

Swala Energy Limited | ACN 161 989 546

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Highlights

- **Completion of 2014 work commitments with seismic survey of the Kilombero Basin.**
- **'String of Pearls' identified along the Kilombero boundary fault on trend with the Kito prospect.**
- **Several prospects and leads identified in the Kilombero basin. Data being processed to identify 2015 drilling target(s).**
- **Resolution of 12B dispute sees Swala's equity return to 50%. Processing continues on the 10 leads and prospects identified in the 12B basin.**

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 18,000km² 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.

Swala Energy Limited (“Swala” or “Company”) (ASX: SWE) is pleased to present its Quarterly Activities Report for the quarter ending 31 December 2014 (“Quarter”).

HIGHLIGHTS

The Company’s activities in East Africa during the Quarter were progressed in the context of a dramatic drop in the oil price that saw the price of Brent fall from US\$94.5 to US\$55.2 per barrel over the Quarter (WTI fell from US\$90.8 to US\$53.5 per barrel over the same period). Overall, oil prices collapsed by some 40% over the last three months of 2014 with a 10% drop in a single day (the 28th November 2014) after OPEC decided to maintain current production levels.

Such a drop has brought oil prices to historical lows (although still higher than the lows reached in 2008). Unlike the 2008 oil price collapse, this fall appears to be linked to over-supply and widespread opinion suggests that supply and demand will balance through the slow-down of US onshore oil shale production, with a similar weakness being transferred with a 6-9 month delay to gas prices that are commonly linked to oil prices. Estimates of likely oil prices during 2015 vary but lie in the range of US\$50 to US\$70 per barrel.

The drop in oil prices has been felt widely. Corporate work programmes have been reviewed across the industry so as to focus on materiality and cost control. Closer to home, the oil price collapse impacted the Company’s planned equity raise in the Quarter as the price at which securities could be placed changed abruptly and continually for the worst. On the 17th of December the Company advised that it had entered into an agreement with Magna Equities to place up to US\$2.25 million in convertible notes.

Swala remains committed to its 2015 work commitment obligations, including drilling, at the same time as it reviews its cost structure in line with current market conditions.

OPERATIONAL

The Company’s geotechnical team has also spent considerable time interpreting the seismic data that originated from the Kenya Block 12B seismic survey and which confirmed the presence of a substantial basin. Further interpretation allowed Swala and the licence Operator, Tullow (Kenya) Limited (“Tullow”) to identify

a series of ten leads and prospects from which one (“Ahero–“A”) has been identified as one of a number of a potential drilling target for the second calendar half (2H) 2015.

KILOSA-KILOMBERO LICENCE, TANZANIA

Net participating interest to Swala Energy Limited (ASX: SWE) is 29.2%.

The seismic survey over the Kilombero basin was completed on the 5th January 2015. As previously advised, the survey identified a ‘string of pearls’ – a number of leads and prospects extending along the basin boundary fault to the north-east and south-west of the Kito Prospect (net to Swala 35.3 million barrels (“mmbbls”) Prospective Resources (P50) mean estimate) ^{Note 1}. See Figure 1.

During the Quarter the Company carried out a further seismic survey over the Kilombero basin with particular emphasis on the edges of the basin. This survey identified a number of leads and prospects along the basin-boundary faults, extending the previously-identified ‘string of pearls’ configuration to the north-east and south-west of the Kito prospect. This configuration is analogous to the structural setting of the discoveries made to date in the Lokichar Basin in Northern Kenya.

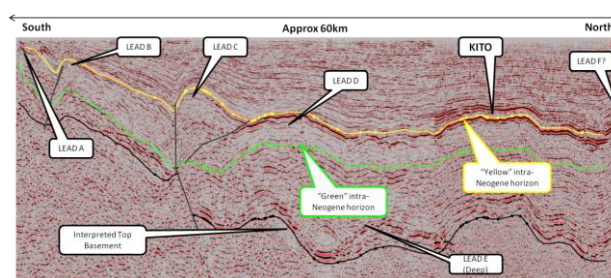


Figure 1: North south strike line along the western bounding fault of the Kilombero Basin

The seismic results suggest the presence of a Neogene-age basin with a maximum depth to basement in excess of 3,000m. The low seismic velocities recorded appear to indicate that the age of the sediments in the basin is similar to that of the proven oil basins of Kenya (Lokichar) and Uganda, where Africa Oil (TSX.V: AOI) and Tullow Oil (LSE: TLE) have had significant success.

One of the features of the Lokichar basin in Northern Kenya is the development of traps against the basin

boundary fault in a ‘string of pearls’ configuration analogous to the one that the 2014 seismic programme identified in the Kilombero basin (see Figure 2).

