

Swala Energy Limited | ACN 161 989 546

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## Highlights

- **Farm-out of the Kilosa-Kilombero and Pangani licences to Tata Petrodyne Limited;**
- **Terms include US\$5.7 million cash payment and a free carry through one well in each licence up to a combined maximum of US\$4.6 million;**
- **Seismic processing identified additional leads and prospects in the Pangani, Kilosa-Kilombero and Block 12B licences and has increased the size of the Kito prospect in the Kilosa-Kilombero licence;**
- **The Company has undertaken further cost saving initiatives aimed at saving an additional A\$500,000 in 2015;**
- **Board of Directors reinforced with the appointment of a skilled non-executive director with significant experience of international capital markets.**

**About Swala Energy Limited:** Swala Energy Limited is an Australian oil and gas company listed on the Australian Securities Exchange (“ASX”) under the ticker code “SWE”. Swala’s holdings are predominantly in the world-class East African Rift System with a total net land package in excess of 18,000km<sup>2</sup> 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 30 June 2015 (“Quarter”).

**OPERATIONAL**

During the Quarter the Swala technical team completed the processing from the 2014-15 seismic campaign in the Kilosa-Kilombero and Pangani exploration licence areas and were nearing completion of the technical evaluation of this new data over the Kilombero and Moshi sedimentary basins.

In Block 12B, the Operator, Tullow Oil Kenya BV (“Tullow”), completed further processing of the 2014 2D seismic data and updated the mapping of the prospects and leads inventory.

**KILOSA-KILOMBERO LICENCE, TANZANIA**

**Net participating interest to Swala Energy Limited (ASX: SWE) is 29.2%**  
**Operator: Swala Oil and Gas (Tanzania) Plc**

On 1 June 2015 the Company announced the farm-out of a 25% working interest in the Kilosa-Kilombero licence to Tata Petrodyne Limited (“TPL”), part of the Tata Sons of India conglomerate. The transaction is subject to government consent and upon its conclusion, the Company’s 58.5%-owned subsidiary, Swala Oil and Gas (Tanzania) Plc (“Swala Tanzania”) will retain a 25% working interest and continue to act as Operator. Under the terms of the farm-in, TPL shall contribute US\$3.9 million in cash towards Swala Tanzania’s past costs and up to US\$2.5 million in cash towards Swala Tanzania’s costs of a well on the Kito prospect. In addition, should the first well be a commercial success, TPL shall contribute a further US\$1 million towards Swala Tanzania’s cost of a second exploration well.

Evaluation of the processed 2D seismic data acquired in late 2014 has resulted in a re-assessment of the reservoir section of the Kito prospect and its overall size (46 square kilometres). The Company is currently estimating the resulting increase in volumes of this prospect (see Figure 1). In addition, early results indicate a marked amplitude anomaly coincidental with the Kito structure (see Figures 2 and 3). The Company views the fact that the amplitude anomaly conforms to

the Kito structure as an additional factor that makes the Kito prospect a prime drilling candidate.

In addition to the Kito prospect, several other leads have been identified and these will be matured to prospect status over the coming weeks.

