

PRESS RELEASE

(DSE:SWALA)

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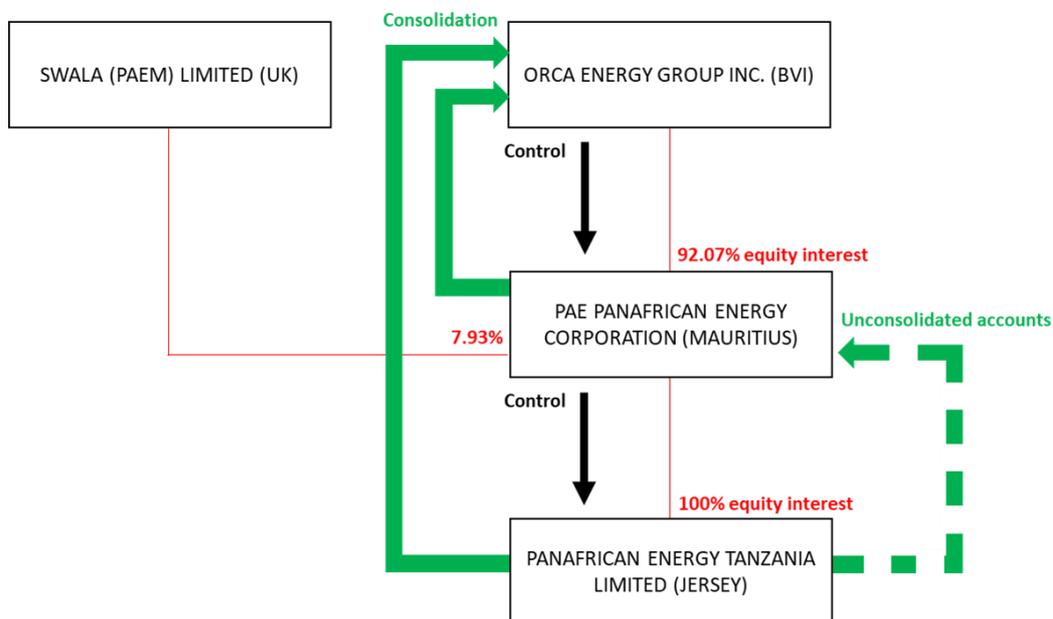
IMPACT OF ACCOUNTING FAILURES IN PAEM ON SWALA ACCOUNTS

Swala Oil and Gas (Tanzania) PLC (“Swala Tanzania” or “the Company”) makes the following update in respect of its annual accounts for the financial year 2021.

The Songo Songo field is operated by PanAfrican Energy Tanzania Limited (“PAET”). PAET is wholly owned by PAE PanAfrican Energy Corporation (“PAEM”), a general business company (formerly GBC-1, now GBL) registered in Mauritius. PAEM is owned by Swala (PAEM) Ltd (“Swala”, 7.93%) and by Orca Energy Corporation Inc. (“Orca”, 92.07%).

The Songo Songo field has generated significant net free cashflow since it started production in 2004. This is reflected in the accounts of PAET, which should have been consolidated with those of PAEM in accordance with International Financial Reporting Standards (Section 212 and Section 13 of the 14th Schedule of the Companies Act 2001, and Section 30 of the Financial Services Act 2007). IFRS-10 requires a subsidiary to be consolidated with another company when that company controls the subsidiary, and the subsidiary is material to the business. Both conditions are satisfied in the case of PAET. Swala has recently been advised by PAEM that the directors of PAEM have been preparing annual accounts on an unconsolidated basis. PAET has instead been consolidated directly into the Orca accounts (consolidation has essentially ‘jumped over’ PAEM). Orca controls the board of PAEM and, through PAEM, that of PAET.

Figure 1. Schematic control and consolidation in the PAEM corporate structure.



Swala became a shareholder of PAEM by virtue of the Investment Agreement dated 29th of December 2017 between Orca and Swala. For the financial years 2018, 2019 and 2020, PAEM relied on an exception under paragraph 4 of IFRS-10 to avoid consolidating PAET. This exception only applies where, amongst other conditions, all other owners of the entity seeking the exemption, including those not otherwise entitled to vote, have been informed about, and do not object to, the company not presenting consolidated financial statements. Swala was neither informed about, nor consented to, the

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non-consolidation of the PAET accounts. For the financial years 2020 and 2021, PAEM seeks to rely on Section 12 of the 14th Schedule of the Companies Act 2001 to avoid consolidating PAET. The impact of non-consolidation can be seen in Table 1.

Table 1. Declared revenues and net free cashflow of PAET, PAEM and Orca for the period 2018-2021.

PAET	2018	2019	2020	2021	TOTAL
Gross revenues	US\$62.8 million	US\$93.0 million	US\$84.6 million	US\$93.4 million	US\$333.8 million
Net free cashflow	US\$31.3 million	US\$37.9 million	US\$50.5 million	US\$43.5 million	US\$163.2 million
PAEM ⁽¹⁾	2018	2019	2020	2021	TOTAL
Revenue	US\$30 million	US\$18 million	US\$6 million	US\$6 million	US\$60 million
Preference shares	3 redeemed	3 redeemed	1 redeemed	1 redeemed	8 redeemed
Dividends paid	US\$33.6 million	US\$12 million	-	-	US\$45.6 million
PEDA ⁽²⁾ to Orca	US\$10 million		US\$7.7 million	-	US\$17.7 million
Accruing PEDA	-	-	-	US\$4.1 million	US\$4.1 million
Orca	2018	2019	2020	2021	TOTAL
Gross revenues	US\$57.8 million	US\$85.6 million	US\$77.9 million	US\$86 million	US\$307.3 million
Net free cashflow	US\$28.8 million	US\$34.9 million	US\$46.5 million	US\$40.1 million	US\$150.3 million

⁽¹⁾ Revenue from redemption of preference shares.

⁽²⁾ Pre-Effective Date Assets, being assets of PAET accrued before the 1st of January 2017, primarily unpaid obligations of TANESCO, and which flow to Orca under the terms of the Investment Agreement dated 29th of December 2017.

The immediate implication for Swala and Swala Tanzania is that their audited accounts for the financial years 2018-2020 may not reflect the true position of the investment in PAEM. There is a similar uncertainty in respect of the Company's 2021 accounts, but the Company is working with its auditors to narrow this uncertainty in the light of the new facts described above. Swala Tanzania shall inform the market as it progresses these efforts.

For further information please contact:

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Forward-Looking Statements

About Swala:

Swala is the first Oil and Gas company listed on an East African Stock Exchange with a significant local ownership. Swala holds assets in the world-class East African Rift System with a total net land package in excess of 14,000 km² as well as a 7.93% interest in PAE PanAfrican Energy Corporation. New discoveries have been announced by industry participants in a number of licences along this trend that extend the multi-billion-barrel Albert Graben play so successfully developed by Tullow Oil into the eastern arm of the rift. Swala has an active operational and business development programme to continue to grow its presence in the hydrocarbon provinces of East Africa and globally.