

Swala Oil and Gas (Tanzania) plc  
Registration Number: 84838

# Prospectus



Initial Public Offer of Swala Oil and Gas (Tanzania) plc for the issue of up to 9,600,000 Ordinary Shares at a price of TZS 500 per Share to raise up to TZS 4,800,000,000 (before costs and expenses).

## IMPORTANT NOTICE

This document is important and should be read in its entirety. If after reading this Prospectus you have any questions about the securities being offered under this Prospectus or any other matter, then you should consult your stockbroker, accountant or other professional adviser.

The Shares offered by this Prospectus should be considered as speculative.

A copy of this Prospectus has been delivered to the CMSA for approval and the Registrar of Companies of registration. The securities offered have not been approved or disapproved by the Authority. Prospective investors should carefully consider the matters set forth under the caption 'risk factors' in section 7.0 of this Prospectus.

1<sup>st</sup> April 2014



## CAUTION

An Enterprise Growth Market (EGM) is designed primarily for small and medium size companies, start-ups or companies with no track record to which a higher investment risk tends to be attached than to more established companies or companies with a good track record. A prospective investor should be aware of the risks of investing in such companies and should make the decision to invest only after careful consideration and, if appropriate after consultation with an independent financial adviser.

## TRANSACTION ADVISERS



### NOMINATED ADVISOR

Arch Financial & Investment Advisory Ltd  
Life House, Wing C, Second Floor  
Ohio St / P.O. Box 38024  
Dar Es Salaam, Tanzania



### INDEPENDENT TECHNICAL SPECIALIST

RISC Pty Ltd  
(Resources Investment Strategy Consultants)  
Level 3, 1138 Hay St West Perth,  
WA 6005 Australia



### LEGAL ADVISER

Asyla Attorneys  
1<sup>st</sup> Floor, Alpha House,  
New Bagamoyo Rd / P.O. Box 80496,  
Dar Es Salaam, Tanzania



### REPORTING ACCOUNTANT

BDO East Africa  
4<sup>th</sup> Floor, Harbour view Towers  
Samora Avenue / P.O. Box 9912  
Dar Es Salaam, Tanzania



### RECEIVING BANK

CRDB Bank plc  
PSPF Golden Jubilee Tower, 12<sup>th</sup> Floor  
Dar Es Salaam, Tanzania



### REGISTRAR/COMPANY SECRETARY

Envision Consulting (T) Limited  
Plot No. 1016, Old Bagamoyo Road  
Kawe / Mbezi P.O. Box 8258  
Dar Es Salaam, Tanzania



#### DECLARATION OF THE DIRECTORS

As Directors of the Company, we have made all our reasonable inquiries. We accept the responsibility for and confirm that this prospectus contains all information with regard to the Company and the Offer, which is material in the context of the Offer, that the information contained in this prospectus is true and correct in all material respects and is not misleading in any material respect, that the opinions and intentions expressed herein are honestly held and that there are no other facts, the omission of which makes this Prospectus as a whole or any of such information or the expression of any such opinions misleading in any material respect.

We hereby declare that we will comply with the law on the age of retirement of the Directors, and in compliance with the good corporate governance requirements of the CMSA. We also confirm that none of us has ever been involved in bankruptcy, liquidation or other regulatory prohibitions.

Ernest Massawe  
*Non-Executive Chairman*

For and on behalf of Swala Oil and Gas (Tanzania) plc



NIC Life House, 2nd Floor, Wing C,  
P.O Box 38024, Dar Es Salaam, Tanzania

TEL +255 22 2112844  
EMAIL archfia@gmail.com

#### DECLARATION OF THE NOMINATED ADVISOR

Having made due and careful enquiry and taking into account all relevant matters under the Capital Markets and Securities (Nominated Advisors') Regulations, 2010 and the Dar Es Salaam Stock Exchange Rules for EGM Companies and in relation to this application for admission, we hereby confirm that all applicable requirements have been complied with and in particular;

- The listing document is in compliance with the DSE Rules for EGM companies
- The requirements of the First Schedule to the Capital Markets and Securities (Nominated Advisors) Regulations, 2010 have also been complied with.
- As Nominated Advisors, we have given advice and guidance to the Directors of the Company as to their responsibilities and obligations under the law in order to facilitate due compliance by the applicant on an ongoing basis.

We will comply with the law as Applicable in our role as Nominated Advisors to the Applicant.

Iyen J.A. Nsemwa  
Managing Director

Arch Financial & Investment Advisory Limited

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# 1. definitions

**Applicant** means an investor that applies for Securities using an Application Form pursuant to this Prospectus.

**Application** means an application to subscribe for Shares under this Prospectus made on the Application Form and accompanied by the relevant application monies.

**Application Form** means the application form attached to or accompanying this Prospectus relating to the Offer.

**BDO** means BDO East Africa.

**Broker** means a broker who is offered a firm allocation of Shares under the Broker Firm Offer.

**Broker Firm Offer** means the offer of Shares under this Prospectus to Tanzanian residents who are sophisticated or professional investors and who have received a firm allocation from their Broker and, following lodgement of this Prospectus, to Tanzanian resident investors who are not Institutional Investors.

**Business Day** means a day on which trading takes place on the stock market of DSE.

**Closing Date** means the closing date for receipt of Application Forms under this Prospectus as set out in Section 4.7 (unless extended or closed early by the Company).

**CMSA** means the Capital Markets and Security Authority.

**Company** or **Swala Oil and Gas (Tanzania)** public limited company or 'plc' ("Swala") a company incorporated pursuant to the laws of the United Republic of Tanzania with Registration Number 84838.

**Constitution** means the Company's Constitution as at the date of this Prospectus.

**Contractors** means the contractors to the relevant Tanzanian Production Sharing Agreement (PSA) as the context requires.

**Corporations Act** means the Tanzania Companies Act No. 12 of 2002 (as amended)

**Corporate Adviser Mandate Agreement** means the mandate agreement between the Company and Arch Financial & Investment Advisory Ltd

**Directors** means directors of the Company at the date of this Prospectus and **Director** means any one of them.

**Dollars** or **\$** means the currency of the United States of America. Investors should note that the international oil industry commonly in, and refers to, Dollars. Similarly, the PSAs refer to obligations in Dollars. As a result, 'Dollars' or '\$' are used occasionally and as the context requires in this Prospectus.

**DSE** means the Dar Es Salaam Stock Exchange

**DSE Listing Rules** means the listing rules of DSE.

**DSE Settlement Operating Rules** means the operating rules of the settlement facility provided by DSE Settlement as amended from time to time.

**East African Rift System** means a series of linked intra-continental rift basins that extend over a distance of some 3,500km and are 50km to 150km wide, the further details of which are set out in Section 6.2.

**East African Applicant** means an Applicant from one of the East African Territories

**East African Territories** means the countries comprising the East African Community but excluding Tanzania, being, as at the date of this Prospectus, Kenya, Uganda, Burundi and Rwanda.

**Exposure Period** means the period of 7 days after the date of lodgement of this Prospectus, which period may be extended by the CMSA by not more than 7 days.

**Independent Technical Specialist** means RISC Pty Ltd.

**Independent Technical Specialist Report** means the Independent Technical Specialist Report prepared by the Independent Technical Specialist and which is available on the Company's website [www.swala-energy.co.tz](http://www.swala-energy.co.tz).

**Institutional Investor** means an investor to whom offers or invitations in respect of securities can be made without the need for a lodged Prospectus (or other formality, other than a formality with which the Company is willing to comply), including in Tanzania, persons to whom offers or invitations in respect of securities can be made without the need for a lodged Prospectus.

**Kilosa-Kilombero** or **Kilosa-Kilombero Licence** means the block covering approximately 17,675 km<sup>2</sup> in Tanzania, East Africa and more particularly described in Section 6.4.

**Km** means kilometres.

**MMstb** means million US stock tank barrels.

**Offer** means the Offer as set out in this Prospectus.

**Official Quotation** means quotation on the official list of DSE.

**Opening Date** means the opening date for receipt of Application Forms under this Prospectus as set out in Section 4.7.

**Option** means an option to acquire a Security.

**Pangani** or **Pangani Licence** means the block covering approximately 17,156 km<sup>2</sup> in Tanzania, East Africa and more particularly described in Section 6.5.



**Production Sharing Agreement ("PSA")** means the agreement entered into between Swala, TPDC and the Tanzanian Government and which govern the exploration for, and development of, hydrocarbon resources in each of the Tanzanian Licences and each of which are dated 20 February 2012.

**Prospectus** means this Prospectus.

**Receiving Agents** means the institutions whose name is tabulated in Section 17.

**Reporting Accountant's Report** means the Reporting Accountant's Report included in Section 9.

**Securities** means Shares, Performance Shares and Options and, where the context permits, means the Securities the subject of the Offer.

**Share** means a fully paid ordinary share in the capital of the Company and, where the context permits, means the Shares the subject of the Offer.

**Shareholders** means the holders of Shares.

**SWE** means Swala Energy Limited, a company registered pursuant to the laws of Australia with ACN 161 989 546 and which, at the date of this Prospectus, holds a 65.13% equity interest in Swala Oil & Gas (Tanzania) plc.

**Tanzanian Government** means the Government of the United Republic of Tanzania.

**Tanzanian JOAs** means the joint operating agreements between Swala and Otto Energy (Tanzania) Limited in respect of the Pangani Licence and Kilosa-Kilombero Licence, summaries of which are set out in Section 12.2 and **Tanzanian JOA** means any one of them.

**Tanzanian Licences** means the Pangani Licence and Kilosa-Kilombero Licence, together covering a net area of approximately 17,500km<sup>2</sup> in Tanzania and more particularly described in Sections 6.4 and 6.5.

**Tanzanian Legal Advisor's Opinion** means the Tanzanian Solicitor's Report included in Section 11.

**TDPC** means the Tanzanian Petroleum Development Corporation, a body established under the laws of the United Republic of Tanzania for the purposes of promoting the development of the petroleum industry and production of petroleum in Tanzania.

## IMPORTANT NOTICES

This Prospectus is dated 1<sup>st</sup> April 2014. An early copy of this Prospectus was lodged with the Capital Markets and Securities Authority (CMSA) on the 26<sup>th</sup> August 2013. That early version has been updated to reflect advances in Swala's work programme that have happened in the intervening period and the issuance of a number of Convertible Notes to current and sophisticated investors. The CMSA and the Dar Es Salaam Stock Exchange (DSE) and their respective officers and directors take no responsibility for the content of this Prospectus.

Application will be made for the listing of the Shares offered by this Prospectus on the DSE. The fact that DSE may list the Shares of the Company is not to be taken in any way as an indication of the merits of the Company or the listed Securities. DSE takes no responsibility for the contents of this Prospectus, makes no representations as to its accuracy or completeness and expressly disclaims any liability whatsoever for any loss howsoever arising from or in reliance upon any part of the contents of this Prospectus.

Applications for Securities offered pursuant to this Prospectus can only be submitted on an original Application Form, which accompanies this Prospectus.

This Prospectus does not constitute an offer of Securities in any jurisdiction where, or to any person to whom, it would be unlawful to issue this Prospectus.

No person is authorised to give information or to make any representation in connection with this Prospectus, which is not contained in the Prospectus. Any information or representation not so contained may not be relied on as having been authorised by the Company in connection with this Prospectus.

In making representations in this Prospectus regard has been had to the fact that the Company is a disclosing entity for the purposes of the Companies Act and certain matters may reasonably be expected to be known to investors and professional advisers whom potential investors may consult.

## Exposure Period

This Prospectus will be circulated during the Exposure Period. The purpose of the Exposure Period is to enable this Prospectus to be examined by market participants prior to the raising of funds. Potential investors should be aware that this examination may result in the identification of deficiencies in the Prospectus.

Applications for Securities under this Prospectus will not be processed by the Company until after the expiry of the Exposure Period. No preference will be conferred on persons who lodge applications prior to the expiry of the Exposure Period.

## 1. definitions (cont.)

### Electronic Prospectus

A copy of this Prospectus can be downloaded from the website of the Company, [www.swala-energy.co.tz](http://www.swala-energy.co.tz). The Prospectus will also be available from [www.nihisa.com](http://www.nihisa.com). Any person accessing the electronic version of this Prospectus for the purpose of making an investment in the Company must meet eligibility criteria indicated under Section 5.3 of this Prospectus.

A hard copy of this Prospectus is available free of charge from all Collecting Agents' offices.

The Company reserves the right not to accept an Application Form from a person if it has reason to believe that when that person was given access to the Application Form it was not provided together with the electronic Prospectus and any relevant supplementary or replacement Prospectus or any of those documents were incomplete or altered.

### Foreign Jurisdictions

This Prospectus does not constitute an offer in any place in which, or to any person to whom, it would not be lawful to make such an offer. No action has been taken to register or qualify the Securities or to otherwise permit a public offering of the Shares in any jurisdiction outside Tanzania except to the extent indicated in Section 5.3 on eligibility.

The distribution of this Prospectus outside Tanzania may be restricted by law and persons who come into possession of this Prospectus outside Tanzania should observe any such restrictions. Any failure to comply with such restrictions may constitute a violation of applicable securities laws. Applicants who are resident in countries other than Tanzania should consult their professional advisers as to whether any governmental or other consents are required or whether any other formalities need to be considered and followed.

### Forward-looking Statements

This Prospectus contains forward-looking statements which are identified by words such as 'may', 'could', 'believes', 'estimates', 'targets', 'expects' or 'intends' and other similar words that involve risks and uncertainties.

These statements are based on an assessment of present economic and operating conditions, and on a number of assumptions regarding future events and actions that, as at the date of this Prospectus, are expected to take place.

Such forward-looking statements are not guarantees of future performance and involve known and unknown risks, uncertainties, assumptions and other important factors, many of which are beyond the control of the Company, the Directors and the management.

The Company cannot and does not give any assurance that the results, performance or achievements expressed or implied by the forward-looking statements contained in this Prospectus will actually occur and investors are cautioned not to place undue reliance on these forward-looking statements.

The Company has no intention to update or revise forward-looking statements, or to publish prospective financial information in the future, regardless of whether new information, future events or any other factors affect the information contained in this Prospectus, except where required by law.

These forward-looking statements are subject to various risk factors that could cause the Company's actual results to differ materially from the results expressed or anticipated in these statements. These risk factors are set out in Section 7.

### Photographs and Diagrams

Photographs used in this Prospectus which do not have descriptions are for illustration only and should not be interpreted to mean that any person endorses the Prospectus or its contents or that the assets shown in them are owned by the Company. Diagrams used in this Prospectus are illustrative only and may not be drawn to scale.

### Defined terms and Interpretation

Certain terms or abbreviations used in this Prospectus have defined meanings which are explained in Section 1. A reference to a Section is a reference to a section in this Prospectus.

### Competent Person's Statement

The information in this Prospectus that relates to the Tanzanian Licences is based on information that has been compiled by Neil C. Taylor, who is a non-executive director of Swala with over 30 years' experience in oil and gas exploration and a member of the Petroleum Exploration Society of Australia. Mr Taylor consents to the inclusion in this Prospectus of the matters based on his information in the form and context in which they appear.



## 2. corporate directory

### DIRECTORS

Mr Ernest Massawe  
*Non-Executive Chairman*

Dr. David Mestres Ridge  
*Chief Executive Officer/Managing Director*

Mr Selemani Pongolani  
*Chief Financial Officer*

Prof. Simon Mbilinyi  
*Non-Executive Director*

The Hon. Abdullah Mwinyi  
*Non-Executive director*

Ms. Elizabeth Obiero  
*Non-Executive Director*

Mr Neil Taylor  
*Non-Executive director*

### COMPANY SECRETARY

Envision Consulting (Tanzania) Limited

Plot No. 1016, Old Bagamoyo Road  
Kawe/Mbezi PO Box 8258  
Dar Es Salaam, Tanzania

### REGISTERED OFFICE

Swala Oil and Gas (Tanzania) plc

3<sup>rd</sup> Floor, Regent Business Park  
172 Chwaku Street

P.O. Box 105266  
Dar Es Salaam, Tanzania

### INDEPENDENT TECHNICAL SPECIALIST

RISC Pty Ltd  
Resources Investment Strategy Consultants

Level 3, 1138 Hay Street  
West Perth, WA 6005 Australia

### REPORTING ACCOUNTANT

BDO East Africa

4<sup>th</sup> floor, Harbour View Towers  
Samora Avenue

P.O. Box 9912  
Dar Es Salaam, Tanzania

### NOMINATED ADVISOR

Arch Financial & Investment Advisory Ltd

2<sup>nd</sup> Floor, Life House, Wing C

P.O Box 38024  
Dar Es Salaam, Tanzania

### LEGAL ADVISER

Asyla Attorneys

1<sup>st</sup> Floor Alpha House  
New Bagamoyo Road

PO Box 80496  
Dar Es Salaam, Tanzania

### RECEIVING BANK

CRDB Bank

PSPF Golden Jubilee Tower, 12<sup>th</sup> Floor

P.O Box 268  
Dar Es Salaam, Tanzania





Tanzania has seen considerable increase in demand for access by international oil exploration companies in recent times.



### 3. chairman's letter

Dear Investor,

On behalf of the Directors, it is my pleasure to invite you to invest in Swala Oil and Gas (Tanzania) plc (**Company** or **Swala**). The Company intends to focus on the exploration of hydrocarbons in Tanzania, to position itself to take advantage of the recent success in exploration within the East African Rift System and to build upon the exploration work recently undertaken by the Company in its Kilosa-Kilombero and Pangani Licences.

The Company, by way of this Prospectus, is offering for subscription up to 9,600,000 Shares at TZS 500 per Share to raise up to TZS 4,800,000,000 (before costs and expenses).

Swala has interests in two oil and gas exploration licences covering a net area of approximately 17,500 square kilometres in Tanzania in East Africa (the **Tanzanian Licences**). These blocks are located in the East African Rift System.

Tanzania has seen considerable increase in demand for access by international oil exploration companies in recent times. The Directors believe that following completion of the Offer, Swala will be well positioned to take advantage of this heightened interest.

The funds raised pursuant to the Offer, together with the Company's existing cash reserves, will be applied towards satisfying the minimum work programme to be undertaken on the Tanzanian Licences. Further details relating to the proposed use of funds raised from the Offer are set out in Section 4.9.

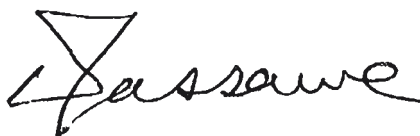
Any exploration success in the Tanzanian Licences may result in substantial upside to Shareholders. Investors should be aware however that the Company's activities and an investment in the Company are speculative due to the nature of oil exploration and there is no guarantee that exploration of the Tanzanian Licences or elsewhere will be successful.

This Prospectus provides detailed information regarding the Offer, Swala's assets, the Company's proposed activities and the risk factors associated with investing in the Company. Swala has an experienced management and technical team and is working diligently to expand on its asset base.

I recommend that you read this Prospectus in its entirety prior to making a decision to invest in the Company. It will provide a clear review of the assets in question and the proposed direction of the Company.

On behalf of the Board, I look forward to welcoming you as a Shareholder of Swala Oil and Gas (Tanzania) plc.

Yours sincerely



Ernest Massawe  
Non-Executive Chairman

For and on behalf of Swala Oil and Gas (Tanzania) plc



## 4. investment overview

### 4.1 IMPORTANT NOTICE

This Section is a summary only and not intended to provide full information for investors intending to apply for Securities offered pursuant to this Prospectus. This Prospectus should be read and considered in its entirety. The Securities offered under this Prospectus carry no guarantee in respect of return of capital, return on investment, payment of dividends or the future value of the Securities.

### 4.2 THE COMPANY

Swala Oil and Gas (Tanzania) plc (**Company or Swala**) is a public company limited by shares and incorporated on 29<sup>th</sup> July 2011, Dar es Salaam, Tanzania.

### 4.3 SUMMARY OF THE LICENCES COMPRISING THE TANZANIAN LICENCE

#### Kilosa-Kilombero Licence

Swala is both the operator of, and the holder of a 50% participating interest in, the Kilosa-Kilombero Licence. The remaining 50% participating interest is held by Otto Energy (Tanzania) Limited.

The Kilosa-Kilombero Licence covers an area of 17,675km<sup>2</sup> in Tanzania across a portion of the East African Rift System which has remained largely unexplored. To date no wells have been drilled. Seismic data acquisition has been conducted over the licence area.

#### Kilosa-Kilombero Licence

Participating Interest of Swala	50%
Partner	Otto Energy (Tanzania) Ltd (50%)
Operator	Swala
Gross area	17,675 km <sup>2</sup>

During 2012, Swala acquired over 13,500km of combined airborne

gravity and magnetic data, carried out remote sensing studies and conducted a geological field reconnaissance survey in the licence area. Based on the results of that work, Swala and Otto Energy (Tanzania) Limited decided to enter into the second year of the initial exploration period, which included the acquisition of 300km of 2D seismic and a geochemical sampling survey. An Environmental Impact Assessment was undertaken between March and May 2013 and seismic operations on the ground began on the 9<sup>th</sup> August 2013.

Between the 9<sup>th</sup> August 2013 and the 18<sup>th</sup> September 2013 the Company acquired 130km of 2D seismic over the Kilosa Basin of the Kilosa-Kilombero Licence. Initial results based on preliminary processed data indicate the possible presence of large-scale Karoo-age structures along the edges of the basin and rotated fault blocks in the middle of the basin. Such structures have the potential to act as hydrocarbon traps and their extent and prospectivity is currently being determined through ongoing seismic processing and subsequent interpretation.

Between the 18<sup>th</sup> September 2013 and the 14<sup>th</sup> October 2013 the Company acquired a further 143km of 2D seismic over the Kidatu basin of the Kilosa-Kilombero Licence. Initial results based on preliminary processed data indicate the presence of large-scale Karoo-age structures along the edges of the basin together with a major intra-basin high identified on dip and strike lines. The structure may be as large as 30 to 60 square kilometres.

On the 14<sup>th</sup> October the Company commenced a 2D seismic acquisition programme over the Kilombero Basin of the Kilosa-Kilombero Licence. Swala acquired 115km of 2D seismic over this basin and the initial results suggest the presence of a thick, Neogene-age, sequence with a maximum depth to basement in excess of 3,000m. The age of the sediments recorded appears to be similar to that of sediments observed in the now proven oil basins of Lokichar (Kenya), and Lake Albert (Uganda), where Africa Oil (TSX.V:AOI) and Tullow Oil (LSE: TLW) have had significant success. The seismic results obtained across the Kilombero Basin



show a large structural high adjacent to the basin bounding fault that extends over a distance of 9 km and is about 4km wide. Dip lines across the basin suggest the presence of both structural traps and traps against the main basin-bounding fault with possible Direct Hydrocarbon Indicators (DHIs or 'Flat Spots') observed at several levels at the crest.

#### Pangani Licence

Swala is also both the operator of, and the holder of a 50% participating interest in, the Pangani Licence. The remaining 50% participating interest is held by Otto Energy (Tanzania) Limited.

The Pangani Licence covers an area of 17,156km<sup>2</sup> in Tanzania across a portion of the East African Rift System which is largely unexplored. The recent nature of the rift is highlighted by satellite gravity data and the area has a surface cover of recent alluvial sediments but the underlying geology is currently unknown.

#### Pangani Licence

Participating Interest of Swala	50%
Partner	Otto Energy (Tanzania) Ltd (50%)
Operator	Swala
Gross area	17,156 km <sup>2</sup>

During 2012, Swala acquired over 8,000km of combined airborne gravity and magnetic data, carried out remote sensing studies and conducted a geological field reconnaissance survey in the licence area. Based on the results of that work, Swala and Otto Energy (Tanzania) Limited decided to enter into the second year of the initial exploration period, which includes the acquisition of 200km of 2D seismic and a geochemical sampling survey. An Environmental Impact Assessment was undertaken between March and May 2013 and seismic operations were completed in December 2013, identifying a shallow basin (Mvungwe) and a deeper, Neogene, basin (Moshi).

#### 4.4 BUSINESS MODEL

The Company will focus on opportunities to explore for hydrocarbons in Tanzania.

Further details of the Company's proposed use of funds raised from the Offer are included in Section 4.9.

#### Corporate Strategy

Swala uses a simple four-step business strategy. Within its first 18 months of operations, Swala has already secured two exploration licences in Tanzania and is bidding for more. The steps in the strategy are:

- Access to opportunities,
- Value Growth,
- Drilling and,
- Value Delivery.

#### Access to Opportunities

The first step in the strategy involves securing acreage at high equity levels in geologically prospective areas that have large upside potentials. Obtaining a high initial equity means that Swala can farm down at a later stage and, it may farm down whilst still allowing the parent company, SWE, to retain a meaningful indirect equity. This is important because SWE is currently financing Swala and it needs meaningful equity in order to generate the market interest that allows it to raise the funds that it lends to Swala.

Whilst its access to the capital markets allow SWE and Swala (indirectly) to secure assets at higher equity levels, the company will remain open to industrial agreements that result in added value. As it becomes financially independent, Swala will also be able to access opportunities that might be too small to farm down but which make strategic sense for its development.

#### Value Growth

To date, Swala has carried out value-adding activities, such as geological studies and air-borne gravity-magnetic surveys, in its exploration licences. The company expects to conduct seismic surveys to further evaluate and add value to the Kilosa-Kilombero and Pangani licences in the year 2014.

In New Ventures, work is being carried out to identify potential prospective areas and to secure new licences. With time, some of these assets may be progressed through strategic farm-outs and/or into drilling phases.

#### Value Delivery

Swala shareholders should benefit all along the value chain. This may be through various channels such as the low-risk technical work completed in 2013, asset sales, through an Initial Public Offering (IPO), farm-outs or through production.



#### Strategic Themes

There are three major strategic themes in the Swala Corporate Strategy. These over-arching themes provide a framework for the execution of the Corporate Strategy. They are core focus areas, a balanced portfolio and local participation.

##### (a) Focus Areas

The current core focus area for Swala is Tanzania. The majority of the Swala management team have vast experience in, and extensive knowledge of, the oil and gas industry in this region. Most have worked in senior positions accumulating extensive experience and making useful contacts with decision-makers within government. It is therefore logical for Swala to focus on a region with which the company is most familiar.

## 4. investment overview (cont.)

### (b) Balanced Portfolio

Building a balanced asset portfolio is very important to Swala. Ideally, this portfolio would comprise some high-risk, high-reward frontier acreage and some lower-risk exploration or appraisal permits in proven areas. At an appropriate time, acquiring a share of an asset in the appraisal or development stage would be an important goal for Swala. Such an acquisition would serve to balance out some of the high risk inherent in exploration in frontier areas and provide Swala with a steady long term cash flow to fund its exploration programme.

### 4.5 KEY INVESTMENT HIGHLIGHTS

The key investment highlights include the following:

- (a) Swala acquired the Tanzanian Licences in 2012 before the recent oil and gas discoveries on the East African rift system in Kenya. It has succeeded in establishing a material footprint in an area that is currently the subject of intense exploration activity.
- (b) Swala has completed and fulfilled the first two-year exploration work programme in its Tanzanian licences with airborne gravity-magnetics and 2D Seismic surveys completed over both licences.
- (c) Surveys of the Kilosa and Kidatu basins have identified significant structures in sediments believed to be of Karoo age.
- (d) The Company identified the Kito prospect, with independently-estimated undiscovered, prospective and unrisks oil resources of between 19.2 million (P90) and 169.6 million (P10) barrels net to the Company.
- (e) The survey of the Pangani licence identified another Neogene basin in Moshi (similar age to Kito and to the Kenyan oil discoveries) with a depth of some 2,500-3,000 metres.
- (f) The Directors believe that the Company will be well positioned to continue to build on the success of the Company to date. The Company intends to expand its portfolio in the region by pursuing new opportunities for additional licences.

### 4.6 THE OFFER

The Company invites applications for up to 9,600,000 Ordinary shares at an issue price of TZS 500 per Share to raise up to TZS 4,800,000,000 (before costs and expenses).

The minimum subscription under this Prospectus is TZS 50,000 (100 Shares).

The key information relating to the Offer and references to further details are set out as follows.

### 4.7 INDICATIVE TIMETABLE

An indicative timetable of events relating to the transaction is outlined below.

Event	Date
Lodgement of Prospectus with the DSE and the CMSA	26 <sup>th</sup> August 2013
Opening Date of Offer	9 <sup>th</sup> June 2014
Closing Date of Offer	4 <sup>th</sup> July 2014
Allotment	11 <sup>th</sup> July 2014
Announcement of results of the offer	14 <sup>th</sup> July 2014
Electronic crediting of shares to CDS Accounts, Dispatch of Depository receipts and payments of refunds	18 <sup>th</sup> July 2014
Anticipated date of admission to the official list of DSE	25 <sup>th</sup> July 2014

The above dates are indicative only and may change subject to obtaining the CMSA's approval. The company may extend the Closing date or close the offer early after obtaining approval of the CMSA.

### 4.8 PURPOSE OF THE OFFER

The purpose of the Offer is to provide additional funds to enable the Company to provide sufficient working capital to meet the Company's anticipated business development, work programme, overhead and administration expenses.

On completion of the Offer, the Board believes that funds raised from the Offer will provide the Company with sufficient funds to achieve the Company's objectives set out above.

### 4.9 USE OF PROCEEDS

The Company intends to apply funds raised from the Offer, together with existing cash reserves, following admission of the Company to the official list of DSE, as follows:

	Minimum subscription	Maximum subscription
<b>Funds Available</b>	<b>TZS 1,600,000,000</b>	<b>TZS 4,800,000,000</b>
Funds raised from the Offer	TZS 1,600,000,000	TZS 4,800,000,000
Convertible Notes	TZS 2,000,000,000	TZS 2,000,000,000
<b>TOTAL</b>	<b>TZS 3,600,000,000</b>	<b>TZS 6,800,000,000</b>
<b>Use of Funds</b>		
Expenses of the Offer	TZS 220,200,000	TZS 238,800,000
Work Programme (Tanzanian Licences)	TZS 2,379,800,000	TZS 5,561,200,000
Working capital, administration expenses and business development	TZS 1,000,000,000	TZS 1,000,000,000
<b>TOTAL</b>	<b>TZS 3,600,000,000</b>	<b>TZS 6,800,000,000</b>



In the event that the Company does not receive the maximum subscription of TZS 4,800,000,000 but receives more than the minimum subscription of TZS 1,600,000,000 the funds raised pursuant to the Offer will be first applied towards the expenses of the Offer, followed by work programme obligations and followed by working capital and administration expenses (in that order).

The above table is a statement of current intentions as at the date of lodgement of this Prospectus with the CMSA. As with any work plan and budget, intervening events (including exploration success or failure) and new circumstances have the potential to affect the manner in which funds are ultimately applied. Accordingly, the actual expenditures may vary from the above estimates and the Board reserves the right to vary the expenditures dependent on circumstances and other opportunities.