Figure 1: Two-Way Time structure Map over the Kito Prospect

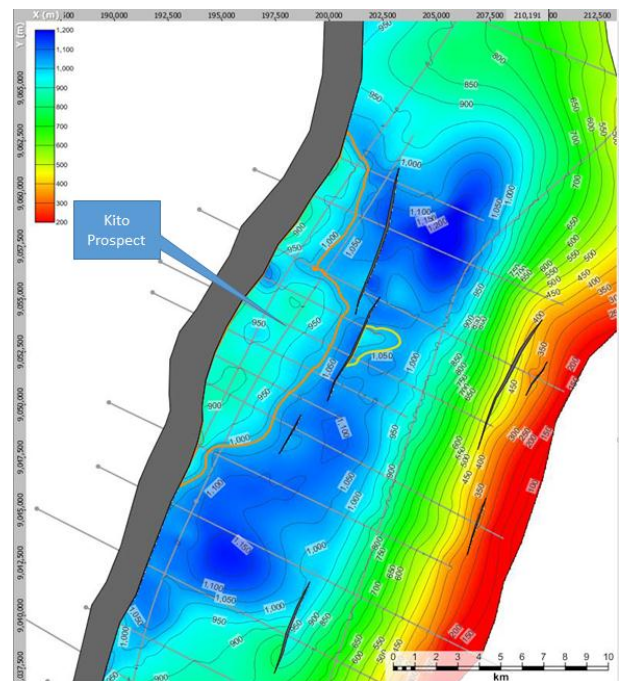


Figure 2: Amplitude anomalies over the Kito Prospect

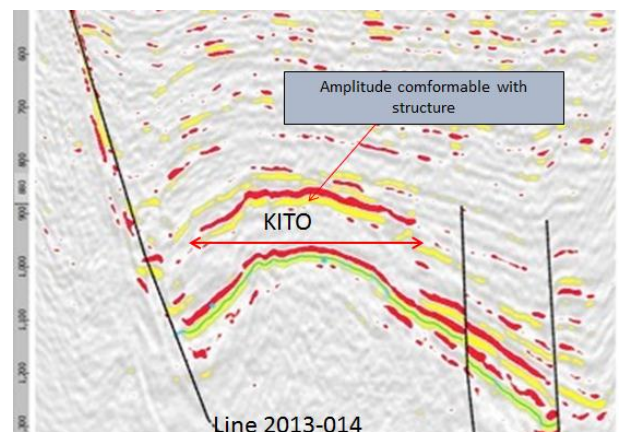
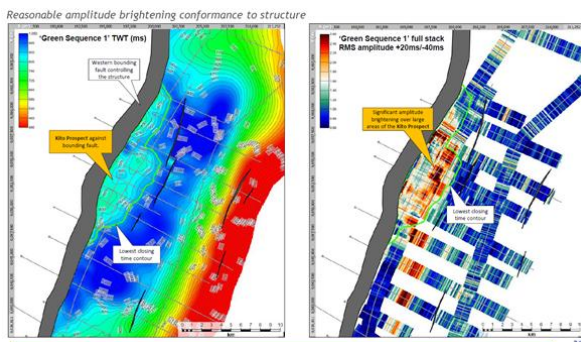


Figure 3: Map of the seismic amplitude anomalies showing fit with the Kito Prospect outline.



### **PANGANI LICENCE, TANZANIA**

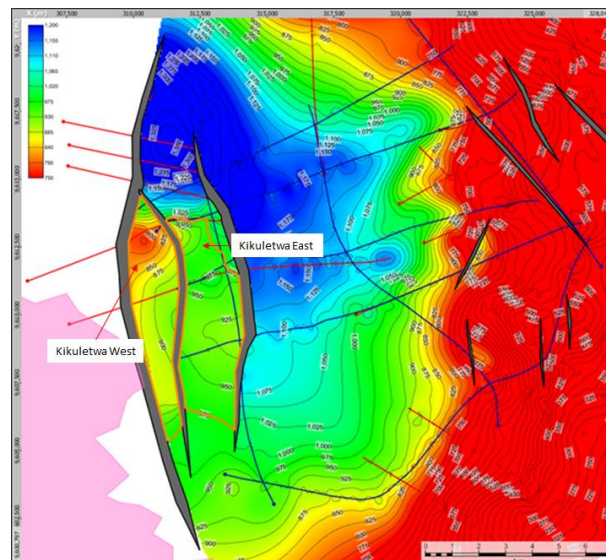
Net participating interest to Swala Energy Limited (ASX: SWE) is 29.2%  
Operator: Swala Oil and Gas (Tanzania) Plc

On 1 June 2015 the Company announced that it had farmed down a 25% working interest to TPL. The transaction is subject to Government consent and, upon its conclusion, the Company's subsidiary, Swala Tanzania will retain a 25% working interest and continue to act as Operator. Under the terms of the farm-in, TPL shall contribute US\$1.8 million in cash towards Swala Tanzania's past costs and up to US\$2.1 million in cash towards Swala Tanzania's cost of its commitment well.

Processing of the seismic data acquired in 2014 in the Moshi Basin has identified a number of structural leads against both basin-edge and intra-basin faults. Of these, the largest appear to be the Kikuletwa East and Kikuletwa West structures (see Figure 4), which between them cover an area of 24 square kilometres.

Over the coming months the Company will be making plans for maturing these leads into prospects ahead of a drilling programme which will also include the Kito prospect from the Kilosa and Kilombero licence.

