD 17.70 million (Company: USD 5.90 million) for the year ended 31 December 2018 attributed by an impairment of investment amounting USD14 million (Company: USD 3.97 million), (2017: Group generated a net profit of USD 2.44 million and Company: USD 2.45 million attributed to discount on repayment of distressed loan of USD 3.86 million). As at the reporting date the Group's liabilities exceeded its assets by USD 21.43 million (Company: USD 9.62 million) (2017: Group's liabilities exceeded its assets by USD 3.74 million and Company: USD 3.72 million) and a Group net current liability position of USD 2.25 million (Company: USD 2.47 million) (2017: Group net current liability of USD 3.75 million and Company: USD 3.74 million). These events or conditions indicate that a material uncertainty exists that may cast significant doubt on the Group and Company's ability to continue as a going concern and, therefore that they may be unable to realise their assets and discharge their liabilities in the normal course of business.

The Group and the Company are in exploration stage with no production, therefore the ability of the Group and the Company to continue as a going concern is dependent on the success in raising funds in the future to allow continuation of the work programmes in Tanzania. The Group and the Company had acquired 7.93% equity interest in PAE Panafrican Energy Corporation ("PAEM"), a Mauritius registered company. The already acquired 7.93% equity interest entitles the Group and the Company to dividend cashflows and the directors believe these cash flows are enough to fund the Group's and the Company's forward plans. On 3rd of December 2018 the Group and the Company entered into a USD30 million equity investment Agreement with Energy Tanzania Limited, with a USD11 million breakup fee as a penalty if the agreement is cancelled. As part of its forward planning the Company has commenced the process of cross-listing on the London Stock Exchange and is in discussions with several parties about farming down its exploration assets.

On 25th February 2019 the Group and the company proposed a transaction to the board of Orca Exploration Group Inc ("Orca"), indirect owner of 92.07% of PAEM. On the 26th July 2019 the Group indicated that it had agreed an acquisition proposal with the owners of a majority of the issued shares in Orca involving the payment of USD 75 million for the acquisition of Orca and the subsequent distribution of either:

- a) Canadian Dollar (CDN\$) 8.25 per Class A Voting Common Share and CDN\$8.25 per Class B Subordinate Voting Share (together the "Orca shares"), less any dividends, distributions or extraordinary payments made by Orca from the 15th June 2019 until closing; or
- b) CDN\$7.75 per Orca share, less any dividends, distributions or extraordinary payments made by Orca from the 15th June 2019 until closing, and one common share of Swala for each Orca Share, which if shareholders could elect for 100% of this alternative, would equate to approximately 30% of the equity of Swala post Transaction.

Swala Oil and Gas (Tanzania) Public Limited Company

Consolidated and Separate Financial Statements for the year ended 31 December 2018

Report of the Directors (Continued)

GOING CONCERN (CONTINUED)

On the 6th September 2019 the Group and Company advised that the Special Committee of the Orca board had engaged RBC Capital Markets as advisor.

The Group and Company have entered into appropriate term sheets covering the acquisition finance and is in advanced discussions to extend this to cover the refinancing of the loan extended by the International Finance Corporation to PanAfrican Energy Tanzania Limited (the "IFC Loan"). The need to replace the IFC Loan is unclear, as Orca has blocked discussions between the Group and the IFC that would have helped determine IFC's preferences. In the absence of such discussions, the Group and Company are progressing alternative finance that is assumed to be broadly comparable to the terms of the IFC Loan.

The trade and other payables includes an amount of USD3,613,359 owed to Franklin Templeton in respect of the interest due on the Senior Notes that was paid on the 19th of January 2019 and USD738,956 is unpaid training and licence fees claimed by TPDC for the period 2016-2018. The Company has withheld payment of these on the grounds that they arise from the failure of TPDC and the Government to allow the Company access to the drilling site in order to complete the drilling of Kito-1, originally expected in 2016. This delay has resulted in the Company spending an additional USD 2,361,714 excluding the claimed training and licence fees. The Company has raised the matter of costs with TPDC and made proposals in respect of the timing and quantum of any repayments such that they are linked to the timing and success of Kito-1. No response has been received as at this date.

In addition, the group and the company entered into deferment agreement to the earlier of the completion of the proposed transaction with Orca Exploration Group Inc. and July 2020, with some of its creditors included in the trade and other payables for a total amount of USD 923,319.

As a result of the underperformance of the Songo Songo field, the Group and the Company entered into an amendment to its financing agreements with Franklin Templeton deferring payment into the calendar year 2020 of interest due on the Senior Notes accrued in 2019.

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 6.4 million shares (2017: 6.4 million shares) in the Company managed by Swala Tanzania Trust Company Limited to the benefit of local communities in the areas of operations.

EMPLOYEE WELFARE

Employee Relations

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

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

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Report of the Directors (Continued)

Training

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

Benefits

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

Health and safety

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

Disabled Persons

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

RELATED PARTY TRANSACTIONS

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

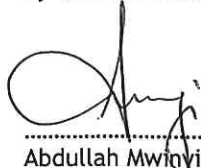
POLITICAL AND CHARITABLE DONATIONS

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

AUDITORS

The Group and Company's auditors, KPMG, Certified Public Accountants, are in their second 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 Mwinzi
Chairman

Date: 19.12.1.....2019

Swala Oil and Gas (Tanzania) Public Limited Company

Consolidated and Separate Financial Statements
for the year ended 31 December 2018

Statement of Directors' Responsibilities

The Group and Company's Directors are responsible for the preparation of the consolidated and separate financial statements that give a true and fair view of Swala Oil and Gas (Tanzania) Public Limited Company, comprising the consolidated and separate statements of financial position at 31 December 2018, and the consolidated and separate statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, and the notes to the consolidated and separate financial statements, which include a summary of significant accounting policies and other explanatory notes, in accordance with International Financial Reporting Standards and in the manner required by the Companies Act, 2002.

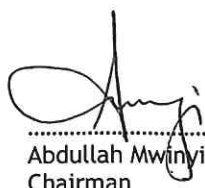
The Directors are also responsible for such internal control as the directors determine is necessary to enable the preparation of consolidated and separate financial statements that are free from material misstatement, whether due to fraud or error, and for maintaining adequate accounting records and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

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

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

Approval of the consolidated and separate financial statements

The consolidated and separate financial statements of Swala Oil and Gas (Tanzania) Public Limited Company, as identified in the first paragraph, were approved by the Board of Directors on19.1.12.....2019 and signed by:


.....
Abdullah Mwinvi
Chairman


.....
David Mestres Ridge
CEO

Swala Oil and Gas (Tanzania) Public Limited Company

Consolidated and Separate Financial Statements
for the year ended 31 December 2018
Declaration of the Accountant

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

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

I, CPA Elias M. Mosses, being the Accountant of Swala Oil and Gas (Tanzania) Public Limited Company hereby acknowledge my responsibility of ensuring that the consolidated and separate financial statements for the year ended 31st December 2018 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: 19/122019



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

Report on the audit of the consolidated and separate Financial Statements

Opinion

We have audited the consolidated and separate financial statements of Swala Oil and Gas (Tanzania) Public Limited Company ("the Group and Company"), set out on pages 14 to 52 which comprise the consolidated and separate statements of financial position as at 31 December 2018, 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 financial statements, comprising significant accounting policies and other explanatory information.

In our opinion, because of the significance of the matter described in the *Basis for Adverse Opinion* section of our report, the accompanying consolidated and separate financial statements do not give a true and fair view of the consolidated and separate financial position of Swala Oil and Gas (Tanzania) Public Limited Company as at 31 December 2018, and of its consolidated and separate financial performance and its consolidated and separate cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS) and in the manner required by the Companies Act, 2002.