#### 4.10 ISSUANCE OF CONVERTIBLE NOTES

As a result of the Company's desire to accelerate the work programme in its Tanzanian Licences the Company has placed Convertible Notes with new and existing shareholders to raise TZS 2,000,000,000. These Convertible Notes will:

- If the Company does not list, be repayable by the Company on the first anniversary of the issuance of the Convertible Notes; and
- Upon listing, be converted into fully-paid ordinary shares in the Company at an effective price of TZS 300, for an additional 6,666,667 new shares.

#### 4.11 SHARE ACQUISITION BY STAFF

Under the terms of their employment contracts, Swala employees have the right to buy shares in the Swala IPO at a 50% discount to the placement price. Under this scheme, employees have committed to subscribe for a total of 63,007 shares.

#### 4.12 EFFECT OF THE OFFER

The effect of the Offer (assuming the maximum subscription is raised pursuant to the Offer) on the Company's capital structure is set out below<sup>1</sup>:

Shares	Number	Percentage
Shares on issue as at the date of this Prospectus <sup>1</sup>	80,000,000	83.10%
Shares to be issued under the terms of the Convertible Notes	6,666,667	6.93%
Maximum number of shares to be issued pursuant to this Prospectus	9,600,000	9.97%
<b>Total Shares on completion of the Offer</b>	<b>96,266,667</b>	<b>100.00%</b>
Options	(on fully-diluted basis)	
Options to be issued to key personnel of the Company <sup>2</sup>	2,000,000	2.04%
<b>Total Options on completion of the Offer</b>	<b>2,000,000</b>	<b>2.04%</b>

#### Notes:

- Please also refer to the Reporting Accountant's Report in Section 9 for further details of the effect of the Offer.
- The Company has agreed to grant a total of 2,000,000 Options to various key personnel of the Company for past performance and services provided to Swala and for incentivisation of new employees. These Options will be unquoted and exercisable at TZS 750 each on or before that date that is 5 years from the date of grant. A summary of the terms and conditions of the Options is set out in Section 14.2.

#### 4.13 BOARD OF DIRECTORS

##### Mr. Ernest S. Massawe

*Non-Executive Chairman, 1944 (Tanzanian)*

Mr. Massawe is a certified accountant (ACCA, UK) and holds a Bachelors of Commerce from the then University of East Africa - Nairobi. He is the founder as well as the former Chairman and Managing Partner of what is now the Ernst and Young Tanzania practice after having led the firm for the past 30 years until his retirement on 31 December 2010. Mr. Massawe is widely respected within the professional and business community in Tanzania which is evidenced by his many high profile appointments in the Accountancy profession, Financial services, Mining and Capital Markets sectors. As a professional accountant and the country leader for Ernst & Young Tanzania, Mr. Massawe was extensively involved in providing financial consulting and business advisory services both in the public and private sectors in Tanzania.

Mr. Massawe has played a leading role in the development of the Capital Market and the Accountancy profession in Tanzania; he was the founder and chairman of the Tanzania Association of Accountants/Board Member of the National Board of Accountants and Auditors and the first chairman of the Dar es Salaam Stock Exchange and the Tanzania Chamber of Mines. He has also served on the Banking and Financial Sector Reform Committee, The Value Added Consultative Board, the USAID sponsored Tanzania Business Centre Advisory Board and the Ministry of Finance's Think Tank on Tax Reform and Fiscal Policy. As an entrepreneur, Mr. Massawe has interests in micro-finance, banking, insurance brokerage, real estate development, medium scale gemstone mining and stock brokerage. He is also a director in a number of leading companies in Tanzania.

##### Dr. David Mestres Ridge

*Chief Executive Officer and Managing Director, 1969 (British)*

Dr. Mestres Ridge worked first for Total Oil Marine (1998-2000) and then worked as an independent M&A and business development advisor to oil companies active in the North Sea and North Africa (2000-2006). From 2006-2008 he was a Vice-President at the Royal Bank of Canada, first in the Global Investment Banking Oil and Gas team and then in the Equity Research team. In 2008-2009 he briefly managed Petrodel Resources, a company active in Tanzania. In 2009-2010 he worked with Black Marlin Energy during its IPO on the Toronto Stock Exchange. Dr. Mestres Ridge has a Bachelor of Science in Applied Geology, a Master of Science in Mining Geology, a PhD in Chemical Engineering and a Master of Laws.

## 4. investment overview (cont.)

### Mr Selemani Pongolani

*CFO and Director, 1978 (Tanzanian)*

Mr Selemani is a Fellow Chartered and Certified Accountant (FCCA, UK), and an Associate Certified Public Accountant (ACPA) accredited by National Board of Accountants and Auditors of Tanzania. Mr Selemani holds a Master's degree in Business Administration (MBA Finance and Banking) and Bsc in Electronics & Communication. He has vast work experience of over 10 years in finance, accounting, management, audit and taxation. Mr Selemani started his career with PricewaterhouseCoopers (PWC) Tanzania where he worked for five years (2003 – 2008), before joining Celtel Tanzania Limited (Now Airtel Tanzania Limited) as Tax Manager (2008 – 2009). From 2009 to 2011 he was Finance Manager at Gapco Tanzania Limited, a subsidiary of Reliance Industries Limited dealing with importation, marketing and distribution of petroleum products. In 2011, Mr Selemani joined PanAfrican Energy Limited Tanzania, a subsidiary of Orca Exploration Group as Senior Finance Manager where he was an integral part of the company's activities in hydrocarbon exploration, development and supply of natural gas in Tanzania. Mr Selemani joined Swala in July 2013.

### Professor Simon Mbilinyi

*Non-Executive Director, 1934 (Tanzanian)*

Professor Mbilinyi was Chief Economic Adviser to President Nyerere (1975-1983); Principal Secretary to the Ministry of Agriculture and Livestock Development (1982-1985); and Ambassador to the European Community, Belgium and Luxembourg (1985-1989) before becoming Principal Secretary of the Ministry of Finance (1989-1991). From 1991 to 1995 he was Managing Director of the National Development Corporation and, from 1995 to 1996 was Minister of Finance for President Mkapa. From 1995 he was Member of Parliament for Peramiho Constituency (1995-2005) and Chairman of the Tanzania Investment Centre (1998-2010); the Open University of Tanzania (2000-2010); the Tanzania Chamber of Mines (2003-2005); and the National Development Corporation (2002-2010). Professor Mbilinyi has a BA in Agricultural Economics (Ithaca University), an MA in Economics (Stanford University) and a PhD in Economics (University of Dar es Salaam).

### The Hon. Abdullah Mwinyi

*Non-Executive Director, 1973 (Tanzanian)*

The Hon. Mwinyi worked firstly as State Attorney for the Ministry of Legal Affairs (1996-1997) before joining BP as Supply and Trade Coordinator (1999-2002), Project Manager (2002-2004) and Company Secretary (2004-2005). From 2005 to 2007 he was an Associate with Mkono and Company. From 2007 he has been a Member of Parliament and a Member of the East African Legislative Assembly, where he is the Chairperson of the Legal, Privileges and Rules Committee. The Hon. Mwinyi has an LLB in Law and an LLM in Commercial Law (both from the University of Cardiff).

### Ms. Elizabeth Obiero

*Non-Executive Director, 1977 (Kenyan)*

Ms. Obiero is a qualified CPA with a Bachelor of Commerce from the University of Nairobi. She has more than 10 years' experience in various accounting sections and industries. From 2002 to 2006 she worked as accountant and Senior Accountant at Kenya Airways and its subsidiary, Kenya Airfreight Handling Limited. From 2006 to 2008 she was accountant at Woodside Kenya (Nairobi) and responsible for the accounting of the subsidiary; she then moved to Woodside's Head Office in Perth until 2011, where she has been involved in all aspects of oil and gas industry accounting.

### Mr. Neil Taylor

*Non-Executive Director, 1957 (Australian)*

Mr. Taylor is the former Exploration Manager of East African Exploration Limited ("EAX"), Black Marlin Energy's E&P subsidiary. A geologist by background, Mr. Taylor has over 30 years of experience in the oil and gas business with internationally renowned E&P companies including British Petroleum (1981-1992) and Woodside Energy (1992-2007). Through his time with those companies Mr Taylor has been involved with or led exploration and production activities world-wide, including significant work with the giant gas fields of the northwest shelf of Australia and exploration in Europe, North Sea, South East Asia, Australia and the Middle East. Mr. Taylor joined EAX in 2008 with the remit of growing the company's asset base, and added six new licences to BMEL's portfolio during his tenure.

### 4.14 DISCLOSURE OF INTERESTS

As at the date of this Prospectus, Ernest Massawe, Simon Mbilinyi and Abdullah Mwinyi hold a relevant interest in the Securities on issue in the capital of the Company. Elizabeth Obiero and Neil Taylor represent the interests of Swala Energy Limited but hold no direct relevant interest in the Securities of the Company. David Mestres Ridge holds no direct relevant interest in the securities of the company.

For each of the Directors, the maximum relevant interest of each of the Directors in the securities of the Company as at the date of completion of the Acquisition is set out in the table below.

Director	Shares (in Swala) <sup>1</sup>
Ernest Massawe <sup>1</sup>	7,866,701
David Mestres Ridge	-
Selemani Pongolani	-
Simon Mbilinyi	484,102
Abdullah Mwinyi	484,102
Elizabeth Obiero	-
Neil Taylor	-

#### Notes:

1. Ernest Massawe currently holds 2 shares directly and 7,866,699 through Erncon Holdings Limited.

The Constitution of the Company provides that the Directors may be paid for their services as Directors a sum not exceeding such fixed sum per annum as may be determined by the Company in general meeting, where notice of the amount of the suggested increase and the maximum sum that may be paid shall have been given to shareholders in the notice convening the meeting. The aggregate remuneration for Non-Executive Directors has been set at an amount not to exceed TZS 160,000,000 per annum.

#### 4.15 AGREEMENTS WITH DIRECTORS OR RELATED PARTIES

The Company's policy in respect of related party arrangements is:

- (a) a Director with a material personal interest in a matter is required to give notice to the other Directors before such a matter is considered by the Board; and
- (b) for the Board to consider such a matter, the Director who has a material personal interest is not present while the matter is being considered at the meeting and does not vote on the matter.

#### Deeds of indemnity, insurance and access

The Company has entered into a deed of indemnity, insurance and access with each of its Directors (**Deeds of Indemnity**). Under these deeds, the Company agrees to indemnify each officer to the extent permitted against any liability arising as a result of the officer acting as an officer of the Company. The Company is also required to maintain insurance policies for the benefit of the relevant officer and must also allow the officers to inspect board papers in certain circumstances. Please refer to Section 12.3 for further details relating to the Deeds of Indemnity.

#### 4.16 SUBSTANTIAL HOLDERS AND INTERESTS OF MAJOR SWALA SHAREHOLDERS

Assuming a placement of a maximum of 9,600,000 Offer shares, the shareholding structure of Swala following the IPO will be:

Shareholder	Number of shares before the Offer	Percentage holding before the Offer	Number of shares held after the Offer	Percentage holding after the Offer
SWE	52,103,661	65.13%	52,103,661	54.12%
Swala Energy (in trust)	7,443,392	9.30%	7,443,392	7.73%
Erncon Holdings Limited	7,866,701	9.83%	7,866,701	8.17%
Other existing shareholders (holding less than 5% each)	12,586,246	15.73%	12,586,246	13.07%
Convertible Note Holders	-	-	6,666,667	6.93%
New shareholders	-	-	9,600,000	9.97%
	80,000,000	100%	96,266,667	100%





## 4. investment overview (cont.)

### 4.17 RESTRICTED SECURITIES

Swala Oil and Gas (Tanzania) plc will be listed on the EGM segment of the DSE. Since the Company has less than three year track record, its directors, officers, Nominated Adviser and major shareholders shall not be allowed to dispose of any interest in the securities of the issuer for a period of two years from the date of admission on the EGM. The Company will submit to the DSE register of shareholders indicating the names of shareholders and quantity of shares allotted before admission of the shares on the EGM.

### 4.18 CORPORATE GOVERNANCE

To the extent applicable, in light of the Company's size and nature, the Company has adopted The Corporate Governance Principles and Recommendations as prescribed in the guidelines on Corporate Governance Practices for public listed companies in Tanzania issued by the CMSA.

The Company's main corporate governance policies and practices as at the date of this Prospectus and the Company's compliance and departures from the Recommendations are set out in Section 8.

In addition, the Company's full Corporate Governance Plan is available from the Company's website at [www.swala-energy.co.tz](http://www.swala-energy.co.tz).

### 4.19 TAXATION

The acquisition and disposal of Securities will have tax consequences, which will differ depending on the prevailing Tax Act or regulations. All potential investors in the Company are urged to obtain independent financial advice about the consequences of acquiring Securities from a taxation viewpoint. According to the current Tax regime, investors are required to pay withholding tax on dividend income at the rate of 5%. There is no capital gain tax for listed equities. In general, the Company does not propose to give any taxation advice and, to the maximum extent permitted by law, the Company, its Directors, officers and each of their respective advisers accept no responsibility or liability for any taxation consequences of subscribing for Securities under this Prospectus. Applicants should consult their own professional tax advisers in regard to taxation implications of any subscription of Shares by them under the Offer.

### 4.20 DIVIDENDS

The Company anticipates that significant expenditure will be incurred in the evaluation and development of the Company's projects. These activities, together with the possible acquisition of interests in other projects, are expected to dominate the two year period following the date of this Prospectus. Accordingly, the Company does not expect to declare any dividends during that period.

Any future determination as to the payment of dividends by the Company will be at the discretion of the Directors taking due regard to any shareholder decision to this effect, and will depend on the availability of distributable earnings and operating results and financial condition of the Company, future capital requirements and general business and other factors considered relevant by the Directors. No assurance in relation to the payment of dividends can be given by the Company.

### 4.21 LIQUIDITY AND CAPITAL RESOURCES

Swala Oil and Gas (Tanzania) plc is a subsidiary of Swala Energy Ltd incorporated in British Virgin Islands (BVI). Currently Swala Energy Ltd provides financial support to Swala Oil and Gas (plc) plc through provision of capital advances.

The Company has benefited from an informal loan arrangement with the main shareholder, Swala Energy Limited. As at the date of this Prospectus, the sum advanced to the Company was \$4,515,125. This sum can be either repaid or converted into equity at the discretion of the shareholder and the two companies intend to enter into a Loan Agreement to formalise this arrangement as soon as practicable.

SWE has committed to the Company that it will not seek the repayment of any investment from the proceeds of the Offer.

### 4.22 NOMINATED ADVISER

Arch Financial & Investment Advisory Ltd has agreed to provide nominated advisory services to the issuer (Swala Oil and Gas (Tanzania) plc). Arch Financial and Investment Advisory Limited has extensive experience in the provision of corporate finance and investment advisory services to companies intending to raise capital from the public through the issuance of securities and subsequent listing on the DSE.

Swala Oil and Gas (Tanzania) plc is a subsidiary of Swala Energy Ltd incorporated in British Virgin Islands (BVI). Currently Swala Energy Ltd provides financial support to Swala Oil and Gas (plc) plc through provision of capital advances. The issuer's principal activities include exploration of oil and gas reserves. The company expect to incur significant expenditure in the developing company's projects in the foreseeable future. In this regard, the company does not expect to declare dividend in that period. The Adviser is of the opinion that the expenditure projections are in line with the management assumptions.

### 4.23 VALUATION BASIS

The Company sought a valuation from Old Park Lane Capital (OPLC), an independent brokerage in London. The Company has no further relationship with OPLC. The Company's ultimate parent company SWE, has a relationship with OPLC under which OPLC issues research on SWE's activities.

OPLC has valued the Company at \$52.3 million. The Company has determined that an appropriate valuation of the Offer Shares is based on a further discount to the OPLC discounted valuation, or \$25 million (representing a 52% discount on OPLC's discounted valuation).

Please see the attached OPLC report in Section 13.





## 5. details of the offer

### 5.1 THE OFFER

Pursuant to this Prospectus, Swala invites investors to apply for 9,600,000 Shares at an issue price of TZS 500 per Share to raise TZS 4,800,000,000 (before costs and expenses).

The Company has been awarded two hydrocarbon exploration licences in Tanzania and is engaged in an active programme of business development. It is therefore seeking to raise funds to:

- (a) carry out the agreed work programme on the two licences that it has been awarded; and
- (b) continue its business development programme.

This Prospectus contains an invitation to make an offer to acquire Shares at the Offer Price on the terms and subject to the conditions set out in this Prospectus and in the Application Form. The Advisors and Swala reserve the right to accept or reject any Application in whole or in part.

### 5.2 THE OFFER SHARES

The Offer Shares rank *pari passu* in all respects with the Shares (including the right to participate in full in any dividends to be declared and paid, if any, on the ordinary share capital of the Company), are free from all charges, encumbrances and other interests are freely transferable and are not subject to any restrictions on marketability or any pre-emptive rights, save for rights attaching to the Shares and restrictions on the transferability of the Shares under the Articles of Association or any restrictions on the transferability of the Shares under any laws or regulations in force from time to time. In the event of a liquidation of the Company, holders of Shares have an equal entitlement in any surplus and any other special rights attaching to the Shares. The Shares carry pre-emptive rights to participate in all future issues of new ordinary shares.

The Company makes no representation or warranty, express or implied, about the Offer Shares other than that the Company has good title to the Offer Shares and that the Offer Shares are free from all charges, encumbrances and other interests.

### 5.3 ELIGIBILITY

By this offer, the Company invites investors in Tanzania to purchase shares in connection with the proposed funding of exploration activities and portfolio growth of Swala as indicated in this Prospectus.

The Offer of Shares to the parties outside of Tanzania may be affected by laws and regulatory requirements of the relevant jurisdictions. Any East African or Foreign Investor wishing to apply for the Offer Shares must satisfy themselves as to the full observance of the laws of the relevant territory and governmental and other consents to ensure that all requisite formalities are adhered to and pay any transfer or other taxes due in such territory. Nationals of the East African Territory and Foreign Investors are advised to consult their own professional advisers as to whether they require any governmental or other consent or need to observe any applicable legal or regulatory requirements to enable them to apply for and purchase the Offer Shares.

None of the Company, Advisors or their respective directors, officers, staff and advisor accepts any responsibility or liability for any breach of relevant laws and / or regulatory requirements of relevant jurisdictions or for any tax consequences to Applicants who acquire Offer Shares under this Offer.

The Offer is conditional on the Company achieving a minimum subscription of 3,200,000 Shares under this Prospectus, to raise TZS 1,600,000,000 (before expenses of the Offer). The Company may decide not to allot any shares and repay all application monies or seek a no objection to proceed with the allotment, in case the minimum subscription is not attained. No interest will be paid on the application monies.





#### 5.4 MINIMUM SALE UNDER THE OFFER

The minimum number of Offer Shares that may be applied for is 100 shares. Applicant may apply for 100 shares or more in multiples of 100. There is no maximum restriction on the total number of Offer Shares any Applicant may apply for.

#### 5.5 ALLOCATION POLICY

Tanzanian Applicants will be allocated Offer Shares in priority to all other Applicants. Any Offer Shares remaining thereafter will be allocated to East African Applicants. Offer Shares will only be allocated to Foreign Applicants if they have not all been acquired by Tanzanian Applicants and East African Applicants. Applications may be subject to scaling back pro rata, depending on the extent of the Applications made by other Applicants. This provision is not applicable to Tanzanian applicants unless there is oversubscription by the said Tanzanian applicants.

In the case of unsuccessful or partly successful Applications, the full or surplus Application monies, as the case may be, will be refunded in accordance with the provisions of this Prospectus.

The Company shall proceed with the Offer irrespective of the total number of valid Applications received for the Offer Shares.

In the event that all Offer Shares are validly applied for but the allocation policy referred to above results in a small number of Offer Shares being left unallocated then the Company and the Nominated Advisor may agree that the allocation policy should be varied to ensure that there are no Offer Shares left unallocated. In these circumstances, any amendment to the allocation policy shall be binding on Applicants and the Company shall instruct the Registrar to allocate the remaining Offer Shares to such Applicants (whose Applications have not been satisfied in full).

In the event that the results of the Offer make the above allocation policy impractical, then the Company and the Advisors will amend the allocation policy which would remove such impracticalities.

#### 5.6 REFUND

Applicants should indicate on their Application Form their preferred mode of receiving refunds should there be insufficient Offer Shares available to fulfill their Application or should their Application be rejected for other reasons in accordance with this Prospectus. The Receiving Bank shall endeavour to process refunds in accordance with the Applicant's preferred mode, but this is subject to the limitations below and the Receiving Bank reserves its rights to adopt another mode of refund if necessary. Applicants who wish to receive their refunds through credit to their bank accounts should provide their bank account details in their own name on the Application Form. For Applicants whose bank account details have not been provided, refunds shall be made by cheques, in the name of the Applicant, issued by the Receiving Bank and returned to that Applicant via the relevant Advisors either for collection or postal delivery by ordinary mail to the Applicant's postal address as set out in its Application Form (at the Applicant's risk), provided that no refund cheques will be issued for amounts in excess of TZS10,000,000. Any refund due to an Applicant in excess of TZS10,000,000 can only be made via an electronic funds transfer and relevant bank details will need to be provided.

Applicants should ensure that sufficient funds are held in the relevant account(s) to cover the amount of the cheque or bank draft(s). If the amount of an Applicant's cheque(s) or bank draft(s) for application monies (or the amount for which those cheque(s) or bank draft(s) clear in time for allocation) is less than the amount specified on the Application Form, then that Applicant may (unless its Broker advises otherwise) be taken to have applied for such lower amount of Offer Shares for which the cleared Application monies will pay (and to have specified that amount on its Application Form) or its Application may be rejected.

Application monies received under the Offer will be held on trust in a special account until Shares are issued to successful Applicants. Unless they agree otherwise with their Broker, Applicants in the Broker Firm Offer whose Applications are not accepted, or who are allocated a lesser amount of Shares than the amount applied for, will be mailed a refund (without interest) of all or part of their application monies by their Broker as soon as practicable after the Closing Date. Interest will not be paid on any monies refunded nor any interest earned on application monies pending the allocation of Shares.

#### 5.7 PROCEDURE FOR APPLICATION AND PAYMENT

The summarized procedures below should be read in conjunction with the detailed instructions for applying for Offer Shares as contained in this Prospectus, as well as the instructions set out at the back of the Application Form.

Copies of this Prospectus and Application Forms are available to prospective investors during normal working hours on Business Days until 4.00pm on the Closing Date from all collecting agents and from the company's website-[www.swala-energy.co.tz](http://www.swala-energy.co.tz).

Completed Application Forms must be submitted by hand to a respective collecting agent together with the necessary payment of TZS, by way of either: (i) cash; (ii) a valid banker's draft drawn on a licensed operating Tanzanian bank and made payable to "Swala Oil and Gas (Tanzania) Share Sale Collection Account"; (iii) an irrevocable bank guarantee acceptable to the Receiving Bank; or (iv) by way of electronic funds transfer. No copies of the Prospectus or the Application Forms will be posted, emailed or otherwise sent or transmitted for any Application. The latest time for submitting an Application Form is 4:00 pm East Africa Time on 4<sup>th</sup> of July 2014.

Late Applications will not be considered. Acceptance of Applications will only be considered if received by any of the collecting agents by the Closing date and time. Accordingly, neither the Nominated Advisors nor the Company will accept any responsibility for any Applications that are, or may be misdirected.

Applicants will not be charged any fees for the submission of the Application Form, but will be liable to pay any bank fees or charges incurred upon payment of the requisite application funds at the time of submission (including any fees or charges associated with any banker's draft or irrevocable bank guarantee). All applicable fees will be for the account of Swala.

## 5. details of the offer (cont.)

### 5.8 ALLOTMENT OF SHARES

Subject to the minimum subscription of 3,200,000 shares to the Offer being reached, all conditions to the Offer being satisfied and DSE granting approval for quotation on the DSE, the Shares and share options to be issued pursuant to the Offer will be allotted as soon as practicable after the Closing Date.

### 5.9 TIME TABLE

The Offer will open at 8:00am East Africa Time on 9<sup>th</sup> June 2014 and will close at 4.00pm East Africa Time on 4<sup>th</sup> July 2014. Applications must be submitted and received by the Receiving Agents not later than 4.00pm East Africa Time on 4<sup>th</sup> July 2014.

Any persons who wish to apply for the Offer Shares must complete the Application Form accompanying this Information Memorandum and return it to the Receiving Bank or Receiving Agents.

### 5.10 DSE LISTING

Application will be made to the DSE within 7 days of the date of this Prospectus for admission of the Company to DSE and for Official Quotation of the Shares offered pursuant to this Prospectus. If approval is not obtained from DSE before the expiration of 3 months after the date of issue of the Prospectus, (or such period as varied by the DSE), the Company will not issue any Securities and will repay all application monies for the Shares as soon as practicable, without interest.

The fact that DSE may grant Official Quotation to the Shares is not to be taken in any way as an indication of the merits of the Company or the Shares now offered for subscription under this Prospectus.

It is anticipated that the Company will trade under the DSE code “(SWALA)”.

### 5.11 ISSUER SPONSORSHIP

The Company will not be issuing share certificates. The Company will apply to DSE to participate in accordance with the DSE Listing Rules for those investors who have, or wish to have, a sponsoring stockbroker. Investors who do not wish to participate through will be issuer sponsored by the Company. Because the sub-registers are electronic, ownership of securities can be transferred without having to rely upon paper documentation.

Electronic registers mean that the Company will not be issuing certificates to investors. Instead, investors will be issued Depository Receipt to shareholders as evidence of ownership. The Depository Receipt indicates among other, the number of shares held by the shareholder. Any subsequent transfer of shares by way of trading will be made at the exchange and a new Depository Receipt will be issued to reflect the new holding/position.

### 5.12 WITHDRAWAL OF OFFER

The Company reserves the right not to proceed with the Offer at any time before the issue of Shares to successful Applicants. If the Offer does not proceed, application monies will be refunded. No interest will be paid on any application monies refunded as a result of the withdrawal of the Offer.

### 5.13 RESTRICTIONS ON THE DISTRIBUTION OF THE PROSPECTUS

This Prospectus does not, and is not intended to, constitute an offer in any place or jurisdiction, or to any person to whom, it would not be lawful to make such an offer or to issue this Prospectus. The distribution of this Prospectus in jurisdictions outside Tanzania may be restricted by law and persons who come into possession of this Prospectus should seek advice on and observe any such restrictions. Any failure to comply with such restrictions may constitute a violation of applicable securities laws.

No action has been taken to register or qualify the Securities or otherwise permit a public offering of the Securities the subject of this Prospectus in any jurisdiction outside Tanzania other than is indicated in the eligibility section.

### 5.14 PRIVACY ACT

If you complete an Application Form, you will be providing personal information to the Company. The Company collects, holds and will use that information to assess your application, service your needs as a Shareholder and to facilitate distribution payments and corporate communications to you as a Shareholder.

The information may also be used from time to time and disclosed to persons inspecting the register, including bidders for your securities in the context of takeovers, regulatory bodies including the Tanzanian Revenue Authority, authorised securities brokers, print service providers, Custodians and the share registrar.

You can access, correct and update the personal information that the Company or the Company's share registry holds about you. If you wish to do so, please contact the share registry at the relevant contact details set out in this Prospectus.

Collection, maintenance and disclosure of certain personal information is governed by legislation, the Companies Act and the DSE Rules. You should note that if you do not provide the information required on the Application Form, the Company may not be able to accept or process your application.

### 5.15 QUERIES

This Prospectus provides information for potential investors in the Company, and should be read in its entirety. If, after reading this Prospectus, you have any questions about any aspect of an investment in the Company, please contact your stockbroker, accountant or independent professional adviser. For additional copies of the Prospectus, further advice on how to complete the Application Form or further information about the Offer, please contact the advisors listed in Section 18.

## 6. company overview

### 6.1 BACKGROUND ON THE COMPANY

Swala Oil and Gas (Tanzania) plc is an unlisted Tanzanian company limited by shares. It was incorporated on 29<sup>th</sup> July 2011. As at the date of this Prospectus, the Company has 80,000,000 shares on issue.

### 6.2 THE TECHNICAL RATIONALE FOR THE FOCUS ON THE TANZANIAN LICENCES

East Africa has significant hydrocarbon potential, as demonstrated by the offshore gas plays along the coasts of Mozambique, Tanzania, Kenya and Somalia and the onshore oil plays along the East African Rift System. In Uganda, on the western branch of the East African Rift System, proven discovered oil reserves now exceed 1.2 billion barrels. Furthermore, evidence of oil in the form of seeps, slicks and tar balls have been reported along the trend of the great lakes on the western arm of the East African Rift System which extends south to Mozambique. This exploration potential has attracted a number of oil companies, from small companies through to large multi-nationals. In 2012, several important oil discoveries were made on the same play in the eastern branch of the East African Rift System in Kenya. Although the volumetric potential of these discoveries has not yet been established, East Africa remains a focus of attention for both international exploration companies and international financial investors.

There are three main hydrocarbon play systems that can be explored for oil and gas in East Africa, namely the East African Rift System (Tertiary in age); the Interior Rifts (Permian through Tertiary in age); and the Coastal Basin (Permian through Recent age). A description of each of these systems is set out below.

Figure 6.1 shows the distribution of these basins in East Africa. In general, but not necessarily as a rule, the East African Rift System basins are expected to be more oil-prone and the coastal basins are expected to be more gas-prone.

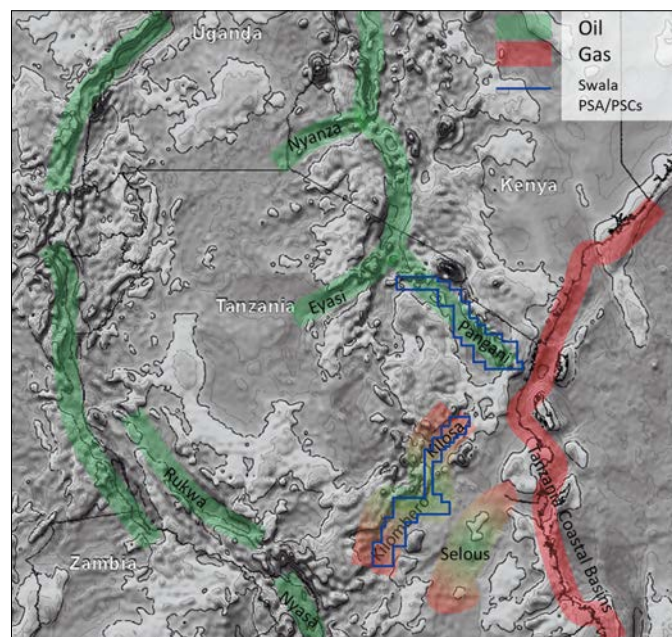


Figure 6.1: East African basins with hydrocarbon potential can be seen along several trends, with some basins being expected to be oil-prone (in green) and others expected to be gas-prone (in red).

