

Swala Energy Limited | ACN 161 989 546

Level 4, 21 Kintail Road
Applecross WA 6153
Australia

TEL +61 (0) 8 6270 4700
FAX +61 (0) 8 6314 4675
EML info@swala-energy.com
WEB swala-energy.com

Highlights

- **Completion of farm-out in Tanzania**
- **Drill support contract awarded in Tanzania**
- **Competent Person's Report commissioned**
- **Outstanding convertible notes redeemed**
- **Loan repaid to Hayaat International Limited**

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 9,000km² in Tanzania and Kenya. 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 2015 (“Quarter”).

OPERATIONAL

During the Quarter the Swala team has focussed on positioning the Company to weather continuing adverse conditions being felt across the industry due to further deterioration in global oil and gas prices by, amongst other things:

- undertaking operational planning ahead of the 2016 drilling programme in Tanzania;
- further development of the technical evaluation of Block 12B in Kenya; and
- undertaking data purchase and conducting a review of prime blocks being presented in the upcoming Uganda licensing round; and
- repaying all outstanding borrowing obligations.

In Tanzania, Swala and its JV partners have been focussing on the final drill location for the commitment well at Kito-1 in the Kilosa-Kilombero licence. In addition the Company awarded the Environmental Impact Assessment work required ahead of drilling to ERC, a local Tanzanian company that has experience in these activities and carried out all similar work for Swala during its seismic activities undertaken in the Pangani and Kilosa-Kilombero licences during 2013 and 2014.

After an extensive review of proposals from experienced companies Swala also awarded the Drill Planning Contract for Pangani and Kilosa-Kilombero to NauticAWT in early November. That company has now commence detailed planning for the proposed Kito-1 well as part of the first steps being undertaken in preparing for drilling.

In Block 12B (Kenya), Swala has continued to trial seismic processing techniques to better reveal the potential for hydrocarbon discoveries within the Nyanza basin fill and define leads and prospects. This will help to determine the optimal work programme and identify a drilling target.

During the Quarter the Company also progressed its interest in, and technical understanding of, licences offered within the Ugandan licencing round for which bids are to be submitted by the 26th February 2016. Uganda is one of the few countries in East Africa

with proven oil potential, a developed and pragmatic legislative framework and a focus on development and production as a way to national wealth. Swala's focus on Uganda, and a parallel drive to upgrade its asset portfolio, reflects a desire to diversify its operations in light of diminishing opportunities and increasing perceived country risk in areas where the Company is active.

KILOSA-KILOMBERO LICENCE, TANZANIA

Net participating interest to Swala Energy Limited (ASX: SWE) at 31 December 2015 is 14.6%

Operator: Swala Tanzania Oil and Gas (Tanzania) Plc

During the Quarter Swala and the JV partners agreed the location for the Kito-1 well and this has been used as the Basis of Well Design. With the contract recently awarded to NauticAWT, they will effectively act as Swala's drilling team and will be responsible for the design, costing and management of the well in order to provide an environmentally sensitive, cost-effective and safely undertaken exploration well. This is an important step for Swala and also Tanzania as it will be the first such well to be drilled in the East African Rift System in Tanzania.

Figure 1 shows the location of the Kito-1 well on the dip seismic line through the crest of the structure.

Figure 2 shows the well prognosis for the Basis of Well Design.

Figure 3 shows the Kito structure map with the proposed Kito-1 location. As at year end Swala was making preparations for land purchase and site design.