Basis for Adverse Opinion

As described in Note 2(e) to the consolidated and separate financial statements, the consolidated and separate financial statements have been prepared on a going concern basis that assumes the Group and Company will continue to operate depending on successful completion of the transaction with Orca Exploration Group Inc ("Orca"). However, the Group's cash flow projections prepared by the directors do not show how the current liabilities as at 31 December 2018 amounting to USD 658,052 will be settled. There is also a deficit of USD 9,768,402 when projected cash inflows are compared to projected cash outflows. Furthermore, the consolidated and separate financial statements have not adequately disclosed the terms of deferment of current liabilities amounting to USD 923,319, and the expected source and terms of financing of Orca transaction which are significant assumptions in the projections. As such, in our opinion the Group and Company cannot be considered to be a going concern and thus the preparation of its consolidated and separate financial statements on a going concern basis is inappropriate. In our opinion the consolidated and separate financial statements should reflect adjustments to reduce the value of assets to their recoverable amounts and to provide for any further liabilities that might arise. These adjustments are likely to be substantial, but we are unable to determine the total of the required adjustments and provisions within a reasonable degree of accuracy.

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

Other Information

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



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

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

Other information (continued)

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

Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated and separate financial statements of the current period. These matters were addressed in the context of our audit of the consolidated and separate financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. In addition to the matter described in the *Basis for Adverse Opinion* 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 25 and accounting policy note 3(d)	
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 recognize an assets when reserves are technically feasible and commercially viable. IFRS 6 <i>Exploration for and Evaluation of Mineral Resources</i> allows the Group and Company to expense or capitalise the exploration and evaluation costs.</p> <p>Exploration and evaluation costs were considered key audit matter 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. Determination of the technical feasibility and commercial viability is judgmental and is the basis on which assets are capitalized.</p>	<p>Our procedures included among others:</p> <ul style="list-style-type: none"> — Evaluating the Group's and Company's policy for accounting of exploration and evaluation costs to confirm if it is aligned with IFRS 6 <i>Exploration for and Evaluation of Mineral Resources</i>. — 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. — Inspecting on a sample basis, the exploration and evaluation costs to confirm the nature of the costs incurred. This involved challenging the criteria applied by management to recognise the costs as expense or asset. — Challenging the technical feasibility and commercial viability evaluation, which is the basis on which the assets are recognized. — Evaluating the adequacy of the disclosures in the financial statements.



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

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

Directors' Responsibilities for the Consolidated and Separate Financial Statements

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

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

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

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

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)**

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

Auditors' Responsibilities for the Audit of the Consolidated and Separate Financial Statements (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 presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

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

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

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

Report on Other Legal and Regulatory Requirements

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

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

**KPMG
Certified Public Accountants (T)**

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

19/12/2019

Swala Oil and Gas (Tanzania) Public Limited Company

Consolidated and Separate Statements of Profit or Loss and other Comprehensive Income
for the year ended 31 December 2018

	Notes	CONSOLIDATED		SEPARATE	
		2018 USD	2017 USD	2018 USD	2017 USD
Other income	15	2,754,320	3,920,856	234,779	3,920,856
Prospecting and exploration expenses	25	(151,271)	(644,880)	(151,271)	(644,880)
Operating and administration expenses	25	(15,933,090)	(757,385)	(5,359,332)	(743,267)
Finance costs	25	(4,368,021)	(81,777)	(621,224)	(81,777)
(Loss) / profit before income tax		(17,698,062)	2,436,814	(5,897,048)	2,450,932
Income tax expense	4	-	-	-	-
(Loss) / profit for the year		(17,698,062)	2,436,814	(5,897,048)	2,450,932
Other comprehensive income		-	-	-	-
Total comprehensive (loss) / income for the year		(17,698,062)	2,436,814	(5,897,048)	2,450,932
(LOSS) / PROFIT PER SHARE FROM CONTINUED OPERATIONS:					
Basic (loss) / earnings per share	19	(0.167)	0.023	(0.056)	0.023
Diluted (loss) / earnings per share	19	(0.167)	0.023	(0.056)	0.023

The notes on pages 18 to 52 are an integral part of these consolidated and separate financial statements.

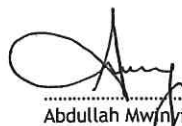
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Swala Oil and Gas (Tanzania) Public Limited Company

Consolidated and Separate Statements of Financial Position
as at 31 December 2018

	Notes	CONSOLIDATED		SEPARATE	
		2018 USD	2017 USD	2018 USD	2017 USD
ASSETS					
Non-Current assets					
Property and equipment	5	18,374	16,656	18,374	16,656
Investment in subsidiaries	8(a)	-	-	100	234
Investment in PAE PanAfrican Energy Corps ("PAEM")	8(b)	7,017,979	-	-	-
		7,036,353	16,656	18,474	16,890
Current assets					
Current account - Joint operating partner	14	231,805	200,244	231,805	200,244
Inter-company current accounts	9(a)	-	-	22,950	12,333
Other receivables and prepayments	6	197,180	97,467	391,488	97,467
Cash and cash equivalent	7	4,594,130	3,470	492,694	3,470
		5,023,115	301,181	1,138,937	313,514
Total Assets		12,059,468	317,837	1,157,411	330,404
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		(29,406,747)	(11,708,685)	(17,589,581)	(11,692,533)
Total equity		(21,433,846)	(3,735,784)	(9,616,680)	(3,719,632)
LIABILITIES					
Non-Current liabilities					
14.5% inter-company Loan	10	-	-	2,241,088	-
14.5% A1 senior notes	10	21,288,815	-	-	-
10% convertible preference share	10	3,966,500	-	3,966,500	-
14.5% convertible notes	18	960,000	-	960,000	-
		26,215,315	-	7,167,588	-
Current liabilities					
Borrowing	10	-	807,000	-	807,000
16.5% inter-company loan	10	-	-	211,232	-
Short term loan	13	171,414	213,934	171,414	213,934
Convertible notes	18	-	13,813	-	13,813
Income taxes payable	4	-	-	-	-
Trade and other payables	12	7,106,585	3,018,874	3,223,857	3,015,289
		7,277,999	4,053,621	3,606,503	4,050,036
Total Equity and Liabilities		12,059,468	317,837	1,157,411	330,404

The consolidated and separate financial statements on pages 14 to 52, were approved by the Board of Directors on 19/12/2019 and signed on its behalf by:


Abdullah Mwinyi
Chairman


David Mestres Ridge
CEO

The notes on pages 18 to 52 are an integral part of these consolidated and separate financial statements.

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Swala Oil and Gas (Tanzania) Public Limited Company

Consolidated and Separate Statements of Changes in Equity
for the year ended 31 December 2018

CONSOLIDATED

	Notes	Share Capital USD	Share Premium USD	Accumulated losses USD	Total USD
Balance as at 1 January 2017		64,918	7,907,983	(14,145,499)	(6,172,598)
Profit or loss and other comprehensive income					
Profit for the year		-	-	2,436,814	2,436,814
Total comprehensive income 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)
Balance as at 1 January 2018		64,918	7,907,983	(11,708,685)	(3,735,784)
Profit or loss and other comprehensive income					
Loss for the year		-	-	(17,698,062)	(17,698,062)
Total comprehensive loss for the year		-	-	(17,698,062)	(17,698,062)
Balance as at 31 December 2018		64,918	7,907,983	(29,406,747)	(21,433,846)

SEPARATE

	Notes	Share Capital USD	Share Premium USD	Accumulated Losses USD	Total USD
Balance as at 1 January 2017		64,918	7,907,983	(14,143,465)	(6,170,564)
Profit or loss and other comprehensive income					
Profit for the year		-	-	2,450,932	2,450,932
Total comprehensive income 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)
Balance as at 1 January 2018		64,918	7,907,983	(11,692,533)	(3,719,632)
Profit or loss and other comprehensive income					
Loss for the year		-	-	(5,897,048)	(5,897,048)
Total comprehensive loss for the year		-	-	(5,897,048)	(5,897,048)
Balance as at 31 December 2018		64,918	7,907,983	(17,589,581)	(9,616,680)

The notes on pages 18 to 52 are an integral part of these consolidated and separate financial statements.