#### (a) East African Rift System

The East African Rift System marks the present-day location on the African continent when the proto-continent of Pangaea split into the constituent pieces of today's continental masses. The rift system possesses favourable conditions for hydrocarbons, largely because faulting during the rift valley formation created basins within which sediments could accumulate and provide reservoirs and seals. In addition, the thinner crust under the rift valleys results in high thermal gradients favouring the generation of hydrocarbons from deposited source rocks at shallower burial depth.





## 6. company overview (cont.)

The East African Rift System is a series of linked intra-continental rift basins that extends over a distance of some 3,500km. The rift itself is between 50km to 150km wide. It has two dominant branches: one that curves around the eastern side of Lake Victoria and extends through Kenya into Tanzania (the **Eastern Branch**); and the other that curves along the western side of Lake Victoria and can be traced along Lake Albert through Lake Tanganyika to Lake Nyasa (the **Western Branch**) – See Figure 6.2

The Eastern Branch, which forms the Kenya and Ethiopian rifts, was initiated in Early Miocene. It is a system where the basin fill is predominantly composed of lacustrine sediments and volcanics. The Western Branch was initiated during the Late Miocene and is composed of a series of basins where the fill is also composed of lacustrine sediments but with fewer volcanics.

There have been a number of oil seeps identified along the Western Branch of the East African Rift System, particularly in Lake Tanganyika, and a number of licences have recently been issued to explorers focusing on the Tanzanian East African Rift System basins. These basins include Lake Tanganyika, the Rukwa and Kyela licences, the Ruhuhu licence and the Pangani Licence that was awarded to Swala in 2012.

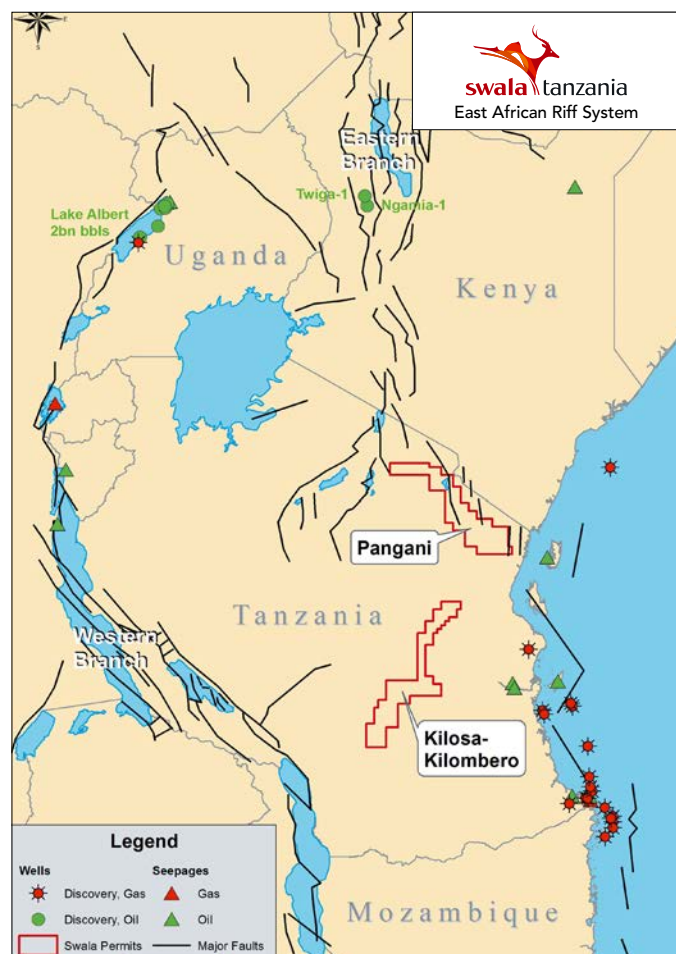


Figure 6.2: The East African Rift System, with Eastern and Western Branches.

### (b) The Interior Rift Basins

The interior rift basins have seen sporadic exploration activity. These basins were formed during an earlier phase of continental break-up in the Permian and Tertiary. Several of the basins experienced subsequent rifting in the Jurassic and, in some instances, they were affected by later rifting associated with the formation of the East African Rift System in the late Tertiary.

The Permian sediments (the Karoo) in these basins reportedly include some very rich and mature gas-prone source rocks, and some early wells encountered gas and minor oil shows. These hydrocarbon shows, together with the potentially very large structures seen on some seismic data (eg: Selous Basin) are extremely attractive reasons for hydrocarbon exploration. An example of a licence over these interior basins is the Kilosa-Kilombero Licence, awarded to Swala in 2012.

### (c) The Coastal Basins

Much of the attention of the local exploration industry in the past has been concentrated on the offshore and near-shore gas-prone coastal basins of Tanzania, Mozambique and Kenya. These basins typically have very thick sedimentary fills along the passive margin where sediments have been depositing off the continental shelf onto the oceanic crust. These sediments have been accumulating since the separation of the east coast of Africa from Madagascar, India and Antarctica which was initiated in the early Jurassic.

The Jurassic and Cretaceous sediments (and remnants of earlier Permian) are buried at great depths and consequently the source rocks are now well within the gas generation window. Structural and stratigraphic traps all along this basin, often in water depths in excess of 2,000m are being successfully explored.

### 6.3 OVERVIEW OF THE TANZANIAN LICENCES

Swala is the operator of, and holds a 50% interest in, the Pangani Licence and the Kilosa-Kilombero Licence. The remaining 50% participating interest in those licences is held by Otto Energy (Tanzania) Limited.

As noted in section 1.2 of the Independent Technical Specialist's Report available on the Company website [www.swala-energy.co.tz](http://www.swala-energy.co.tz):

“Each block covers a portion of the East African Rift System. The acreage is frontier territory; there are no wells and minimal seismic data, and there is significant uncertainty on the nature of the rift fill. At this early stage, prospective resources cannot yet be defined, but analogies drawn from the successful Uganda Lake Albert area (pool sizes <20 – 350 MMstb) provide considerable encouragement. The chance of the play working somewhere within each of the blocks is estimated to be in the range 11% - 22%.”

Please refer to the Independent Technical Specialist's Report available on the Company website [www.swala-energy.co.tz](http://www.swala-energy.co.tz) for further details regarding the Tanzanian Licences.

## 6.4 TANZANIAN OPERATIONS

### The Kilosa-Kilombero Licence:

Swala has a 50% operated interest in the Kilosa-Kilombero Licence in Tanzania (see Figure 6.3). Exploration in nearby basins had previously identified both oil and gas shows in exploration wells but as at February 2012 there had been no announced discoveries.

In 2012 Swala purchased 1970's vintage magnetic data over the Kilosa-Kilombero Licence area and re-interpretation of these data identified three separate basins within the licence area. The results helped Swala to optimise the planning of the 2012 airborne gravity-magnetic survey. Between July and August 2012 Swala acquired some 9,000km of magnetic data and over 4,500km of gravity data over the licence area. Interpretation of the gravity/magnetic data, together with field work and remote satellite sensing and photogeology work confirmed the presence of three clearly defined basins with possible sediment thicknesses ranging from 3km to 7km (see Figure 6.4). Field and satellite work over the area also identified possible areas of vegetation anomalies that could have been related to hydrocarbon seepage. One such anomaly was about 1,800m in diameter, located over a fault that had been previously identified from magnetic data.

This work also allowed Swala to focus its planning of a seismic programme as part of the second year work programme in the Kilosa-Kilombero Licence.

During 2012, Swala acquired over 13,500km of combined airborne gravity and magnetic data, carried out remote sensing studies and conducted a geological field reconnaissance survey in the licence area. Based on the results of that work, Swala and Otto Energy (Tanzania) Limited decided to enter into the second year of the initial exploration period, which included the acquisition of 300km of 2D seismic and a geochemical sampling survey. An Environmental Impact Assessment was undertaken between March and May 2013 and seismic operations on the ground began on the 9<sup>th</sup> August 2013.

Between the 9<sup>th</sup> August 2013 and the 18<sup>th</sup> September 2013 the Company acquired 130km of 2D seismic over the Kilosa Basin of the Kilosa-Kilombero Licence. Initial results based on preliminary processed data indicate the possible presence of large-scale Karoo-age structures along the edges of the basin (see Figure 6.5) and rotated fault blocks in the middle of the basin. Such structures have the potential to act as hydrocarbon traps and their extent and prospectivity is currently being determined through ongoing seismic processing and subsequent interpretation.

Between the 18<sup>th</sup> September 2013 and the 14<sup>th</sup> October 2013 the Company acquired a further 143km of 2D seismic over the Kidatu basin of the Kilosa-Kilombero Licence. Initial results based on preliminary processed data indicate the presence of large-scale Karoo-age structures along the edges of the basin together with a major intra-basin high identified on dip and strike lines. The structure may be as large as 30 to 60 square kilometres (see Figure 6.6).

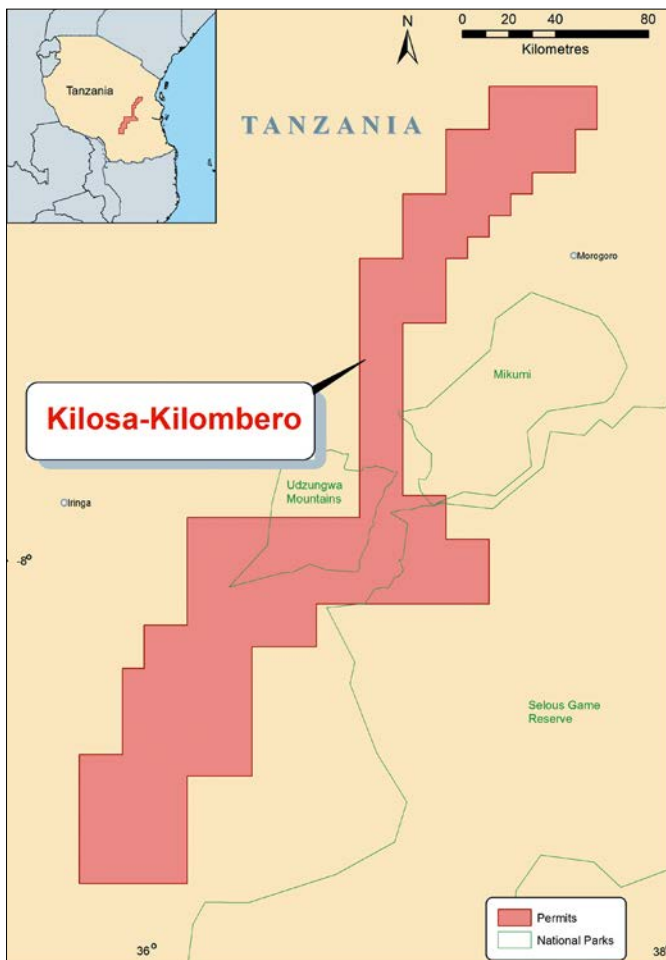


Figure 6.3: The Kilosa-Kilombero Licence

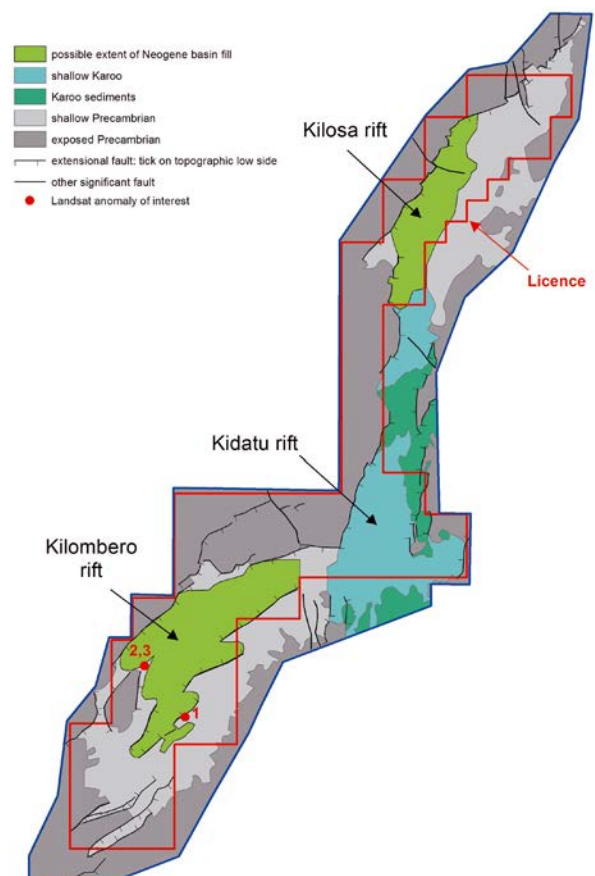


Figure 6.4: Three well-defined basins identified



## 6. company overview (cont.)

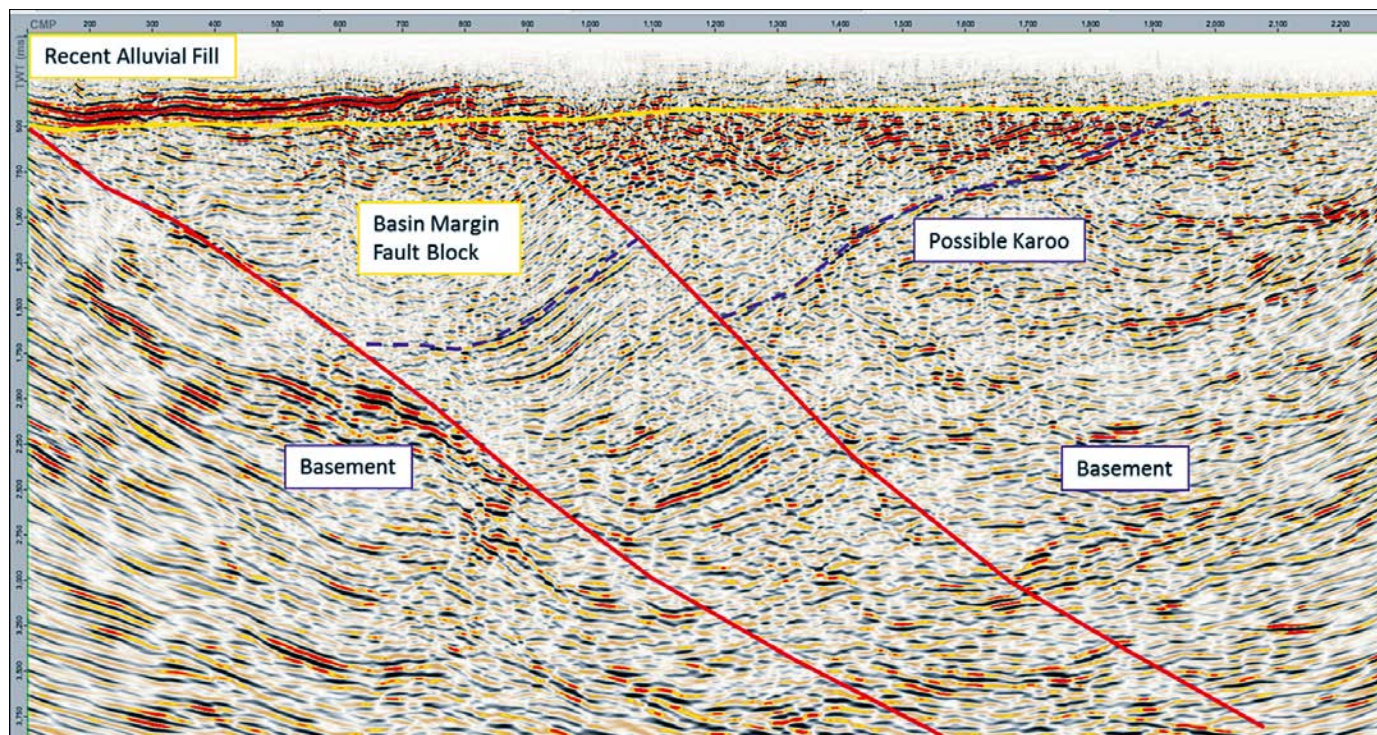


Figure 6.5: Line 002, Kilosa Basin

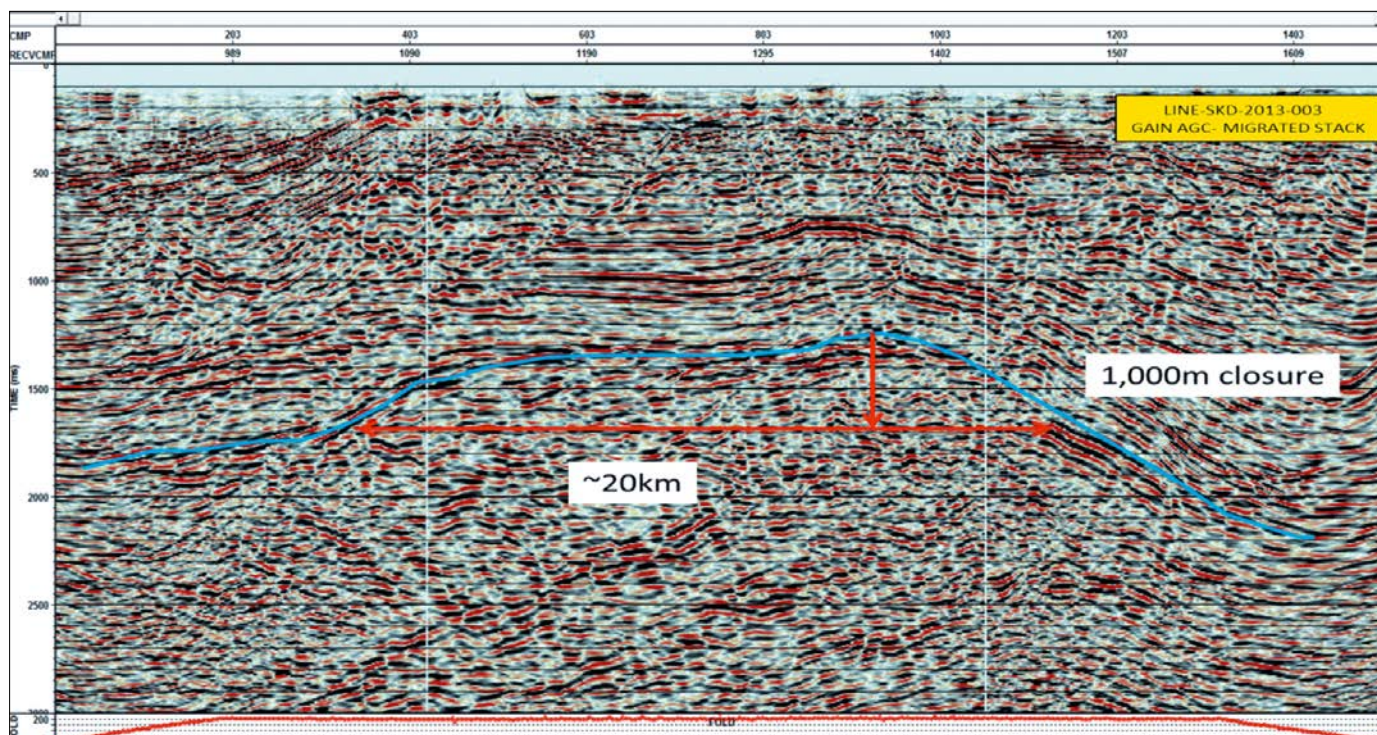


Figure 6.6: Line 008, Kidatu Basin



On the 14<sup>th</sup> October the Company commenced a 2D seismic acquisition programme over the Kilombero Basin of the Kilosa-Kilombero Licence. Swala acquired 115km of 2D seismic over this basin and the initial results suggest the presence of a thick, Neogene-age, sequence with a maximum depth to basement in excess of 3,000m. The age of the sediments recorded appears to be similar to that of sediments observed in the now proven oil basins of Lokichar (Kenya), and Lake Albert (Uganda), where Africa

Oil (TSX.V:AOI) and Tullow Oil (LSE: TLW) have had significant success. The seismic results obtained across the Kilombero Basin show a large structural high adjacent to the basin bounding fault that extends over a distance of 9 km and is about 4km wide (Figure 6.7). Dip lines across the basin suggest the presence of both structural traps and traps against the main basin-bounding fault with possible Direct Hydrocarbon Indicators (DHIs or 'Flat Spots') observed at several levels at the crest (Figure 6.8).

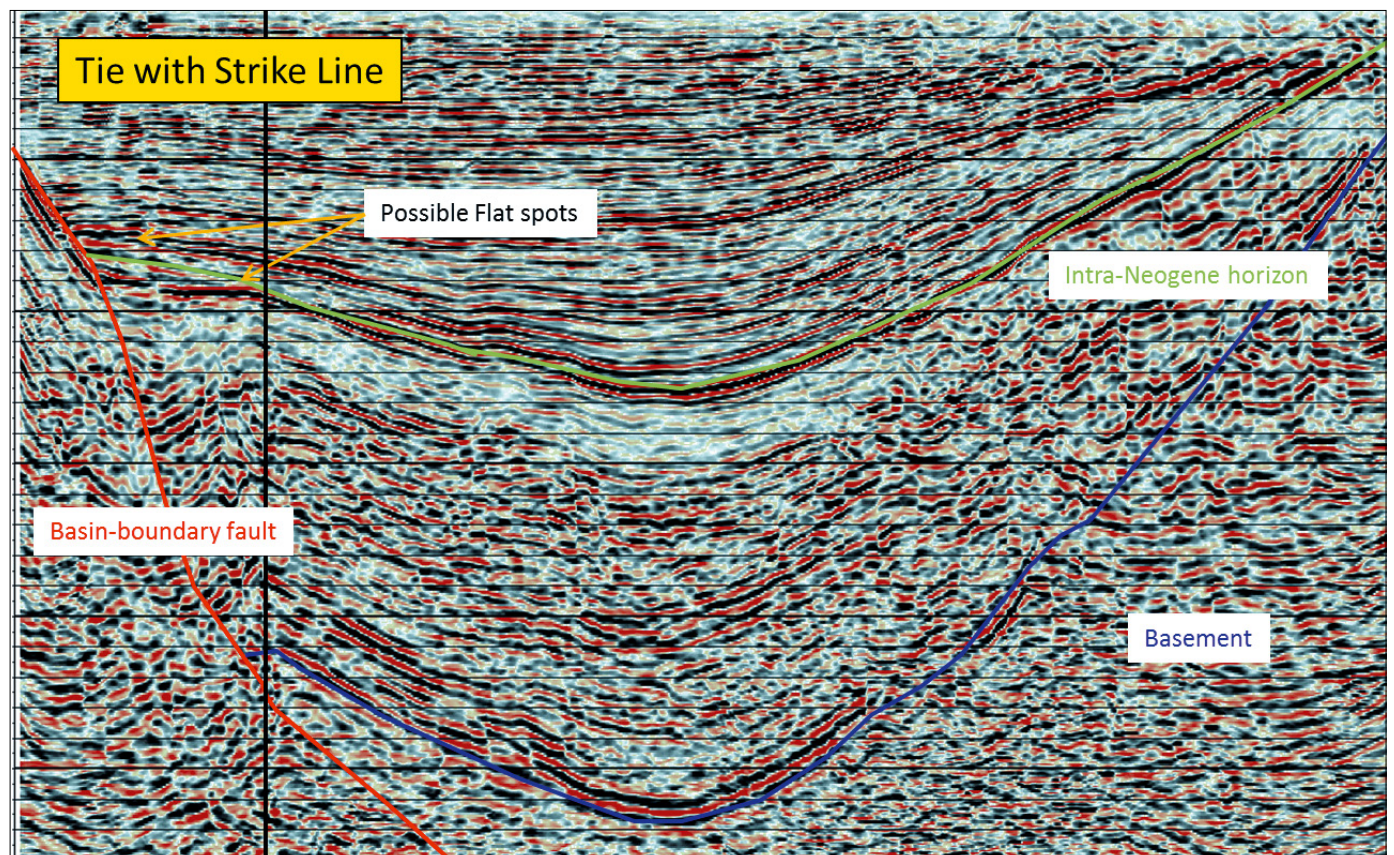


Figure 6.7: Example Dip Line across the Kilombero Basin with possible DHIs.



## 6. company overview (cont.)

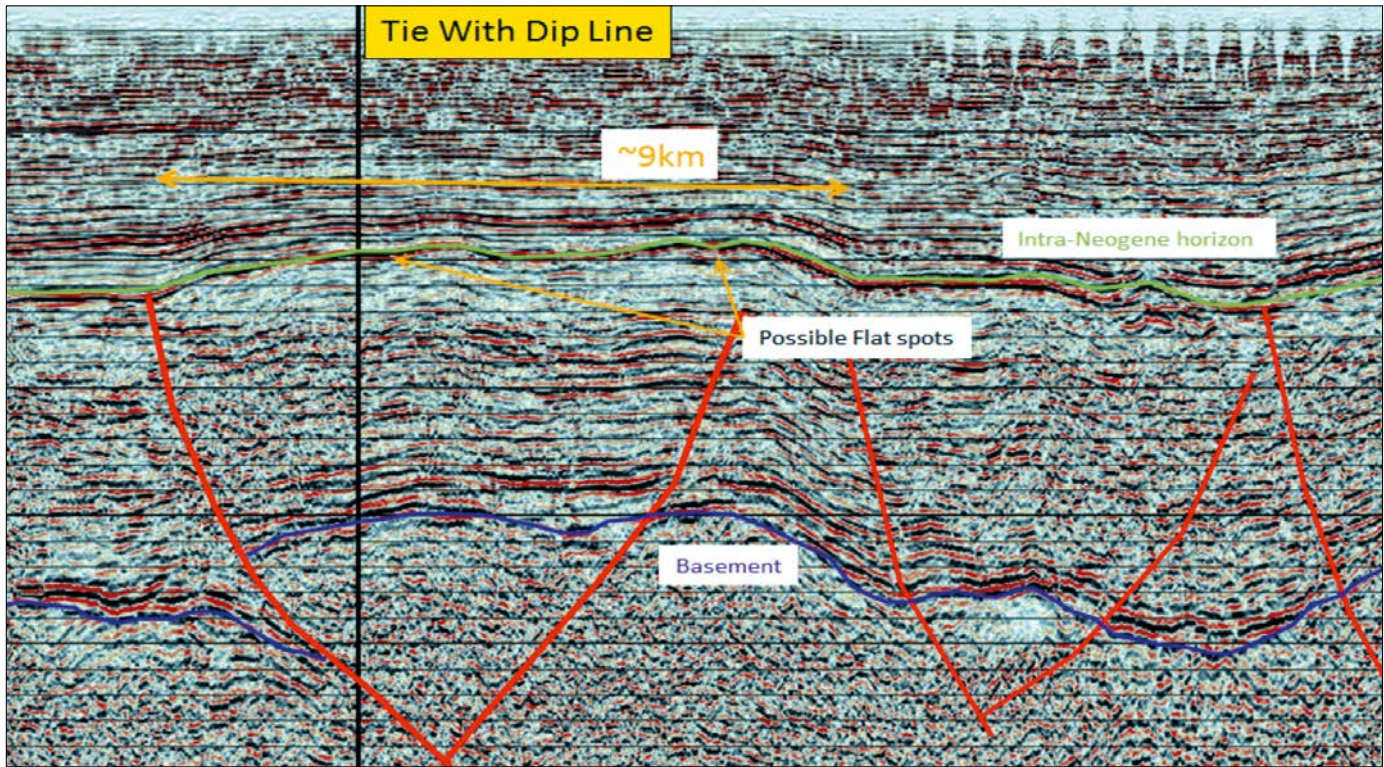
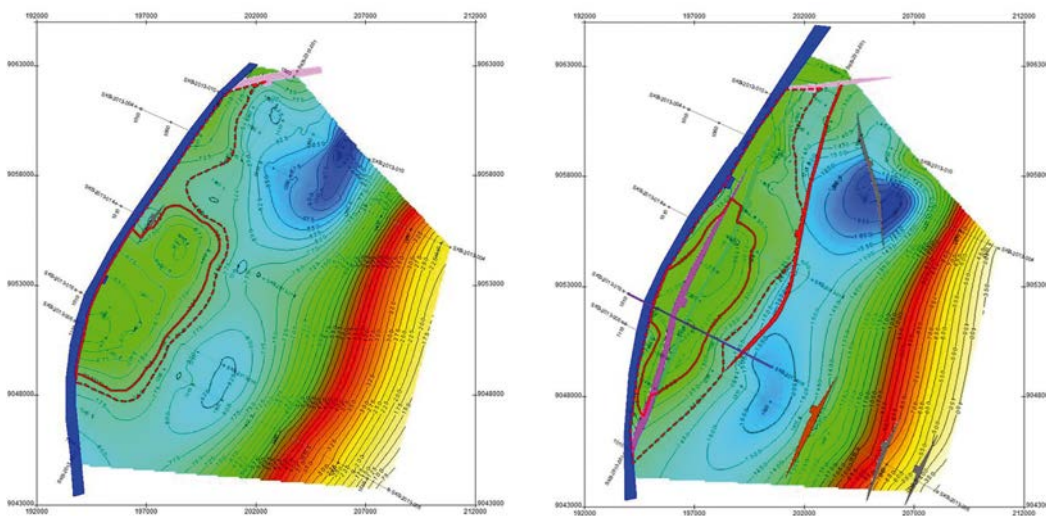


Figure 6.8: Strike line along the main basin-boundary fault with possible DHIs.

### THE KITO PROSPECT

The Kito prospect was identified from the results of the Kilombero basin seismic survey in November 2013. It is sufficiently large to have been intersected by a sufficient number of seismic lines to enable a resource assessment to be performed. RISC Operations Pty Ltd ("RISC"), an independent petroleum advisory firm, carried out the prospect review on behalf of the Company. RISC identified two main potential reservoir horizons, 'Yellow' and 'Blue' (see Figure 6.9).



#### Yellow Horizon (Left)

Possible top shallow reservoir, with P50 and P10 closures.

#### Blue Horizon (Right)

Possible top deep reservoir, with P50 and P10 closures.

Figure 6.9: 'Yellow' and 'Blue' horizons.

#### Estimated unrisks undiscovered oil resources, Kito Prospect.

Yellow Horizon (mmstb)	Low estimate (P90)	Best estimate (P50)	High estimate (P10)
Gross undiscovered unrisks oil in place	153	387	862
Gross prospective unrisks oil resources	42	112	269
Net of Government back-in rights	33.6	89.6	215.2
Swala net	16.8	44.8	107.6

Blue Horizon (mmstb)	Low estimate (P90)	Best estimate (P50)	High estimate (P10)
Gross undiscovered unrisks oil in place	40	209	740
Gross prospective unrisks oil resources	6	39	155
Net of Government back-in rights	4.8	31.2	124
Swala net	2.4	15.6	62

Combined (Yellow and Blue Horizons) (mmstb)	Low estimate (P90)	Best estimate (P50)	High estimate (P10)
Gross undiscovered unrisks oil in place	193	596	1,602
Gross prospective unrisks oil resources	48	151	424
Net of Government back-in rights	38.4	120.8	339.2
Swala net	19.2	60.4	169.6

#### 6.5 THE PANGANI LICENCE:

Swala has a 50% operated interest in the Pangani Licence (see Figure 6.10). Oil shows have been reported in the Makarawe-1 well located approximately 50km south of Pangani Licence area.