Figure 4: Two Way Time Structure Map of the Kikuletwa West and Kikuletwa East Leads in Moshi Basin



### **BLOCK 12B, KENYA**

The participating interest to Swala Energy Limited (ASX: SWE) is 50% for Block 12B  
Operator: Tullow Oil (Kenya) BV

The Joint Venture has continued to process and interpret the seismic data acquired in 2014, which had originally identified the Ahero-A prospect as a potential drilling target.

Seismic processing and subsequent interpretation by the Operator during late 2014 identified a number of leads and prospects. Tullow is currently carrying out further processing of the data to further define the deeper sedimentary section. The Company is assessing the potential to farm-down part of its working interest in Block 12B ahead of any drilling campaign.

The Joint Venture shall focus on refining its prospect and lead portfolio over the coming months.

### **FINANCIAL AND CORPORATE**

On 23 June 2015 the Company announced that it had appointed Mr Frank Moxon to the Swala Board as an independent Non-Executive Director. This formal appointment process was instigated after reviewing the experience of the Board which highlighted the need for

additional international financial experience, something very important in the current financial market conditions. Mr Moxon is well known within and has significant experience of international capital markets.

The cash at bank as at 30 June 2015 was A\$0.4 million.

Earlier in the Quarter, as announced by the Company during March 2015, the Company engaged Stifel Europe Limited (formerly Oriel Securities) to manage a potential listing on the AIM Market, part of the London Stock Exchange. The Company started the process to guard against an unsuccessful farm-out process should that occur, mindful of the greater liquidity of the London capital markets and their familiarity with East African success stories. However, following the successful farm-out to TPL, the Company has, after consultation with its various financial advisors, decided to postpone a potential listing on the AIM Market until its circumstances change.

On 1 June 2015 the Company advised that Hayaat International Limited (“Hayaat”), a cornerstone investor in Swala, had agreed to provide Swala with the sum of US\$1 million as an interim loan facility, to allow, the Company to continue activities whilst it sought Government consents for the Tanzanian farm-outs, which the Company currently expects to have completed by the end of August 2015. This appreciated and very strong show of faith in Swala by Hayaat reduced the need to raise equity in the current environment, thereby protecting existing shareholders. Under the loan facility as at 30 June 2015 the first tranche of US\$500,000 had been drawn down. The second tranche was drawn down and received during July. The Governmental consents being sought for the Tanzanian farm-outs are those of the Ministry of Energy and Mines (MEM), of the Tanzanian Petroleum Development Corporation (TPDC), of the Tanzanian Revenue Authority (TRA) and of the Fair Competition Commission (FCC). As of the date of this report, consents have been received from TPDC and the TRA.

The Company has reviewed, and continues to review, its cost base, targeting high-cost activities (such as travel from Australia to Africa, where relocation of personnel has had a significant and positive impact). To date, the Company has instituted a number of initiatives that are planned to save the Company some A\$500,000 per annum and is actively working on additional initiatives to provide further increases in savings.

**Persons compiling reports about hydrocarbons:** Any geological or hydrocarbon information in this release has been reviewed by Swala’s New Ventures Manager, 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")

30 June 2015

#### Consolidated statement of cash flows

	Current Quarter \$A'000	Year to date (6 months) \$A'000
<b>Cash flows related to operating activities</b>		
1.1 Receipts from product sales and related debtors	-	-
1.2 Payments for (a) exploration & evaluation	(612)	(1,493)
(b) development	-	-
(c) production	-	-
(d) administration	(517)	(1,097)
1.3 Dividends received	-	-
1.4 Interest and other items of a similar nature received	1	3
1.5 Interest and other costs of finance paid	-	-
1.6 Income taxes paid	-	-
1.7 Other	-	-
	(1,128)	(2,587)
<b>Net Operating Cash Flows</b>		
<b>Cash flows related to investing activities</b>		
1.8 Payment for purchases of: (a) prospects	-	-
(b) equity investments	-	-
(c) other fixed assets	(1)	(8)
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	-	-
	(1)	(8)
<b>Net investing cash flows</b>		
1.13 Total operating and investing cash flows (carried forward)	(1,129)	(2,595)

+ 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)	(1,129)	(2,595)
	<b>Cash flows related to financing activities</b>		
1.14	Proceeds from the issue of shares	-	-
1.15	Proceeds from sale of forfeited shares	-	-
1.16	Proceeds from borrowings	639	639
1.17	Repayment of borrowings	-	-
1.18	Dividends paid	-	-
1.19	Other	-	-
	<b>Net financing cash flows</b>	639	639
	<b>Net increase (decrease) in cash held</b>	(490)	(1,956)
1.20	Cash at beginning of quarter/year to date	890	2,349
1.21	Exchange rate adjustments to item 1.20	3	10
1.22	<b>Cash at end of quarter</b>	403	403

**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	142
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.	
	<u>\$A'000</u>
Executive Directors	81
Non-Executive Directors	61
Total	<u>142</u>

**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
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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
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+ See chapter 19 for defined terms.