Report of the Auditors - pages 10 - 13

Swala Oil and Gas (Tanzania) Public Limited Company

Consolidated and Separate Statements of Cash Flows for the year ended 31 December 2018

Consolidated and Separate Statements of Cash Flows

	Notes	CONSOLIDATED		SEPARATE	
		2018 USD	2017 USD	2018 USD	2017 USD
CASH FLOWS FROM OPERATING ACTIVITIES					
(Loss) / profit before taxation		(17,698,062)	2,436,814	(5,897,048)	2,450,932
Adjustments for:					
Depreciation	5	3,807	7,388	3,807	7,388
Fair value change	8	14,004,471	-	3,966,634	-
Loss on disposal of items of property and equipment	25	-	258	-	258
Dividend from Investment	15	(2,665,458)	-	-	-
Interest expense	25	4,368,021	81,777	621,224	81,777
		(1,987,221)	2,526,237	(1,305,383)	2,540,355
Change in receivables and prepayments		106,109	25,321	(88,199)	25,321
Change in intercompany payable		(807,000)	(3,797,929)	(807,000)	(3,797,929)
Changes in other payables, accruals and provisions		292,822	791,998	93,178	790,213
Changes in current accounts		(31,561)	358,647	(42,178)	346,314
Cash utilised in operating activities		(2,426,851)	(95,726)	(2,149,582)	(95,726)
Interest paid		(6,757)	(1,060)	(6,757)	(1,060)
Taxation paid		-	(1,118)	-	(1,118)
Net cash utilised in operating activities		(2,433,608)	(97,904)	(2,156,339)	(97,904)
CASH FLOW FROM INVESTING ACTIVITIES					
Purchase of property and equipment	5	(5,525)	-	(5,525)	-
Proceed from disposal of Motor Vehicle		-	13,376	-	13,376
Investment in PAE PanAfrican Energy Corps. ("PAEM")		(17,055,950)	-	-	-
A1 Senior Notes Issuance Cost		(3,989,715)	-	-	-
Dividend from PAE Investment		2,665,458	-	-	-
Net cash (utilised in) / generated from investing activities		(18,385,732)	13,376	(5,525)	13,376
CASH FLOW FROM FINANCING ACTIVITIES					
Proceeds from issuing of A1 Senior Notes		25,000,000	-	-	-
Proceeds from Inter- company loan		-	-	2,241,088	-
Proceeds from issuing of convertible notes		410,000	13,813	410,000	13,813
Proceeds from borrowings		-	57,714	-	57,714
Net cash generated from financing activities		25,410,000	71,527	2,651,088	71,527
Net Increase / (decrease) in cash and bank balances		4,590,660	(13,001)	489,224	(13,001)
Cash and bank balances at the start of the year	7	3,470	16,471	3,470	16,471
Cash and bank balances at the end of the year	7	4,594,130	3,470	492,694	3,470

The notes on pages 18 to 52 are an integral part of these consolidated and separate financial statements.

Report of the Auditors - pages 10 - 13

Swala Oil and Gas (Tanzania) Public Limited Company

Notes to the Consolidated and Separate Financial Statements for the year ended 31 December 2018

1. REPORTING ENTITY

Swala Oil and Gas (Tanzania) Public Limited Company is incorporated in the United Republic of Tanzania under Companies Act as limited liability Company. The Group is listed on the Dar es Salaam Stock Exchange and is domiciled in the United Republic of Tanzania. These consolidated and separate financial statements comprise the Company and its Subsidiaries Swala (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.

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

2. BASIS OF PREPARATION

a) Basis of accounting

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

b) Basis of Measurement

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

c) Functional and Presentation Currency

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

d) Use of judgment and estimates

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

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

i) Judgements

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

ii) Assumptions and estimation uncertainties

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

2. BASIS OF PREPARATION (CONTINUED)

d) Use of judgment and estimates (continued)

ii) Assumptions and estimation uncertainties (continued)

Exploration and evaluation assets

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

Asset useful lives

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

Impairment of non-financial assets

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

Taxes

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

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

Financial Instruments classification and measurement

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

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

Level 2 - Pricing inputs are other than quoted prices in active markets included in Level 1. Prices in Level 2 are either directly or indirectly observable as of the reporting date. Level 2 valuations are based on inputs, including expected interest rate, share prices, and volatility factors, which can be substantially observed or corroborated in the 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 2018 (Continued)

2. BASIS OF PREPARATION (CONTINUED)

e) Going concern basis of accounting preparation

The Group incurred a net loss of USD 17.70 million (Company: USD 5.90 million) for the year ended 31 December 2018 attributed by an impairment of investment amounting USD14 million (Company: USD 3.97 million), (2017: Group generated a net profit of USD 2.44 million and Company: USD 2.45 million attributed to discount on repayment of distressed loan of USD 3.86 million). As at the reporting date the Group's liabilities exceeded its assets by USD 21.43 million (Company: USD 9.62 million) (2017: Group's liabilities exceeded its assets by USD 3.74 million and Company: USD 3.72 million) and a Group had net current liability position of USD 2.25 million (Company: USD 2.47 million) (2017: Group net current liability of USD 3.75 million and Company: USD 3.74 million). These events or conditions indicate that a material uncertainty exists that may cast significant doubt on the Group and Company's ability to continue as a going concern and, therefore that they may be unable to realise their assets and discharge their liabilities in the normal course of business.

The Group and the Company are in exploration stage with no production, therefore the ability of the Group and the Company to continue as a going concern is dependent on the success in raising funds in the future to allow continuation of the work programmes in Tanzania. The Group and the Company had acquired 7.93% equity interest in PAE Panafrican Energy Corporation ("PAEM"), a Mauritius registered company. The already acquired 7.93% equity interest entitles the Group and the Company to dividend cashflows and the directors believe these cash flows are enough to fund the Group's and the Company's forward plans. On 3rd of December 2018 the Group and the Company entered into a USD30 million equity investment Agreement with Energy Tanzania Limited, with a USD11 million breakup fee as a penalty if the agreement is cancelled. As part of its forward planning the Company has commenced the process of cross-listing on the London Stock Exchange and is in discussions with several parties about farming down its exploration assets.

On 25th February 2019 the Group and Company proposed a transaction to the board of Orca Exploration Group Inc ("Orca"), indirect owner of 92.07% of PAEM. On the 26th July 2019 the Group and Company indicated that it had agreed an acquisition proposal with the owners of a majority of the issued shares in Orca involving the payment of USD 75 million for the acquisition of Orca and the subsequent distribution of either:

- c) Canadian Dollar (CDN\$) 8.25 per Class A Voting Common Share and CDN\$8.25 per Class B Subordinate Voting Share (together the "Orca shares"), less any dividends, distributions or extraordinary payments made by Orca from the 15th June 2019 until closing; or
- d) CDN\$7.75 per Orca share, less any dividends, distributions or extraordinary payments made by Orca from the 15th June 2019 until closing, and one common share of Swala for each Orca Share, which if shareholders could elect for 100% of this alternative, would equate to approximately 30% of the equity of Swala post Transaction.

On the 6th September 2019 the Group and Company advised that the Special Committee of the Orca board had engaged RBC Capital Markets as advisor.

The Group and Company have entered into appropriate term sheets covering the acquisition finance and is in advanced discussions to extend this to cover the refinancing of the loan extended by the International Finance Corporation to PanAfrican Energy Tanzania Limited (the "IFC Loan"). The need to replace the IFC Loan is unclear, as Orca has blocked discussions between the Group and the IFC that would have helped determine IFC's preferences. In the absence of such discussions, the Group and Company is progressing alternative finance that is assumed to be broadly comparable to the terms of the IFC Loan.

The trade and other payables includes an amount of USD3,613,359 owed to Franklin Templeton in respect of the interest due on the Senior Notes that was paid on the 19th of January 2019 and USD738,956 is unpaid training and licence fees claimed by TPDC for the period 2016-2018. The Company has withheld payment of these on the grounds that they arise from the failure of TPDC and the Government to allow the Company access to the drilling site in order to complete the drilling of Kito-1, originally expected in 2016. This delay has resulted in the Company spending an additional USD 2,361,714 excluding the claimed training and licence fees.