The Pangani Licence is interpreted to lie on the southeast arm of a triple point junction, on the East African Rift System. Recent satellite gravity data indicates the presence of a rift basin with the potential to have mature source rocks and reservoirs. Seismic surveys and drilling are needed to test this potential.

As part of the first year work programme, Swala acquired over 5,300km of airborne magnetic data and over 2,700km of gravity data in the Pangani Licence. It also carried out photogeology, remote sensing satellite studies and field reconnaissance work. Some of this work identified areas with distressed vegetation, which may be indicative of hydrocarbon seeps. These studies identified two potential basins (see Figure 6.11) and were used to plan the 2013 seismic programme that commenced in mid-November 2013.

The results from the survey show that the Moshi basin, to the north of the licence area, appears to be a deep basin with sedimentary fill of probable Neogene age. Further evidence from the seismic survey suggests that the basin is fault-bounded, some 25km wide, and with basin fill to between 2,000 and 3,000m depth.

The Mvungwe basin, to the south of the licence area, is still being processed but initial results suggest that the basin is shallower, at less than 1,000m deep, and contains sediments of probable Neogene age. Shallow basins may be quite productive with the right heat flows (the Pakwach basin in Uganda's Lake Albert, where six discoveries have been made to date, has a depth of some 900m) and the Company will now continue with its planned basin modelling programme to determine whether the regional high heat flows would allow hydrocarbon generation in Mvungwe at these relatively shallow depths of burial.

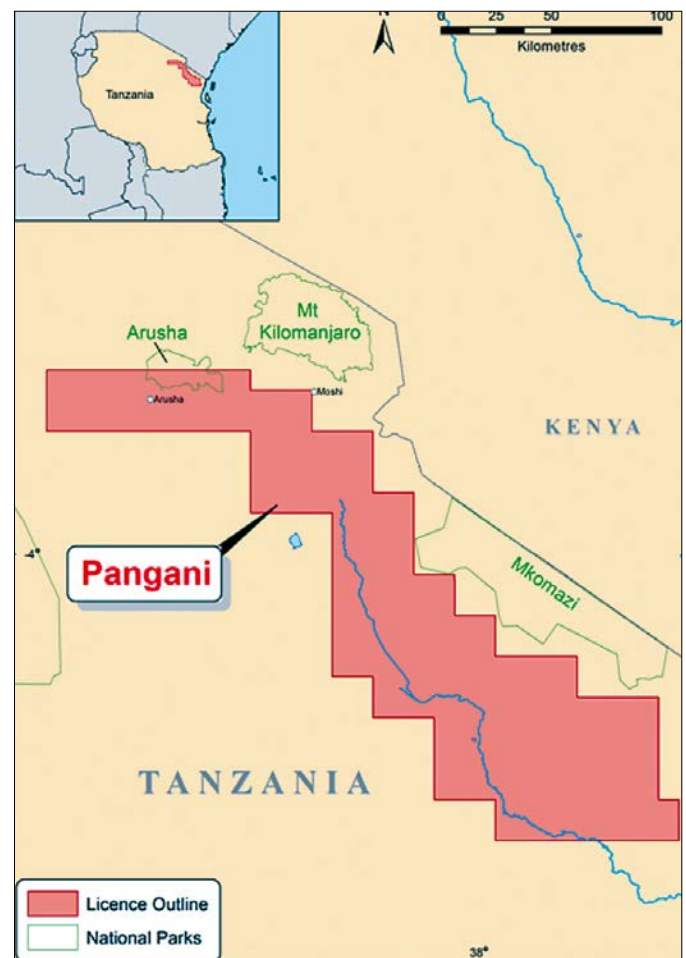


Figure 6.10: The Pangani Licence



## 6. company overview (cont.)

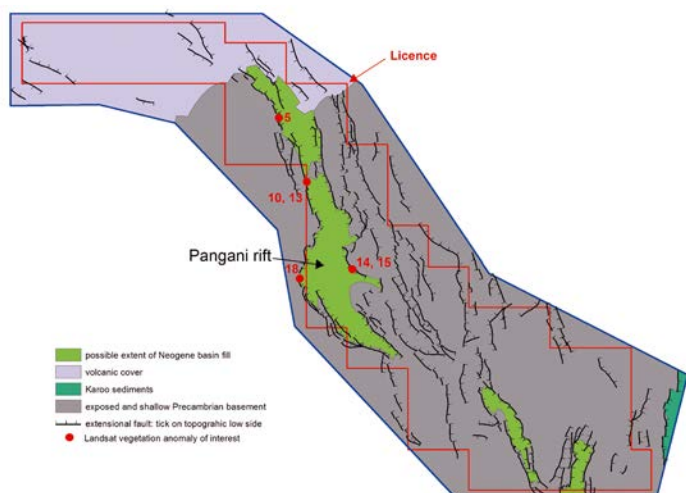


Figure 6.11: Two potential basins identified.

### 6.6 GOVERNMENT PARTICIPATION IN THE PANGANI LICENCE AND THE KILOSA-KILOMBERO LICENCE

Within 180 days of the Tanzanian Government's approval of a field development plan for a development area within the Pangani Licence or the Kilosa-Kilombero Licence area, TPDC may elect to acquire a participating interest of up to 20% by contributing to "Contract Expenses" other than "Exploration Expenses" (as those terms are defined in the PSAs) in proportion to its participating interest.

In the event that the Tanzanian Government elects to participate in the oil and gas operation in the development area within the Pangani Licence or Kilosa-Kilombero Licence area to the full 20% as allowed in the PSAs, each of Swala and Otto Energy (Tanzania) Limited would need to give up 10% of their respective interests to the Tanzanian Government. This would mean that Swala's interest in the Pangani Licence or Kilosa-Kilombero Licence area will be reduced from 50% to 40%. Please refer to Sections 12.1 and 12.2 for a summary of the material terms and conditions of the PSAs and JOAs respectively.

### 6.7 MINIMUM EXPENDITURE COMMITMENTS OF SWALA

This table set out the minimum expenditure commitments of the Company, in respect of the Kilosa-Kilombero and Pangani Licences and as per the current PSA obligations for the next 2 contract years:

Licence	Item of Expenditure	Minimum expenditure commitment
Year 1 (being Contract Year 3 under the relevant PSA) (February 2014-February 2015)		
Kilosa-Kilombero Licence (Tanzania)	Acquire a further 500 km of 2D seismic.	\$2,500,000
Pangani Licence (Tanzania)	Acquire a further 200 km of 2D seismic.	\$1,000,000
Year 1 Expenditure Total:		\$3,500,000
Year 2 (being Contract Year 4 under the relevant PSA) (February 2015-February 2016)		
Kilosa-Kilombero Licence (Tanzania)	Drill a well to a maximum of 3,000m or basement.	\$3,000,000
Pangani Licence (Tanzania)	Drill a well to a maximum of 3,000m or basement.	\$3,000,000
Year 2 Expenditure Total:		\$6,000,000
TOTAL:		\$9,500,000

#### Notes:

- Under the PSA in respect of the Kilosa-Kilombero Licence, the minimum expenditure for the next 2 contract years is US\$5,000,000 and US\$6,000,000, respectively. Under the JOA with Otto Energy (Tanzania) Limited, each party is responsible for 50% of the minimum expenditure requirements. Accordingly Swala's share of minimum expenditure in respect of this licence for the next 2 contract years is US\$2,500,000 and US\$3,000,000, respectively. Further details are set out in the summary of the minimum expenditure commitments under the Tanzanian PSAs in Section 12.2.
- Under the Tanzanian PSA in respect of the Pangani Licence, the minimum expenditure for the next 2 contract years is US\$2,000,000 and US\$6,000,000, respectively. Under the Joint Operating Agreement with Otto Energy (Tanzania) Limited, each party is responsible for 50% of the minimum expenditure requirements. Accordingly the Swala's share of minimum expenditure in respect of this licence for the next 2 contract years is US\$1,000,000 and US\$3,000,000, respectively. Further details are set out in the summary of the minimum expenditure commitments under the Tanzanian PSAs in Section 12.2.

## 6.8 INDEPENDENT TECHNICAL SPECIALIST'S REPORT

An Independent Technical Specialist's Report containing further information on the Tanzanian Licences is available from the Company's website [www.swala-energy.co.tz](http://www.swala-energy.co.tz).

## 6.9 SUMMARY OF THE PSA TERMS IN RESPECT OF THE KILOSA-KILOMBERO AND PANGANI LICENCES

Type	Kilosa-Kilombero Licence	Pangani Licence
Participating Interest of Swala	50%	50%
Partner	Otto Energy (Tanzania) Limited (50%)	Otto Energy (Tanzania) Limited (50%)
Operator	Swala	Swala
Gross area	17,675 km <sup>2</sup>	17,156 km <sup>2</sup>
Date of the Tanzanian PSA	20 February 2012	20 February 2012
Government back-in rights	20% (carried during the Exploration Period)	20% (carried during the Exploration Period)
Initial Exploration Period	4 years	4 years
First Additional Exploration Period	4 years	4 years
Second Additional Exploration Period	3 years	3 years
Relinquishments	25% at end of Year 4 and 8	25% at end of Year 4 and 8
Training Fee	US\$200,000 per annum	US\$200,000 per annum
Outstanding minimum expenditure commitments (100%)	In 2014: US\$5.00 million (seismic) In 2015: US\$6.00 million (drill 1 well).	In 2014: US\$2.00 million (seismic) In 2015: US\$6.00 million (drill 1 well).



## 7. risk factors

### 7.1 GENERAL

The Securities offered under this Prospectus should be considered highly speculative because of the nature of the Company's business. The future profitability of the Company will be dependent on the successful commercial exploitation of its business and operations.

An investment in the Company is not risk free and the Directors strongly recommend potential investors to consider the risk factors described below, together with information contained elsewhere in this Prospectus, before deciding whether to apply for Securities pursuant to this Prospectus.

There are specific risks which relate directly to the Company's business. In addition, there are other general risks, many of which are largely beyond the control of the Company and the Directors.

Based on the information available, a non-exhaustive list of risk factors which may affect the Company's financial position, prospects and the price of its listed Securities include the following:

### 7.2 INDUSTRY SPECIFIC RISKS

#### (a) General Economic and Political Risks

Changes in the general economic and political climate in Tanzania in which the Tanzanian Licences are located and on a global basis that could impact on economic growth, the oil and gas prices, interest rates, the rate of inflation, taxation and tariff laws, domestic security which may affect the value and viability of any oil and gas activity that may be conducted by the Company.

#### (b) Government policy changes and legal risk

Government action or policy change in relation to access to lands and infrastructure, compliance with environmental regulations, export restrictions, taxation, royalties and subsidies may adversely affect the Company's operations and financial performance. The Tanzanian Licences will be governed by a series of Tanzanian laws and regulations. Breaches or non-compliance with these laws and regulations can result in penalties and other liabilities. These may have a material adverse

impact on the financial position, financial performance, cash flows, growth prospects and share price of the Company.

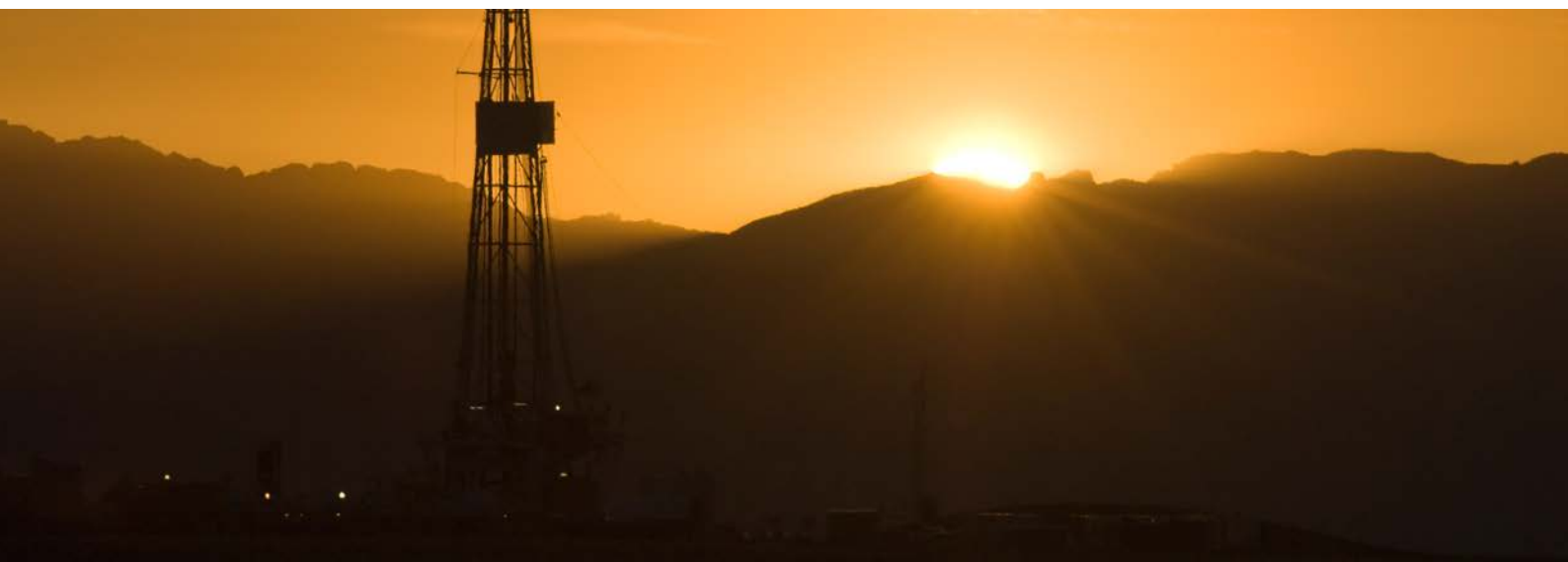
These laws and regulations may be amended from time to time, which may also have a material adverse impact on the financial position, financial performance, cash flows, growth prospects and share price for the Company. The legal and political conditions in Tanzania and any changes thereto are outside the control of the Company.

The introduction of new legislation or amendments to existing legislation by the Tanzanian Government, developments in existing common law, or the interpretation of the legal requirements in Tanzania and which govern the Company's operations or contractual obligations, could adversely affect the assets, operations and, ultimately, the financial performance of the Company and the value of its Shares. In addition, there is a commercial risk that legal action may be taken against the Company in relation to commercial matters.

#### (c) Government licences and approvals

Risks exist in terms of the relevant governmental approval for the various activities which an exploration licence requires and the timetable associated with obtaining such approvals. The Tanzanian Government has exercised and continues to exercise significant influence over many aspects of the oil and gas industry. Any government action concerning the economy, including the oil and gas industry (such as a change in oil or gas pricing policy or taxation rules or practice, or renegotiation or nullification of existing concessions and concession contracts) could have a material adverse effect on the Company.

In particular, the Tanzanian Licences, and any other operations in which the Company may undertake in the future, require licences, permits and in some cases, renewals of existing licences and permits, from various governmental authorities. The ability of the Company to obtain, sustain or renew such licences and permits on acceptable terms may be subject to change in regulations and policies or subject to the discretion of the applicable governments.





In addition, the likely timetable for the process for environmental approvals for the Tanzanian Licences is uncertain and may take longer than is advantageous to the Company.

Operations may also be affected in varying degrees by government regulations with respect to, but not limited to, restrictions on production, price controls, export controls, foreign currency remittance, income taxes, expropriation of property, foreign investment, maintenance of claims, environmental legislation, land use, land claims of local people, water use and mine safety.

Failure to comply strictly with applicable laws, regulations and local practices relating to petroleum rights applications and tenure, could result in loss, reduction or expropriation of entitlements, or the imposition of additional local or foreign parties as joint venture partners with carried or other interests.

The occurrence of these various factors and uncertainties cannot be accurately predicted and could have an adverse effect on the operations or profitability of the Company. The Company has made its investment and strategic decisions based on the information currently available to the Directors, however should there be any material change in the political, economic, legal and social environments in Tanzania, the Directors may re-assess investment decisions and commitments to assets in Tanzania.

#### **(d) Increase in Drilling Costs and the Availability of Drilling Equipment**

Historically, the oil and gas industry has experienced periods of rapid cost increases. Increases in the cost of exploration and development may affect the ability of the Company to invest in prospects and to purchase or hire equipment, supplies and services. In addition, the availability of drilling rigs and other equipment and services may be affected by the level and location of drilling activity around the world. The reduced availability of equipment and services may delay or prevent the Company's ability to exploit reserves and adversely affect the Company's operations and profitability.

#### **(e) Oil and Gas Price Volatility and Exchange Rate Risks**

If the Company achieves success leading to hydrocarbon production, the revenue it will derive through the sale of commodities exposes the potential income of the Company to commodity price and exchange rate risks.

Commodity prices fluctuate and may be affected by many factors beyond the control of the Company, including international supply and demand, the level of consumer product demand, technological advancements, forward selling activities, weather conditions, the price and availability of alternative fuels, actions taken by governments and international cartels, and global economic and political developments.

International oil and gas prices have fluctuated widely in recent years and may continue to fluctuate significantly in the future. Fluctuations in oil and gas prices and, in particular, a material decline in the price of oil or gas may have a material adverse effect on the Company's business, financial condition and results of operations.

#### **(f) Hydrocarbon Reserves and Resource Estimates**

Hydrocarbon reserve and resource estimates are expressions of judgement based on knowledge, experience and industry practice. Estimates that were valid when originally calculated may alter significantly when new information or techniques become available. In addition, by their very nature, resource and reserve estimates are imprecise and depend to some extent on interpretations, which may prove to be inaccurate. As further information becomes available through additional drilling and analysis, the estimates may change. This may result in alterations to development and production plans which may in turn, adversely affect the Company's operations.

#### **(g) Title risk**

The licences which grant the title to each of the Tanzanian Licences are subject to compliance with certain requirements, including meeting the minimum exploration work commitments, lodgement of reports, payment of royalties and compliance with environmental conditions and environmental legislation. Consequently, the Company could lose title to or its interest in any of the licences to the Tanzanian Licences if these requirements are not met.

#### **(h) Joint Venture Partners, Contractors and Contractual Disputes**

The Tanzanian Licences currently operate in conjunction with other third parties, including joint venture parties, suppliers, contractors and other service providers. With respect to this issue, the Directors are unable to predict the risk of:

- (i) financial failure or default by a participant in any joint venture to which the Company or its subsidiaries may become a party or
- (ii) insolvency or other managerial failure by any of the operators, contractors or service providers used by the Company or its subsidiaries in its exploration activities.

Accordingly, there is a risk that exploration, development and future production activities could be disrupted in situations where there is a disagreement on exploration, development or future production programmes or other issues as between the Company and other third parties. Should such disagreements occur, this may have a deleterious impact on the Company's operations and performance generally. It is not possible for the Company to predict or protect itself against all such risks.

#### **(i) Operations**

Any potential future operations of the Company in Tanzania are subject to a number of risks, including:

- (i) potential difficulties in enforcing agreements and collecting receivables through local systems;
- (ii) potential difficulties in protecting rights and interest in assets;
- (iii) increases in costs for transportation and shipping; and
- (iv) restrictive governmental actions, such as imposition of trade quotas, tariffs and other taxes.

Any of these factors could materially and adversely affect the Company's business, results of operations and financial condition.

## 7. risk factors (cont.)

### (j) Reliance on Key Personnel

The Company is substantially reliant on the expertise and abilities of its key personnel in overseeing the day-to-day operations of the Tanzanian Licences. There can be no assurance given that there will be no detrimental impact on the Company if one or more of these employees or contractors cease their relationship with the Company.

### (k) Competition

The Company will compete with other companies, including major oil and gas companies. Some of these companies have greater financial and other resources than the Company and, as a result, may be in a better position to compete for future business opportunities. Many of the Company's competitors not only explore for and produce oil and gas, but also carry out downstream operations on these and other products on a worldwide basis. There can be no assurance that the Company can compete effectively with these companies.

### (l) Regulatory

Changes in relevant taxes, legal and administration regimes, accounting practice and government policies may adversely affect the financial performance of the Company.

### (m) Insurance

Insurance against all risks associated with oil and gas production is not always available or affordable. The Company will maintain insurance where it is considered appropriate for its needs however it will not be insured against all risks either because appropriate cover is not available or because the Directors consider the required premiums to be excessive having regard to the benefits that would accrue.

## 7.3 GENERAL RISKS

### (a) Additional Requirements for Capital

The Directors expect that the Company will have sufficient capital resources to enable the Company to achieve its initial business objectives. However, the Directors can give no assurances that such objectives will in fact be met without future borrowings or capital raisings.

The Company's capital requirements depend on numerous factors. Depending on the Company's exploration success, the Company may require further financing in the future. For example, under the Tanzanian PSAs the Contractors have certain minimum expenditure commitments which are to be funded in proportion to their respective participating interests. As at the date of this Prospectus, Swala holds a 50% interest in each of the licences comprising the Tanzanian Licences. Detailed information relating to these commitments is set out in the summaries of the PSAs in Section 12.1.

Any additional equity financing will dilute shareholdings, and debt financing, if available, may involve restrictions on financing and operating activities. If the Company is unable to obtain additional financing as needed, it may be required to reduce the scope of its operations and scale back its exploration programmes as the case may be. If the Company is successful in meeting its initial objectives with respect to the Tanzanian Licences, then additional capital will be required to further develop its operations and pursue business opportunities.

### (b) Potential Acquisitions

As part of its business strategy, the Company may make acquisitions of, or significant investments in, complementary companies or prospects and additional blocks or licences. Any such acquisitions or investments will be accompanied by risks commonly encountered in making such decisions.

### (c) Economic Risks

General economic conditions, movements in interest and inflation rates and currency exchange rates may have an adverse effect on the Company's exploration, development and production activities, as well as on its ability to fund those activities.

### (d) Market Conditions

Share market conditions may affect the value of the Company's quoted securities regardless of the Company's operating performance. Share market conditions are affected by many factors such as:

- (i) general economic outlook;
- (ii) interest rates and inflation rates;
- (iii) currency fluctuations;
- (iv) changes in investor sentiment toward particular market sectors;
- (v) the demand for, and supply of, capital; and
- (vi) terrorism, civil unrests or other hostilities.

The market price of securities can fall as well as rise and may be subject to varied and unpredictable influences on the market for equities in general and resource exploration stocks in particular. Neither the Company nor the Directors warrant the future performance of the Company or any return on an investment in the Company.

## 7.4 OTHER KEY RISKS

The business assets and operations of the Company are subject to certain risk factors that have the potential to influence the operating and financial performance of the Company in the future. These risks can impact on the value of investments in the Securities of the Company.

The Board aims to manage these risks by carefully plan its activities and implementing risk control measures. By their very nature, some of the risks are, however, highly unpredictable and the extent to which they can be effectively managed is sometimes limited.

Set out below are specific risks that the Company is exposed to. Further risks associated with an investment in the Company are outlined in Section 6.

### Contractual Risk

Swala has entered into various Production Sharing Agreements and Joint Operating Agreements with third parties (including the Tanzanian Government) relating to the Tanzanian Licences, all of which currently play a major role in the ongoing operations of Swala's business. If there is a breakdown in relations (as the case may be) and the counterparty to a Production Sharing Contract or Joint Operating Agreement or that counterparty fails to perform its obligations under the relevant agreement, such risks could have a negative impact on the Company and its interests in the Tanzanian Licences or any of them. A summary of the Production Sharing Contracts and Joint Operating Agreements to which Swala is party is set out in Section 12.

The ability of the Company to achieve its stated objectives will depend in part on the performance by the counterparties to these contracts of their respective obligations. If any of them default in the performance of their obligations, the relevant contracts may be terminated and it may be necessary for the Company to approach the Court to seek a legal remedy. Legal action can be costly and there can be no guarantee that a legal remedy will ultimately be granted on terms favourable to the Company.

#### **Tanzanian Tax Implications**

Swala is a company incorporated in Tanzania and is a tax resident in Tanzania.

Section 56 of the Tanzanian Income Tax Act (ITA) deals with the Tanzanian income tax consequences of a change in the underlying ownership of a Tanzanian-resident entity (such as Swala) by more than 50%. Section 56(1) of the ITA provides that "where the underlying ownership of an entity changes by more than fifty percent as compared with the ownership at any time during the previous three years, the entity shall be treated as realising any assets owned and any liabilities owed by it immediately before the change". This applies whether or not there is continuity in the business activities carried on by the Tanzanian entity.

The income tax liability which arises on a deemed disposal triggered by section 56 of the ITA is attached to the Tanzanian company (i.e. in this case Swala). This is not the tax liability of the direct or indirect owners of the shares.

Section 56 of the ITA does not prescribe the value at which assets and liabilities would be deemed to be disposed. However, section 39(h) of the ITA deals with deemed disposals under section 56 and section 42 of the ITA prescribes that the value to be attributed to the deemed disposal of assets and liabilities should be the fair market value. The assets and liabilities in question are treated as immediately re-acquired by the company at that value.

The capital gains arising from the deemed disposal will be calculated as the difference between the deemed disposal value (i.e. the market value) and the cost of the assets and liabilities (balance sheet value of the assets and liabilities). The capital gains tax will be computed at the rate of 30% of the capital gain.

If, for example, the value of the licence interests reflected in the balance sheet is at a nominal value and there is subsequently significant success in exploration activities, the market value of the licence interests is likely to be substantially higher, and this may give rise to substantial capital gains. The new balance sheet cost of the assets and liabilities after the section 56 event will be the market value of the assets at the point of the deemed disposal. Therefore, although the transaction will have capital gains tax implications on the entity, the base cost of its assets and liabilities will be "stepped up" to the market value after the deemed realisation.

There are no exemptions available in respect of the implications of section 56(1) of the ITA. Accordingly, a change in the shareholding of Swala could trigger tax consequences for the Company under section 56 of the ITA.

#### **Implications of Section 56 of the ITA on the Offer**

The offer will not trigger the provisions of section 56 of the ITA, as the underlying ownership of Swala will not change by more than 50% (i.e. the current Shareholders will still own more than 50% of the Company upon completion of the Offer).

#### **Implications of Section 56 of the ITA on Future Capital Raisings by the Company**

Depending on the Company's exploration success and future capital requirements, the Company may undertake equity capital raisings in the future.

If such equity capital raisings result in the direct or indirect ownership of Swala changing by more than 50% as compared with that ownership at any time during the previous three years, Swala could, on a technical reading of section 56 of the ITA, be treated as realizing any assets owned and any liabilities owed by it immediately before the change under section 56(1) of the ITA. As at the date of this Prospectus, the Tanzanian Revenue Authority has not applied this broad interpretation of section 56 of the ITA and it is unclear whether or how it would apply such an interpretation in the future.

#### **Proposed Amendments to the VAT Rules**

The obligations of oil and gas exploration companies to pay VAT are governed by the Third Schedule "Special Reliefs", as provided in the current VAT Act, Cap. 148. Items 8 and 9 of the Third Schedule to the VAT Act, Cap. 148 provide VAT relief on importation or supply of goods or services to be used solely for exploration or prospecting activities.

The draft VAT Bill 2012 abolishes VAT relief on supply of goods and services to be used solely for exploration or prospecting activities as provided by the existing VAT Act. This means oil and gas companies will be required to pay VAT on supplies of goods and services. In the case of Swala, and in the absence of current income, the Company will regularly be in refund position and will be obliged to apply for a VAT refund on a monthly basis. Section 57 of the draft VAT Bill 2012 (process for refund applications) provides that the Authority shall make a decision to allow or reject a refund claim within ninety (90) days of the receipt of the claim.

Given the nature of the Company's business and the capital intensity of oil and gas operations, the proposed amendments to the VAT Bill 2012 raise the following risks to the Company:

1. That the time taken to process any claim will negatively affect the Company's ability to perform its obligations under its Licence Agreements by restricting its capital. There can in any event be no guarantee that the Authority will accept a VAT refund, that it will process VAT refunds in a timely manner, or that it will be able to repay any VAT refunds;
2. Potentially significant sums of money (the VAT rate is 18% applied over supplies of goods and services) may need to be raised from shareholders. Failure to raise these additional sums may negatively affect the Company's ability to fulfil its work obligations or may restrict the Company's ability to perform additional work.

The Company is currently VAT-exempt under the VAT Act, Cap. 148 and it expects that any VAT payment would be refunded. The proposed amendments to the VAT Bill 2012 raise no additional VAT but significantly raise the risk to the capital integrity of the Company.



## 7. risk factors (cont.)

### Risks Associated with Changes in Legislation

Changes to exploration mining or investment policies and legislation or a shift in political attitude in Tanzania may adversely affect the Company's proposed operations and profitability.

#### Early Stage Project

As noted in the Independent Technical Specialist Report available on the Company website [www.swala-energy.co.tz](http://www.swala-energy.co.tz), the Tanzanian Licences are located in an attractive but largely unexplored section of the East African Rift System.

Work to date has included interpreting and reprocessing legacy data; performing airborne gravity-magnetic surveys of the Licences; to completing a seismic survey over the three basins of the Kilosa-Kilombero Licence; and to commencing a seismic survey over the Pangani Licence. Accordingly, the mapping and identification of potential prospects are still at a very early stage and there is a risk that planned exploration programmes may be unsuccessful and may not discover commercial quantities of hydrocarbons.

Please refer to the Independent Technical Specialist Report available on the Company website [www.swala-energy.co.tz](http://www.swala-energy.co.tz) for further details.

#### Exploration and Development Risks

The business of oil and gas exploration, project development and production, by its nature, contains elements of significant risk with no guarantee of success. The Tanzanian Licences are still at a very early stage and there is no guarantee of development. Ultimate and continuous success of activities is dependent on many factors such as:

- the discovery and/or acquisition of economically recoverable reserves;
- access to adequate capital for project development;
- design and construction of efficient development and production infrastructure within capital expenditure budgets;
- securing and maintaining title to interests;
- obtaining regulatory consents and approvals necessary for the conduct of oil and gas exploration, development and production;
- securing plant and equipment, particularly given equipment utilisation rates are high in the current period of global exploration/production activity, hence competition for such equipment may also be high; and
- access to competent operational management and prudent financial administration, including the availability and reliability of appropriately skilled and experienced employees, contractors and consultants.

There is no assurance that any exploration on current or future interests will result in the discovery of an economic deposit of oil or gas. In particular, completed wells may never produce oil or gas or may not produce sufficient quantities or qualities of oil or gas to be profitable or commercially viable and may result in a total loss of the investments by the Company.

Whether or not income will result from projects undergoing exploration and development programmes depends on successful exploration and establishment of production facilities. Factors including costs, actual hydrocarbons and formations, flow consistency and reliability and commodity prices affect successful project development and operations.

