OBTALA LIMITED

INTERIM FINANCIAL REPORT

FOR THE PERIOD ENDED

30 JUNE 2018

OBTALA LIMITED
DIRECTORS AND OFFICERS

DIRECTORS

Miles Pelham	*(Non-Executive Chairman)*
Paul Dolan	*(Chief Executive Officer)*
Carnel Geddes	*(Chief Financial Officer)*
Martin Collins	*(Deputy Chairman)*
Kevin Milne	*(Non-Executive Director)*
Jessica Camus-Demarche	*(Non-Executive Director)*

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OBTALA LIMITED
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I am pleased to present the interim report and consolidated financial statements for Obtala Limited (the "Company" or the "Group") for the half year ended 30 June 2018. In the interests of providing greater transparency to investors given the paradigm shift in the scale of the business over the last 12 months, segmental reporting has been included for the first time in an interim statement.

Revenue for H1 2018 $6.6m vs H1 2017 $149k (44x increase)

Gross profit for H1 2018 $347k vs H1 2017 gross loss $804k

Operating loss H1 2018 $4.8m vs H1 2017 operating loss $4.4m

Total loss H1 2018 $5.5m vs H1 2017 total profit $22m (Due to profit on acquisition)

Having grown by more than 13x in 2017, year on year revenues are on track to deliver further growth in 2018 having achieved 80% of 2017's total turnover within the first 6 months. Turnover within the Forestry division for the first six months of 2018 was equal to that of the full year in 2017.

Gross profit for the first half of 2018 improved from a loss of $804k in the comparative period of 2017 to a profit of $347k, despite a write down of $665k on the value of stock in Mozambique, an item of which we do not foresee any repeat. First half interim numbers for both 2017 and 2018 include the least productive part of the year in both Tanzania and Mozambique, which were expected to be loss making at a gross profit level. Gross profit margin for the group was 5%, but would have been comfortably above 10% without the impact on cost of sales from these losses, more of which later. Non-cash items contributing to the total loss for the period of $2.7m include $574k in straight-line accounting accrual relating to the deferred consideration outstanding for the purchase of WoodBois International, $634k share based payment reserve, $800k depreciation, and the aforementioned write-down of $665k on stock in Mozambique.

Further investment has been made into the forestry business in Gabon. The new bulldozers and trucks purchased from the proceeds of the February capital raise are providing our sawmill and newly completed veneer factory with a ready flow of raw material for processing. New monthly records for production of sawn timber at the sawmill in Mouilla were continually set during the first half of the year. The trend line for increased numbers of containers shipped by the logistics team in Libreville headed by new arrival Mrs Anne Laure Boichot was equally encouraging.

Our recently commissioned Cremona veneer peeling machinery is of a world class standard and its revised installation gives greater flexibility to expand than was envisaged in the original specification. We now select and send appropriate raw material direct from our forests to either the sawmill for processing or to the veneer factory for peeling. This selection process increases our overall recovery rate and veneer is expected to be our highest margin product.

Under the strong management of Mr Hadi Ghossein in Gabon, the investments outlined above have established valuable infrastructure from which we expect to generate consistent gross profit margins of at least 20%. The output from these impressive facilities will also enhance our status with clients around the world as we move towards our aim of becoming industry leaders in African timber trading and production.

Positive cash flow from our production facilities will be deployed in our other core activity, timber trading, which generated a gross profit margin of 18% during the period. Infrastructure investment during H1 2018 in the Ivory Coast, the main hub for our trading business, included repair of kilns, increasing our drying capacity to 1000m3 of sawn timber at our rented facility in Abidjan. This upgrade will allow for up to 17,000m3 of sawn timber to be kiln dried annually, species dependent. Investment was also made into the reconditioning of a container crane on the same facility to allow quicker and more efficient movement of containers, a key development as our trading volumes start to increase.

The trading business has had to exercise patience thus far in 2018 while investment has focused on the production units, where higher levels of operating expenditure have funded increased levels of production. We see substantial opportunities to grow the trading division as further funding materialises via our internal trading fund which grew to $1.7m during the period, and from external trade finance. We are seeking to attract further trade finance through these sources during the second half of 2018. It should be noted that the administration and operational platform that has been established is critical to the future growth of the business and is now sufficient to support a significant upscaling from the current 0.5% market share of African timber exports currently captured. Management are acutely aware that these costs look high in the context of current levels of profitability however, and have targeted a 10% cost reduction for administration expenses during the second half of 2018. Should a decision be made to scale back activities in East Africa, see below, administration expenses would be further reduced commensurate to the levels detailed within the segmental report.