Figure 1: Kito-1 well location

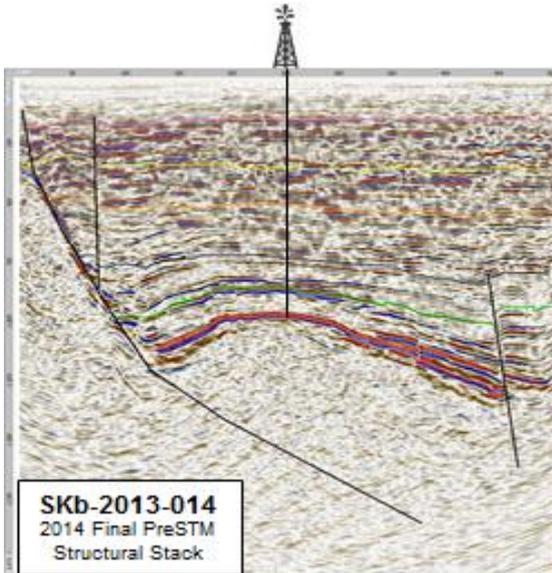
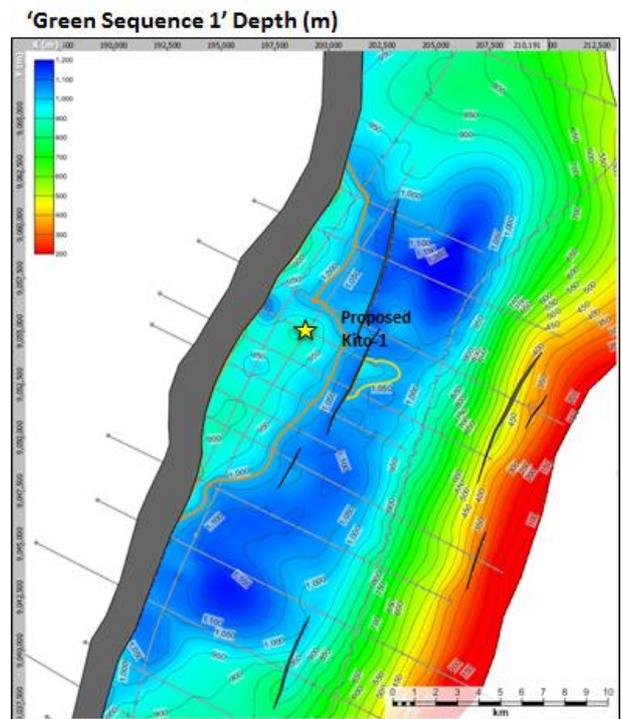


Figure 2: Kito-1 Well Forecast

Period	Age		Seismic Marker	Depth (meters)		Lithology	TVD. GL. m	Comments
	Epoch			Thickness	Top			
Quaternary	Holocene		Recent Cover	156	156		100	Possible thin volcanic layer
	Pleistocene							
Miocene	Pliocene		Green Sequence 5	209	365		200	Interbedded sandstone and shale
			Green Sequence 4	169	534		400	Interbedded sandstone and shale
	Miocene		Green Sequence 3	246	780		600	Interbedded sandstone and shale
			Green Sequence 2	138	918		800	
			Green Sequence 1	115	1033		900	Sandstones. Primary reservoir target
			Basal Sandstone	40	1073		1000	Coarse sands and conglomerates. Secondary reservoir target
Neoproterozoic		Deep Unconformity		TD 1093		1100		

Figure 3: Kito Structure Map with Proposed Well Location



PANGANI LICENCE, TANZANIA

Net participating interest to Swala Energy Limited (ASX: SWE) at 31 December 2015 is 14.6%

Operator: Swala Tanzania Oil and Gas (Tanzania) Plc

During the Quarter, the Company continued preparation work to define a drill target and plan a well in the licence area. Unlike Kilombero, the shallower Moshi basin has shown a number of smaller-scale leads that were the focus of technical work. Economic modelling was also progressed in parallel during the Quarter to ensure that any potential drilling target is also economically robust in the prevailing lower oil price environment