Drilling activities carry risk and as such, activities may be curtailed, delayed or cancelled as a result of weather conditions, mechanical difficulties, shortages or delays in the delivery of drill rigs or other equipment. In addition, drilling and operations include reservoir risk such as the presence of shale laminations in the otherwise homogeneous and stone porosity.

Industry operating risks include fire, explosions, unanticipated reservoir problems which may affect field production performance, industrial disputes, unexpected shortages or increases in the costs of consumables, spare parts, plant and equipment, mechanical failure or breakdown, blow outs, pipe failures and environmental hazards such as accidental spills or leakage of liquids, gas leaks, ruptures, discharges of toxic gases or geological uncertainty (such as lack of sufficient sub-surface data from correlative well logs and/or formation core analyses). The occurrence of any of these risks could result in legal proceedings against the Company and substantial losses to the Company due to injury or loss of life, damage to or destruction of property, natural resources or equipment, pollution or other environmental damage, clean-up responsibilities, regulatory investigation, and penalties or suspension of operations. Damage occurring to third parties as a result of such risks may give rise to claims against the Company.

In addition, the Company will be required to comply with the applicable governmental regulations in Tanzania relation to licence conditions, the environment and operational conduct.

#### Environmental Risk

The Company's activities in Tanzania will be subject to various regulations regarding environmental matters and the environmental risks inherent in the oil and gas industry, including, without limitation, accidental spills, leakage or other circumstances that could expose the Company to extensive liability.

In the event the Company undertakes oil field developments within the Tanzanian Licences or elsewhere a rigorous environmental assessment would have to be conducted, a lengthy approval process would need to be implemented and stringent conditions imposed on the Company's well design and operating practices. This may adversely affect the Company's exploration and development schedule.

Whilst the Company intends to conduct its activities in an environmentally responsible manner, risks arise in relation to compliance with these regulations and approvals. The introduction of more stringent regulations and conditions may also adversely affect the Company.

**No Profit to Date and Uncertainty of Future Profitability**

As the Company is newly incorporated, it is not possible to evaluate the Company's future prospects based on past performance. The Company expects to make losses in the foreseeable future. Factors that will determine the Company's future profitability are its ability to manage its costs, its ability to execute its development and growth strategies, the success of its activities in a competitive market, the actions of competitors and regulatory developments. As a result, the extent of future profits, if any, and the time required to achieve sustainable profitability, is uncertain. In addition, the level of any such future profitability (or loss) cannot be predicted and may vary significantly from period to period.

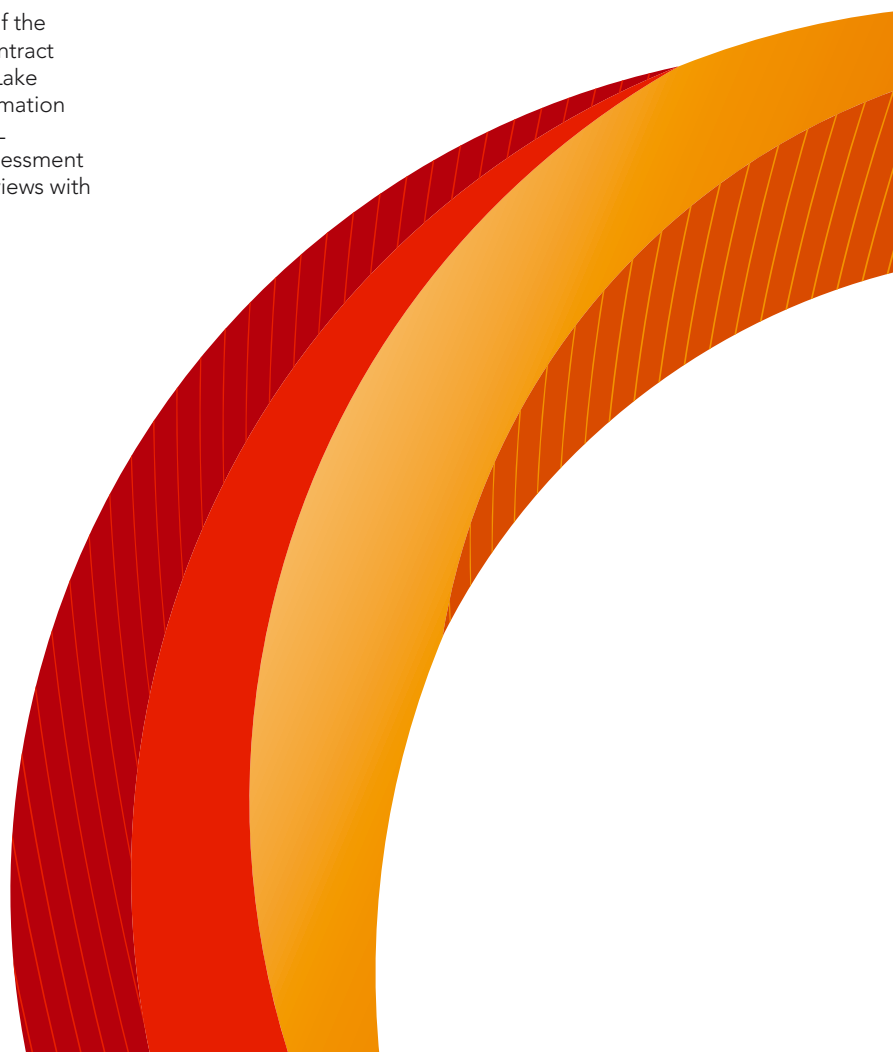
The risk factors set out in Section 6, and other general risks applicable to all investments in listed securities not specifically referred to, may also affect the value of the Securities in the future. Accordingly, an investment in the Company should be considered highly speculative.

**7.5 SPECULATIVE INVESTMENT**

The above list of risk factors should not be taken as exhaustive of the risks faced by the Company or by investors in the Company. The above factors, and others not specifically referred to above, may in the future materially affect the financial performance of the Company and the value of the Securities. Therefore, the Securities carry no guarantee with respect to the payment of dividends, returns of capital or the market value of those Securities.

**7.6 NOMINATED ADVISOR COMMENTS ON RISK FACTORS**

After conducting a thorough assessment of the impact of the Press Release by TPDC regarding Termination of Pre-Contract Negotiations for a Production Sharing Agreement over Lake Eyasi-Wembere basin, SOGL is of the view that the information contained in the press does not impact any risk on SOGL operations in other blocks where it is doing well. The assessment included consultation with TPDC, and carrying out interviews with other stakeholders in oil and gas exploration sector.



## 8. board and corporate governance

### 8.1 DIRECTORS

Disclosure of the Directors and their background is contained in the Section 4.11.

### 8.2 MANAGEMENT AND CONSULTANTS

The Company is aware of the need to have sufficient management to properly supervise its ongoing operations and the Board will continually monitor the management roles in the Company. As its projects require an increased level of involvement, the Board will look to appoint additional management and/or consultants when and where appropriate to ensure proper management of the Company's projects.

### 8.3 CORPORATE GOVERNANCE PRINCIPLES AND CMSA RECOMMENDATIONS

A copy of the Company's corporate governance documentation is available on the Company's website at [www.swala-energy.co.tz](http://www.swala-energy.co.tz). In developing its Corporate Governance the Company has adopted the strictest of the CMSA Recommendations and the Corporate Governance obligations imposed on its majority shareholder, SWE, by virtue of the latter's listing on the Australian Securities Exchange. The Board guides the Company according to the following principles:

(i) Principle 1:	The Board lays solid foundations for management and oversight.
(ii) Principle 2:	The Board is structured to add value.
(iii) Principle 3:	The Board promotes ethical and responsible decision-making.
(iv) Principle 4:	The Board safeguards integrity in financial reporting.
(v) Principle 5:	The Board makes timely and balanced disclosure.
(vi) Principle 6:	The Board respects the rights of shareholders.
(g) Principle 7:	The Board recognises and manages risk.
(h) Principle 8:	The Board remunerates fairly and responsibly.

### 8.4 BOARD PRINCIPLES

#### (a) Principle 1: The Board lays solid foundations for management and oversight.

The Board's role is to govern the Company rather than to manage it. In governing the Company, the Directors must act in the best interests of the Company as a whole. Each member of the Board is committed to spending sufficient time to enable them to carry out their duties as a Director of the Company. In addition, it is the intention that Non-executive Directors receive formal letters of appointment setting out the key terms, conditions, responsibilities and expectations of their appointment.

In carrying out its governance role, the main task of the Board is to drive the performance of the Company. The Board must also ensure that the Company complies with all of its contractual, statutory and any other legal obligations, including the requirements of any regulatory body. The Board has the final responsibility for the successful operations of the Company.

Board responsibilities are set out in the Company's Board Charter which is located on the Company's website [www.swala-energy.co.tz](http://www.swala-energy.co.tz).

#### Responsibilities of Senior Executives

It is the role of senior executives to manage the Company in accordance with the direction and delegations of the Board and it is the responsibility of the Board to oversee the activities of management in carrying out those delegated duties. The Board shall approve all delegations of authority.

#### Independent Professional Advice and Access to information

The Board collectively and each Director individually has the right of access to all the Company's information and to the Company's executives. Further, each Director individually and the Board collectively has the right to seek independent professional advice from a suitably qualified advisor, at the Company's expense, to assist them to carry out their responsibilities. Where appropriate, a copy of this advice is to be made available to all other members of the Board.





### Performance Review/Evaluation of Executives

A Senior Executive review has not been undertaken yet given its early stage. Senior Executives will be set clear objectives and Senior Executive's performance is to be formally reviewed annually, with performance appraised by the Chief Executive Officer and Managing Director, and reviewed by the Board. Once admitted to DSE, the Board intends to establish a process for evaluating the performance of senior executives against appropriate measures, which it will disclose on the Company's website Swala-Energy.co.tz.

### (b) Principle 2: The Board is structured to add value

#### Composition of the Board and Details of Directors

To add value to the Company, the Board has been formed so that it has an effective composition, size and commitment to adequately discharge its responsibilities and duties.

The Board comprises seven Directors. They are:

- » Ernest Massawe, *Non-executive Chairman*
- » Dr David Mestres Ridge, *Managing Director and CEO*
- » Mr Selemani Pongolani, *CFO and Director*
- » Professor Simon Mbilinyi, *Non-executive Director*
- » Abdullah Mwinyi, *Non-executive Director*
- » Ms Elizabeth Obiero, *Non-executive Director*
- » Neil Taylor, *Non-executive Director*

Further details of the Directors including their qualifications, skills, experience, expertise and period of office are set out in Section 4.11 of this Prospectus. The Board has assessed the current mix of skills, experience and diversity to be appropriate for an oil and gas exploration company. The Board intends to periodically assess the mix of skills, experience and diversity for which the Board is looking to achieve in its membership.

The Board assesses the necessary competencies of the Board, reviews Board succession plans, and develops policies and processes for evaluation of the Board and the nomination, appointment and re-election of Directors. These responsibilities are set out in the Board Charter, including the procedures for nomination, selection and appointment of Directors by the Board. The Board has not established a separate nomination committee because the Board deems it more efficient to undertake this function given the present size of the Board, and will undertake the functions of a nomination committee as and when required at its board meetings.

### Independence

The Company recognises the importance of Non-executive Directors and the external perspective and advice that Non-executive Directors can offer. There are currently four Non-Executive Directors on the Board of the Company, two of which are also Independent Directors.

In assessing independence, the Board has taken into consideration the relationships affecting the independence of a director pursuant to the DSE Recommendations. Independent directors are those who have the ability to exercise their duties unfettered by any business or other relationships and are willing to express an objective opinion. It is the approach and attitude of each Non-executive director which is critical in determining independence and this must be considered in relation to each director while taking into account all other relevant factors. The factors the Board takes into consideration are set out in the Board Charter including the relevant materiality thresholds:

- is a substantial shareholder (defined as owning more than 5% of the issued share capital of the Company), or an officer of, or otherwise associated directly with, a substantial shareholder of the Company;
- has, within the last three years, been employed in an executive capacity by the Company or any other Group company;
- has, within the last three years, been a principal of a material professional adviser or a material consultant to the Company or an employee materially associated with the service provided. In this context, the relationship with the professional adviser or consultant shall be deemed to be material if payments from the Company exceed \$100,000 in a calendar year.
- is a material supplier or customer of the Company, or an officer of or otherwise associated directly or indirectly with, a material supplier or customer. In this context, the relationship with the supplier or customer shall be deemed to be material if annual payments to or from that supplier or customer exceed \$100,000 of the annual consolidated gross revenue of either Swala or of that supplier or customer;
- has any material relationship with Swala other than as a director; or
- is free from any interest and any business or other relationship which could, or could reasonably be perceived to, materially interfere with the director's ability to act in the best interests of Swala.

On the basis of the above, four of the seven Directors are not independent. The Board will regularly review the number of independent Directors on the Board.

The CEO, Dr. David Mestres Ridge, Elizabeth Obiero and Neil Taylor are employed by SWE and so cannot be seen as independent. Mr. Selemani Pongolani is an executive Director and can also not be regarded as independent. The Chairman, Ernest Massawe, is an independent Non-Executive Chairman and there is a clear division of responsibility between the Chairman and the CEO. Prof Simon Mbilinyi and Abdullah Mwinyi are non-executive independent directors.

## 8. board and corporate governance (cont.)

### Performance Review/Evaluation

The Board will review their performance as determined by the Board from time to time. It is the Board's intention to conduct an informal review of the skills and experience of the Directors prior to their appointment and the alignment of those skills with the requirements of the Board. This review will be ongoing and undertaken as required given the stage of the Company's development. The Company has not established a process for evaluating the performance of its Board, its committees and individual directors. However, once admitted to the DSE, the Board intends to establish a process for evaluating the performance of the Board, its committees and individual directors against appropriate measures, which may include director questionnaires and interview processes, which it intends to disclose in the Company's subsequent corporate governance statements disclosed in its annual reports.

### (c) Principle 3: The Board Promotes Ethical and Responsible Decision-making

#### Code of Conduct

As part of its commitment to recognising the legitimate interests of stakeholders, the Company has established a Code of Conduct to guide compliance with legal, ethical and other obligations to legitimate stakeholders and the practices necessary to maintain the Company's integrity and to assist the Board to carry out its functions. These stakeholders include employees, clients, customers, government authorities, creditors and the community as whole.

A copy of the Code of Conduct is available on the Company's website [www.swala-energy.co.tz](http://www.swala-energy.co.tz).

### (d) Principle 4: The Board safeguards integrity in financial reporting

The Board has established an Audit and Risk Management Committee comprising three independent Non-executive Directors with delegated responsibilities to assist the Board in fulfilling its corporate governance responsibilities in regard to:

- The reliability and integrity of financial information for inclusion in the Company's financial statements;
- Audit, accounting and financial reporting obligations;
- Safeguarding the independence of the external auditor;
- Financial risk management;
- The oversight and management of material business risks; and
- The effectiveness of the Company's management of its material business risks.

All members of the Audit and Risk Management Committee consider themselves to be financially literate and have industry knowledge. Mr. Massawe is a certified accountant (ACCA, UK) and holds a Bachelors of Commerce from the then University of East Africa - Nairobi. Further details of each of the directors' qualifications are set out in Section 4.11 of this Prospectus.

After a recommendation has been made by the Audit and Risk Management Committee, the Board is responsible for the initial appointment of the external auditor and the appointment of a new external auditor when any vacancy arises. Any appointment made by the Board must be ratified by shareholders at the next annual general meeting of the Company. Candidates for the position of external auditor of the Company must be able to demonstrate complete independence from the Company and an ability to maintain independence through the engagement period. Further the successful candidate must have arrangements in place for the rotation of the audit engagement partner on a regular basis.

A copy of the Audit and Risk Management Committee Charter is available on the Company's website [www.swala-energy.co.tz](http://www.swala-energy.co.tz).

### (e) Principle 5: The Board Makes Timely and Balanced Disclosure

The Company's Continuous Disclosure Policy is designed to ensure that procedures are in place to ensure that all material information is disclosed to investors, regulators and the market as promptly as practicable. The CEO and the Company Secretary have been designated as the Company's disclosure officers responsible for implementing and administering the policy.

A copy of the Continuous Disclosure Policy is available on the Company's website [www.swala-energy.co.tz](http://www.swala-energy.co.tz).

### (f) Principle 6: The Board Respects the Rights of Shareholders

The Company respects the rights of its shareholders and to facilitate the effective exercise of those rights, by promoting effective communication with shareholders and encouraging shareholder participation at annual general meetings, the Company has established a Shareholder Communications Policy which is available on the Company's website [www.swala-energy.co.tz](http://www.swala-energy.co.tz).

### (g) Principle 7: The Board Recognises and Manages Risk

The Company has not established a risk management policy as it intends to establish its risk management framework upon further development in its organisation structure, systems and procedures which are expected to take place after listing on the DSE

As the Company develops it is its intention to identify, monitor and manage material business risk of its activities.

The Board will delegate its responsibility for the oversight of the Company's risk management and control framework to the Audit and Risk Management Committee, with the Committee to provide regular reports to the Board, through copies of its minutes.

Management will be responsible for overseeing and approving risk management strategies and will aim to develop a process to periodically update the Audit and Risk Management Committee regarding the existence and status of material business risks with the implementation of a formal risk management reporting system.

The Audit and Risk Management Committee will oversee the Company's management of risks and as the Company's activities develop, it will be responsible for approving risk management policies and monitoring of those policies. Through its oversight function, the Audit and Risk Management Committee will review the areas of material business risks and aim to ensure, where applicable, that management has appropriate measures in place to protect the assets of the Company.

The Company's intended risk management strategy encompasses the following objectives:

- identify risks to the Company;
- balance risk to reward;
- where appropriate, ensure regulatory compliance is achieved; and
- ensure senior executives, the Board and investors understand the risk profile of the Company.

The Board will require management to design, implement and maintain risk management and internal control systems to manage the Company's material business risks. The Board will also require management to report to it confirming that those risks are being managed effectively.

**(h) Principle 8: The Board Remunerates Fairly and Responsibly**

The Board is ultimately responsible for the Company's remuneration policy however, it has delegated its responsibility for the approval and monitoring of remuneration policies to the Remuneration Committee which consists of the Company's three non-executive directors. The Board believes it is inappropriate to have executives represented on this Committee.

The responsibilities of the Remuneration Committee in relation to remuneration policies are set out in the Remuneration Committee's charter approved by the Board and available on the Company's website [www.swala-energy.co.tz](http://www.swala-energy.co.tz).

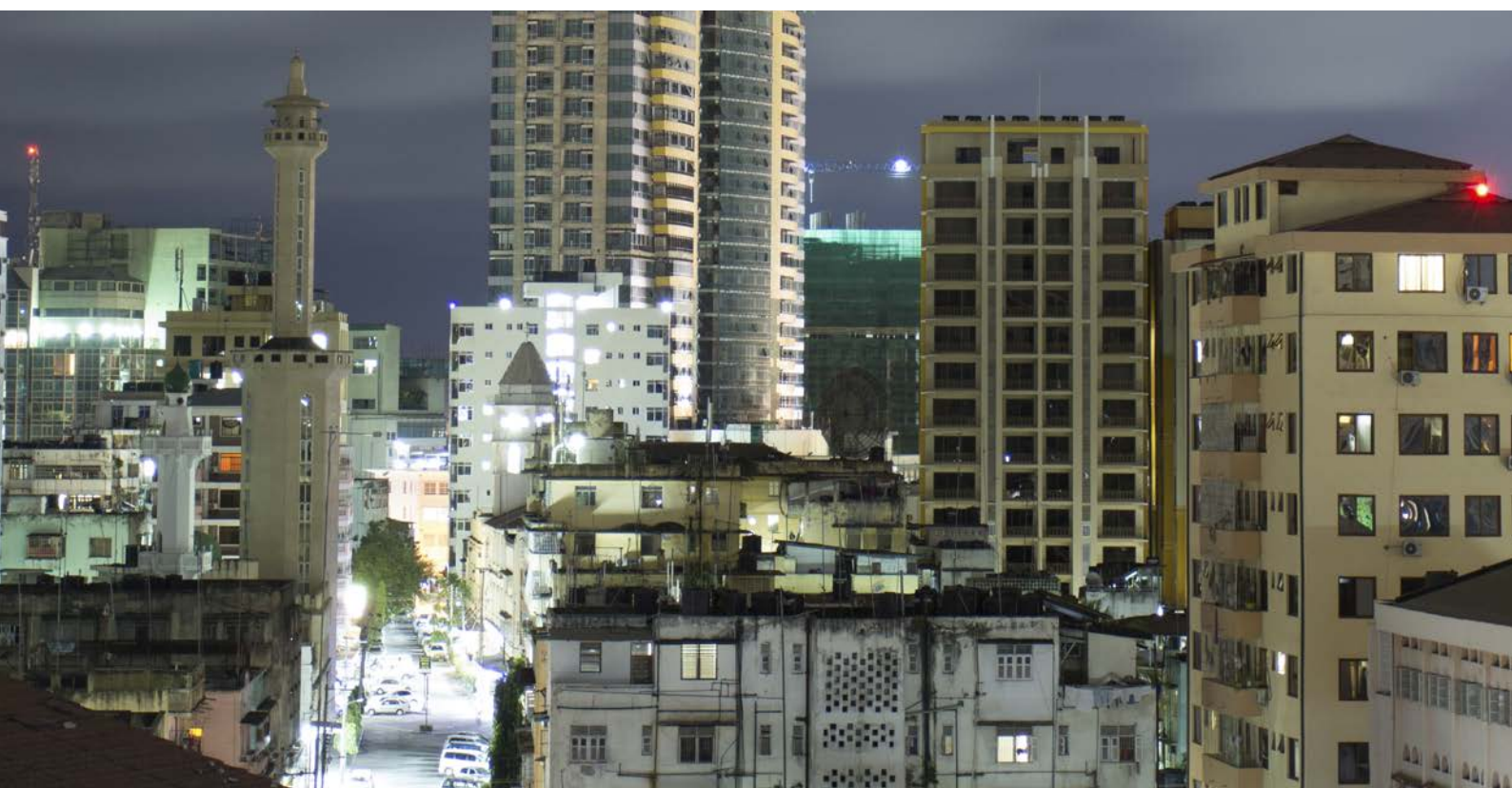
The Remuneration Committee will monitor and review the performance of the CEO, senior executives and management. The Board also has responsibility for ensuring that the level and composition of remuneration is competitive, reasonable and appropriate for the results delivered and to attract and maintain talented and motivated Directors and employees.

It is the Board's policy (as set out in the Company's Securities Trading Policy available on the Company's website) that Directors and senior executives are not permitted to enter into transactions with securities of Swala (or any derivative thereof) which limit the economic risk of any unvested entitlements awarded under any equity-based remuneration scheme currently in operation or which will be offered by the Company in the future. However, Directors and senior executives will consult with the Chairman if they are considering, or if they are not sure, as to whether entering into transactions may limit the economic risk of unvested entitlements they may have.

There are no termination or retirement benefits for non-executive directors.

Non-Executive directors are remunerated at a fixed fee for time, commitment and responsibilities. Remuneration for Non-Executive directors is not linked to individual performance. Given the stage of development of the Company and the financial constraints applicable to it, the Company may consider it appropriate to issue unquoted options to non-executive directors, subject to obtaining the relevant approvals. This policy is subject to annual review. Pay and rewards for executive directors and senior executives consists of a base salary and performance incentives. Long term performance incentives may include options granted at the discretion of the Board and subject to obtaining the relevant approvals.

Further details of the remuneration structure of the Executive directors, Non-Executive Directors and senior executives' remuneration are set out in Section 4.11 of this Prospectus.





## 9. reporting accountant's report

3<sup>rd</sup> March 2014

The Directors and Shareholders

Swala Oil and Gas Tanzania Limited  
 P.O. Box 105266  
 Dar es Salaam  
 Tanzania

Dear Ladies and Gentlemen,

### Report on the Financial Statements

We have audited the accompanying financial statements of Swala Oil and Gas (Tanzania) Limited, set out on pages 42 to 51 which comprise the statement of financial position as at 31<sup>st</sup> December 2013, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the period then ended, and a summary of significant accounting policies and other explanatory notes.

### Directors' Responsibility for the Financial Statements

The directors are responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards, and comply with the requirements of the Tanzanian Companies Act 2002. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatements, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances. The Tanzanian Companies Act 2002 also requires the directors to ensure that the Company maintains proper books of accounts which are in agreement with the statement of financial position and statement of comprehensive income.

### Auditor's Responsibility

Our responsibility is to express an independent opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depended on our professional judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we considered the internal controls relevant to the company's preparation and fair presentation of the financial statements in order to design audit procedures that

were appropriate in the circumstances, but not for the purpose of expressing an opinion on the company's internal controls. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### Opinion

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at 31<sup>st</sup> December 2013 and of its financial performance and its cash flows for the period then ended in accordance with International Financial Reporting Standards and comply with the Tanzanian Companies Act 2002.

### Report on Other Legal and Regulatory Requirements

As required by the Tanzanian Companies Act 2002 we report to you, based on our audit, that:

- i) we have obtained all the information and explanations which to the best of our knowledge and our belief were necessary for the purposes of our audit;
- ii) in our opinion proper books of account have been kept by the Company, so far as it appears from our examination of those books; and
- iii) the Company's statement of financial position and statement of comprehensive income are in agreement with the books of account.

Signed by:



Juvinal Betambira  
 BDO East Africa, Tanzania,  
 Certified Public Accountants

Date: 3<sup>rd</sup> March 2014

STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2013

	Notes	31 December 2013 USD	31 Dec 2012 USD
<b>ASSETS</b>			
<b>Non-Current assets</b>			
Property and Equipment	5	14,117	11,611
		14,117	11,611
<b>Current assets</b>			
Tax claimable		18,408	16,040
Current account - Joint operating partner		234,596	-
Other receivables and prepayments	6	15,131	9,198
Cash and cash equivalent	7	1,601,481	38,655
		1,869,616	63,893
<b>TOTAL ASSETS</b>		<b>1,883,733</b>	<b>75,504</b>
<b>EQUITY</b>			
<b>Equity attributable to equity holders</b>			
Share Capital	9	22,309	22,309
Share Premium		595,229	595,229
Accumulated deficit		(6,842,864)	(1,261,552)
<b>Total equity</b>		<b>(6,225,326)</b>	<b>(644,014)</b>
<b>LIABILITIES</b>			
<b>Non-Current liabilities</b>			
Share capital advance	8	179,448	179,448
<b>Current liabilities</b>			
Intercompany payable	8	4,335,677	164,314
Current accounts		-	12,681
Other payables and accruals	10	3,593,934	363,075
		7,929,611	540,070
<b>TOTAL EQUITY AND LIABILITIS</b>		<b>1,883,733</b>	<b>75,504</b>

## 9. reporting accountant's report (cont.)

### STATEMENT OF COMPREHENSIVE INCOME FOR THE PERIOD ENDED 31 DECEMBER 2013

	Notes	31 December 2013 USD	31 December 2012 USD
Revenue		-	-
Other income	11	285,944	62,853
Prospecting and exploration expenses	16	(5,247,795)	(1,071,670)
Operating and administration expenses	16	(619,461)	(252,735)
<b>Loss before taxation</b>		<b>(5,581,312)</b>	<b>(1,261,552)</b>
Taxation		-	-
<b>Loss for the year</b>		<b>(5,581,312)</b>	<b>(1,261,552)</b>
<b>Total comprehensive loss for the year</b>		<b>(5,581,312)</b>	<b>(1,261,552)</b>

### STATEMENT OF CHANGES IN EQUITY FOR THE PERIOD ENDED 31 DECEMBER 2013

	Share Capital USD	Share Premium USD	Accumulated Deficit USD	TOTAL USD
Balance as at July 2011	-	-	-	-
Share issuance	22,309	595,229	-	617,538
Loss for the period	-	-	(1,261,552)	(1,261,552)
<b>Balance as at 31 December 2012</b>	<b>22,309</b>	<b>595,229</b>	<b>(1,261,552)</b>	<b>(644,014)</b>
Share issuance	-	-	-	-
Loss for the year	-	-	(5,581,312)	(5,581,312)
<b>Balance as at 31 December 2013</b>	<b>22,309</b>	<b>595,229</b>	<b>(6,842,864)</b>	<b>(6,225,326)</b>



## STATEMENT OF CASH FLOWS FOR THE PERIOD ENDED 31 DECEMBER 2013

	31 December 2013 USD	31 December 2012 USD
<b>CASHFLOWS FROM OPERATING ACTIVITIES</b>		
Loss before taxation	(5,581,312)	(1,261,552)
Adjustments for:		
- Depreciation	2,475	930
- Impairment of prospecting licences	-	-
	(5,578,837)	(1,260,622)
Change in receivables and prepayments	(8,301)	(9,198)
Change in intercompany payable	4,171,362	164,314
Changes in other payables and accruals	3,230,859	363,075
Current accounts	(247,277)	12,681
Taxation paid	-	(16,040)
<b>Net cash used in operating activities</b>	<b>1,567,806</b>	<b>(745,790)</b>
<b>CASH FLOW FROM INVESTING ACTIVITIES</b>		
Purchase of property and equipment	(4,980)	(12,541)
<b>Net cash used in investing activities</b>	<b>(4,980)</b>	<b>(12,541)</b>
<b>CASH FLOW FROM FINANCING ACTIVITIES</b>		
Share capital advance	-	179,448
Share capital	-	22,309
Share premium	-	595,229
<b>Net cash flow from financing activities</b>	<b>-</b>	<b>796,986</b>
<b>Net increase in cash and bank balances</b>	<b>1,562,826</b>	<b>38,655</b>
Cash and bank balances at the beginning of the period	38,655	-
<b>Cash and bank balances at the end of the period</b>	<b>1,601,481</b>	<b>38,655</b>

### 1. CORPORATE INFORMATION

The Company is a limited company incorporated and domiciled in Tanzania. The registered office is located at the 3rd Floor, Regent Business Park, Plot No. 172, Chwaku Street, Dar es Salaam. The principal activities of the Company are described in the Directors' report.

### 2. BASIS OF PREPARATION

#### a) Statement of Compliance

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs).

#### b) Basis of measurements

The financial statements have been prepared on the historical cost basis.

#### c) Functional and presentation currency

These financial statements are presented in United States Dollars (USD), which is the Company's presentation and functional currency.

#### d) Use of estimates and judgments

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

In particular, information about significant areas of estimation, uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amount recognised in the financial statements are described in note 4.

## 9. reporting accountant's report (cont.)

### 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The following accounting policies have been applied consistently to both periods presented in these financial statements

#### a) Property, Plant and Equipment

##### i) Recognition and measurement

Items of property, plant and equipment are stated at cost less accumulated depreciation and accumulated impairment losses.

Cost includes expenditure that is directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bringing the asset to a working condition for its intended use, and the costs of dismantling and removing the items and restoring the site on which they are located. Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment. Borrowing costs related to the acquisition or construction of qualifying assets is recognised in profit or loss as incurred.

When parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Gains and losses on disposal of an item of property, plant and equipment are determined by comparing the proceeds from disposal with the carrying amount of property, plant and equipment and are recognised net within the profit or loss.

##### ii) Subsequent costs

The cost of replacing part of an item of property, plant and equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the company and its costs can be measured reliably. The carrying amount of the replaced part is derecognised. The cost of day to day servicing of property, plant and equipment are recognised in profit or loss as incurred.

##### iii) Depreciation

Depreciation is recognised in profit or loss on a diminishing value basis over the estimated useful lives of each part of an item of property, plant and equipment. The annual depreciation rates for this purpose are as follows:

- Computers	25%
- Office equipment	25%
- Furniture, fittings and equipment	12.5%

#### b) Foreign currency translation

Transactions in foreign currencies are translated to the functional currency at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the exchange rate at that date. Foreign currency gain or loss on monetary items is the difference between amortised cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortised cost in foreign currency translated at the exchange rate at the end of the period. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value was determined. Foreign currency differences arising on retranslation are recognised in profit or loss in the period in which they arise.

#### c) Prospecting and Exploration Costs

The company is in the initial stages of the exploration activities in the two blocks hence all costs are charged to the income statement. The company follows the successful method of accounting for oil and natural gas exploration costs. Expenditure incurred prior to the acquisition of a licence and the costs of other exploration activities which are not specifically directed to an identified structure are written off in the year incurred. Costs that lead directly to the discovery, acquisition or development of a specific, discrete oil and gas reserve are capitalised on a well by well basis (cost centre) pending determination and evaluation. Capitalised costs are considered abortive and written off on completion of a well unless the results of the drilling indicate that hydrocarbon reserves exist and there is a reasonable prospect that these reserves are commercial. Once commercial viability is demonstrated the capitalised exploration costs are transferred to property, plant and equipment as appropriate after being assessed for impairment.

#### d) Financial Instruments

##### i) Non derivative financial instruments

The Company initially recognises loans and receivables and deposits on the date that they are originated. All other financial assets (including assets designated at fair value through profit or loss) are recognised initially on the trade date at which the Company becomes a party to the contractual provisions of the instrument.

The Company derecognises a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in transferred financial assets that is created or retained by the Company is recognised as a separate asset or liability.

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Company has a legal right to offset the amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

The Company has the following non-derivative financial assets: loans and receivables.

##### Loans and receivables

Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition loans and receivables are measured at amortised cost using the effective interest method, less any impairment losses. Loans and receivables comprise trade and other receivables.

Cash and cash equivalents comprise cash and bank balances. Bank overdrafts that are repayable on demand and form an integral part of the Company's cash management are included as a component of cash and cash equivalents for the purpose of the statement of cash flows.

##### ii) Share capital

Ordinary shares are classified as equity.

## e) Impairment

### i) Financial assets (including receivables)

A financial asset not carried at fair value through profit or loss is assessed at each reporting date to determine whether there is objective evidence that it is impaired. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of that asset that can be estimated reliably.

Objective evidence that financial assets are impaired can include default or delinquency by a debtor, restructuring of an amount due to the Company on terms that the Company would not consider otherwise, indications that a debtor or issuer will enter bankruptcy, the disappearance of an active market for a security.

The Company considers evidence of impairment for receivables at both a specific asset and collective level. All individually significant receivables are assessed for specific impairment. All individually significant receivables found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified. Receivables that are not individually significant are collectively assessed for impairment by grouping together receivables with similar risk characteristics.

In assessing collective impairment the Company uses historical trends of the probability of default, timing of recoveries and the amount of loss incurred, adjusted for management's judgement as to whether current economic and credit conditions are such that the actual losses are likely to be greater or less than suggested by historical trends.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. Losses are recognised in profit or loss and reflected in an allowance account against receivables. Interest on the impaired asset continues to be recognised through the unwinding of the discount. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

### ii) Non-financial assets

The carrying amounts of the Company's non-financial assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. For goodwill and intangible assets (if any) that have indefinite useful lives or that are not yet available for use, the recoverable amount is estimated each year at the same time.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the "cash-generating unit, or CGU"). Subject to an operating segment ceiling

test, for the purposes of goodwill impairment testing, CGUs to which goodwill has been allocated are aggregated so that the level at which impairment is tested reflects the lowest level at which goodwill is monitored for internal reporting purposes.

The Company's corporate assets do not generate separate cash inflows. If there is an indication that a corporate asset may be impaired, then the recoverable amount is determined for the CGU to which the corporate asset belongs.

An impairment loss is recognised if the carrying amount of an asset or its CGU exceeds its estimated recoverable amount. Impairment losses are recognised in profit or loss. Impairment losses recognised in respect of CGUs are allocated first to reduce the carrying amount of any goodwill allocated to the units, and then to reduce the carrying amounts of the other assets in the unit (group of units) on a pro rata basis.

An impairment loss in respect of goodwill is not reversed. In respect of other assets, impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

## f) Employee Benefits

### i) Defined contribution plans

The Company makes statutory Contributions to the National Social Security Fund (NSSF) and the Parastatal Provident Fund (PPF). The Company's obligations in respect of contributions to such funds are 10% of the employees' gross emoluments and at agreed minimum amount for foreign employees.

Contributions to these pension funds are recognized as an expense in the period the employees render the related services.

### ii) Termination benefits

Termination benefits are recognised as an expense in the year when it becomes payable. Termination benefits are determined in accordance with the Tanzanian Labour Law.

### iii) Short term benefit

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided.

A liability is recognised for the amount expected to be paid under short-term cash bonus or profit-sharing plans if the company has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

## g) Provisions

A provision is recognised if, as a result of a past event, the company has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The unwinding of the discount is recognised as finance cost.



## 9. reporting accountant's report (cont.)

### h) Environmental expenditure

The company has remediation obligations comprising decommissioning and restoration liabilities relating to its past operations which are based on the company's environmental management plans, in compliance with current environmental and regulatory requirements.

### i) Decommissioning costs

The provision for decommissioning represents the cost that will arise from rectifying damage caused before production commenced due to the stage of exploration, no provision has been provided.

### j) Restoration costs

The provision for restoration represents the cost of restoring site damage after the start of production. Increases in the provision are charged to the income statement as a cost of production. These costs are estimated at the present value of expenditures expected to settle the obligation, using estimate cash flows based on current prices. The estimates are discounted at a pre-tax rate that reflects current market assessments of the time value of money and risks specific to the liability.

### k) Operating Lease Payments

Lease payments made under operating leases are recognised in profit or loss on a straight-line basis over the term of the lease. Lease incentives received are recognised as an integral part of the total lease expense, over the term of the lease.

### l) Taxation

#### Income tax

Income tax expense comprises current and deferred tax. Current and deferred taxes are recognised in profit or loss except to the extent that it relates to items recognised directly in equity or other comprehensive income.

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority.

A deferred tax asset is recognised for unused tax losses, tax credits and deductible temporary differences, to the extent that it is probable that future taxable profits will be available against which they can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

### m) Dividends

Dividends are recognised as a liability in the period in which they are declared.

### n) Determination of Fair Values

A number of the Company's accounting policies and disclosures require the determination of fair value, for both financial and non-financial assets and liabilities. Fair values have been determined for measurement and/or disclosure purposes based on the following methods:

#### (a) Other receivables

The fair value of other receivables is estimated as the present value of future cash flows, discounted at the market rate of interest at the reporting date.

#### (b) Non-derivative financial liabilities

Fair value, which is determined for disclosure purposes, is calculated based on the present value of future principal and interest cash flows, discounted at the market rate of interest at the reporting date.

#### 4. TAXATION

In view of the fact that no taxable revenue has been earned, no taxable profit and tax charge arises for the year. The estimated tax charge /(credit) for the years ended 31 December 2013 and 31 December 2012 is as shown below. At 31 December 2013, the estimated accumulated tax loss of USD 6,785,295 (2012: USD 1,262,189) is available for set-off against future taxable profit subject to approval by Tanzania Revenue Authority.

	31 December 2013 USD	31 December 2012 USD
<b>Tax charge /(Credit)</b>		
Income tax charge	-	-
Deferred tax credit – not recognised	(1,666,184)	(378,466)
	<b>(1,666,184)</b>	<b>(378,466)</b>
<b>Tax reconciliation is as follows:</b>		
	31 December 2013 USD	31 December 2012 USD
Loss before income tax	(5,581,312)	(1,261,552)
Tax calculated at the statutory of 30%	(1,674,394)	(378,466)
Tax effect of:		
Expense not deductible for tax purposes	8,210	-
Deferred income tax assets not recognised	<b>(1,666,184)</b>	<b>(378,466)</b>

#### Deferred Tax

As at 31 December 2013 there is a deferred tax asset of US\$ 2,044,649 (2012: USD 378,466) arising mainly on account of the estimated accumulated tax loss. In the opinion of the directors, it is prudent not to recognise this asset, as the Company is yet to start making taxable profits.

The gross movement on the deferred tax account is as follows:

	31 December 2013 USD	31 December 2012 USD
At beginning of the year	378,466	-
Movement during the year	1,666,184	378,466
At the end of the year	<b>2,044,649</b>	<b>378,466</b>
<b>Deferred tax asset includes the following temporary differences</b>		
Estimated income tax losses	2,035,588	378,657
Accelerated capital deductions	(47)	(191)
Other timing differences	(9,108)	-
Net deferred income tax Assets/(liability)	<b>2,044,649</b>	<b>378,466</b>

## 9. reporting accountant's report (cont.)

### 5. PROPERTY AND EQUIPMENT

	Office equipmen USD	Furniture and fittings USD	Total USD
<b>Cost</b>			
At 1 July 2011	-	-	-
Additions	3,441	9,100	12,541
<b>At 31 December 2012</b>	<b>3,441</b>	<b>9,100</b>	<b>12,541</b>
Additions	2,938	2,042	4,980
Disposal	-	-	-
<b>At 31 December 2013</b>	<b>6,379</b>	<b>11,142</b>	<b>17,521</b>
<b>Depreciation</b>			
Depreciation	-	-	-
At 1 July 2011	325	605	930
Charge for the year	325	605	930
Charge for the year	1,180	1,294	2,475
Depreciation on Disposal	-	-	-
<b>At 31 December 2013</b>	<b>1,505</b>	<b>1,899</b>	<b>3,405</b>
<b>Net book value</b>			
At 31 December 2013	4,874	9,243	14,117
At 31 December 2012	3,116	8,495	11,611

### 6. RECEIVABLES AND PREPAYMENTS

	31 December 2013 USD	31 December 2012 USD
Other Debtors	1,536	1,197
Prepayment	13,595	8,000
<b>Total</b>	<b>15,131</b>	<b>9,198</b>

### 7. BANK BALANCES

Cash on hand	1,335	208
Cash at bank	1,600,146	38,447
<b>Total</b>	<b>1,601,481</b>	<b>38,655</b>



## 8. RELATED PARTY TRANSACTIONS

Swala Oil and Gas (Tanzania) plc is a subsidiary of Swala Energy Ltd a company incorporated in BVI which has other subsidiaries in Australia, Kenya and Zambia namely Swala Energy Pty Ltd, Swala Energy (Kenya) Limited and Swala Energy (Zambia) Limited respectively.

The Company has entered into a technical service agreement with Swala Energy Limited and Swala Energy Pty Limited to receive head office support at certain agreed rates. Swala Energy Limited provides financial support to Swala Oil and Gas (Tanzania) plc through provision of share capital advance.

The balance due to related parties below is arising from the above transactions:

	31 December 2013 USD	31 December 2012 USD
Due to related parties:		
Swala Energy (ASX) Limited	4,171,363	-
Swala Energy Limited (BVI)	179,448	179,448
Swala Energy Pty Limited	164,314	164,314
	<b>4,515,125</b>	<b>343,762</b>
<b>9. SHARE CAPITAL</b>		
<b>Authorised</b>		
100,000,000 Ordinary shares of Tzs 1 (USD 0.000634) each	63,431	63,431
<b>Issued and fully paid up</b>		
35,169,957 Ordinary shares of Tzs 1 (USD 0.000634) each	22,309	22,309
<b>10. OTHER PAYABLES AND ACCRUALS</b>		
Swala Energy Pty Limited	197,117	139,406
Swala Energy Limited (BVI)	202,523	90,471
Swala Energy Limited	287,130	-
Other payables and accruals	2,907,164	133,198
<b>Total</b>	<b>3,593,934</b>	<b>363,075</b>

## 11. JOINT OPERATING AGREEMENT

The company has entered into a joint operating agreement (JOA) with Otto Energy (Tanzania) Pty Limited regarding the operations in Kilosa-Kilombero Area and Pangani Area. The joint operation agreement details the rights and obligations of each operator together with detailed criteria of allocation of the joint assets and expenses. The joint expenses and assets are allocated on a 1:1 basis. In the JOA the partners are charged 3% overhead on all expenses and this forms the other income component in these financial statements.

## 12. CAPITAL MANAGEMENT

The primary objective of the Company's capital management is to ensure that it maintains a strong credit rating and healthy capital ratios in order to support its business and maximize shareholder value.

The Company manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Company may return capital to shareholders or issue new shares. No changes were made in the objectives, policies or processes during the year ending 31 December 2013.

## 9. reporting accountant's report (cont.)

### 13. FINANCIAL RISK MANAGEMENT

The Company is exposed to the following risks from its use of financial instruments:

- Credit risk
- Liquidity risk
- Market risk

This note presents information about the Company's exposure to each of the above risks, the Company's objectives, policies and processes for measuring and managing risk, and the Company's management of capital. Further quantitative disclosures are included throughout these financial statements.

The Company's Directors have overall responsibility of the establishment and oversight of the Company's risk management framework.

The Company's risk management policies are established to identify and analyse the risks faced by the Company, to set appropriate risk limits and controls, and to monitor risk adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions, products and services offered. The Company, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment, in which all employees understand their roles and obligations.

The Directors are responsible for monitoring compliance with the risk management policies and procedures, and for reviewing the adequacy of the risk management framework in relation to the risk faced by the Company. The Directors are assisted in these functions by the management.

#### Credit risk

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Company's trade receivables and other receivables.

Prepayments and other receivables are not having similar credit characteristics; they differ depending on whether they are prepayments or other receivables (mainly staff advances, prepaid rent and advance to suppliers), "governed by specific prepayment, loan and/or advance terms" or the creditworthiness of party from which they are receivable.

#### Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Company's reputation.

All liquidity policies and procedures are subject to review and approval by the Company's Board of Directors.

#### Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates etc will affect the company's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return.

### Currency risk

The Company is exposed to currency risk on purchases that are denominated in a currency other than the functional currency i.e. US Dollars. The currency (-ies) in which company's transactions are primarily denominated other than the functional current is the Tanzanian Shillings (Tzs).

The Company's strategy to manage currency risk is by transacting mainly in US Dollars therefore the currency risk exposure to the Company is minimal as at 31 December 2013.

### 14. COMMITMENTS AND CONTINGENCIES

As of December 2013, the Company has contractual work commitments in respect of Production Sharing Agreement with Tanzania Petroleum Development Corporation (TPDC), and office rental obligation with Regent Business Park of USD 3,500,000 and USD 28,728 respectively to be fulfilled within next 12 months.

### 15. EVENTS AFTER THE REPORTING YEAR

#### i) Issue of shares

The company is at the final stages of listing at Dar es Salaam stock, the Initial Public Offer (IPO) is expected to take place in the first half of 2014 after getting final approval from CMSA. In February 2014, the company issued 44,830,043 shares to existing shareholder in the proportion in which they currently hold equity in the company for a consideration of TZS 1.00 per share. These additional shares were issued to existing shareholders at TZS 1.00 per share in order to protect the existing shareholders against unfair dilution during the IPO due to the increase in the value per share relative to the 500 shillings per share placement price that was caused by an increase in value of the company as a result of exploration success.

#### ii) Convertible Notes

The company planned to raise funds to finance its operation through IPO by the end of the year 2013. Due to delays in the listing and the need to raise money before the IPO, in February 2014 the board of directors approved the issue of convertible notes worth \$1,250,000. Such Notes are 'loans' to the company and are either repaid with interest or converted into shares at IPO at a 40% discount to the placement price.

#### iii) Termination of Eyasi Negotiation

On 6<sup>th</sup> February 2014, Tanzania Petroleum Development Corporation ("TPDC) terminated the negotiation for the Eyasi licence.

The company originally bid for Eyasi licence on a 50:50 basis with a joint bidding partner. The joint bidding agreement allowed either party to withdraw at any stage, with the remaining party assuming the withdrawing party's interests in the licence. The joint bidding partner withdrew from the process and TPDC deemed this to be breach of the tender guidelines that govern the process. On 20<sup>th</sup> February 2014, TPDC issued press release stating that it will re-issue the licence under the new tendering process, of which the company will participate. As at 31 December 2013, the company incurred US\$ 235,464 in respect of Eyasi licence and the same has been written off in the year in line with company policy on treatment of pre licence costs.

# 10. nominated advisor's comments on the business plan and financial statements



NIC Life House, 2nd Floor, Wing C,  
P.O Box 38024, Dar Es Salaam .Tanzania  
Tel: +255 22 2112844  
Email: archfia@gmail.com

We reviewed the business plan of Swala Oil and Gas (Tanzania) Plc and accordingly, we hereby wish to confirm to the general public that it has been prepared with due care. However, it is important for the public to take note of the nature of business being undertaken by Swala Oil and Gas (Tanzania) Plc which is purely exploration at this stage.

The Company's activities are speculative due to the nature of work in the oil and gas exploration. There is no guarantee that exploration of the Tanzanian Licences or elsewhere will be successful. However, any positive results of the exploration in these Tanzanian Licences will definitely result in substantial gain in value to the Shareholders.

In line with the above, it is therefore also important to know the purpose of the Offer which is to basically to provide additional funds to enable the Company to provide sufficient working capital to meet the Company's anticipated business development, work programme, overhead and administration expenses.

We also reviewed the audited financial statements of Swala Oil and Gas (Tanzania) Plc, set out on pages 9 to 28 comprising of the statement of financial position as at 31 December 2013, statement of comprehensive income, statement of changes in equity as well as the statement of cash flows for the year then ended, a summary of significant accounting policies and other explanatory notes.

Our responsibility as Nominated Advisors is to give comments on the financial statements prepared and submitted with regards to the project.

After reviewing the same, it is also, our opinion that, they present fairly the financial position of the Company as at 31st December 2013 in accordance with International Financial Reporting Standards and comply with the Tanzanian Companies Act 2002.



Iyen J.A. Nsemwa, *Managing Director*  
ARCH FINANCIAL & INVESTMENT ADVISORY LIMITED



# 11.

## legal advisors' opinion



ADVOCATES, PATENT AND TRADEMARK ATTORNEYS, NOTARIES PUBLIC AND COMMISSIONERS OF OATHS

REF.NO. AA/SOGTL-LO/09/13-002

1<sup>st</sup> February 2014

### Directors

**Swala Oil and Gas (Tanzania) plc**

3<sup>rd</sup> Floor, Regent Business Park  
 172 Chwaku Street—Mikocheni  
 P. O. Box 105266  
 Dar es Salaam  
 TANZANIA

Dear Directors,

**Re: Legal Opinion on Status of Swala Oil and Gas (Tanzania) plc**

Our review of the Company's corporate documents, physical search of the records of the Registrar of Companies and the High Court main Registry, confirms that the Company is incorporated and existing in accordance with the laws of Tanzania, the Companies Act, No. 212 of 2002. Its Memorandum and Articles of Association are in proper form.

The Company has, to date, complied with all statutory requirements as to corporate records and compliances. There are no pending litigation matters of any nature—civil, contractual, winding up and/or receivership. There are no criminal cases pending against the directors and members of the senior management.

The Company's Memorandum of Association permits it to do, generally, all aspects of mineral exploration, production, processing and selling. And, more particularly it is permitted to prospect, explore, survey, open, work, test, develop, exercise and turn to account any form of oil and natural gas.

By a special resolution the shareholders of the Company in their ordinary general meeting held on the 2nd day of May 2013 unanimously agreed to have (i) the Company listed into the Dar es Salaam Stock Exchange and (ii) the Memorandum and Articles of Association amended to reflect the change of the status of the Company from being a private company to become a public company. The amendments (attached hereto) were made and filed with the Registrar of Companies as required by law. At law, the effect of amendments to the Memorandum and Articles of Association is that the same are as valid as if they were originally contained.

As part of good corporate governance the company has prepared, adopted and strictly adhere to (i) an anti-bribery policy, (ii) code of conduct and ethics, and (iii) health, safety & environment policy among others. These corporate governance policies are dully adopted by the Board and are binding to the Company.

The Company has entered into two Production Sharing Agreements (PSAs) with the Government of the United Republic of Tanzania (through the Ministry of Energy and Minerals) and the Tanzania Petroleum Development Corporation (TPDC) for Kilosa- Kilombero block and Pangani Block. We confirm that the PSAs are binding and enforceable under the laws of Tanzania. In particular, the PSAs are in full compliance with the Petroleum (Exploration and Production), Act (Cap 328 R.E. 2002) (the Act) which is the main law governing the oil and gas industry in Tanzania. In Tanzania, Oil & Gas interests are granted pursuant to the Act. The practice and procedure is that the Oil & Gas interests are granted to TPDC, which is the national oil company. In turn, TPDC works with exploration and production companies in carrying out activities under the respective licenses granted.

Apart from the PSAs, we have reviewed other material contracts, namely, two Joint Operating Agreements regarding the licenced blocks of Kilosa-Kilombero and Pangani. The reviewed agreements are in standard form and do not limit the Company to issue this Prospectus and to become a listed public company into the Dar es Salaam Stock Exchange.

The main shareholders are as per the information contained in this Prospectus and a complete list of shareholders and their respective percentage of ownership is annexed hereto.

The particulars of the directors are as per the information contained in this Prospectus.

We therefore confirm that in our professional opinion resulting from the review of the Company, its documents and the law, the purposes for which this Prospectus is issued, namely, inviting investors applications for up to 9,600,000 ordinary shares of Swala Oil & Gas (Tanzania) plc at an issue price of TZS 500 per share to raise up to TZS 4,800,000,000 (before costs and expenses). The offer and the terms outlined in the Prospectus are legally acceptable and within the powers of the Company to so do. For purposes of clarity, the law, the PSAs and other material contracts do not prohibit the Company to fundraise or allot more shares as it is doing now.

Yours Sincerely,  
ASYLA ATTORNEYS

A handwritten signature in black ink, appearing to read 'Daniel B. Welwel', with a stylized flourish at the end.

Daniel B. Welwel (ADVOCATE)  
PARTNER

## 11. legal advisors' opinion (cont.)



ADVOCATES, PATENT AND TRADEMARK ATTORNEYS, NOTARIES PUBLIC AND COMMISSIONERS OF OATHS

REF.NO. AA/SOGTL-LO-UW/05/14-002

15<sup>th</sup> May 2014

Swala Oil and Gas (Tanzania) plc

3<sup>rd</sup> Floor, Regent Business Park  
172 Chwaku Street—Mikocheni  
P. O. Box 105266  
Dar es Salaam  
TANZANIA

Attn: Dr. David Mestres Ridge  
Chief Executive Officer,

**Re: Underwriting Agreement: Effectiveness and Enforceability**

Dear Dr. Ridge,

I refer to the Underwriting Agreement signed between Swala Oil and Gas (Tanzania) Plc (the "**Company**") and Swala Energy Ltd (the "**Underwriter**") dated 1st May 2014 (the "**Agreement**"). At the request of the Company I have reviewed the Agreement and have the pleasure of issuing this opinion regarding effectiveness and enforceability of the Agreement given the choice of law under the Agreement.

1. I am asked to advise whether the Agreement is effective and enforceable against the Underwrite given that the parties to the Agreement have opted that the Agreement shall be governed by the laws of Western Australia.
2. Except as expressly specified in this Legal Opinion, all terms used herein and defined in the Agreement shall have the same meanings as defined in the Agreement.
3. The main purpose of the Agreement is for the Underwriter to underwrite the Offer in the event of under subscription of the shares of the Company pursuant to the Offer Document as at the conclusion of the Offer.
4. Pursuant to clauses 2.1.3 and 3.2 the Company is required to open a specific bank account in which the Underwriter shall deposit in Underwriting Sum to be utilized towards the Underwritten Shares occasions arising.
5. In my opinion the Agreement is properly drafted; it is duly executed and delivered and it constitutes a valid and binding contract between the Company and the Underwriter. The interests of the Company are taken care of especially by the requirement to transfer the Underwriting Sum in a bank account in the name of, and managed by, the Company.
6. As regards the applicable law, clause 17 of the Agreement provides that the Agreement shall be governed by the laws of Western Australia and that the parties to the Agreement irrevocably commit to the jurisdictions of the courts of Western Australia.
7. In my professional opinion there is nothing legally wrong with this choice, or any other choice, of law. In contracting parties are free to determine how disputes arising from their contracts should be resolved.



8. In the matter at hand the obvious alternative would have been to subject the Agreement to the laws of the United Republic of Tanzania. Of the two alternatives, laws of Australia and those of Tanzania I take the considered view that the laws of Australia should be preferred for the reasons that:-
- 8.1. The Underwriter is incorporated and is existing under the laws of Australia such that enforcement claims would be suited and effective in the jurisdiction where the Underwriter is based;
- 8.2. The Underwriter has no registered, real or other assets capable of being attached in execution of claims should the claims be litigated and executed in Tanzania;
- 8.3. Pursuant to the provisions of the **Reciprocal Enforcement of Foreign Judgments Act**, Cap. 8, of the Laws of Tanzania (Revised Edition 2002), Tanzania and Australia are not in reciprocal arrangements on enforcement of judgments such that any judgment against the Underwriter issued by courts in Tanzania cannot be enforced in courts of Australia. But, judgments against the Underwriter, an Australian company, issued by Australian courts are enforceable against the Underwriter in Australia.
9. I am therefore of the opinion that the choice of law of the Agreement is in the best interest of the Company. This is because the Company shall have assurance that any rights that it may have against the Underwriter shall be legally enforceable against the Underwriter in Australia. Should Tanzanian law be applied then execution of any decree from the Tanzanian courts would not be possible in Australia given the view I have taken in paragraph 8.3. Enforceability of rights is necessary for the Company to protect itself and its prospective investors in the Stock Market.

Should you have more concerns and require any clarification do let us know and I shall be pleased to be of assistance.

This opinion is provided to the Company in relation to the Agreement and the intended listing of the Company in the Dar es Salaam Stock Exchange. It may not be relied upon for any other purpose unless of prior consent is obtained in writing.

Yours Sincerely,

ASYLA ATTORNEYS



Daniel B. Welwel, Esq.  
PARTNER

## 12. material contracts

Set out below is a summary of the important provisions of contracts to which the company is a party or will obtain the benefit or obligation of following completion of the Share Sale Agreement or which may be material in terms of this Prospectus.

To fully understand all of the rights and obligations of a material contract, it would be necessary to review each contract in full and the summaries should be read in that light.

### 12.1 TANZANIAN PRODUCTION SHARING CONTRACTS

On 20 February 2012, Swala Oil and Gas (Tanzania) plc (**Swala**) entered into two production sharing contracts (**Tanzanian PSCs**) with the Government of the United Republic of Tanzania (**Tanzanian Government**) and the Tanzanian Petroleum Development Corporation (a body established under the laws of the United Republic of Tanzania for the purposes of promoting the development of the petroleum industry and production of petroleum in Tanzania) (**TPDC**) for the exploration and development of the Pangani Licence and Kilosa-Kilombero Licence (collectively **Tanzanian Licences**). The terms of the two Tanzanian PSCs are identical, except for the specific commitment work programmes to which they relate.

On 21 February 2012, Swala assigned a 50% interest in all of its rights, interests and benefits in and to each of the Tanzanian PSCs to Otto Energy (Tanzania) Limited pursuant to two deeds of assignment between Swala and Otto Energy (Tanzania) Limited (together, the **Contractors**).

The material terms of the Tanzanian PSCs (as amended by the relevant deed of assignments) are as follows:

- (a) (**Exploration Period**): Under the terms of the Tanzanian PSCs, the Contractors are granted an exclusive right to conduct, on behalf of TPDC as licence holder, petroleum operations in the areas to which each of the Pangani Licence and the Kilosa-Kilombero Licence are situated (Licence Areas) for an initial term of 4 years (Initial Exploration Period), with two options to extend the exploration period, upon application by the Contractors and provided all previous commitments have been satisfied, for a further 4 years and 3 years, respectively. At the end of the second extension period, each of the Tanzanian PSCs terminates to the extent that those areas within the Licence Areas have not been covered by a development licence.
- (b) (**Contractors commitments**): The Contractors have agreed to perform and fund the minimum exploration work programmes set out in the Tanzanian PSCs during the term of the Exploration Period and progression to the next year within the Exploration Period is only permitted if the work commitments which are the subject of that year have been honoured. Each annual work commitment also has an associated minimum expenditure commitment. If the Contractors do not complete that work commitment then under the terms of the relevant Tanzanian PSC, they are required to pay compensation to TPDC in the amount of the unspent balance of the financial obligations. A summary of these commitments is set out below:

Exploration Period	Contract Year	Work commitment	Minimum expenditure (US\$)	
			Pangani Licence	Kilosa-Kilombero Licence
Initial Exploration Period	1	Acquire high-resolution airborne gravity and/or magnetic data; conduct ASTER satellite and photogeology work; undertake surface geochemical sampling; and carry out surface geological mapping.	370,000*	500,000*
	2	Acquire a minimum of 200 km (in the case of the Pangani Licence) and 300 km (in the case of the Kilosa-Kilombero Licence) of 2D seismic and to undertake additional geochemical sampling and surface geological mapping.	2,100,000	2,100,000
	3	Acquire a further 200 km (in the case of the Pangani Licence) and 500 km (in the case of the Kilosa-Kilombero Licence) of 2D seismic.	2,000,000	5,000,000
	4	Drill a well to a maximum of 3,000m or basement.	6,000,000	6,000,000
First Extension Period	5 to 8	Undertake further geological, geochemical and geophysical studies; acquire 60 km <sup>2</sup> of 3D seismic or 600 km of 2D seismic; and drill at least one well to a maximum depth of 3,000m or basement.	12,100,000	12,100,000
Second Extension Period	9 to 11	Undertake further geological, geochemical and geophysical studies; acquire 60 km <sup>2</sup> of 3D seismic or 600 km of 2D seismic; and drill at least one well to a maximum depth of 3,000m or basement.	12,100,000	12,100,000

Note: \* The work commitments for the first Contract Year have been completed on each of the Tanzanian Licences.

Where the Contractors have carried out more than the minimum technical work obligations specified in the relevant Tanzanian PSCs for a particular Exploration Period, the Contractors may apply to have the excess work done credited against work commitments as satisfying work commitments specified for the next succeeding Exploration Period.

- (c) **(Term):** The Tanzanian PSCs will continue to be in force to regulate the terms of any development licences granted over the Licence Areas, and in circumstances where no development licence is granted, until the end of the last extension of the Exploration Period.