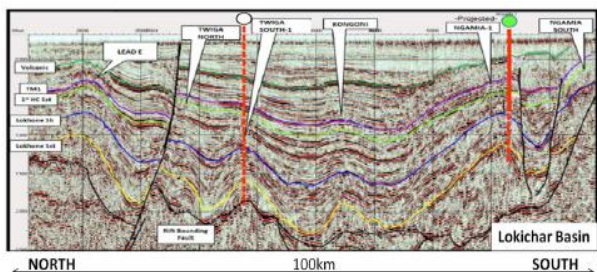


Figure 2: North south strike line along the western bounding fault of the Lokichar Basin

PANGANI LICENCE, TANZANIA

Net participating interest to Swala Energy Limited (ASX: SWE) is 29.2%.

Between mid-November and late December 2013 the Company acquired 200km of 2D seismic over the Moshi and Mvungwe basins, two basins within the Pangani licence that had been identified from interpretation of the gravity-magnetic results acquired by Swala’s 2012 airborne survey. During 2014 the Company acquired a further 200km of 2D seismic over the Moshi basin, fulfilling its work commitments for the Third Contract Year.

The Company is now committed to drill one well in the Pangani licence. Initial studies have clarified the operational issues associated with drilling in Pangani and confirmed estimated drilling costs below US\$10 million (on a gross basis). Discussions with other operators are ongoing with the aim of exploring possible synergies between drilling programmes so as to reduce this estimated cost further. The Company is now processing and interpreting the seismic data with a view to identifying suitable drilling targets in 2015.

BLOCK 12B, KENYA

The participating interest to Swala Energy Limited (ASX: SWE) is 50% for Block 12B.

On the 19th of December 2014 the Company advised that the dispute with Compañía Española de Petróleos S.A.U. (“CEPSA”) had been resolved amicably and that, subject to Ministerial consent, which is expected to be received shortly, Swala’s equity would revert to 50%.

The other 50% is held by Tullow Oil (Kenya) Limited, the Operator.

The technical review of the Block 12B basin progressed during the Quarter through detailed processing of the seismic data by the interpretation company CGG. As previously advised, the seismic survey over 12B that was completed in the second quarter of 2014 revealed a number of leads and prospects, of which Ahero-A was provisionally identified as a potential drilling target for 2015 (see Figure 3).

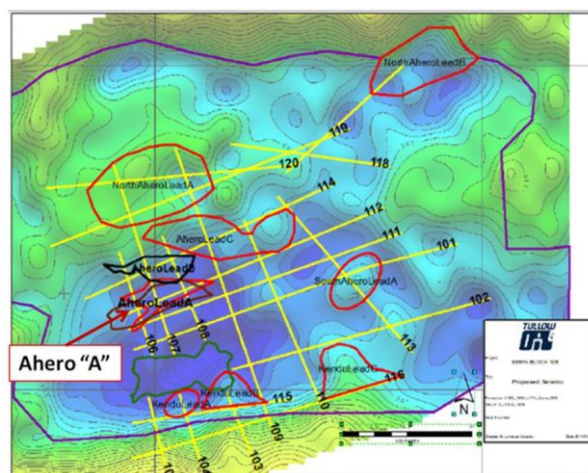


Figure 3: Identified leads in the Nyanza basin, highlighting location of Ahero “A”.

The Operator of Block 12B’s parent company, Tullow Oil plc (“Tullow”), advised that, as published on Tullow’s website (www.tulloil.com), the prospect Ahero-A is estimated to have the potential to contain up to 22 mmbbls of 2C Resources (net to Swala). Additional technical work is ongoing to further refine the joint venture’s understanding of the licence’s potential.

FINANCIAL AND CORPORATE

The Company secured up to US\$2.25 million by entering into a convertible notes facility with Magna Equities II, LLC (“Facility”), subject to various conditions. Under the Facility the Company received US\$750,000 and issued 750,000 convertible notes as at the end of the Quarter.

The Company’s original intention was to raise additional capital ahead of the 2015 drilling campaign. With the change in market sentiment and the expected weakness in oil prices during 2015, the Company commenced a farm-down process in December 2014 to reduce its exposure to costs during 2015. On the 20th January

2015, after the period covered by this report, the Company advised that it had engaged the services of FirstEnergy Capital LLP to manage the significant interest engendered by this process.

The cash at bank as at 31 December 2014 was AU \$2.35 million.

NOTE:

- (1) Refer to Swala's ASX announcement on 11 December 2013 and RISC ITSR of the same date. The calculation of 35.3 mmbbls is based on Swala's 58.5% equity interest in Swala Oil and Gas (Tanzania) Plc.

The Company is not aware of any new information or data that materially affects the information included in the estimate of Prospective Resources reported on 11 December 2013.