2. BASIS OF PREPARATION (CONTINUED)

e) Going concern basis of accounting preparation (Continued)

The Company has raised the matter of costs with TPDC and made proposals in respect of the timing and quantum of any repayments such that they are linked to the timing and success of Kito-1. No response has been received as at this date.

In addition, the group and the company entered into deferment agreement to the earlier of the completion of the proposed transaction with Orca Exploration Group Inc. and July 2020, with some of its creditors included in the trade and other payables for a total amount of USD 923,319.

As a result of the underperformance of the Songo Songo field, the Group and the Company entered into an amendment to its financing agreements with Franklin Templeton deferring payment into the calendar year 2020 of interest due on the Senior Notes accrued in 2019.

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.

i) 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.

ii) 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.

iii) 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.

h) Changes in significant accounting policies

The Group has initially applied IFRS 15 and IFRS 9 from 1 January 2018. A number of other new standards are also effective from 1 January 2018 but they do not have a material effect on the Group's financial statements.

2. BASIS OF PREPARATION (CONTINUED)

h) Changes in significant accounting policies (continued)

Due to the transition methods chosen by the Group in applying these standards, comparative information throughout these financial statements has not been restated to reflect the requirements of the new standards since the Group has assessed that there is no material effect.

IFRS 15 Revenue from Contracts with Customer

IFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognised. It replaced IAS 18 Revenue, IAS 11 Construction Contracts and related interpretations. Under IFRS 15, revenue is recognised when a customer obtains control of the goods or services. Determining the timing of the transfer of control - at a point in time or over time - requires judgement.

The Group has adopted IFRS 15 using the cumulative effect method (without practical expedients), with the effect of initially applying this standard recognised at the date of initial application (i.e. 1 January 2018). Accordingly, the information presented for 2017 has not been restated - i.e. it is presented, as previously reported, under IAS 18, IAS 11 and related interpretations. Additionally, the disclosure requirements in IFRS 15 have not generally been applied to comparative information.

The Group's assessment indicated that there was no impact on the retained earnings as a result of the transition to IFRS 15, as there was no revenue recognised towards the end of the year that would have been treated differently under IFRS 15 as compared to IAS 18. There is also no change in the amount of revenue that would have been recognised in 2018 had the Group continued to apply IAS 18. The Group has no revenue from contract with customers as it has not yet started production.

IFRS 9 Financial Instruments

IFRS 9 sets out requirements for recognising and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial items. This standard replaces IAS 39 Financial Instruments: Recognition and Measurement.

i) Classification and measurements of financial assets and financial liabilities

IFRS 9 contains three principal classification categories for financial assets: measured at amortised cost, fair value through other comprehensive income (FVOCI) and fair value through profit and loss (FVTPL). The classification of financial assets under IFRS 9 is generally based on the business model in which a financial asset is managed and its contractual cash flow characteristics. IFRS 9 eliminates the previous IAS 39 categories of held to maturity, loans and receivables and available for sale.

IFRS 9 largely retains the existing requirements in IAS 39 for the classification and measurement of financial liabilities.

The following table explain the original measurement categories under IAS 39 and the new measurement categories under IFRS 9 for each class of the Group's and Company financial assets and financial liabilities as at 1 January 2018.

Swala Oil and Gas (Tanzania) Public Limited Company

Notes to the Consolidated and Separate Financial Statements
for the year ended 31 December 2018 (Continued)

2. BASIS OF PREPARATION (CONTINUED)

h) Changes in significant accounting policies (continued)

IFRS 9 Financial Instruments (continued)

i) Classification and measurements of financial assets and financial liabilities (continued)

Group	Original classification under IAS 39	New classification under IFRS 9	Original carrying amount under IAS 39 USD	New carrying amount under IFRS 9 USD
Financial assets				
Cash and cash equivalents	Loans and receivables	Amortised cost	3,470	3,470
Current account	Loans and receivables	Amortised cost	200,244	200,244
Accounts receivables	Loans and receivables	Amortised cost	27,728	27,728
Other debtors	Loans and receivables	Amortised cost	15,511	15,511
Total			<u>246,953</u>	<u>246,953</u>
Financial liabilities				
Accounts and other payables	Amortised cost	Amortised cost	1,428,905	1,428,905
Accruals	Amortised cost	Amortised cost	1,529,703	1,529,703
Short term loan	Amortised cost	Amortised cost	213,934	213,934
Convertible notes	Amortised cost	Amortised cost	13,813	13,813
Borrowings	Amortised cost	Amortised cost	807,000	807,000
Total			<u>3,993,355</u>	<u>3,993,355</u>

Notes to the Consolidated and Separate Financial Statements
for the year ended 31 December 2018 (Continued)

2. BASIS OF PREPARATION (CONTINUED)

h) Changes in significant accounting policies (continued)

i) Classification and measurements of financial assets and financial liabilities (continued)

Company				
	Original classification under IAS 39	New classification under IFRS 9	Original carrying amount under IAS 39 USD	New carrying amount under IFRS 9 USD
Financial assets				
Cash and cash equivalents	Loans and receivables	Amortised cost	3,470	3,470
Current account	Loans and receivables	Amortised cost	200,244	200,244
Accounts receivables	Loans and receivables	Amortised cost	27,728	27,728
Other debtors	Loans and receivables	Amortised cost	15,511	15,511
Total			246,953	246,953
Financial liabilities				
Accounts and other payables	Amortised cost	Amortised cost	1,425,320	1,425,320
Accruals	Amortised cost	Amortised cost	1,529,703	1,529,703
Short term loan	Amortised cost	Amortised cost	213,934	213,934
Convertible notes	Amortised cost	Amortised cost	13,813	13,813
Borrowings	Amortised cost	Amortised cost	807,000	807,000
Total			3,989,770	3,989,770

The impact of the changes in classification on the carrying values of the financial assets and financial liabilities under IAS 39 to IFRS 9 as at 1 January 2018 was determined to be immaterial, and hence no adjustments were made to the carrying values.

ii) Impairment of financial assets and contract assets

IFRS 9 replaces the 'incurred loss' model in IAS 39 with an 'expected credit loss' (ECL) model. The new impairment model applies to financial assets measured at amortised cost, contract assets and debt investments at FVOCI, but not to investments in equity instruments. Under IFRS 9, credit losses are recognised earlier than under IAS 39.

For assets in the scope of the IFRS 9 impairment model, impairment losses are generally expected to increase and become more volatile. The Group has determined that the application of IFRS 9's impairment requirements at 1 January 2018 did not result in an additional allowance for impairment.

Notes to the Consolidated and Separate Financial Statements
for the year ended 31 December 2018 (Continued)

2. BASIS OF PREPARATION (CONTINUED)

h) Changes in significant accounting policies (continued)

iii) Transition

Changes in accounting policies resulting from the adoption of IFRS 9 have been applied retrospectively, except where the Group has made use of the exemption not to restate the comparative information for prior periods with respect to classification and measurement (including impairment) requirements. The information presented for 2017 does not generally reflect the requirements of IFRS 9, but rather those of IAS 39.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a) Property and Equipment

i) Recognition and measurement

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

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

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

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

ii) Subsequent costs

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

iii) Depreciation

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

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

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

b) Senior notes issuance costs

i) Recognition and measurement

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

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

ii) Amortization

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

c) Foreign currency translation

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

d) Prospecting and exploration costs

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

e) Farm-in /Farm-out arrangement

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

f) Financial instruments

i) Recognition and initial measurement

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

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

ii) Classification and subsequent measurement

Financial assets - policy applicable from 1 January 2018

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

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

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

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

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

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

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

f) Financial instruments (continued)

ii) Classification and subsequent measurement (continued)

