

quarterly report

FOR THE QUARTER ENDED
30th JUNE 2014



Highlights

About Swala Energy Limited: Swala Energy Limited is an Australian oil and gas company listed on the Australian Securities Exchange ("ASX") under the symbol "SWE". Swala's holdings are predominantly in the world-class East African Rift System with a total net land package in excess of 18,800km² in Kenya, Tanzania and Zambia. New discoveries have been announced in a number of licences along this trend, including Ngamia, Twiga and Etuko, which extend the multi-billion barrel Albert Graben play into the eastern arm of the rift system. Swala has an active operational and business development programme to continue to grow its presence in the promising hydrocarbon provinces of Africa.

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- + Successful completion of the Initial Public Offering (IPO) of Swala Oil & Gas (Tanzania) Plc, to become the first oil and gas exploration company listed on the Dar es Salaam Stock Exchange, raising the equivalent of US\$2.0 million from Tanzanian investors.
- + Block 12B Kenya – Decision to continue into the second exploration phase of operations, which are scheduled to include one exploration well.
- + Tanzania – Commenced mobilisation of equipment in preparation for the seismic acquisition programme to be conducted over the Pangani licence in Northern Tanzania to be followed by additional seismic in the Kilosa-Kilombero licence.
- + Block 44 Zambia - Swala Energy (Zambia) Limited offered Block 44 in the Republic of Zambia.

Swala Energy Limited (“Swala” or “Company”) (ASX: SWE) is pleased to present its Quarterly Report for the quarter ending 30th June 2014 (“Quarter”).

OPERATIONAL

This Quarter has been a very active one for the Company in a number of areas. It has focused on preparing for two 2D seismic data acquisition surveys over the Kilosa-Kilombero and Pangani licences in Tanzania, the farming down of a 25% interest in its Block 12B in Kenya, the securing of one more licence (Block 44, Zambia) for its portfolio of exploration acreage across the East African Rift areas of East Africa and completing the IPO of its subsidiary, Swala Oil & Gas (Tanzania) Plc in anticipation of it listing on the Dar es Salaam Stock Exchange - a major achievement as it is to become the first local based oil and gas exploration company to be listed on this exchange.

Pangani Licence

The Company has been planning for the commencement of its third year seismic survey in the Pangani licence in Northern Tanzania. This 2D seismic survey has been designed to cover up to 200km of seismic acquisition over the Moshi Basin and develop potential leads and prospects as candidates for potential future drilling. This basin was identified from the data secured during the Company's 2013 successful seismic survey that highlighted a number of basins across its Tanzanian assets.

Block 44, Zambia

On the 12th of May the Company announced that its 93%-owned subsidiary, Swala Energy (Zambia) Limited, had been offered Block 44 in the Republic of Zambia. The company has accepted this offer and is now working through the final paperwork required that will allow the Company to start its work on the permit obligations.

Block 44 lies in the southern part of the country and covers an area of 6,000km² on the margins of the Karoo-aged Kariba basin. Analysis by the Company of gravity and legacy seismic data suggest that the basin has a thick sequence of Karoo-aged sediments. The basin was initially explored by Mobil Oil in the late 1980's and a large volume of 2D seismic data was acquired at the time. It is evident to the Company from analysis of these data sets using more modern evaluation techniques that the Kariba Basin has a significant sedimentary fill with large structural traps.

During the first contract year Swala intends to further reprocess and reinterpret the legacy seismic data as part of its work programme. Importantly for the Company, under the provisions of this award, Swala may withdraw after each of the first 2 years of the contract should the work conducted fail to confirm the basin's prospectivity.

12B licence

On the 23rd of June 2014 the Company advised that it had completed its proposed farm-down of a 25% equity interest in Block 12B to CEPSA Kenya Limited, an affiliate of Compañía Española de Petróleos, S.A.U. (“CEPSA”).

On completion of the farm-out Swala retained a 25% net working interest in Block 12B, CEPSA had a 25% net working interest and Tullow Oil (LSE: TLW) held the remaining 50% net working interest and continued to act as the joint venture Operator. As part of the farm-out agreement Swala has had its past costs repaid (US\$0.5 million) and will recover up to a further US\$2.6 million towards the costs of the completed seismic survey programme.

On the 30th June 2014 the Company advised that the Joint Venture had completed its 350km 2D seismic survey over Block 12B. The initial results based on preliminary processed data indicate the presence of large-scale faulted structures across the entire basin, together with the presence of shallow volcanics, a common feature of the East African Rift System (EARS). Initial results, supported by the Company's earlier re-interpretation of available legacy data coupled with Tullow's knowledge of the EARS area suggest a Neogene basin with possible 3,000 metres of sedimentary fill.

Since the close date of this Quarterly Report period a number of matters pertaining to Block 12B have been announced by the Company and additional information is included in this report for clarity.

On the 21st of July 2014 the Company advised that, following reprocessing and interpretation of the seismic data, both Tullow and Swala had decided to proceed into the second exploration phase of operations. This phase has an obligation to drill one exploration well. Swala's technical views are aligned with those of Tullow, who in turn draws on its significant experience in the EARS.

Also on the same date the Company advised that CEPSE had decided to withdraw from the licence because the short period of time available to it before the Joint Venture had to decide to continue into the third year of operations was insufficient for it to complete its internal analysis before reaching a drill-or-drop decision. It should be noted that notwithstanding this withdrawal, CEPSE remains obliged to pay up to \$2.6 million towards Swala's completed seismic costs and to return to Swala the 25% equity interest that it originally secured.

CORPORATE AND FINANCIAL

Cash

At the end of June 2014 the Company had cash in bank of AUD \$4.7 million.

Listing of Swala Oil & Gas (Tanzania) Plc on the Dar Stock Exchange

On the 9th of June 2014 the Company's partly-owned subsidiary, Swala Oil & Gas (Tanzania) plc ("Swala Tanzania") opened its Initial Public Offer (IPO) on the Dar es Salaam Stock Exchange as it sought to raise between 1.6 billion and 4.8 billion Tanzanian shillings (between US\$1 million and US\$3 million).

The issue closed on the 4th of July 2014, having seen significant interest from both inside Tanzania, from the Tanzanian diaspora and from the East African region. A total of 1,868 new shareholders subscribed for 6.9 million shares, raising the equivalent of approximately US\$2.0 million before expenses. This was significantly more than the Minimum Subscription of 1.6 billion Tanzanian shillings (approximately US\$1.0 million).

The Company pre-invested its expected contribution towards the upcoming seismic costs in Swala Tanzania in order to maintain an equity interest of 58.5%.

The effect of this dilution on the Company's net direct and indirect equity position is itemised below:

	Before	After
Equity Interest	65.1%	58.5%
Indirect equity in Pangani	32.5%	29.2%
Indirect equity in Kilosa-Kilombero	32.5%	29.2%
Indirect area interest	11,320km ²	10,172km ²

Persons compiling reports about hydrocarbons: In accordance with ASX Listing Rules, any geological or hydrocarbon reserves information in this release has been reviewed by Swala's Exploration Director, Mr Neil Taylor who has over 30 years' experience in the sector. He consents to that information in the form and context in which it appears.