The estimated quantities of petroleum that may potentially be recovered by the application of a future development project(s) relate to undiscovered accumulations. These estimates have both an associated risk of discovery and a risk of development. Further exploration, appraisal and evaluation is required to determine the existence of a significant quantity of potentially moveable hydrocarbons.

Persons compiling reports about hydrocarbons: Any geological or hydrocarbon 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.

Appendix 5B

Mining exploration entity and oil and gas exploration entity quarterly report

Introduced 01/07/96 Origin Appendix 8 Amended 01/07/97, 01/07/98, 30/09/01, 01/06/10, 17/12/10, 01/05/2013

Name of entity

Swala Energy Limited

ABN

50 161 989 546

Quarter ended ("Current Quarter")

31 December 2014

Consolidated statement of cash flows

	Current Quarter \$A'000	Year to date (9 months) \$A'000
Cash flows related to operating activities		
1.1 Receipts from product sales and related debtors	-	-
1.2 Payments for		
(a) exploration & evaluation	(4,195)	(8,823)
(b) development	-	-
(c) production	-	-
(d) administration	(995)	(3,580)
1.3 Dividends received	-	-
1.4 Interest and other items of a similar nature received	28	50
1.5 Interest and other costs of finance paid	-	-
1.6 Income taxes paid	-	-
1.7 Other (Farm-in proceeds)	-	500
	(5,162)	(11,853)
Net Operating Cash Flows		
Cash flows related to investing activities		
1.8 Payment for purchases of:		
(a) prospects	-	-
(b) equity investments	-	-
(c) other fixed assets	(13)	(67)
1.9 Proceeds from sale of:		
(a) prospects	-	-
(b) equity investments	-	-
(c) other fixed assets	-	-
1.10 Loans to other entities	-	-
1.11 Loans repaid by other entities	-	-
1.12 Other (net cash inflow from asset acquisition)	-	-
	(13)	(67)
Net investing cash flows		
1.13 Total operating and investing cash flows (carried forward)	(5,175)	(11,920)

+ See chapter 19 for defined terms.

Appendix 5B**Mining exploration entity and oil and gas exploration entity quarterly report**

1.13	Total operating and investing cash flows (brought forward)	(5,175)	(11,920)
Cash flows related to financing activities			
1.14	Proceeds from the issue of shares by Swala Energy Limited	75	75
	Proceeds from issues of shares Swala Oil and Gas (Tanzania) Plc		2,381
1.15	Proceeds from sale of forfeited shares	-	-
1.16	Proceeds from borrowings	-	-
1.17	Repayment of borrowings	-	-
1.18	Dividends paid	-	-
1.19	Issue of convertible notes by Swala Energy Limited	918	918
	Issue of convertible notes by Swala Oil and Gas (Tanzania) Plc	-	1,355
	Net financing cash flows	993	4,729
	Net increase (decrease) in cash held	(4,182)	(7,191)
1.20	Cash at beginning of quarter/year to date	6,746	9,307
1.21	Exchange rate adjustments to item 1.20	(216)	232
1.22	Cash at end of quarter	2,348	2,348

Payments to directors of the entity, associates of the directors, related entities of the entity and associates of the related entities

		Current Quarter \$A'000
1.23	Aggregate amount of payments to the parties included in item 1.2	221
1.24	Aggregate amount of loans to the parties included in item 1.10	-

1.25 Explanation necessary for an understanding of the transactions

Directors' fees including superannuation where applicable.

	\$A'000
Executive Directors	161
Non-Executive Directors	60
Total	221

Non-cash financing and investing activities

2.1 Details of financing and investing transactions which have had a material effect on consolidated assets and liabilities but did not involve cash flows

N/A

+ See chapter 19 for defined terms.

- 2.2 Details of outlays made by other entities to establish or increase their share in projects in which the reporting entity has an interest

N/A

Financing facilities available

Add notes as necessary for an understanding of the position.

	Amount available \$A'000	Amount used \$A'000
3.1 Loan facilities	-	-
3.2 Credit standby arrangements	-	-

Estimated cash outflows for next quarter

	\$A'000
4.1 Exploration and evaluation	2,027
4.2 Development	-
4.3 Production	-
4.4 Administration	601
Total	2,628

Reconciliation of cash

Reconciliation of cash at the end of the quarter (as shown in the consolidated statement of cash flows) to the related items in the accounts is as follows.

	Current Quarter \$A'000	Previous Quarter \$A'000
5.1 Cash on hand and at bank	2,348	6,746
5.2 Deposits at call	-	-
5.3 Bank overdraft	-	-
5.4 Other (Term Deposit)	-	-
Total: cash at end of quarter (item 1.22)	2,348	6,746

+ See chapter 19 for defined terms.