### 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 Note (A): First tranche USD 500,000 of the USD 1.0 million loan facility drawn down in June 2015. Note (B): Second tranche USD 500,000 drawn down in July 2015. AUD amount available at the USD/AUD exchange rate 1.3059 as at 30/6/15. Exchange rate per www.oanda.com.	653 <sup>(B)</sup>	639 <sup>(A)</sup>
3.2 Credit standby arrangements	-	-

### Estimated cash outflows for next quarter

	\$A'000
4.1 Exploration and evaluation	1,975
4.2 Development	-
4.3 Production	-
4.4 Administration	1,089
<b>Total</b>	<b>3,064 <sup>(C)</sup></b>

Note (C): US\$ 0.5 million received in July 2015 per Note (B) above. In addition, US\$5.7 million cash due into the Swala Energy Ltd group from Tata Petrodyne Limited, in the September 2015 quarter, for past costs from the farm-outs of the Kilosa-Kilombero licence in Tanzania (US\$3.9 million cash) and of the Pangani licence in Tanzania (US\$1.8 million cash).

### 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	403	890
5.2 Deposits at call	-	-
5.3 Bank overdraft	-	-
5.4 Other (Term Deposit)	-	-
<b>Total: cash at end of quarter (item 1.22)</b>	<b>403</b>	<b>890</b>

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+ 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	-	-	-

#### 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	<b>Preference securities</b>			
7.2	<i>(description)</i> Changes during quarter (a) Increases through issues (b) Decreases through returns of capital, buy-backs, redemptions			
7.3	<b>+Ordinary securities</b>	159,439,625	159,439,625	45,273,583 Fully Paid Ordinary Shares released from escrow on 18/04/15
7.4	Changes during quarter (a) Increases through issues  (b) Decreases through returns of capital, buy-backs	818,680 <u>997,576</u> 1,816,256	818,680 <u>997,576</u> 1,816,256	<u>Shares issued: conversion of Con. Notes</u> AU\$0.076755 per share upon conversion AU\$0.065 per share upon conversion
7.5	<b>+Convertible debt securities</b>	Total number  476,191	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	95,238			
7.7	<b>Options</b>	Total number  8,050,000  50,000 550,000 50,000 <hr style="width: 20%; margin: 0 auto;"/> 8,700,000	Number quoted  Nil  Nil Nil Nil	<i>Exercise price</i>  \$0.30  \$0.30 \$0.30 \$0.30	<i>Expiry date</i>  12/04/2018 Held in escrow until 18/04/2015  12/04/2018 27/09/2018 25/10/2018  <i>Conversion: One Ordinary Share for every One Option held</i>  Total
7.8	Issued during quarter				
7.9	Exercised during quarter				
7.10	Expired during quarter				
7.11	<b>Performance Shares</b> Class A	Total number  10,000,000	Number quoted  Nil	7,545,594 Class A Performance Shares released from escrow on 18/04/15  <i>Conversion: One Ordinary Share for every One Class A Performance Share held if Class A milestone achieved.</i>	
	Class B	5,000,000  <hr style="width: 20%; margin: 0 auto;"/> 15,000,000	Nil	3,772,797 Class B Performance Shares released from escrow on 18/04/15  <i>Conversion: One Ordinary Share for every One Class B Performance Share held if Class B milestone achieved.</i>  Total  <i>If milestone not achieved within 3 years from date of issue of Performance Shares then one Ordinary Share issued for every 1,000 Performance Shares Class A or Class B, held.</i>	
7.12	Issued during quarter				
7.13	Exercised during quarter				
7.14	Expired during quarter				
7.15	<b>Debentures</b> <i>(totals only)</i>				
7.16	<b>Unsecured notes</b> <i>(totals only)</i>				

+ 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: ..... Date: 31/07/2015  
(~~Director~~/Company Secretary)

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.