BLOCK 12B, KENYA

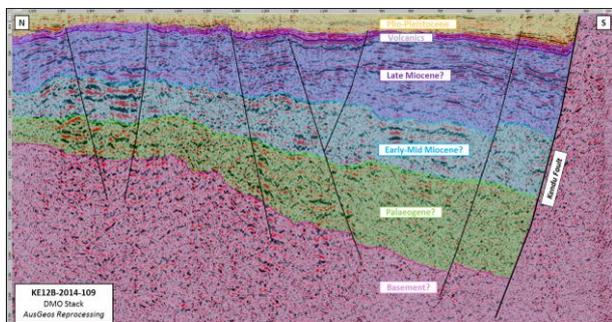
The participating interest to Swala Energy Limited (ASX: SWE) is 50% for Block 12B
Operator: Tullow Oil (Kenya) BV

Swala continues to work on investigation of data with seismic processing and has been providing support to the Operator on work necessary to allow the Joint

Venture to unlock the secrets of the Nyanza basin and demonstrate how the basin fill could be analogous with the Lokichar basin in blocks 10BB and 13T in Kenya. Further technical work, including field work, on the potential oil source rocks of the Kulu formation will continue into 2016 with the aim of de-risking the basin and identifying leads and prospects.

Figure 4 shows the interpreted fill on one of the dip lines across the basin together with an interpretation of the ages and structures.

Figure 4: Interpreted Basin Infill on Dip Line 2014-109



FINANCIAL AND CORPORATE

In December 2015 the Company commissioned Gaffney Clyde Associates to prepare a Competent Person’s Report (CPR) on its asset portfolio. The CPR will provide a third party independent assessment of the Company’s oil and gas prospectivity and is expected to be completed by the end of the first quarter of 2016. This provides a useful tool for the Company in many ways as it looks to future steps in its development.

Following completion of the farm-out transaction with Tata Petrodyne Limited and pursuant to the terms of the farm in agreement, Swala Oil and Gas (Tanzania) Plc received USD 5.7 million in October 2015.

The Company has used the funds received to repay all outstanding borrowings in November 2015 and did this by firstly paying USD 598,500 to Magna Equities II LLC (“Magna”) in November 2015. This allowed the redemption of all of the outstanding convertible notes pursuant to the agreement with Magna. The Company also repaid a loan for an amount of USD 1.1 million, including fees, to Hayaat International Limited, a cornerstone investor in Swala.

Also in November 2015, the Company relocated its Perth, Western Australia registered office.

Cash at bank as at 31 December 2015 was A\$1.7 million. As at the end of the Quarter, the number of ordinary shares on issue was 160,144,607.

LICENCES HELD DURING THE QUARTER

Held as at 31 December 2015

Licence/Tenement	Location	Percentage held by Swala in the licence	Swala Beneficial Interest as at 31/12/15	Joint Venture Partners
Kilosa-Kilombero	Tanzania	25% held by the Operator: subsidiary Swala Oil and Gas (Tanzania) Plc	14.6%	25% Operator: Swala Oil and Gas (Tanzania) Plc. 50% Otto Energy (Tanzania) Pty Ltd (ASX: OEL). 25% Tata Petrodyne Limited.
Pangani	Tanzania	25% held by the Operator: subsidiary Swala Oil and Gas (Tanzania) Plc	14.6%	25% Operator: Swala Oil and Gas (Tanzania) Plc. 50% Otto Energy (Tanzania) Pty Ltd (ASX: OEL). 25% Tata Petrodyne Limited.
Block 12B	Kenya	50% held by subsidiary Swala Energy (Kenya) Limited	50%	50% Operator: Tullow Kenya BV, a subsidiary company of Tullow Oil plc (LSE:TLW). 50% Swala Energy (Kenya) Limited.

LICENCES HELD DURING THE QUARTER (CONTINUED)

Changes during the Quarter

Licence/Tenement	Location	Swala Beneficial Interest at the beginning of the Quarter	Swala Beneficial Interest at the end of the Quarter	Joint Venture Partners
Kilosa-Kilombero	Tanzania	29.2%	14.6%	25% Operator: Swala Oil and Gas (Tanzania) Plc. 50% Otto Energy (Tanzania) Pty Ltd. 25% Tata Petrodyne Limited.
Pangani	Tanzania	29.2%	14.6%	25% Operator: Swala Oil and Gas (Tanzania) Plc. 50% Otto Energy (Tanzania) Pty Ltd. 25% Tata Petrodyne Limited.