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

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

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

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

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

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

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

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

Notes to the Consolidated and Separate Financial Statements
for the year ended 31 December 2018 (Continued)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

f) Financial instruments (continued)

ii) Classification and subsequent measurement (continued)

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

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

Financial assets - policy applicable before 1 January 2018

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

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

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

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

f) Financial instruments (continued)

ii) Classification and subsequent measurement (continued)

Financial liabilities - Classification, subsequent measurement and gains and losses

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

iii) Derecognition

Financial assets

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

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

Financial liabilities

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

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

iv) Offsetting

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

f) Financial instruments (continued)

Convertible notes

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

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

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

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

Fair values of convertible note derivatives

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

g) Share capital

Ordinary shares

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

Preference shares

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

h) Impairment

i) Non-derivative financial assets

Policy applicable from 1 January 2018

Financial instruments and contract assets

The Group recognises loss allowances for ECLs on:

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

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

h) Impairment (continued)

i) Non-derivative financial assets (continued)

Policy applicable from 1 January 2018 (continued)

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

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

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

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

Measurement of ECL's

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

Credit-impaired financial assets

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

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

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

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

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

Write-off

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

Notes to the Consolidated and Separate Financial Statements
for the year ended 31 December 2018 (Continued)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

h) Impairment (continued)

i) Non-derivative financial assets (continued)

Policy applicable before 1 January 2018

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

Objective evidence that financial assets were impaired included:

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

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

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

h) Impairment (continued)

ii) Non- financial assets

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

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

The recoverable amount of an asset or CGU is the greater of its value in use and its fair value less costs to sell. Value in use is based on the estimated future cash flows, discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or CGU.

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

i) Employee benefits

i) Defined contribution plans

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

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

ii) Termination benefits

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

iii) Short term benefit

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

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

j) Provisions

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

k) Environmental expenditure

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

l) Decommissioning costs

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

m) Operating lease payments

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

n) Taxation

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

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

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

o) Dividends

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

p) Determination of fair values

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

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

q) Comparatives

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

r) 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).

s) Relevant new standards, amendments and interpretations issued but not yet effective and not early adopted

At the date of authorisation of the financial statements of the Group and the Company for the year ended 31 December 2018, the following Standards and Interpretations were in issue but not yet effective:

Effective for the financial year commencing 1 January 2019

- IFRS 16 Leases
- IFRIC 23 Uncertainty over Income Tax Treatments
- Prepayment Features with Negative Compensation (Amendments to IFRS 9)
- Long-term Interests in Associates and Joint Ventures (Amendment to IAS 28)
- Plan Amendment, Curtailment or Settlement (Amendment to IAS 19)
- Annual Improvements to IFRS Standards 2015/2017 Cycle various standards

Effective for the financial year commencing 1 January 2020

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

Effective for the financial year commencing 1 January 2022

- IFRS 17 Insurance Contracts

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

s) Relevant new standards, amendments and interpretations issued but not yet effective and not early adopted (continued)

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

A number of these Standards and Interpretations are not applicable to the business of the entity and will therefore have no impact on future financial statements. The directors are of the opinion that the impact of the application of the remaining applicable Standard will be as follows:

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 includes a single model for lessees which will result in almost all leases being included in the Statement of Financial Position. No significant changes have been included for lessors. IFRS 16 also includes extensive new disclosure requirements for both lessees and lessors.

The Group is required to adopt IFRS 16 Leases from 1 January 2019. The Group has assessed the estimated impact that initial application of IFRS 16 will have on its financial statements, as described below. The actual impacts of adopting the standard on 1 January 2019 may change because the new accounting policies are subject to change until the Group presents its first financial statements that include the date of initial application.

i. Leases in which the Group is a lessee

The Group will recognise new assets and liabilities for its operating leases. The nature of expenses related to those leases will now change because the Group will recognise a depreciation charge for right-of-use assets and interest expense on lease liabilities.

Previously, the Group recognised operating lease expense on a straight-line basis over the term of the lease, and recognised assets and liabilities only to the extent that there was a timing difference between actual lease payments and the expense recognised.

In addition, the Group will no longer recognise provisions for operating leases that it assesses to be onerous. Instead, the Group will include the payments due under the lease in its lease liability. No significant impact is expected for the Group's finance leases.

Based on the information currently available, the Group estimates that this standard will not have material impact on the financial statements.

ii. Leases in which the Group is a lessor

The Group is not required to make any adjustments for leases in which it is a lessor except where it is an intermediate lessor in a sub-lease.

No significant impact is expected for leases in which the Group is a lessor.

iii. Transition

The Group plans to apply IFRS 16 initially on 1 January 2019, using the modified retrospective approach. Therefore, the cumulative effect of adopting IFRS 16 will be recognised as an adjustment to the opening balance of retained earnings at 1 January 2019, with no restatement of comparative information.

The Group also plans to apply the practical expedient to grandfather the definition of a lease on transition. This means that it will apply IFRS 16 to all contracts entered into before 1 January 2019 and identified as leases in accordance with IAS 17 and IFRIC 4.

Notes to the Consolidated and Separate Financial Statements
for the year ended 31 December 2018 (Continued)

4. TAXATION

At 31 December 2018, the Group has estimated accumulated tax losses of USD 8,815,855 (2017: USD 6,732,305) available for set-off against future taxable profit.

INCOME TAX EXPENSE	CONSOLIDATED		SEPARATE	
	2018 USD	2017 USD	2018 USD	2017 USD
Tax charge	-	-	-	-
Income tax charge - recognised*	-	-	-	-
Total	-	-	-	-

DEFERRED TAX	CONSOLIDATED		SEPARATE	
	2018 USD	2017 USD	2018 USD	2017 USD
Tax charge /(credit)- current year	-	-	-	-
Deferred tax (credit) charge - not recognised	596,678	478,232	596,678	478,232
Total	596,678	478,232	596,678	478,232

Tax reconciliation is as follows:

	CONSOLIDATED		SEPARATE	
	2018 USD	2017 USD	2018 USD	2017 USD
(Loss)/profit before income tax	(17,698,062)	2,436,814	(5,897,048)	2,450,932
Tax calculated at the statutory of 30%	(5,309,419)	731,044	(1,769,114)	735,280
Tax effect of:				
Alternative minimum tax	-	-	-	-
Prior year deferred tax adjustment	330,922	(777,899)	330,922	(777,899)
Expense not deductible for tax purposes	4,978,497	42,619	1,438,192	42,619
Effect of prior year adjustments	-	4,236	-	-
Total	-	-	-	-

Deferred tax

As at 31 December 2018 there is a deferred tax asset of USD 2,970,623 (Dec 2017: USD 2,373,945) arising mainly on account of the estimated accumulated tax losses. In the opinion of the Directors, it is prudent not to recognise this asset, as the Company is yet to start making taxable profits from ordinary course of the business.

The gross movement on the deferred tax account is as follows:	CONSOLIDATED		SEPARATE	
	2018 USD	2017 USD	2018 USD	2017 USD
At beginning of the year	2,373,945	2,852,177	2,373,945	2,852,177
Movement during the year	596,678	(478,232)	596,678	(478,232)
At the end of the year - Not recognised	2,970,623	2,373,945	2,970,623	2,373,945

Deferred tax asset includes the following temporary differences:	CONSOLIDATED		SEPARATE	
	2018 USD	2017 USD	2018 USD	2017 USD
Estimated income tax losses	2,644,756	2,019,691	2,644,756	2,019,691
Accelerated capital deductions	271,683	334,231	271,683	334,231
Other timing differences	54,184	20,023	54,184	20,023
Net deferred income tax Assets - Not recognised	2,970,623	2,373,945	2,970,623	2,373,945

Notes to the Consolidated and Separate Financial Statements
for the year ended 31 December 2018 (Continued)

5. PROPERTY AND EQUIPMENT

GROUP AND COMPANY				
	Office equipment USD	Furniture and fittings USD	Motor vehicle USD	Total USD
Cost				
At 1 January 2017	14,290	20,741	18,460	53,491
Disposal	-	-	(18,460)	(18,460)
At 31 December 2017	14,290	20,741	-	35,031
At 1 January 2018	14,290	20,741	-	35,031
Additions	5,525	-	-	5,525
At 31 December 2018	19,815	20,741	-	40,556
Depreciation				
At 1 January 2017	7,486	7,533	13,115	28,134
Charge for the year	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
At 1 January 2018	9,162	9,213	-	18,375
Charge for the year	2,346	1,461	-	3,807
At 31 December 2018	11,508	10,674	-	22,182
Net book value				
At 31 December 2018	8,307	10,067	-	18,374
At 31 December 2017	5,128	11,528	-	16,656

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

See accounting policies in Note 3 (f). The effect of initially applying IFRS 15 and IFRS 9 is described in Note 2(h).