Early in the half year, we raised a total of $6m/£4.3m (before expenses) from a fundraising by the issue of 34,436,781 new ordinary shares. The proceeds were used primarily for the expansion of the business in Gabon and the Ivory Coast, as set above.

The amount and number of shares detailed above excludes the 2m subscription shares which, as announced in the Q1 results, did not settle and so have now been forfeited and cancelled.

As discussed in our recent market update in July, the main challenge in our search for trade finance has been the adoption by Banks of the Basel 3 capital adequacy regulations, the technical implementation deadline for which is 2019. This has reduced the willingness of banks to lend against receivables and inventory, particularly in developing markets and hence our focus on partnering with a specialist fund or funds to convert the pipeline within our substantial order book into sales. Given the growth backdrop of the continent, very significant opportunities clearly exist for companies that prove themselves capable of delivering the necessary funding solutions. Achieving this is a fundamental part of our strategy and we expect the time and effort invested in this to be rewarded.

While the growth of the Group is indisputable and positive, the legacy businesses in East Africa have been responsible for losses during the first 6 months of 2018 and continue to prove a drag on earnings and management time. Minimal revenues from the farms in Tanzania were received during the period. Revenues from Mozambique were minimal due largely to inconsistent signals from the authorities, not least a ban on export the of sawn timber of some internationally popular species, unless in the form of 'finished products'.

At the time of writing, the definition of 'finished products' has still to be announced by MITADER, the Ministry of Land, Environment and Rural Development. In line with the Mozambican government's objective of creating a stronger internal timber market, a team headed by Mr Adriano Rafael is working to develop our domestic sales presence and to liquidate our stock of sawn timber locally. Although the market is proving buoyant, prices are lower than can be achieved internationally and we have therefore taken a write-down of $665k on remaining inventory.

Strategic reviews of the businesses in both Tanzania and Mozambique will be undertaken as an immediate priority, with the aim of implementing recommendations before year-end or by Q1 2019 at the latest. The board is unlikely to accept any proposal that involves losses from any business line being sustained in the next financial year. This will allow allocation of capital and management focus within the Group to be exclusively dedicated to improving returns from cash generative, profitable business lines as loss making businesses will be eliminated.

Good governance is one of the foundations of a sustainable corporate growth strategy and with specific regard to the recently revised AIM Rule 26, Obtala intends to adopt as far as possible the principles of the Quoted Companies Alliance Corporate Governance Code (the "QCA Code"). The QCA is an independent membership organisation that champions the interests of small to mid-size quoted companies. The QCA Code helps put into practice a worthwhile, effective and flexible governance model for the company. It identifies ten principles to be followed in order to deliver growth in long term shareholder value, encompassing an efficient, effective and dynamic management framework accompanied by good communication and positive engagement between the company and all of its stakeholders.

As reported by RNS, in July 2018 I sold 9.45m ordinary shares and bought a total of 6,475 preference shares, for a net purchase consideration of $1.4m, clearly demonstrating my faith in the management of the company and the future prospects for the Group.

Miles Pelham
Chairman

OBTALA LIMITED
CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
For the six month period to 30 June 2018