- (d) **(Right to Surrender):** 30 days prior to the expiry of each of the first and second Contract Years, the Contractors must notify the Tanzanian Government and TDPC of whether it intends to:

- (i) surrender its rights for the relevant Licence Area; or
- (ii) continue with the exploration programme.

The Contractors may also, by giving at least 90 days written notice to TDPC, elect to surrender its rights for the relevant Licence Area. However, no such surrender will relieve the Contractor of its obligations to spend the required minimum expenditure commitment, as stated in paragraph (b) above.

- (e) **(Termination):** The Tanzanian PSCs will terminate, either as a result of the Contractors electing to surrender its rights for the particular Licence Area, or by 30 days notice in writing given by the Tanzanian Government where the Contractors are in default of any provision of the terms of the relevant Tanzanian PSC or the Tanzanian Licence. Upon termination, the rights and obligations under the relevant Tanzanian PSC will cease, save for those obligations that arise prior to such termination and the obligations that are expressly stated to survive such termination.

- (f) **(Discovery of petroleum):** If petroleum is discovered in a Licence Area, the Contractors must immediately notify TPDC of such discovery and within 30 days from the date of the discovery provide TPDC with all available information regarding the discovery including its potential commerciality.

If the Contractors consider that the discovery is of potential commercial interest, the Contractors must as soon as practicable submit to TPDC, for the consideration of the Advisory Committee, their proposal for an appraisal programme. Where the Advisory Committee agrees on an appraisal programme and the location of the discovery has been declared, the Tanzanian Minister of Energy may, upon a submission by TPDC, grant the Contractors a period of up to two years in which to carry out the appraisal programme before the application to convert the exploration licence to a development licence must be submitted.

If the Contractors inform TPDC that in its opinion, the discovery is not of potential commercial interest, then TPDC will have the option to require the Contractors to surrender their rights and be relieved of its obligations in respect of the block or blocks comprising the geological feature in which the discovery is located.

- (g) **(Environmental Obligations):** In furtherance of the Tanzanian environmental laws and regulations or as the Tanzanian Government may otherwise require from time to time, the Contractors must take necessary and adequate steps to:

- (i) conduct its petroleum operations in a manner that will protect the natural resources of Tanzania and the environment;
- (ii) employ the best available techniques in accordance with industry practice for the prevention of environment damage to which its petroleum operations must contribute and for the minimisation of the effect of such operations on adjoining lands, sea and lakes;
- (iii) implement its development plan regarding the prevention of pollution, the treatment of wastes, the safeguarding of natural resources and progressive reclamation and rehabilitation of lands disturbed by the petroleum operations;
- (iv) prevent pollution; and
- (v) ensure prompt, fair and adequate compensation for injury to persons or damage to property caused by the effects of the petroleum operations.





## 12. material contracts (cont.)

In addition, each of the Tanzanian PSCs requires one or more environmental impact assessment studies on each Tanzanian Licence to be carried out on the Contractors' behalf and submitted to TPDC prior to, during and after any major petroleum operations.

- (h) **(Annual Charges):** The Contractors are required to reimburse TPDC for the annual charges in respect of each Tanzanian Licence or resulting development licences within 30 days of TPDC having provided to the Contractors confirmation that it has paid such charges:

Exploration Period	Pangani Licence	Kilosa-Kilombero Licence
Initial Exploration Period	US\$4 /km <sup>2</sup>	US\$4 /km <sup>2</sup>
First Extension Period	US\$32 /km <sup>2</sup>	US\$32 /km <sup>2</sup>
Second Extension Period	US\$64 /km <sup>2</sup>	US\$64 /km <sup>2</sup>
Development Licence	US\$200 /km <sup>2</sup>	US\$200 /km <sup>2</sup>

- (i) **(Other Contributions):** During the term of the Licences or any renewal of such Licences, the Contractors must spend up to US\$200,000 per year for the purposes of providing on-the-job training to certain Tanzanian personnel (including personnel from the Tanzanian Government and TPDC).
- (j) **(Production Sharing):** In the event of production of petroleum, TPDC must deliver to the Tanzanian Government, 12.5% of the total crude oil/natural gas production (prior to cost oil and/or cost gas recovery) extracted from the Licence Area by way of a royalty payment under Tanzanian law. In addition, not more than 50% of the remaining production must be set aside to cover the Contractors' (and where joint operations have been established by TPDC, also TPDC's) operating expenses, exploration expenses, development expenses. Thereafter, the remaining total crude oil/natural gas production from the Licence Area must be divided based on the following tranches:
- (i) For oil:

Tranches of daily total production rates (barrels per day)	TPDC's share	Contractors' share
0 – 12,499	45%	55%
12,500 – 24,999	55%	45%
25,000 – 49,999	60%	40%
50,000 – 99,999	65%	35%
100,000 and above	70%	30%

- (ii) For gas:

Tranches of daily total production rates (million standard cubic feet of gas per day)	TPDC's share	Contractors' share
0-19.99	60%	40%
20-39.99	65%	35%
40-59.99	70%	30%
60-79.99	75%	25%
80-99.99	80%	20%
100 and above	85%	15%

In addition, the Contractors are subject to Tanzanian taxes on income derived from petroleum operations.

- (k) **(Advisory committee):** Each of the Tanzanian PSCs establishes an advisory committee which must comprise of 2 members appointed by TPDC and 2 members appointed by the Contractors (Advisory Committee). The Tanzanian Government may attend in a non-voting capacity. The Advisory Committee shall meet from time to time and shall approve the annual work programme and budget and the appraisal work programme and any other matter as directed by the parties. Each member of the Advisory Committee shall have one vote with decisions made by a simple majority. If a majority decision is not achieved, the proposal under decision shall be reviewed and re-submitted to the Advisory Committee in no more than 15 days.
- (l) **(Confidentiality):** The Contractors have undertaken not to disclose (subject to certain exceptions) to third parties, any data, information or any interpretation thereof which relates to an area which has ceased to be part of the Licence Area for a period of 4 years from the relevant expiry date.

In addition, any public disclosure regarding the interpretation of information acquired in petroleum operations (including any and all operations and activities in connection with exploration operations, appraisal operations, development operations, production operations, including all abandonment activities required under the joint operating agreement) must not be made without the Tanzanian Government's consent.

- (m) **(Governing law):** Each Tanzanian PSC is governed by the laws of the United Republic of Tanzania.

### 12.2 JOINT OPERATING AGREEMENT –TANZANIAN LICENCES

Swala and Otto Energy (Tanzania) Limited have entered into a joint operating agreement in respect of each of the Pangani Licence and the Kilosa-Kilombero Licence (Tanzanian JOAs), pursuant to which the rights and obligations of the parties with respect to their operations under the relevant Tanzanian Licence are governed. The Tanzanian JOAs are identical except for the specific licence to which they relate.

The material terms of the Tanzanian JOAs are as follows:

- (a) **(Participating Interests):** The participating interests of the parties (**Participants**) in each of the Tanzanian Licences (**Participating Interests**) are as follows:

Participant	Participating Interests	
	Pangani Licence	Kilosa-Kilombero Licence
Swala	50%	50%
Otto Energy (Tanzania) Limited	50%	50%

- (b) **(Government Participation):** If TPDC elects to participate in the rights and obligations of the parties under the relevant Tanzanian PSC, the Participants will contribute, in proportion to their respective Participating Interests, to the interest to be acquired by TPDC.

- (c) **(Term):** The Tanzanian JOAs commenced on 20 February 2012 and shall continue until:
- (i) the relevant Tanzanian PSC terminates; or
  - (ii) all materials, equipment and personal property used in connection with the joint or exclusive operations of the relevant Tanzanian Licence have been disposed of or removed and final settlement has been made.
- (d) **(Operator):** Swala is the operator of each of the Tanzanian Licences (**Operator**) and has exclusive charge of all operations and activities pursuant to the Tanzanian JOAs (**Joint Operations**). The Operator is responsible for amongst other things:
- (i) performing all Joint Operations in accordance with the provisions of the relevant Tanzanian PSC, the relevant Tanzanian JOA, all applicable laws and the decisions of the relevant Operating Committee;
  - (ii) preparing work programmes and budgets for the Operating Committee;
  - (iii) acquiring all permits, consents, approvals and other rights required for the conduct of the Joint Operations; and
  - (iv) in accordance with any decisions of the operating committee, representing the Participants in all dealings with the Tanzanian Government.
- (e) **(Resignation or Removal of Operator):** The Operator may resign as Operator at any time upon 120 days' notice to the other Participant(s) (**Non- Operators**). The Operator may also be removed:
- (i) upon receipt of notice from any Non-Operator under certain circumstances, including if the Operator becomes insolvent or bankrupt, a receiver is appointed for a substantial part of the Operator's assets or the Operator dissolves, liquidates, is wound up or otherwise terminates its existence; or
  - (ii) by decision of the Non-Operators if the Operator has committed a material breach of the relevant Tanzanian JOA and has failed to remedy the breach within 30 days.

In addition, the Operator must promptly notify each Non-Operator if it (together with its affiliates) is or becomes the holder of a Participating Interest of less than 10%. Under these circumstances, the Operating Committee will vote within 14 days of such notification on whether or not a successor Operator should be appointed.

- (f) **(Change in control of Operator):** If there is a direct or indirect change in control of the Operator (other than a transfer of control to an affiliate of the Operator), the Operator is required to promptly notify the other Participants. The party acquiring control of the Operator (**Acquiring Party**) shall be required to demonstrate that it has the technical competency and financial ability to act as Operator. The Operating Committee must, within 14 days of receiving such representations from the Acquiring Party, vote as to whether or not consent should be given (with such consent not be unreasonably withheld) to the Acquiring Party acting as Operator.
- (g) **(Operating Committee):** Each of the Tanzanian JOAs establishes an operating committee (**Operating Committee**) to provide the overall supervision and direction of Joint Operations. The Operating Committee consists of one representative and one alternate representative from each Participant.

- (h) **(Decisions of the Operating Committee):** Representatives have a vote equal to their Participating Interest. Alternate representatives may attend but may only vote in the absence of their respective representative. Except as otherwise expressly provided in the relevant Tanzanian JOA, all decisions, approvals and other actions of the Operating Committee on all proposals are to be decided by the affirmative vote of two or more Participants (which are not affiliates) having collectively 70% or more of the Participating Interest.

A surrender of all or any part of the relevant Licence Area which is not required by the relevant Tanzanian PSC requires the unanimous consent of all Participants. However, a Participant may enter into or extend the term of any Exploration Period (as provided in the relevant Tanzanian PSC) or extend the term of the relevant Tanzanian PSC, regardless of the level of support of the Operating Committee.

- (i) **(Disposition of production):** Except as otherwise provided in the relevant Tanzanian JOA, each Participant has the right and obligation to own, take in kind and separately dispose of its percentage share in the quantities of hydrocarbons (excluding all quantities use or lost in Joint Operations) produced from the relevant Tanzanian Licence.

In the case of crude oil, the Participants must negotiate in good faith and conclude the terms of a lifting agreement to cover the off take of crude oil produced from the relevant Tanzanian PSC. In the case of natural gas, the Participants recognise that it may be necessary to enter into a special arrangement for the disposal of the natural gas, which may be consistent with the relevant development plan and subject to the terms of the relevant Tanzanian PSC.

- (j) **(Restrictions on Transfers of Participating Interests):** Transfers (except when between affiliated parties and excluding any direct or indirect change of control of a Participant) are subject to pre-emptive rights. A Participant wishing to transfer all or a portion of its Participating Interest must disclose all terms relevant to the acquisition of that Participating Interest to the other Participant(s), who shall have the right to acquire that Participating Interest on the same terms. No Participant may transfer any equity in the relevant Tanzanian Licence if that transfer results in either the transferor or the transferee having a Participating Interest in the licence of less than 10%.
- (k) **(Confidentiality):** Subject to the terms of the relevant Tanzanian PSC, the Participants agree that all information in relation to the Joint Operations or any exclusive operations undertaken in accordance with the relevant Tanzanian JOA are considered confidential and (subject to certain exceptions) must be kept confidential and not be disclosed during the term of the relevant Tanzanian PSC and for a period of 2 years thereafter.

## 12. material contracts (cont.)

- (l) **(Withdrawal):** Any Participant may, subject to that Participant not being in default under the relevant Tanzanian JOA, at its option, withdraw from the relevant Tanzanian JOA and PSC by giving notice to other Participant(s) stating its decision to withdraw. On receipt of such notice, the other Participant(s) have 30 days to similarly give notice that it wishes to withdraw from the relevant Tanzanian JOA and PSC. Should all Participants give such notice, the Participants must terminate the relevant Tanzanian JOA and PSC. If only one Participant gives such notice, then the withdrawing Participant must take all steps to withdraw from the relevant Tanzanian JOA and PSC on the earliest possible date and shall assign their Participating Interest to the other Participant(s) not withdrawing, without any compensation.
- (m) **(General terms):** Each Tanzanian JOA is based on the AIPN Model International Operating Agreement (2002 Revision) and has terms that are commonplace in the oil and gas industry to address the work programmes and budget, sole risk operations, amendments to the relevant licence, tax, force majeure and applicable law.
- (n) **(Governing law):** Each Tanzanian JOA is governed by the laws of England and Wales.

### 12.3 DIRECTOR'S DEEDS OF INDEMNITY

The Company has entered into a director's indemnity insurance and access deed (**Deeds of Indemnity**) with each of its Directors.

Under these Deeds of Indemnity, the Company must indemnify each Director to the extent permitted by law against any liability as a result of the Director acting in such capacity with the Company.

The Deeds of Indemnity also provide for the Company to agree to use its best commercial endeavours insure each Director to the extent permitted by law against liabilities incurred by the Director in acting in such a capacity. The policy must be on terms that are, in the reasonable opinion of the Company, commercial, prudent and appropriate for a company operating in a similar industry with comparable annual revenue. The policy must be maintained during the period from which the Director is an officer to the later of: the date which is 7 years after the Director ceases to be an officer of the Company; and the date any relevant proceedings have been finally resolved (**Access Period**).

During the Access Period, the Director is entitled to have access, at reasonable hours, to and inspect the company books and Board papers which have been either prepared, or provided to the Board, and are in any way relevant to the any proceedings relating to the Director holding of office as a director or for any other proper purpose relevant to the Director's present or former capacity as an officer of the Company and approved by the Board, which approval may not be unreasonably withheld.

### 12.4 TECHNICAL SERVICES AGREEMENTS

Swala has entered into technical services agreements (**Technical Services Agreements**) with SWE. Under these Technical Services Agreements SWE has agreed to provide technical support to Swala including:

- (a) the provision of technical staff and equipment to support:
  - (i) bids for new assets; and
  - (ii) the development and management of the Kilosa-Kilombero Licence and the Pangani Licence.
- (b) the provision of management, financial and accountancy advice and guidance, including the provision of third-party research services in support of fundraising activities.

In consideration for their services, SWE are entitled to be repaid all costs incurred by them in connection with the provision of such technical support. These Technical Services Agreements have assisted in Swala's growth but the Company intends to rely on them less as it builds its own corporate capabilities.

### 12.5 UNDERWRITING AGREEMENT

On 1<sup>st</sup> May 2014, the Company entered into an underwriting agreement (Underwriting Agreement) with Swala Energy Limited (Underwriter), a company incorporated under the laws of Australia. Under the Underwriting Agreement the Company appoints the Underwriter to underwrite the shares that are offered to the public in this Offer document.

The Underwriter has agreed to transfer into an account nominated by the Company 1.6 billion Tanzanian shillings being the underwriting sum. In the event that on conclusion of the Offer all offered shares are taken up in the market the Company shall refund the whole of the underwriting sum to the Underwriter and the Underwriter shall have no further obligation to the Company.

If, after conclusion of the Offer any of the underwritten shares have not been taken up then the Company is required to notify the Underwriter, not later than 5.00pm of the next business day following the conclusion of the Offer, the total number of underwritten shares that have not been taken up. The Underwriter shall then subscribe to any such underwritten shares not taken up during the validity of the Offer at a price contained in the Offer document and the Underwriter shall pay the Company for the shares so subscribed by the Underwriter under the Underwriting Agreement. The Full amount payable shall be taken from the underwriting sum earlier transferred to the account nominated by the Company.

The Underwriting Agreement is governed by the laws of Western Australia. Since the Underwriter is an Australian Company the choice of law makes it possible for any rights that may accrue to the Company to be enforced against the Underwriter. By applying Australian law, the Underwriting Agreement ensures a successful IPO thereby giving sufficient protection for all investors.

# 13. old park lane research and valuation report

## OLD PARK LANE CAPITAL<sup>+</sup>

Swala Oil & Gas (Tanzania) plc  
3rd Floor Regent Business Park  
172 Chwaku Street  
P.O. Box 105266  
Dar es Salaam  
Tanzania

27 March 2014

**Re: Letter of Consent**

Dear Sir/Madam

I am writing to inform you that Old Park Lane Capital plc ("OPL") is providing its consent for Swala Oil & Gas (Tanzania) plc ("Swala") to use OPL's published valuation of Swala in regard to Swala's forthcoming Prospectus for listing on the Enterprise Growth Market of the DFW es Salaam Stock Exchange in Tanzania.

In OPL's pathfinder research note dated 21 February 2014, we can confirm that OPL published a valuation of us\$52.3 million for Swala as a matter of public record.

Yours faithfully



Ms. Rosalind Sproat  
Compliance Officer

OLD PARK LANE CAPITAL PLC, 49 BERKELEY SQUARE, LONDON W1J 5AZ  
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Old Park Lane Capital Plc is a member of the London Stock Exchange and Authorised and Regulated by the Financial Authority  
(Firm no. 477870) Registered in England no. 06440879. Registered Office; 49 Berkeley Square, London W1J 5AZ



OLD PARK LANE CAPITAL<sup>+</sup>

## Swala Oil &amp; Gas (Tanzania) plc

Pathfinder research

21 February 2014



## PRIVATE COMPANY RESEARCH

Sector: Oil & Gas  
 Proposed exchange: Enterprise Growth Market  
 Dar es Salaam (Tanzania)  
 Shares in issue: 80m  
 Proposed date of listing: Q2 2014

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**Swala Oil & Gas (Tanzania) plc (Swala) provides investors with the opportunity to gain early exposure to highly prospective exploration acreage in Tanzania. The company holds 50% interests and operatorship of two huge licences in the onshore region. Swala's assets are located in a branch of the East African Rift System (EARS), an exciting geological setting that has yielded a raft of large oil discoveries in recent years.**

- Swala has 50% equity interests in and operatorship of both the Kilosa-Kilombero and Pangani licences. This represents a total net acreage position in excess of 17,400 km<sup>2</sup>, one of the largest acreage footprints in Tanzania.
- Swala recently completed a 500 km 2D seismic acquisition programme focusing on Kilosa-Kilombero and Pangani. This satisfies Swala's commitments for the Second Contract Year under the terms of its Production Sharing Contract (PSC).
- Swala's seismic work has already identified a structure potentially suitable for future drilling and the company, with the agreement of its partners, may commission a CPR for each licence with updated prospective resource estimates. At this stage, we would expect Swala to seek additional capital or conduct a farm out arrangement in order to fund its share of a future drilling programme.
- Swala is awaiting the final approval for its prospectus from the CMSA (Capital Markets & Securities Authority) in Tanzania in order to list on the Enterprise Growth Market (EGM) of the Dar es Salaam Stock Exchange. We believe that Swala is well positioned to conduct this process after completing its first and second year work commitments on its licences well ahead of schedule.
- Swala is a subsidiary of and is supported by Swala Energy Limited (SWE) which listed on the Australian Securities Exchange in April 2013 raising approximately A\$11.0m. SWE raised a further A\$4.4m in November 2013. A significant proportion of this cash has been used to fund Swala's share of the forward work commitments in Tanzania.

**Based on value indicators derived from several corporate transactions in the EARS over the last twelve months, we have ascribed preliminary valuation of US\$52.3m to Swala ahead of its proposed introduction to the Enterprise Growth Market of the Dar es Salaam Stock Exchange in Tanzania.**

A marketing communication from Old Park Lane Capital, consultant to Swala Oil & Gas (Tanzania) Limited

## Introduction to Swala

Swala Oil & Gas (Tanzania) plc (Swala) is a private Tanzanian oil and gas exploration company with an exclusive focus on the Tanzanian region of the East African Rift System (EARS). Swala holds 50% equity interests in the huge Pangani and Kilosa-Kilombero licences which cover a combined gross area of 34,831 km<sup>2</sup>, one of the largest acreage footprints in the country.

Swala was registered in Dar es Salaam in July 2011 with the long term strategy of building a successful oil and gas exploration company in Tanzania. Swala is a subsidiary of and is supported by Swala Energy Limited (SWE) which listed on the Australian Securities Exchange (ASX) on 18 April 2013 raising approximately A\$11.0m. SWE raised a further A\$4.4m in November 2013 and a significant proportion of the cash is being used to fund the company's share of its forward work commitments in Tanzania.

SWE has a 65.13% interest in Swala providing the parent company with an indirect interest of 32.5% in both Tanzanian blocks.

## Listing on the Dar es Salaam stock exchange

Swala is awaiting the final approval for its prospectus from the CMSA (Capital Markets & Securities Authority) in Tanzania in order to list on the Enterprise Growth Market (EGM) of the Dar es Salaam Stock Exchange. We believe that Swala is well positioned to conduct this process after completing its first and second year work commitments on its licences ahead of schedule.

The EGM is a market segment for emerging small companies with no track record for investors to estimate their potential earnings before investing, or companies operating in markets that are categorised as high risk.

There are a number of requirements with regards to size, trading records of adequate duration and a formal prospectus in order to list on the EGM. In particular, Swala must have at least 100 shareholders with at least 20% (being not less than 500,000 shares) in the hands of the public.

### Swala's capital structure

As a private company, Swala has approximately 80 million shares in issue. Of this, almost 59.5 million are held by SWE. Although this represents 74.4% of the total share capital of Swala, 7.4 million of these shares are held in trust by Swala and are not counted as part of the parent company's ownership. The remaining 20.4 million shares, representing 25.6% of the shareholders are held by other parties including the Chairman, Mr Ernest S. Massawe, who owns approximately 10% of the share capital.

The total number of shares in Swala was recently increased from approximately 35.2 million to 80 million with new shares issued to shareholders in proportion to their previous equity. This was as result of Swala valuing the company at US\$25m for the purposes of the listing and previously, 35.2 million shares gave a value per share in excess of the 500 shillings at Swala is placing the new shares; hence the capital increase.

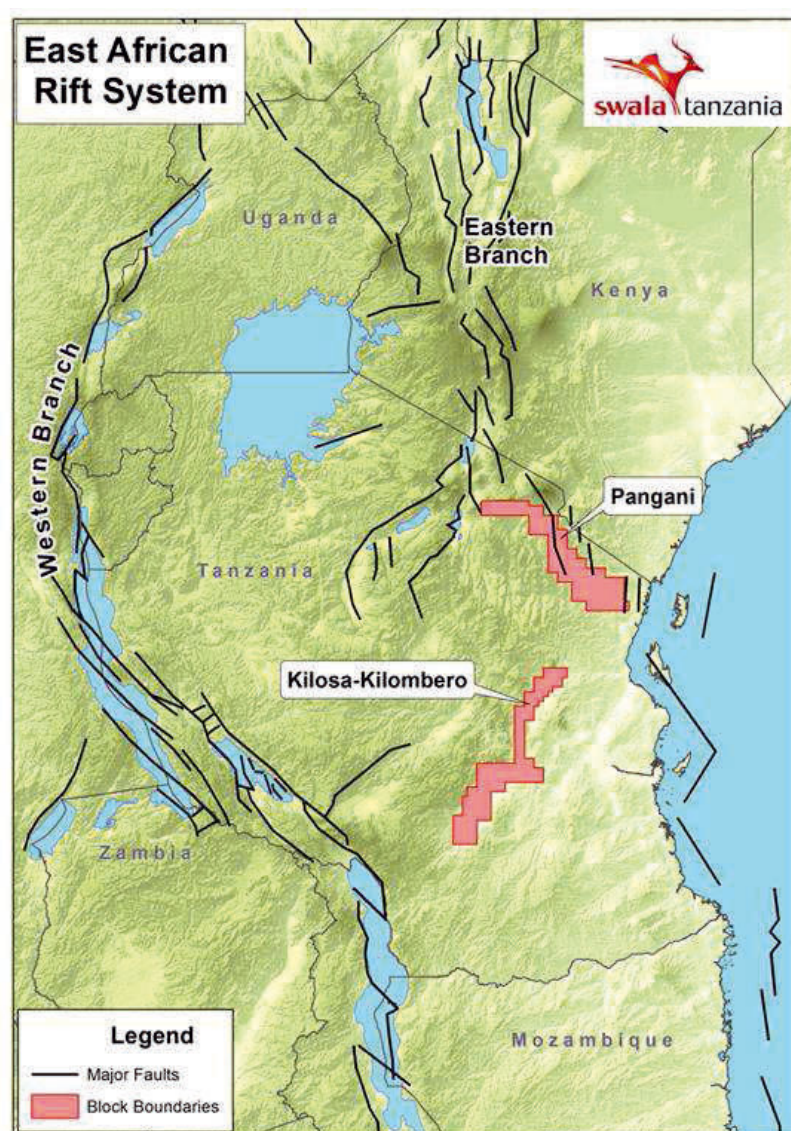
In addition, Swala is in the process of raising US\$1.25m (currently oversubscribed) in Convertible Notes at 300 shillings each to cover the period to listing.

## The Tanzanian exploration opportunity

Swala holds significant interests in potentially exciting acreage located within the Tanzanian region of the East African Rift System (EARS). The East African Rift is an active continental rift zone that appears to be a developing divergent tectonic plate boundary in East Africa. The rift which runs north to south is a narrow zone in which the African Plate is in the process of splitting into two new tectonic sub-plates, termed the Somalian Plate to the east and the Nubian Plate to the west.

The map below depicts the major faults within the EARS in particular relation to Swala's Tanzanian acreage and also the locations of major oil and gas discoveries in the wider EARS region.

### The East African Rift System and Swala's acreage



Source: Swala

### Branches of the Rift

The EARS represents a series of linked intra-continental rift basins that extend over 3,500 km and are between 50 km and 150 km wide. As the map above depicts, there are two major branches within the rift. The Eastern Branch extends around the eastern side of Lake Victoria through Kenya and into Tanzania whilst the Western branch curves away to the western side of Lake Victoria and extends along Lake Albert through Lake Tanganyika to Lake Nyasa.

The Eastern Branch, which forms the Kenya and Ethiopian rifts, was initiated in Early Miocene age. It is a system where the basin fill is predominantly composed of lacustrine sediments and volcanics. These deposits have very high total organic content and are capable of generating vast quantities of hydrocarbons, in particular, oil. The Western Branch was initiated during the Late Miocene age and is composed of a series of basins where the fill is also composed of lacustrine sediments but with fewer volcanics.

## Prospectivity within the EARS

East Africa as a whole is highly prospective as demonstrated by the raft of major oil discoveries in the Albertine Graben of Uganda and the significant gas discoveries offshore Mozambique and Tanzania over the last decade.

It is estimated that Uganda, located on the western branch of the EARS has proven oil reserves in excess of 1.2 billion barrels. We believe this number to be conservative and it is likely that reserves will be comfortably in excess of 2.5 billion barrels as appraisal drilling continues. This highly prospective region is the most intensively drilled region of the EARS to date and we anticipate additional major discoveries as drilling on the play continues.

Over the last three years, exploration activity has extended to other regions of the EARS and the first discoveries have been made in Kenya in both the onshore and offshore regions. Of particular note was the Ngamia-1 discovery made in January 2012 which was the first hydrocarbon discovery in Kenya after 25 years of drilling activity in the country.

### Gas potential offshore Tanzania

While much of Tanzania is not located within the EARS, the region represents a highly significant gas play and a raft of major discoveries has been made in the offshore region over the last decade with several sizable accumulations discovered over the last three years.

Offshore Mozambique to the south is arguably a more developed region with several multi-TCF discoveries. However, recent drilling success in the offshore and the onshore regions bordering the coast of Tanzania indicates that the country could be at least as prospective for major gas finds as its neighbour to the south.

### Oil seeps recorded in other areas

The EARS is characterised by a sequence of major lakes running north to south through the rift and a series of oil seeps and tar balls have been identified in Lake Tanganyika and Lake Nyasa. Given that these areas share many similar geological similarities to the more developed play in the Lake Albert region of Uganda, it is strong possibility that these frontier regions could possess significant exploration upside.



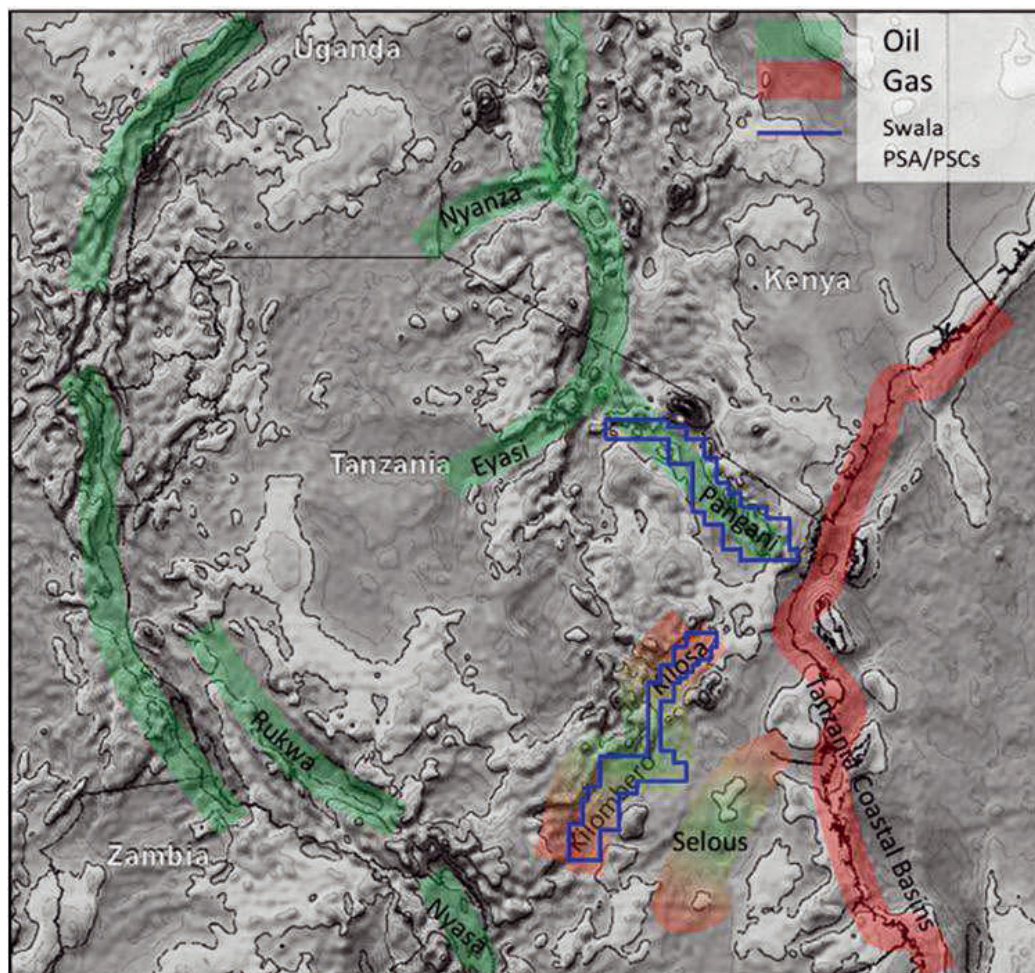
## Focus on Tanzania

Swala has an exploration focus on three main hydrocarbon fairways identified in East Africa. These are:

- The East African Rift System (Tertiary age)
- The Interior Rifts (Permian through to Tertiary age)
- The Tanzanian Coastal Basin (Permian through to Recent age)

The map below depicts Swala's acreage in the hydrocarbon prone basins coterminous with the EARS (Pangani) as discussed previously and the Interior Rifts (Kilosa-Kilombero). Broadly speaking, the EARS basins are expected to be more oil prone and the coastal basins more gas prone as demonstrated by a raft of gas discoveries in recent years.