Appendix 5B

Mining exploration entity and oil and gas exploration entity quarterly report

Changes in interests in mining tenements and petroleum tenements

	Tenement reference and location	Nature of interest (note (2))	Interest at beginning of Quarter	Interest at end of Quarter
6.1	Interests in mining tenements and petroleum tenements relinquished, reduced or lapsed	-	-	-
6.2	Interests in mining tenements and petroleum tenements acquired or increased	Block 12B, Kenya Re-assignment of a 25% working interest from CEPSA Kenya Limited to Swala Energy (Kenya) Limited	25%	50%

Issued and quoted securities at end of current quarter

Description includes rate of interest and any redemption or conversion rights together with prices and dates.

	Total number	Number quoted	Issue price per security (see note 3) (cents)	Amount paid up per security (see note 3) (cents)
7.1	Preference securities			
7.2	<i>(description)</i> Changes during quarter (a) Increases through issues (b) Decreases through returns of capital, buy-backs, redemptions			
7.3	+Ordinary securities	109,028,590 <u>45,273,583</u> 154,302,173	109,028,590 <u>Nil</u> 109,028,590	Fully Paid Ordinary Shares Held in escrow until 18/04/15 Total
7.4	Changes during quarter (a) Increases through issues (b) Decreases through returns of capital, buy-backs	543,475		
7.5	+Convertible debt securities	Total number 750,000	Number quoted Nil	

+ See chapter 19 for defined terms.

Appendix 5B

Mining exploration entity and oil and gas exploration entity quarterly report

7.6	Changes during quarter (a) Increases through issues (b) Decreases through securities matured, converted	750,000			
7.7	Options	Total number	Number quoted	<i>Exercise price</i>	<i>Expiry date</i>
		8,050,000	Nil	\$0.30	12/04/2018 Held in escrow until 18/04/2015
		50,000	Nil	\$0.30	12/04/2018
		550,000	Nil	\$0.30	27/09/2018
		50,000	Nil	\$0.30	25/10/2018
		<hr style="width: 10%; margin: 0 auto;"/>			<i>Conversion: One Ordinary Share for every One Option held</i>
		8,700,000		Total	
7.8	Issued during quarter				
7.9	Exercised during quarter				
7.10	Expired during quarter				
7.11	Performance Shares	Total number	Number quoted		
	Class A	7,545,594	Nil		Held in escrow until 18/04/15
	Class A	2,454,406	Nil		Released from escrow on 12/04/14 <i>Conversion: One Ordinary Share for every One Class A Performance Share held if Class A milestone achieved.</i>
	Class B	3,772,797	Nil		Held in escrow until 18/04/15
	Class B	1,227,203	Nil		Released from escrow on 12/04/14 <i>Conversion: One Ordinary Share for every One Class B Performance Share held if Class B milestone achieved.</i>
		<hr style="width: 10%; margin: 0 auto;"/>			Total
		15,000,000			
7.12	Issued during quarter				
7.13	Exercised during quarter				
7.14	Expired during quarter				
7.15	Debentures (totals only)				
7.16	Unsecured notes (totals only)				

+ See chapter 19 for defined terms.

Compliance statement

- 1 This statement has been prepared under accounting policies which comply with accounting standards as defined in the Corporations Act or other standards acceptable to ASX (see note 5).
- 2 This statement does /does not* (*delete one*) give a true and fair view of the matters disclosed.



Sign here:
(~~Director~~/Company Secretary)

Date: 30/01/2015

Print name: Mr Adrian Di Carlo

Notes

- 1 The quarterly report provides a basis for informing the market how the entity's activities have been financed for the past quarter and the effect on its cash position. An entity wanting to disclose additional information is encouraged to do so, in a note or notes attached to this report.
- 2 The "Nature of interest" (items 6.1 and 6.2) includes options in respect of interests in mining tenements and petroleum tenements acquired, exercised or lapsed during the reporting period. If the entity is involved in a joint venture agreement and there are conditions precedent which will change its percentage interest in a mining tenement or petroleum tenement, it should disclose the change of percentage interest and conditions precedent in the list required for items 6.1 and 6.2.
- 3 **Issued and quoted securities** The issue price and amount paid up is not required in items 7.1 and 7.3 for fully paid securities.
- 4 The definitions in, and provisions of, *AASB 6: Exploration for and Evaluation of Mineral Resources* and *AASB 107: Statement of Cash Flows* apply to this report.
- 5 **Accounting Standards** ASX will accept, for example, the use of International Financial Reporting Standards for foreign entities. If the standards used do not address a topic, the Australian standard on that topic (if any) must be complied with.

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+ See chapter 19 for defined terms.