Continuing operations	**Notes**	**Six months to 30 June 2018 (Unaudited) $'000**	**Six months to 30 June 2017 (Unaudited) $'000**	**Year to 31 December 2017 (Audited) $'000**
Turnover		6,635	149	8,406
Cost of Sales		(6,288)	(953)	(8,310)
Gross profit		347	(804)	96
Other income		35	-	131
Loss on fair value of Biological	7	-	-	(35,327)
Operating costs		(1,357)	(1,073)	(3,743)
Administrative expenses		(2,673)	(1,765)	(3,990)
Depreciation		(551)	(163)	(926)
Share based payment expense		(634)	(661)	(979)
Operating profit/(loss)		(4,833)	(4,466)	(44,738)
Gain from bargain purchase		-	34,028	37,525
Contingent acquisition expense		(574)	(7,305)	(574)
Preference share liability expense		-	-	(1,604)
Foreign exchange gain		37	-	254
Finance income/(costs)	13	(149)	(161)	(790)
Profit/(loss) before tax		(5,519)	22,096	(9,927)
Taxation	4	(23)	-	12,173
Total profit/(loss) for the period/year		**(5,542)**	**22,096**	**2,246**
Discontinued Operations		-	(148)	(146)
Profit/(loss) for the year		(5,542)	21,948	2,100
Attributable to:				
Owners of the parent		(4,820)	15,918	9,861
Non-controlling interests		(722)	6,030	(7,761)
		(5,542)	21,948	2,100
Other comprehensive income:				
Exchange differences of re-translation of foreign operations		(401)	-	(2,299)
Total comprehensive income/(loss) for the period:		(5,943)	21,948	(199)
Attributable to:				
Owners of the parent		(5,221)	15,918	7,562
Non-controlling interests		(722)	6,030	(7,761)
		(5,943)	21,948	(199)
Earnings/(loss) per share				
From continuing operations	5	(1.55)	5.48	3.51
From Discontinued operations		-	(0.05)	(0.05)
From Earnings/(loss) for the year		(1.55)	5.43	3.46

OBTALA LIMITED
CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
For the period from 1 January 2018 to 30 June 2018

	Share capital $000	**Share premium $'000**	**Merger reserve $'000**	**Preference share capital $'000**	**Foreign exchange reserve $'000**	**Share based payment reserve $'000**	**Retained Earnings $'000**	**Total $'000**	**Non-controlling interests $'000**	**Total equity $'000**
At 1 January 2017	**4,240**	**17,968**	**44,487**	**-**	**(1,619)**	**1,398**	**20,582**	**87,056**	**28,369**	**115,425**
Profit/(loss) for the period	-	-	-	-	-	-	15,918	15,918	6,030	21,948
Total comprehensive income for the period	-	-	-	-	-	-	**15,918**	**15,918**	**6,030**	**21,948**
Issue of ordinary shares	260	4,372	-	-	-	-	-	4,632	-	4,632
Issue of preference shares	-	-	-	7,758	-	-	-	7,758	-	7,758
Share based payment expense	-	-	-	-	-	661	-	661	-	661
Exchange differences on translating into presentational currency	-	-	-	-	2,138	-	-	2,138	-	2,138
At 30 June 2017	**4,500**	**22,340**	**44,487**	**7,758**	**519**	**2,059**	**36,500**	**118,163**	**34,399**	**152,562**
Profit/(loss) for the period	-	-	-	-	-	-	(6,057)	(6,057)	(13,791)	(19,848)
Other comprehensive income:										
Currency translation differences	-	-	-	-	(4,437)	-	-	(4,437)	-	(4,437)
Total comprehensive income for the period	-	-	-	-	**(4,437)**	-	**(6,057)**	**(10,494)**	**(13,791)**	**(24,285)**
Transactions with owners:										
Issue of preference shares	-	-	-	6,560	-	-	-	6,560	-	6,560
Share based payment expense	-	-	-	-	-	318	-	318	-	318
Reserve transfer	-	-	-	-	-	(1,398)	1,398	-	-	-
At 31 December 2017	**4,500**	**22,340**	**44,487**	**14,318**	**(3,918)**	**979**	**31,841**	**114,547**	**20,608**	**135,155**
Profit/(loss) for the period	-	-	-	-	-	-	(4,820)	(4,820)	(722)	(5,542)
Other comprehensive income:										
Currency translation differences	-	-	-	-	(401)	-	-	(401)	-	(401)
Total comprehensive income for the period	-	-	-	-	**(401)**	-	**(4,820)**	**(5,221)**	**(722)**	**(5,943)**
Issue of ordinary shares	483	5,036	-	-	-	-	-	5,519	-	5,519
Preference share dividend	-	-	-	-	-	-	(656)	(656)	-	(656)
Share based payment expense	-	-	-	-	-	634	-	634	-	634
At 30 June 2018	**4,983**	**27,376**	**44,487**	**14,318**	**(4,319)**	**1,613**	**26,365**	**114,823**	**19,886**	**134,709**

OBTALA LIMITED
CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
As at 30 June 2018