	CONSOLIDATED		SEPARATE	
	2018 USD	2017 USD	2018 USD	2017 USD
Accounts receivable	-	27,728	-	27,728
Other debtors	47,957	15,511	47,957	15,511
Accrued Income	18,753	-	218,753	-
VAT receivables	76,154	43,846	76,154	43,846
Prepayment	54,316	10,382	48,624	10,382
Total	197,180	97,467	391,488	97,467

7. BANK BALANCES

	CONSOLIDATED		SEPARATE	
	2018 USD	2017 USD	2018 USD	2017 USD
Cash on hand	251	10	251	10
Cash at bank	4,593,879	3,460	492,443	3,460
Total	4,594,130	3,470	492,694	3,470

Notes to the Consolidated Financial Statements
for the year ended 31 December 2018 (Continued)

8. INVESTMENTS

a) In subsidiaries

Swala Oil and Gas (Tanzania) Public Limited Company 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.

	2018 USD	2017 USD
Cost		
At 01 January	1,438,164	1,437,930
Additions*	3,966,500	234
At 31 December	5,404,664	1,438,164
Accumulated impairment losses**		
At 01 January	(1,437,930)	(1,437,930)
Impairment loss	(3,966,634)	-
At 31 December	(5,404,564)	(1,437,930)
Net Investment	100	234

* During the year the Company acquired additional 2,829,280 shares in Swala (PAEM) Limited amounting to USD 3,966,500.

**Accumulated Impairment losses relates to full impairment of investment in Swala (Burundi) Limited of USD 1,437,930 and additional impairment of investment in Swala (PAEM) Limited in 2018 of USD 3,966,634 which has been impaired as a result of the change in reference profile from proven and probable (2P) used in 2016 to proven, developed and producing (PDP) in 2018 and the change to the discount rate from 12.5% (2016) to 25% (2018) reflecting the changing fiscal and contractual uncertainties of operations.

Particulars of the subsidiaries as at 31 December 2018 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	2,829,380	100%	UK	3,966,634

b) Other investment

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

	2018 USD	2017 USD
Cost		
At 01 January	-	-
Additions	21,022,450	-
At 31 December	21,022,450	-
Accumulated Fair Value changes		
At 01 January	-	-
Fair value changes	(14,004,471)	-
At 31 December	(14,004,471)	-
Net investment at fair value	7,017,979	-

Of the USD 14,004,471 impairment 33% (USD 7,039,960) is due of the change in reference profile from Proven and Probable (2P) used in 2016 to Proven Developed and Producing (PDP) in 2018 and further 50% (USD 6,964,511) is due change to the discount rate from 12.5% (2016) to 25% (2018) reflecting the changing fiscal and contractual uncertainties of operations.

Swala Oil and Gas (Tanzania) Public Limited Company

Notes to the Consolidated Financial Statements
for the year ended 31 December 2018 (Continued)

9. RELATED PARTY TRANSACTIONS AND BALANCES

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

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

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

a) Due to/from Related parties

Name of related party	2018 USD	2017 USD
Due from related party		
Swala (Mauritius) Limited	19,775	12,333
Swala (Burundi) Limited	3,175	-
Swala (PAEM) Limited	-	-
Total	22,950	12,333
Due to related party		
14.5% intercompany loan- Swala (Energy)	2,241,088	-
SWE creditors	-	807,000
	2,241,088	807,000

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.

b) Key management compensation

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

	CONSOLIDATED		SEPARATE	
	2018 USD	2017 USD	2018 USD	2017 USD
Salaries	230,004	265,714	230,004	265,714
Defined contribution plan	9,300	41,186	9,300	41,186

No terminal or other long-term benefits were paid to key management personnel during the period (2017: Nil)

c) Directors' emoluments

	CONSOLIDATED		SEPARATE	
	2018 USD	2017 USD	2018 USD	2017 USD
Non-executive Chairman	24,000	12,000	24,000	12,000
Non-executive Directors	96,000	46,000	96,000	46,000
Executive director	170,004	262,935	170,004	262,935

Swala Oil and Gas (Tanzania) Public Limited Company

Notes to the Consolidated Financial Statements
for the year ended 31 December 2018 (Continued)

10. BORROWINGS

	CONSOLIDATED		SEPARATE	
	2018 USD	2017 USD	2018 USD	2017 USD
Non- current liabilities				
14.5% intercompany loan	-	-	2,241,088	-
14.5% A1 senior notes	21,288,815	-	-	-
10% convertible preference shares	3,966,500	-	3,966,500	-
	25,255,315	-	6,207,588	-
Current liabilities				
14.5% intercompany loan	-	807,000	-	807,000
16.5% intercompany loan	-	-	211,232	-
	-	807,000	211,232	807,000
	25,255,315	807,000	6,418,820	807,000

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

Movement of borrowings during the year was as follows:

	CONSOLIDATED		SEPARATE	
	2018 USD	2017 USD	2018 USD	2017 USD
At the start of the year	807,000	4,604,929	807,000	4,604,929
Proceeds from borrowings:-				
14.5% intercompany loan - with Swala PAEM	-	-	2,241,088	-
14.5% A1 senior notes	25,000,000	-	-	-
10% preference share	3,966,500	-	3,966,500	-
Interest on borrowings:-				
14.5 borrowings- SWE creditors	-	60,817	-	60,817
14.5% intercompany loan - with Swala PAEM	-	-	211,232	-
Repayments:-				
14.5 borrowings- SWE creditors	(807,000)	-	(807,000)	-
Loan forgiveness	-	(3,858,746)	-	(3,858,746)
Borrowing costs -14.5% A1 senior notes	(414,195)	-	-	-
At end of the year	25,255,315	807,000	6,418,820	807,000

SWE Creditors Trust relates to a loan that was issued for the purpose of funding Company's petroleum operations and secured by fixed and floating charges over Company's all assets, this loan was paid in full on 9th February 2018. This loan had no security.

14.5% Intercompany loan relates to a loan between the parent company and its subsidiary (Swala PAEM limited) issued to fund the payment of certain outstanding liabilities of the borrower as identified in the agreement. The loan carries an interest of 14.5% per annum which is due and payable on December 31 and June 30 of each year. Unless otherwise agreed between the parties, this loan is repayable in full by the borrower on 31 December 2020. This loan has no security.

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

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

Swala Oil and Gas (Tanzania) Public Limited Company

Notes to the Consolidated Financial Statements for the year ended 31 December 2018 (Continued)

11. SHARE CAPITAL

	2018 USD	2017 USD
Authorised 9,098,424,000 (2017:150,000,000 Ordinary shares of Tzs 1 (USD 0.00062500) each	5,686,515	93,750
Issued and fully paid up 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 Energy Limited ("SWE"), which at the time held 58.5% (now 55%) of the issued share capital of Swala Oil & Gas (Tanzania) Public Limited Company ('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, and this process is still ongoing.