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")

31 Dec 2015

Consolidated statement of cash flows

Cash flows related to operating activities	Current Quarter \$A'000	Year to date (12 months) \$A'000
1.1 Receipts from product sales and related debtors	-	-
1.2 Payments for		
(a.1) exploration & evaluation	(3,559)	(5,293)
(a.2) exploration & evaluation (reimbursement)*	8,284	8,284
(b) development	-	-
(c) production	-	-
(d) administration	(1,189)	(2,780)
1.3 Dividends received	-	-
1.4 Interest and other items of a similar nature received	-	3
1.5 Interest and other costs of finance paid	-	-
1.6 Income taxes paid	-	-
1.7 Other	-	-
Net Operating Cash Flows	3,536	214
Cash flows related to investing activities		
1.8 Payment for purchases of: (a) prospects	-	-
(b) equity investments	-	-
(c) other fixed assets	-	(7)
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 investing cash flows	-	(7)
1.13 Total operating and investing cash flows (carried forward)	3,536	207

* Note: this amount represents the reimbursable past costs pursuant to the farm-out agreement with Tata Petrodyne Limited.

+ 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)	3,536	207
Cash flows related to financing activities			
1.14	Proceeds from the issue of shares	-	-
1.15	Proceeds from sale of forfeited shares	-	-
1.16	Proceeds from borrowings	-	1,380
1.17	Repayment of borrowings	(1,316)	(1,380)
1.18	Dividends paid	-	-
1.19	Other - repayment of Convertible Notes	(842)	(842)
	Net financing cash flows	(2,158)	(842)
	Net increase (decrease) in cash held	1,378	(635)
1.20	Cash at beginning of quarter/year to date	346	2,349
1.21	Exchange rate adjustments to item 1.20	(11)	(1)
1.22	Cash at end of quarter	1,713	1,713

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	156
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 Director	81
Non-Executive Directors	75
Total	156

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

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

+ 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	-	-
3.2 Credit standby arrangements	-	-

Estimated cash outflows for next quarter

	\$A'000
4.1 Exploration and evaluation (net after JV partner contributions)	189
4.2 Development	-
4.3 Production	-
4.4 Administration	1,186
Total	1,375

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	1,713	346
5.2 Deposits at call	-	-
5.3 Bank overdraft	-	-
5.4 Other (Term Deposit)	-	-
Total: cash at end of quarter (item 1.22)	1,713	346

+ 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	Kilosa-Kilobero, Tanzania	50%	25%
		Pangani, Tanzania	50%	25%
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	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	160,144,607	160,144,607	
7.4	Changes during quarter (a) Increases through issues (b) Decreases through returns of capital, buy-backs			
7.5	+Convertible debt securities	Total number Nil	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, cancelled	452,381			
7.7	Options	Total number	Number quoted	<i>Exercise price</i>	<i>Expiry date</i>
		8,050,000	Nil	\$0.30	12/04/2018
		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: 50px; margin: 0 auto;"/>			
		8,700,000		Total	<i>Conversion: One Ordinary Share for every One Option held</i>
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	10,000,000	Nil		<i>Conversion: One Ordinary Share for every One Class A Performance Share held if Class A milestone achieved.</i>
	Class B	5,000,000	Nil		<i>Conversion: One Ordinary Share for every One Class B Performance Share held if Class B milestone achieved.</i>
		<hr style="width: 50px; margin: 0 auto;"/>			
		15,000,000		Total	<i>If milestone not achieved within 3 years from date of issue (12 April 2013) 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	Debentures <i>(totals only)</i>				
7.16	Unsecured notes <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 ~~not~~* (*delete one*) give a true and fair view of the matters disclosed.



Sign here: Date: 29/01/2016
(~~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.