	Notes	30 June 2018 (Unaudited) $'000	30 June 2017 (Unaudited) $'000	31 December 2017 (Audited) $'000
ASSETS				
Non-current assets				
Assets under construction	11	-	40	883
Biological asset	7	192,501	227,828	192,501
Plant and equipment		20,059	11,181	17,741
Total non-current assets		**212,560**	**239,049**	**211,125**
Current assets				
Trade and other receivables		4,369	4,504	3,441
Inventory		5,940	3,470	5,484
Cash and cash equivalents		1,151	1,901	2,089
Total current assets		**11,460**	**9,875**	**11,014**
TOTAL ASSETS		**224,020**	**248,924**	**222,139**
LIABILITIES				
Current liabilities				
Trade and other payables	10	(5,096)	(9,306)	(4,017)
Borrowings		(6,713)	(551)	(6,472)
Contingent acquisition liability		(1,024)	-	(574)
Total current liabilities		**(12,833)**	**(9,857)**	**(11,063)**
Non-current liabilities				
Deferred tax	4	(61,741)	(72,878)	(61,728)
Preference share liability	8	(13,244)	(5,194)	(12,588)
Provision for contingent acquisition liability		-	(7,305)	-
Borrowings		(40)	(1,128)	(742)
Trade finance facility	12	(1,453)	-	-
Other related party payables		-	-	(863)
Total non-current liabilities		**(76,478)**	**(86,505)**	**(75,921)**
TOTAL LIABILITIES		**(89,311)**	**(96,362)**	**(86,984)**
NET ASSETS		**134,709**	**152,562**	**135,155**
EQUITY				
Share capital	9	4,983	4,500	4,500
Share premium		27,376	22,340	22,340
Merger reserve		44,487	44,487	44,487
Preference share capital	8	14,318	7,758	14,318
Foreign exchange reserve		(4,319)	519	(3,918)
Share based payment reserve		1,613	2,059	979
Retained earnings		26,365	36,500	31,841
Equity attributable to the owners of the parent		**114,823**	**118,163**	**114,547**
Non-controlling interests		19,886	34,399	20,608
TOTAL EQUITY		**134,709**	**152,562**	**135,155**

Approved by the board and authorised for issue on 3rd September 2018

M Pelham
Chairman

OBTALA LIMITED
CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS
For the period from 1 January 2018 to 30 June 2018

	Notes	Six months to 30 June 2018 (Unaudited) $'000	Six months to 30 June 2017 (Unaudited) $'000	Year to 31 December 2017 (Audited) $'000
OPERATING ACTIVITIES				
(Loss) / profit before tax		(5,519)	22,096	(9,927)
Adjustment for non-cash items:				
Movement in foreign exchange		(411)	2,138	(2,553)
Fair value adjustment of biological asset		-	-	35,327
Depreciation of property, plant and equipment		805	163	927
Loss from discontinued operation		-	(148)	(146)
Inventory losses		665	-	977
Contingent acquisition expense		574	-	574
Preference share liability		-	-	1,604
Share based payment expense / reserve transfer		634	661	419
Gain from bargain purchase		-	(34,028)	(37,525)
Decrease/(increase) in provision for contingent acquisition liability		-	7,305	-
(Increase)/decrease in trade and other receivables		(928)	(314)	521
Increase/(decrease) in trade and other payables		1,079	(4,569)	(9,857)
(Increase)/decrease in inventory		(1,121)	78	(2,884)
Finance expense/(income)		149	161	790
Cash outflow from continuing operations		**(4,073)**	**(6,457)**	**(21,754)**
Income taxes refund received/(paid)		-	25	-
Interest received/(paid)		(96)	15	(134)
Net cash flow from operating activities		**(4,169)**	**(6,417)**	**(21,888)**
INVESTING ACTIVITIES				
Purchases of property, plant and equipment		(2,240)	(2,180)	(4,040)
Cash outflow for assets under construction		-	(40)	(883)
Net cash outflow on the acquisition of subsidiary		-	(6,692)	(6,683)
Net cash inflow/(outflow) from investing activities		**(2,240)**	**(8,912)**	**(11,606)**
FINANCING ACTIVITIES				
Net receipts in loans and borrowings		(1,448)	-	5,827
Proceeds from the issue of ordinary shares		5,519	1,056	1,056
Proceeds from trade finance facility		1,400	-	-
Proceeds from the issue of preference shares		-	12,776	25,302
Net cash inflow from financing activities		**5,471**	**13,832**	**32,185**
(Decrease)/Increase in cash and cash equivalents		**(938)**	**(1,497)**	**(1,309)**
Cash and cash equivalents at start of period		2,089	3,398	3,398
Net cash and cash equivalents at end of period		**1,151**	**1,901**	**2,089**

1. BASIS OF PREPARATION

The interim financial statements of Obtala Limited are unaudited condensed consolidated financial statements for the six months to 30 June 2018. These include unaudited comparatives for the six month period to 30 June 2017 together with audited comparatives for the year to 31 December 2017.