12. TRADE AND OTHER PAYABLES

	CONSOLIDATED		SEPARATE	
	2018 USD	2017 USD	2018 USD	2017 USD
Account payables & other payable	1,861,353	1,428,905	1,593,251	1,425,320
Accruals	4,940,885	1,529,703	1,364,518	1,529,703
Provisions	304,347	60,266	266,088	60,266
Total	7,106,585	3,018,874	3,223,857	3,015,289

The account payable and other payables above include 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 is required to make a net payment of USD 800,000 to Otto plus interest of USD 74,465.75. On 27th September 2017 Tanzania Revenue Authority instructed Swala Oil and Gas (Tanzania) Public Limited Company 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. On 19th of October 2018 the Tanzanian court allowed Swala to pay Otto notwithstanding the TRA objections. The Group and the Company has completed the payment of the principal amount of USD 800,000 to Otto and is currently in the process of settling the interest and legal cost accrued.

13. SHORT TERM LOAN

	CONSOLIDATED		SEPARATE	
	2018 USD	2017 USD	2018 USD	2017 USD
Swala Energy Trust Co. Ltd	-	57,714	-	57,714
Erncon Holdings Ltd	110,000	110,000	110,000	110,000
Neil Tayrol	32,594	25,100	32,594	25,100
Frank Whitehead	21,120	21,120	21,120	21,120
Neema Kiwelu	5,500	-	5,500	-
Harlod Temu	2,200	-	2,200	-
Total	171,414	213,934	171,414	213,934

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

Swala Oil and Gas (Tanzania) Public Limited Company

Notes to the Consolidated Financial Statements for the year ended 31 December 2018 (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 exploration licence in 2012. TATA Petrodyne Limited (TATA) became part of the JOA after farm-in to the licence 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 2018 are detailed below. Exploration is principle activity performed across these licence areas.

	Kilosa Kilombero Licence	
	2018	2017
Swala Oil and Gas (Tanzania) Public Limited Company- Operator	75%	75%
TATA Petrodyne Limited	25%	25%

As at 31 December 2018 the Company has a current account due from JOA partner (TATA Petrodyne Limited) of USD 231,805 (2017: USD 200,244).

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

	CONSOLIDATED		SEPARATE	
	2018 USD	2017 USD	2018 USD	2017 USD
Dividend from investment in PAE	2,665,458	-	-	-
Management services fees	-	-	200,000	-
Interest from Bank deposit	54,083	-	-	-
Overhead charge - 3%	6,291	10,574	6,291	10,574
Discount on repayment of distressed loan	-	3,858,746	-	3,858,746
Consideration from farm-out transactions *	28,488	51,536	28,488	51,536
	2,754,320	3,920,856	234,779	3,920,856

* 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 2018 (Continued)

16. FINANCE COSTS

	CONSOLIDATED		SEPARATE	
	2018 USD	2017 USD	2018 USD	2017 USD
Interest on 14.5% convertible notes	29,536	-	29,536	-
Interest on A1 senior notes	3,981,500	-	-	-
Interest on preference share	356,985	-	356,985	-
Interest on other loan facilities (Incl. inter-company loan)	-	81,777	234,703	81,777
	4,368,021	81,777	621,224	81,777

17. FAIR VALUES OF FINANCIAL INSTRUMENTS

The effect of initially applying IFRS 9 on the Group's financial instruments is described in Note 2(h). Due to the transition method chosen, comparative information has not been restated to reflect the new requirements, except for certain hedging requirements.

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

CONSOLIDATED 2018:	Amortised cost USD	Other liabilities at amortised cost USD	Total carrying amount USD
ASSETS			
Cash and cash equivalents	4,594,130	-	4,594,130
Current account - Joint operating partner	231,805	-	231,805
Other debtors	66,710	-	66,710
	4,892,645	-	4,892,645
LIABILITIES			
Accounts and other payables	-	1,861,353	1,861,353
Accruals	-	4,940,885	4,940,885
Short term loan	-	171,414	171,414
14.5% A1 senior notes	-	21,288,815	21,288,815
10% convertible preference share	-	3,966,500	3,966,500
14.5% convertible notes	-	960,000	960,000
	-	33,188,967	33,188,967
SEPARATE 2018:			
ASSETS			
Cash and cash equivalents	492,694	-	492,694
Current account -Joint Operating Partner	231,805	-	231,805
Other debtors	266,710	-	266,710
	991,209	-	991,209
LIABILITIES			
Accounts and other payables	-	1,593,251	1,593,251
Accruals	-	1,364,518	1,364,518
Short term loan	-	171,414	171,414
16.5% Inter-company loan	-	211,232	211,232
14.5% A1 senior notes	-	2,241,088	2,241,088
10% convertible preference share	-	3,966,500	3,966,500
14.5% convertible notes	-	960,000	960,000
	-	10,508,003	10,508,003

Swala Oil and Gas (Tanzania) Public Limited Company

Notes to the Consolidated Financial Statements
for the year ended 31 December 2018 (Continued)

17. FAIR VALUES OF FINANCIAL INSTRUMENTS (CONTINUED)

CONSOLIDATED 2017:	Designated at fair value USD	Held to maturity USD	Loans and receivables USD	Other liabilities amortised cost 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>-</u>	<u>-</u>	<u>-</u>	<u>3,993,355</u>	<u>3,993,355</u>
SEPARATE 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>-</u>	<u>-</u>	<u>-</u>	<u>3,989,770</u>	<u>3,989,770</u>

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

Transfers

During the period ended 31 December 2018, there were no transfers of equity securities or derivatives measured at FVOCI between levels 1 and 2 of the fair value hierarchy. There were no transfers into or out of level 3 during the period.

18. CONVERTIBLE NOTES

2018				
Name	Details	Unit Price In USD	Number of Units	Amounts in USD
Dr. David Mestres Ridge	Convertible Notes	1	550,000	550,000
Company scene Limited	Convertible notes	1	410,000	410,000
			<u>960,000</u>	<u>960,000</u>

Notes to the Consolidated Financial Statements
for the year ended 31 December 2018 (Continued)

18. CONVERTIBLE NOTES (CONTINUED)

The 2018 Convertible notes relate to the six years convertible notes issued by the Group and the Company to facilitate its general working capital requirements. These notes carry an interest of 14.5% per annum which is due and payable on 31st of each year.

2017		Unit Price In	Number of	Amounts
Name	Details	USD	Units	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
			13,813	13,813

The 2017 Convertible notes relate to the six months convertible notes issued by the Group and the Company to facilitate its general working capital requirements. These notes carry a redemption premium of 10% when the notes are not paid when due.

19. EARNINGS PER SHARE

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

	CONSOLIDATED		SEPARATE	
	2018	2017	2018	2017
(Loss) / profit attributable to shareholders	(17,698,062)	2,436,814	(5,897,048)	2,450,932
Weighted average number of shares in issue	106,201,618	106,201,618	106,201,618	106,201,618
Basic (loss) / earning per share	(0.167)	0.023	(0.056)	0.023

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

	CONSOLIDATED		SEPARATE	
	2018 USD	2017 USD	2018 USD	2017 USD
(Loss) / profit attributable to shareholders	(17,698,062)	2,436,814	(5,897,048)	2,450,932
Weighted average number of shares in issue	106,201,618	106,201,618	106,201,618	106,201,618
Diluted (loss) / earning per share	(0.167)	0.023	(0.056)	0.023

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 2018 was -0.52 (At 31 December 2017: 0.65).

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 2018.

Notes to the Consolidated Financial Statements
for the year ended 31 December 2018 (Continued)

21. FINANCIAL RISK MANAGEMENT

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

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

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

Credit risk

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

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

CONSOLIDATED	2018 USD		2017 USD	
	Loans & receivables	Exposure to Credit risk	Loans & receivables	Exposure to Credit risk
Current account- Joint operating partner	231,805	231,805	200,244	200,244
Account receivables	-	-	27,728	27,728
Other debtors	47,957	47,957	15,511	15,511
Total	279,762	279,762	243,483	243,483
SEPARATE				
Current account- Joint operating partner	231,805	231,805	200,244	200,244
Account receivables	-	-	27,728	27,728
Other debtors	47,957	47,957	15,511	15,511
Total	279,762	279,762	243,483	243,483

Notes to the Consolidated Financial Statements
for the year ended 31 December 2018 (Continued)

21. FINANCIAL RISK MANAGEMENT (CONTINUED)

Liquidity risk

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

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

As at 31 December 2018

	Note	Less than 1 year USD	Between 1 and 2 years USD	Between 2 and 5 years USD	Over 5 years USD
Trade & other payables	12	1,861,353	-	-	-
Accruals	12	4,940,885	-	-	-
Short term loan	13	171,414	-	-	-
Convertible notes	18	-	-	960,000	-
Borrowings	10	-	-	21,288,815	3,966,500
		6,973,652	-	22,248,815	3,966,500

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 & other payables	12	1,428,905	-	-	-
Accruals	12	4,940,885	-	-	-
Short term loan	13	213,934	-	-	-
Convertible notes		13,813	-	-	-
Borrowings	10	807,000	-	-	-
		7,404,537	-	-	-

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 2018.

Currency risk

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

The Group's strategy to manage currency risk is by transacting mainly in US Dollars therefore the Group's currency risk exposure is not material as at 31 December 2018.

22. COMMITMENTS

As of 31st December 2018, 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)	2018 USD	2017 USD
Approved but not contracted for: Drilling Costs	10,869,962	8,038,189
Approved and contracted: Drilling costs	-	565,885
	10,869,962	8,604,074

Notes to the Consolidated Financial Statements
for the year ended 31 December 2018 (Continued)**22. COMMITMENTS (CONTINUED)**

Pursuant to the farm-in transaction with Tata Petrodyne Limited (“Tata”), Swala Oil and Gas (Tanzania) Public Limited Company will be carried for the total commitment of USD 2,070,057.

The Company has not contracted any services as it is awaiting the clarification from Ministry of Energy/TPDC on the announced process of PSA reviews.

Lease commitment:	2018 USD	2017 USD
Non-cancellable operating leases - future minimum lease payments payable:		
Within one year	269,281	318,471
Later than one year but not later than 5 years	-	
	269,281	318,471

23. EVENTS AFTER THE REPORTING PERIOD

On 30th January 2019, the Group and the company was advised by the Ministry of Energy that the government is reviewing the existing Production sharing Agreement (PSA). The Group and the Company do not expect any significant or material changes to the PSA as the result of this review, the overall impact is to delay investments until the process is resolved. Until such time, the PSA will remain in Force Majeure whilst the Group and the Company maintains a readiness to re-commence its drilling commitments once all issues are resolved.

On 1st April 2019, the Group and the company agreed with Orca Explorations Group Inc. (“Orca”) to terminate the Investment Agreement dated 29th December 2017 in respect of PAE PanAfrican Energy Corporation (“PAEM”), as a result of the Group and the Company not acquiring additional shares in the capital of PAEM. The Group and the Company continue to hold 7.933% of the issued and outstanding shares of PAEM.

On 24th April 2019, the Group and the Company issued a five years 14.5% convertible note with a value of USD 1 million, to accommodate the general working capital requirement.

On the 25th May 2017, the Group and the Company together with 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, the Group and the Company was required to make a net payment of USD 800,000 plus interest to Otto. On 27th September 2017, Tanzania Revenue Authority (“TRA”) instructed the Group and the company to suspend the transfer for the compensation to Otto until TRA issues the Group and the Company with TRA’s determination regarding Otto’s Tax liability and the extent of the Group and the Company agency obligation out of the agreement. On 19th of October 2018, the Tanzanian court allowed the Group and the Company to pay Otto notwithstanding the TRA objections. The Group and the Company has completed the payment of the principal amount of USD 800,000 to Otto and is currently in the process of settling the interest and legal cost accrued.

On the 10th of September 2019, the Group and the Company issued Tata Petrodyne Limited (“TPL”) with a Withdrawal Notice under the Joint Operating Agreement (“JOA”) requiring that TPL withdraw from the JOA, the Farm-Out Agreement (“FOA”) and the Production Sharing Agreement. On the 22nd of October 2019, the Group and the Company issued TPL with final invoices amounting USD 2.9MM being the obligations assumed by TPL under the JOA and the FOA. On the 28th November 2019, and in the absence of any communication from TPL, the Company issued TPL with a Notice of Dispute under the JOA. This triggered the commencement of the dispute resolution process of the JOA, the first step of which required that Senior Management of the two companies engage to attempt to resolve the disagreement. On the 9th of December 2019, and again in the absence of any communication from TPL, the Company issued TPL with a notice of mediation, the second step in the dispute resolution process of the JOA. On the 11th of December 2019, TPL acknowledged receipt of the Withdrawal Notice. As a result of this withdrawal, Swala’s working interest in the Kilosa-Kilombero PSA increases from 75% to 100%.

Swala Oil and Gas (Tanzania) Public Limited Company

Notes to the Consolidated and Separate Financial Statements for the year ended 31 December 2018 (Continued)

24. 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.

25. DETAILED EXPENSES

	CONSOLIDATED		SEPARATE	
	2018 USD	2017 USD	2018 USD	2017 USD
Operating and administration expenses				
Wages and salaries	395,581	370,386	395,581	370,386
Administration charges	18,724	-	-	-
Directors fees	120,000	58,000	120,000	58,000
Auditor remuneration fees	28,000	26,168	28,000	26,168
Filing fees	45,574	-	45,574	-
Financial services	96,490	45,663	77,587	45,663
Rent	70,604	40,900	70,604	40,900
Public relation costs	46	-	46	-
Staff training	785	-	785	-
WHT accrued	23,099	-	-	-
Computer consumables	13,859	10,326	13,859	10,326
Printing and stationery	2,438	997	2,438	997
Employer Pension NSSF contribution	-	37,652	-	37,652
Workers compensation fee	4,380	3,704	4,380	3,704
Employer SDL contribution	19,709	16,667	19,709	16,667
Commitment fees	178,767	-	-	-
Consultants fees	444,991	-	238,216	-
Licenses, registrations, permits	-	14,229	-	111
Insurance	20,407	28,308	20,407	28,308
Accommodation	16,716	24,071	16,716	24,071
Depreciation	3,807	7,389	3,807	7,389
Impairment of investment	14,004,471	-	3,966,634	-
Legal expenses	55,801	-	21,889	-
Travelling expenses	38,492	-	38,492	-
Other interest expenses	53,842	-	53,842	-
Loss on assets disposal	-	258	-	258
Other expenses	19,313	8,560	14,651	8,560
Foreign exchange loss	13,113	3,841	293	3,841
Provisions	244,081	60,266	205,822	60,266
	15,933,090	757,385	5,359,332	743,267

Swala Oil and Gas (Tanzania) Public Limited Company

Notes to the Consolidated and Separate Financial Statements
for the year ended 31 December 2018 (Continued)

25. DETAILED EXPENSES (CONTINUED)

Prospecting and exploration expenses	CONSOLIDATED		SEPARATE	
	2018	2017	2018	2017
Consultants fees	127,660	254,360	127,660	254,360
Legal expenses	-	35,760	-	35,760
Data purchase	-	-	-	-
Drilling project management & planning costs	1,031	76,867	1,031	76,867
Overhead charge - 1% recoverable	1,945	2,644	1,945	2,644
Overhead charge - 2% non-recoverable	2,773	5,287	2,773	5,287
Storage	14,162	18,745	14,162	18,745
Surface licence fees	-	56,060	-	56,060
Training fees (TPDC)	-	150,000	-	150,000
Travelling expenses	3,700	45,157	3,700	45,157
	151,271	644,880	151,271	644,880

Finance costs				
Interest expense	29,536	-	29,536	-
Interest on preference share	356,985	-	356,985	-
Interest on loan	3,981,500	81,777	234,703	81,777
	4,368,021	81,777	621,224	81,777
Grand Total	20,452,382	1,484,042	6,131,827	1,469,924

26. CONTINGENT LIABILITIES

Undetermined tax assessment

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

27. SEGMENT INFORMATION

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