2. SIGNIFICANT ACCOUNTING POLICIES

The condensed consolidated financial statements have been prepared under the historical cost convention except for the revaluation of certain financial investments, available for sale investments and financial assets and liabilities which are included at fair value.

The accounting policies adopted are consistent with those followed in the preparation of the Group's annual financial statements for the period ended 31 December 2017.

The condensed consolidated financial statements do not constitute statutory accounts, as defined under section 244 of the Companies (Guernsey) Law 2008. The statutory accounts for the period to 31 December 2017 have been reported on by the Company's auditors, which have been delivered to the Guernsey Registrar of Companies.

3. SEGMENTAL REPORTING

The reportable segments are identified by the Board (which is considered to be the Chief Operating Decision Maker) by the way management has organised the Group. The Group operates within three separate operational divisions comprising agriculture, forestry and trading.

The Directors review the performance of the Group based on total revenues and costs, for these three divisions and not by any other segmental reporting. Please see Note 6 for the segment report.

4. TAXATION

The accrued tax charge for the six month interim period is based on an estimated worldwide average effective tax rate of nil per cent, after allowance for utilisation of tax losses brought forward in UK based subsidiaries (six months to 31 June 2017: nil%).

The Group has recognised a net deferred tax liability of $61,741,000 at 30 June 2018 (30 June 2017: $72,878,000, 31 December 2017: $61,728,000) which mainly arose on the revaluation of a biological asset.

5. EARNINGS PER SHARE

Basic earnings per share is based on the loss for the six months of $4,820 thousand attributable to equity holders of the parent divided by the weighted average number of ordinary shares in issue during the period of 310,497,658 exclusive of ordinary shares purchased by the Obtala Employee Share Trust and held jointly by the Trust and certain employees. During the period 34,436,781 shares were issued.

6. SEGMENT REPORTING

Segmental information is presented on the basis of the information provided to the Chief Operating Decision Maker ("CODM"), which is the Board of Directors.

The Group is currently focused on agriculture, forestry and timber trading. These are the Group's primary reporting segments. As on 30 June 2018 the group had no major customers.

The Group's chief executive officer reviews the internal management reports of each division at least quarterly.

There are varying levels of integration between the Forestry and Trading segments. This integration includes transfers of sawn timber and veneer, respectively. Inter-segment pricing is determined on an arm's length basis.

The following table shows the segment analysis of the Group's loss before tax for the year and net assets at 30 June 2018. All amounts are disclosed after taking into account any intra-segment and intra-group eliminations:

	Agriculture	Forestry	Trading	Unallocated head office costs	Total
	$000	$000	$000	$000	$000
INCOME STATEMENT					
Turnover	25	2,865	3,745	-	6,635
Cost of Sales	(411)	(2,803)	(3,074)	-	(6,288)
Gross profit	(386)	62	671	-	347
Other income	13	22	-	-	35
Operating costs	(98)	(1,248)	(11)	-	(1,357)
Administrative expenses	(378)	(587)	(552)	(1,156)	(2,673)
Depreciation	(165)	(346)	(40)	-	(551)
Share based payment expense	(66)	(146)	(255)	(167)	(634)
Segment operating (loss)/profit	(1,080)	(2,243)	(187)	(1,323)	(4,833)
NET ASSETS					
Assets:	2,997	211,237	7,743	2,043	224,020
Liabilities:	(274)	(2,729)	(8,150)	(16,417)	(27,570)
Deferred tax (liability) / asset	-	(61,859)	118	-	(61,741)
Net assets	2,723	146,649	(289)	(14,374)	134,709

The following table shows the segment analysis of the Group's loss before tax for the year and net assets at 31 December 2017:

	Agriculture	Forestry	Trading	Unallocated head office costs	Total
	$000	$000	$000	$000	$000
INCOME STATEMENT					
Turnover	287	2,884	5,235	-	8,406
Cost of Sales	(568)	(2,608)	(5,134)	-	(8,310)
Gross profit	(281)	276	101	-	96
Other income	-	-	24	107	131
Operating costs	(1,085)	(2,182)	(442)	(34)	(3,743)
Administrative expenses	(789)	(1,053)	(333)	(1,815)	(3,990)
Depreciation	(486)	(400)	(40)	-	(926)
Share based payment expense	(207)	(302)	(110)	(360)	(979)
Loss on fair value of Biological assets	-	(35,327)	-	-	(35,327)
Segment operating (loss)/profit	(2,848)	(38,988)	(800)	(2,102)	(44,738)
NET ASSETS					
Assets:	3,419	210,850	6,008	1,862	222,139
Liabilities:	(238)	(2,469)	(8,618)	(13,931)	(25,256)
Deferred tax (liability) / asset	-	(61,859)	131	-	(61,728)
Net assets	3,181	146,522	(2,479)	(12,069)	135,155

7. BIOLOGICAL ASSET

Standing timber	30 June 2018 (Unaudited) $'000	30 June 2017 (Unaudited) $'000	31 December 2017 (Audited) $'000
Carrying value at beginning of the period	192,501	174,528	174,528
Additions	-	53,300	53,300
Fair value adjustment	-	-	(35,327)
Carrying value at end of period	**192,501**	**227,828**	**192,501**

The methods and assumptions used in determining the fair value of standing timber within the forestry concessions held has been based on discounted cash flow models which require a number of significant judgements to be made by the Directors in respect of sales price, production levels, operational cost and discount rates.

The discounted cash flow models cover the concession areas in Mozambique and Gabon to which the group has secured the rights.

Harvesting levels are regulated by the Annual Permitted Cut ("APC") (total m3 per species) set in each management plan and approved at federal and provincial government level and can be reviewed and increased periodically, while continued sustainability is ensured.

To maintain consistent year-on-year biological asset valuations, 100% of APC has been assumed every year within the discounted cashflow models. As we are valuing the standing timber that is economically and sustainably available to harvest in our allocated forest areas, we have assumed 100% of APC within our model to provide an accurate representation of what each concession is worth as at each yearend. Consequently, going forward, the discount rate, production cost and price of individual logs will be the determinant of any movement in biological asset value.

The valuation models assume pre-tax discount rates between 10% and 12% depending on geography. The discount rates have been calculated using a weighted average cost of capital ("WACC") methodology. Our comparable company base is made up of Africa-focused and global forestry companies which management consider would be categorized in the same sector as Obtala. Relevant country and equity risk premiums have been used for Gabon and Mozambique. Management have determined that, the discount rates are in line with the overall industry consensus for timberland assets within Africa.

The Group's main class of biological assets comprise of standing timber held through forestry concessions of between 20 and 50 years. Biological assets are carried at fair value less estimated costs to sell.

Fair value has been determined internally by discounting a 20-year pre-tax cash flow projection (Level 3 of the fair value hierarchy) based on a mix of wood species within the concession areas. Real cost of production has been factored in going forward, whilst the price of the standing timber has been calculated by removing the processing costs from existing prices that customers are paying for sawn timber from Mozambique and Gabon.

During the 6-month period ending 30 June 2018, the Ministry of Land, Environment and Rural Development (MITADER) in Mozambique, issued a ruling on the exploitation and export of endangered species of timber under which the exploitation and collection of timber of Pterocarpus tinctorius, (Nkula), Swartzia madagascariensis (Ironwood), Combretum imberbe (Mondzo) is forbidden. Obtala has never owned licences to extract any of these species. In addition, the export of Chanfuta, Umbila and Jambire will not be allowed, those three species being licensed only for the domestic market. Obtala has previously exported both Chanfuta and Umbila from Mozambique. We have reviewed the potential financial implications of these measures to the Group, but since Argento's operations in Mozambique are certified by MITADER, if they are adopted into law they should, in the long term, benefit the Group from both an operational and pricing perspective. In the short term however, we have reduced our expectation of the level of selling prices that will be achieved from these species. As selling prices is an assumption that impacts the standing timber valuation, we have recognized an impairment, as part of the 31 December 2017 year end, and adjusted fair value accordingly.

8. PREFERENCE SHARES

	30 June 2018 (Unaudited)	30 June 2017 (Unaudited)	31 December 2017 (Audited)
	$'000	$'000	$'000
Preference share liability	11,932	5,018	11,932
Preference share capital	14,318	7,758	14,318
Total	26,250	12,776	26,250
Preference share liability	12,588	5,018	11,932
Preference share dividend accrued	656	176	656
Total	**13,244**	**5,194**	**12,588**

As at the year ending 31 December 2017, the Group had issued 75,000 preference shares, in Argento Limited (Mauritius subsidiary) at a par value of $350 per share. The preference shares are convertible into either ordinary Obtala Limited shares at a current ratio of 1/1,797 as of 30th June 2018 or ordinary Argento Limited shares (1/1), at any time, at the option of the shareholder. Conversion ratios will continue to be adjusted for any dilution.

The preference shares have priority for an annual dividend equivalent to 5% of the amount subscribed for the Shares (which will compound until paid), and paid pro rata for any period up to a liquidity preference event (preferred dividend) and will also participate pro-rata in any further dividend paid on the ordinary shares. The preference shares have no maturity date.

The preference shares do not carry the right to vote.

The preference shares have been determined to contain both a host liability and an equity component, and is therefore classified as a compound financial instrument. In valuing the preference shares, the fair value of the liability component was determined first by valuing the preferred shares at the market rate that would apply to an identical financial instrument without the conversion option. The average market rate used in determining the fair value of the liability portion was 11%.

9. SHARE CAPITAL

	Number	$'000
Authorised:		
Ordinary shares of 1 penny each	Unlimited	Unlimited
Allotted, issued and fully paid:		
Ordinary shares of 1 penny each		
At 1 January 2017	273,260,664	4,240
Issued in the period	20,018,603	260
At 30 June 2017	293,279,267	4,500
Issued in the period	-	-
At 31 December 2017	293,279,267	4,500
Issued in the period	34,436,781	483
At 30 June 2018	**327,716,048**	**4,983**

Balances classified as share capital include the nominal value on issue of the Company's equity share capital, comprising ordinary shares of 1p each.

During the period ending 30 June 2018, 34,436,781 ordinary shares with a nominal value of $483,000 were issued for a cash consideration of $6 million. This excludes the 2,000,000 shares which were issued but subsequently cancelled, as referred to in the Chairman's statement.

10. TRADE AND OTHER PAYABLES

	30 June 2018 (Unaudited)	30 June 2017 (Unaudited)	31 December 2017 (Audited)
	$'000	$'000	$'000
Trade and sundry payables	5,096	4,811	4,017
Other payables	-	4,495	-
Total	**5,096**	**9,306**	**4,017**

The Directors consider that the carrying amount of trade and sundry payables approximates to their fair value.

Included within other payables, for the period ending 30 June 2017, are amounts received in advance relating to preference shares issued post-period-end of $4,495 thousand.

11. ASSETS UNDER CONSTRUCTION

	30 June 2018 (Unaudited)	30 June 2017 (Unaudited)	31 December 2017 (Audited)
	$'000	$'000	$'000
Sawmill	-	40	883
Total	**-**	**40**	**883**

During the period ending 30 June 2018, the Group has completed the construction of a sawmill in Nampula, Mozambique.

12. TRADE FINANCE FACILITY

	30 June 2018 (Unaudited) $'000	30 June 2017 (Unaudited) $'000	31 December 2017 (Audited) $'000
Trade finance facility liability	1,400	-	-
Interest accrued	53	-	-
Total	**1,453**	**-**	**-**

During the six-month period ending 30 June 2018, the Group raised a trade finance facility to the value of $1.4 million. The trade finance facility is secured by either the trade debtor, or inventory item that it financed.

The trade finance facility accrues interest at a rate of 11.5% per annum.

13. FINANCE INCOME/(COST)

	30 June 2018 (Unaudited) $'000	30 June 2017 (Unaudited) $'000	31 December 2017 (Audited) $'000
Interest expense	(96)	(161)	(790)
Interest accrued on trade finance facility	(53)	-	-
Total	**(149)**	**(161)**	**(790)**

14. INTERIM FINANCIAL REPORT

A copy of this interim report will be available on the Company's website at www.obtala.com