### Tanzanian basins with hydrocarbon potential



Source: Swala

### The Interior Rift Basins

To date, there has been minimal exploration activity in the Interior Rift basins. These basins formed during the earlier phase of continental break-up in the Permian and Tertiary ages with several of the basins experiencing further rifting in the Jurassic. The composition of these basins was also influenced by even later rifting associated with the East African Rift System in the Tertiary period.

### Geological time scale for reference

EON	ERA	PERIOD	MILLIONS OF YEARS AGO
Phanerozoic	Cenozoic	Quaternary	1.6
		Tertiary	66
	Mesozoic	Cretaceous	138
		Jurassic	205
		Triassic	240
		Permian	290
		Pennsylvanian	330
	Paleozoic	Mississippian	360
		Devonian	410
		Silurian	435
		Ordovician	500
		Cambrian	570
Proterozoic	Late Proterozoic Middle Proterozoic Early Proterozoic		2500
Archean	Late Archean Middle Archean Early Archean		3800?
Pre-Archean			

Source: creationwiki.org

The Permian sediments, known as the Karoo in Interior Rift Basins include very rich and mature gas-prone source rocks and the early wells that were drilling in these areas yielded gas shows and minor oil shows. These hydrocarbon shows have been subsequently complemented by seismic surveys that show the potential for very large structural traps. As indicated earlier, the Kilosa-Kilombero licence, awarded to Swala in 2012 is located in a region of the Interior Rift Basin.

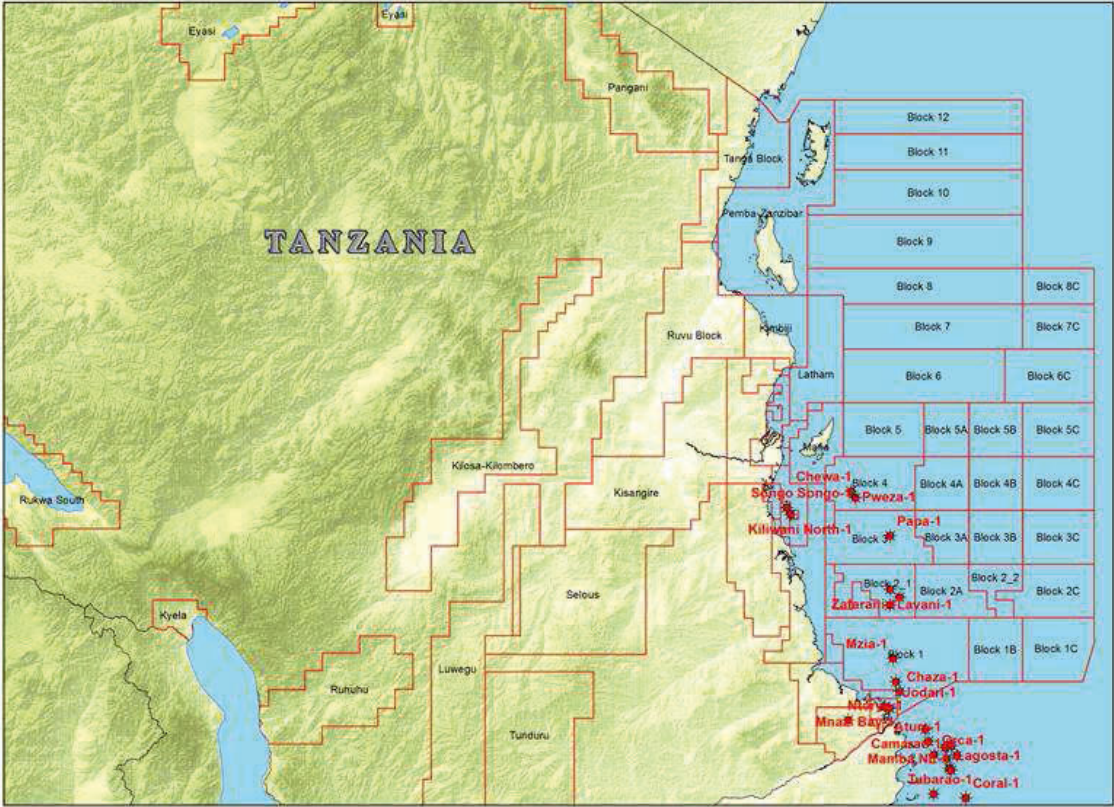
### The Tanzanian Coastal Basins

Exploration activity in recent years has focused on the offshore and near-shore gas-prone coastal basins of Tanzania. These basins are typified by a very thick sedimentary fill along a passive margin where sediment has been depositing off the continental shelf onto the oceanic crust since the separation of the east coast of Africa from Madagascar in the early Jurassic age.

The deep burial of Jurassic, Cretaceous and possibly Permian sediments indicates that the source rocks are in the gas generation window. As such, structural and stratigraphic traps along this basin have been successfully drilled in water depths often exceeding 2,000 metres. Early multi-TCF discoveries in the region include the Songo Songo and Mnazi Bay gas fields which are currently producing. However, recent appraisal drilling by Ophir and BG Group on the Chewa-Pweza-Ngisi complex of discoveries has increased recoverable resources up to 4.5 TCF indicating that the upside potential in the Tanzanian coastal basin is huge.



Interests and activity in coastal Tanzania



Source: Swala

## Swala's Tanzanian licences

### Kilosa-Kilombero licence

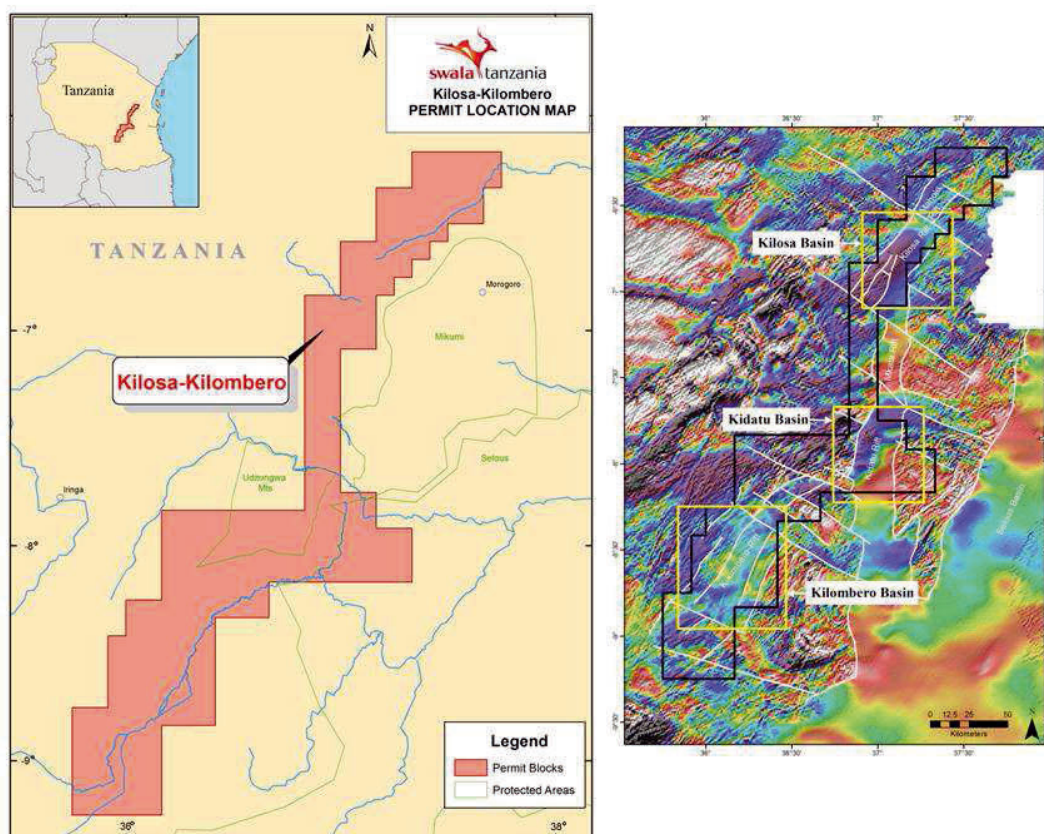
Kilosa-Kilombero (Swala: 50% and operator) is a huge licence covering a gross area of 17,675 km<sup>2</sup> (8,838 km<sup>2</sup> net to Swala). The company's partner in the licence is Otto Energy (Tanzania) Pty Limited; a subsidiary of ASX listed, Otto Energy.

Swala purchased vintage airborne gravity and magnetic surveys and during July and August 2012 and also acquired and interpreted 9,026 km of magnetic data and 4,489 km of gravity data over the licence. This work confirmed the presence of at least three discrete sedimentary basins located at depths of between 3,000 and 7,000 metres.

This work enabled Swala to focus its seismic survey in the second year of the work programme on the licence. The company currently anticipates half-graben plays analogous to the Lokichar Basin in Kenya where the Ngamia and Twiga South discoveries were made.

Swala has named the three outline basins as the Kilosa Basin in the north of the licence, Kidatu in the centre and the Kilombero Basin in the south of the block. These areas are depicted on the map below to the right.

### Sedimentary basins within the Kilosa-Kilombero licence



Source: Swala



## Activity to date

Swala and Otto Energy have completed the Second Contract Year of the Exploration Work Programme for both the Kilosa-Kilombero and Pangani licences and the major part of the work programme for both comprised a 500 km seismic acquisition programme which was completed at the end of 2013.

Swala commenced a 2D seismic acquisition programme on Kilosa-Kilombero in early August 2013. The company initially acquired approximately 100 km of data with a view to delineating the main structures within the basin and identifying leads for follow up seismic and potential drilling. The seismic acquisition programme was conducted by Polaris International Ltd., a company with experience of conducting operations in the area.

The airborne gravity-magnetic surveys conducted during year one of the exploration programme in 2012, which demonstrated the potential for three significant sedimentary basins in Kilosa-Kilombero and two further basins in Pangani, enabled Swala to focus its seismic activity on these prospective basin areas.

The acquired seismic data allowed Swala to map important structural trends and understand the thickness and volume of depositional fill in the prospective basins. This has led to a better understanding of the hydrocarbon charge system and will help to identify key structural trends where drilling targets may be identified for follow-up.

### Early progress in the Kilosa Basin

The first phase of the seismic acquisition programme focused on the Kilosa Basin located towards the north of the licence area. This area was identified from the interpretation of gravity-magnetic data acquired in Year 1 of the work programme.

Basin thickness in Kilosa is estimated to be up to 7,000 metres and this, combined with the outcrop geology in the region, suggests that the underlying geology comprises oil plays in the Karoo (Permo-Triassic) and Neogene sediments. The Neogene in particular represents the play in which Tullow Oil has had major success in Lake Albert, Uganda and northern Kenya in recent years.

The first phase of the seismic acquisition programme in the Kilosa Basin was completed in September 2013 and 130 km of 2D data was acquired. Based on preliminary analysis, Swala identified the possible presence of large scale structures along the edges of the basin and rotated fault blocks towards the middle of the basin. Swala believes that these structures have the potential to act as hydrocarbon traps.

The seismic team subsequently moved to the Kidatu Basin due south of Kilosa for the second of five seismic programmes planned across the Kilosa-Kilombero and Pangani licences.

### Kidatu Basin indications

In mid-October 2013, Swala acknowledged that the latest tranche of the seismic programme focused on the Kidatu basin area of the licence indicated the possible presence of very large structures along the edge of the basin.

Swala acquired 143 km of 2D seismic over the Kidatu basin and initial results indicated the presence of large-scale structures along the edges of the basin together with a major intra-basin high identified on dip and strike lines. Swala estimates that the primary structure may be as large as 30 to 60 km<sup>2</sup>.

### The Kilombero Basin

In early November 2013, Swala announced that the continuing seismic programme on the Kilosa-Kilombero licence produced further positive results. In particular, Swala acquired 2D seismic over a 20km long section and the results show a large structural high adjacent to the basin bounding fault that extends over a distance of 9km and is about 4km wide.

This stage of the programme, focused over the Kilombero basin area was very encouraging given that it followed on directly from the positive findings from the tranches of seismic programme in the Kidatu and Kilosa basins.

Initial results also suggest the presence of a thick Neogene-age basin with a maximum depth to basement in excess of 3,000 metres. The age of the sediments recorded (based on low seismic velocities) appears to be similar to that of sediments observed in the now proven oil basins of Lokichar in Kenya and Lake Albert in Uganda. Africa Oil and Tullow Oil in particular have had significant success in these regions.

Dip lines across the basin suggest the presence of both structural traps and traps against the main basin-bounding fault with possible Direct Hydrocarbon Indicators (DHIs or 'Flat Spots') observed at several levels at the crest.

### Kilosa-Kilombero resource estimates

Independent advisory company, RISC Operations Pty Ltd completed its review of the resource potential of the Kito prospect in the Kilombero licence in December 2013. Preliminary findings indicate an unrisked resource potential of between 19.2 mmbbls (P90) and 169.6 mmbbls (P10) net to Swala's 50% interest.

The Kito prospect was identified from the results of the recently conducted seismic survey that Swala and Otto Energy (Tanzania) conducted over a 20km section of the 80km long basin. Kito was large enough to be intersected by sufficient seismic lines to enable a resource estimate to be performed.

RISC identified two potential reservoir horizons that it has termed 'yellow' and 'blue'. At present, the yellow horizon is believed to be the larger of the two. RISC estimates that the combined horizons could contain 19.2 mmbbls of prospective unrisked oil resources at the low end of estimates and up to 169.6 mmbbls at the high end. The best estimate is currently 60.4 mmbbls net to Swala.

Within these estimates, RISC factored in a range of recovery factors including 30% of the P50 resources within the yellow horizon and only 20% of the P50 within the blue horizon. All resource numbers are stated after assumed government back in rights for a 20% interest in any successful development on Kilombero. At present, RISC believes that exploration drilling on the Kito prospect carries an 8-9% chance of a discovery.

### Further activity

Under the terms of the current PSA, Swala and Otto are required to carry out a further 500 line kilometres of seismic or drill an exploration well in 2014. The partners are currently in discussions with the Tanzanian Petroleum Development Corporation (TPDC) to examine the possibility of focusing their activities on the Kito area with the aim of fast tracking the prospect to the drilling phase.

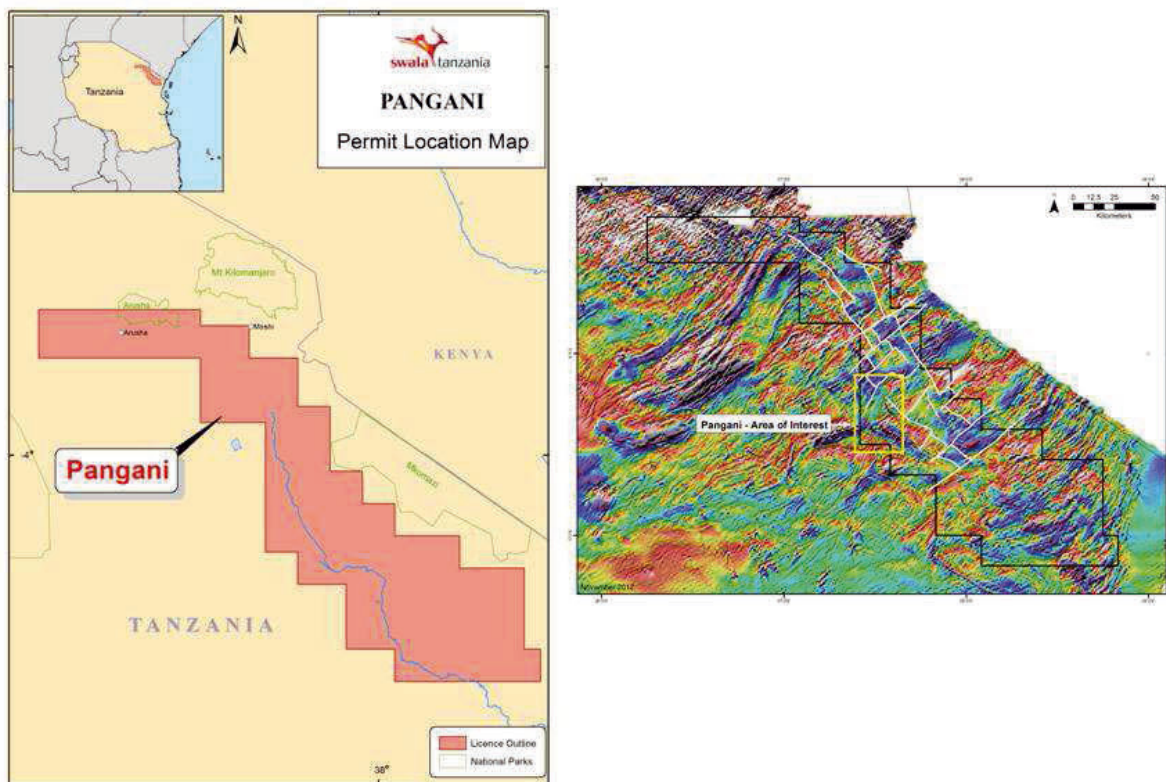
This represents very positive news for Swala. In particular, the recent work has again highlighted the similarities between the Kilombero basin and the Lokichar basin in Kenya, where several important discoveries have already been made. The derisking process for Kilombero is now fully underway and we believe that there will be significant resource upside on the licence when additional leads, not included within RISC's assessment, are factored in.

## Pangani licence

Pangani (Swala: 50% and operator) covers a gross area of 17,156 km<sup>2</sup> (8,578 km<sup>2</sup> net to Swala) in the Pangani Rift, located on one arm of the Northern Tanzanian Divergence triple junction. The rift is part of the East African Rift System that in the west runs from Uganda to Malawi and in the east, from Kenya to Tanzania. The Pangani Rift is believed to contain sediments of Pliocene age and possibly some Late Tertiary successions. As with the Kilosa-Kilombero licence, Swala's partner in Pangani is Otto Energy (Tanzania).

Swala acquired airborne gravity and undertaken magnetic surveys which have confirmed the presence of sedimentary basins of up to a depth of 2,000 metres. In an area of high geothermal gradients, source rocks are very likely to be matured for hydrocarbon generation even at these relatively shallow depths. Similar to Kilosa-Kilombero, rift system, half-graben plays are expected on the acreage, analogous to the Lokichar Basin in Kenya.

### Location of Pangani licence and gravity map depicting area of interest



Source: Swala

**First contract year fulfilled**

Swala completed the first year of its work programme on Pangani by acquiring 5,334 km of airborne magnetic data and 2,670 km of gravity data. It has also carried out remote sensing photogeology and satellite studies and field reconnaissance work. This work identified areas of distressed vegetation which may be indicative of hydrocarbon seeps. It also helped the company to focus a seismic programme for the second year of the work programme on the licence.

**Progress on Pangani**

As with Kilosa-Kilombero, an Environmental Impact Assessment was undertaken in the second quarter of 2013 and Swala completed the 2D seismic programme over the Pangani licence in mid-December 2013.

The 200 km survey, which commenced in mid-November 2013, was completed within schedule and marked the end of Swala's 2013 seismic programme in Tanzania during which over 500 km of seismic was shot over five basins within two licences.

Swala acquired some 200km of 2D seismic over the Mvungwe and Moshi basins. The results from the survey show that the Moshi basin to the north of the licence area appears to be a deep basin with sedimentary fill of probable Neogene age. Further evidence from the survey suggests that the basin is fault-bounded, approximately 25km wide and with basin fill between 2,000 and 3,000 metres depth.

The Mvungwe basin to the south of the licence area is still being processed but initial results suggest that the basin is shallower at less than 1,000m deep and contains sediments of probable Neogene age. Shallow basins may be quite productive with the right heat flows – for example, the Pakwach basin in Uganda's Lake Albert has a depth of only 900m and has yielded six discoveries to date.

Swala is continuing with its planned basin modelling programme to determine whether the regional high heat flows would allow hydrocarbon generation in Mvungwe at these relatively shallow depths.

**Potential exploration well cost**

Swala's share of the seismic was funded by a loan from SWE. Although Swala is at a relatively early stage of development with both of its Tanzanian licences, the management estimates that each exploration well in Tanzania would cost approximately US\$20m on a gross basis. In order to fund its share of a drilling programme, the company would be required to raise additional capital or conduct a farm in arrangement with a senior partner in order to fund an initial drilling programme.



## Tanzanian Production Sharing Contracts

On 20 February 2012 Swala entered into two PSCs with the Government of Tanzania and the Tanzanian Petroleum Development Corporation (TPDC) for the Kilosa-Kilombero and Pangani licences (collectively; the licences). On 21 February, Swala subsequently assigned a 50% interest in both licences to Otto Energy (Tanzania) Limited (collectively; "the Contractors"). The broad terms of each PSC is outlined below.

### Tanzanian PSC terms summary

Item	Kilosa-Kilombero	Pangani
Swala interest	50%	50%
Partner	Otto Energy (Tanzania) Ltd (50%)	Otto Energy (Tanzania) Ltd (50%)
Gross area	17,675 km <sup>2</sup>	17,156 km <sup>2</sup>
Date of PSC	20 February 2013	20 February 2013
Government back in rights	20%*	20%*
Initial exploration period	4 years	4 years
First additional exploration period	4 years	4 years
Second additional exploration period	4 years	3 years
Signature bonus	No signature bonus	No signature bonus
Training fee	US\$200,000 per annum	US\$200,000 per annum
Minimum commitments		
Contract year 2 (2013)	US\$2.1 m (2D seismic)	US\$2.1 m (2D seismic)
Contract year 3 (2014)	US\$5.0m (further 2D seismic)	US\$5.0m (further 2D seismic)
Contract year 4 (2015)	US\$6m (drill one well)	US\$6m (drill one well)

Source: Swala

\*Carried through exploration period

Progression to successive years of the PSC is only permitted if Swala fulfils its work commitments and the minimum required expenditure. A summary of the company's obligations, timings and expenditure commitments is outlined in greater detail in the table below. It should be noted that Contract years 1 and 2 of the Initial Exploration Period have already been fulfilled.

## Tanzania PSC contractor commitments

Exploration Period	Contract Year	Work commitment	Minimum expenditure	
			Pangani	Kilosa-Kilombero
Initial Exploration Period <b>Completed</b>	1	Acquire high-resolution airborne gravity and/or magnetic data; Conduct ASTER satellite and photogeology work; Undertake surface geochemical sampling; Carry out surface geological mapping	US\$370,000	US\$500,000
<b>Completed</b>	2	Acquire a minimum of 200 km (in the case of the Pangani Licence) and 300 km (in the case of the Kilosa-Kilombero Licence) of 2D seismic; Undertake additional geochemical sampling; Surface geological mapping	US\$2.1m	US\$2.1m
	3	Acquire a further 200 km (in the case of the Pangani Licence) and 500 km (in the case of the Kilosa-Kilombero Licence) of 2D seismic.	US\$2.0m	US\$2.0m
	4	Drill a well to a maximum of 3,000m or basement	US\$6.0m	US\$6.0m
First Extension Period	5-8	Undertake further geological, geochemical and geophysical studies; Acquire 60 km <sup>2</sup> of 3D or 600 km of 2D seismic; Drill at least one well to a maximum depth of 3,000m or basement	US\$12.1m	US\$12.1m
Second Extension Period	9-11	Undertake further geological, geochemical and geophysical studies; Acquire 60 km <sup>2</sup> of 3D or 600 km of 2D seismic; Drill at least one well to a maximum depth of 3,000m or basement	US\$12.1m	US\$12.1m

Source: Swala, TPDC

### In the event of a discovery

In the event of a commercial discovery on one of Swala's licences, the TPDC may grant the Contractors a period of up to two years in which to carry out an appraisal programme before the application to convert the licence from an exploration licence to a development licence.

Assuming that an appraisal programme is successful and the government approves a field development plan, the TPDC may give notice to the Contractors of its intention to contribute a participating interest up to 20% under the terms of the PSC.

In the event of oil or gas production on either licence, TPDC must deliver a 12.5% of the total production to the Tanzanian government by way of a royalty prior to cost recovery. Not more than 50% of the remaining production must be set aside for cost recovery for the Contractors' historical expenses on the licences. Thereafter, the profit oil is divided on the criteria in the table below.

The Contractors are also subject to Tanzania taxes on income derived from hydrocarbon production.

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**Profit oil share in Tanzania**

<b>Oil</b>	<b>Daily production rate (bopd)</b>	<b>TPDC's share</b>	<b>Contractors' share</b>
	0 - 12,499	45%	55%
	12,500 - 24,999	55%	45%
	25,000 - 49,999	60%	40%
	50,000 - 99,999	65%	35%
	100,000 and above	70%	30%
<b>Gas</b>	<b>mmcfpd</b>		
	0 - 19.99	60%	40%
	20 - 39.99	65%	35%
	40 - 59.99	70%	30%
	60 - 79.99	75%	25%
	80 - 99.99	80%	20%
	100 and above	85%	15%

Source: Swala, TPDC

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## Indicative valuation of Swala

It should be noted that our valuation of Swala is derived from the same criteria from which we value Swala's parent company, Swala Energy Limited, in our comprehensive research note from 31 July 2013 entitled, 'Exploring the East African Rift' and all subsequent research.

As with SWE, applying a valuation to Swala in the early stages of development is highly indicative and also subjective. Nevertheless, the recent identification of prospective resources on the Kito prospect on Kilosa-Kilombero has enabled us to attach a slightly firmer valuation to the company at this stage.

With regard to the company's Pangani licence, corporate activity in the EARS, admittedly the Kenyan and Ethiopian regions, has been buoyant over the last two years and several exciting transactions give us an insight into the potential value of acreage held in the region.

We have identified a number of recent deals that we can apply to Swala's acreage portfolio albeit at a significant discount. These are outlined in the table below. Taking an average of this small sample provides us with an indicative transaction value of nearly US\$3,900 per square kilometre for acreage in the EARS which we can apply to licences in Swala's Tanzanian portfolio.

### Recent transaction values in the EARS

Date	Transaction	Buyer	Seller	Licence	Country	Net area km <sup>2</sup>	Amount (US\$m)	Value \$ per km <sup>2</sup>
Jul-12	Farm in	Marathon Oil	Africa Oil	Block 9	Kenya	14,797		
				Block 12A	Kenya	3,051	78.5	4,398
Jul-12	Farm in	Africa Oil	Tullow Oil	Block 12A	Kenya	3,051	3.86	1,265
Oct-12	Acquisition	Marathon Oil	Agriterra	South Omo	Ethiopia	5,893	50.0	8,485
Sep-12	Farm in	Bowleven	Adamantine	Block 11B	Kenya	7,000	10.0	1,429
<b>Average</b>								<b>3,894</b>

Source: Various

### Important caveats

It is pertinent to note a number of important caveats to this relatively select list of transactions. Primarily, it excludes several important deals that were conducted prior to July 2012 including Tullow's farm-in to five of Africa Oil's licences in the EARS in January 2011. This included blocks 10BB and 13T where the Ngamia and Twiga South discoveries were made, in addition to the highly prized South Omo Block located in southwest Ethiopia contiguous to Block 10BA in Kenya.

This transaction which comprises the most prospective licences in the EARS was completed for an estimated US\$971 per square kilometre at the time. This would indeed reduce our average acreage valuation by a substantial margin. However, we have excluded it on the basis that this portfolio of assets would now be considerably more valuable subsequent to the Kenyan discoveries and the original implied value of South Omo has been superseded by Marathon Oil's acquisition of a 20% interest in the licence from Agriterra.

Also excluded from our calculations is the implied valuation of US\$812 per square kilometre for Taipan Resources' acquisition of Lion Petroleum and its interests in Blocks 1 and 2B in northeast Kenya in July 2012. These are highly prospective blocks in their own right. However, they are located in a separate hydrocarbon province of the Mendera Basin which extends into Somalia and we have elected to exclude them from direct comparison to our sample group of transactions.



## A valuation for Swala

We have applied an average transaction value per square kilometre number to Swala's Pangani licence and applied a discount to the indicative value of the asset. Based on our very preliminary asset valuation outlined below and adjusting for Swala's corporate overhead, we have arrived at a preliminary valuation of US\$52.3m. This excludes any cash that may be raised at the time of listing on the EGM in Dar es Salaam.

### Summary asset valuation for Swala

Asset	Swala interest %	Net area km <sup>2</sup>	Value US\$000/km <sup>2</sup>	Discount %	Valuation US\$m
Pangani	50%	8,578	3,894	25%	25.1
*Kilosa-Kilombero	50%	8,838	N/A	N/A	36.3
Corporate overhead					-9.0
<b>Asset valuation</b>					<b>52.3</b>

Source: OPL estimates

### \*Kilosa-Kilombero preliminary valuation

We have ascribed a more aggressive valuation to Kilombero on the basis that RISC Operations Pty Ltd has ascribed a resource potential to the Kito prospect on the Kilombero licence.

Starting with the best case oil in place scenario, we have applied a conservative recovery rate and geological chance of success as outlined by the independent expert in order to arrive at a risked resource for Kito. To this, we have applied a modest value for an undeveloped barrel of oil in the ground at a time when current oil prices are in excess of \$95.00 per barrel.

Although we feel that we have risked our valuation appropriately, we have also factored a 33% market risk discount to reflect any additional political or commercial uncertainties that may exist in the region. Consequently, we have arrived at a suggested initial valuation of US\$36.3m for Swala's 50% interest in a single prospect on the licence. Given that there is the potential for several lookalike structures on the Kilosa-Kilombero licence, we are confident that there will be significant upside to this early valuation as additional prospects and leads are identified.

Kilosa Kilombero valuation	Kito prospect
Undiscovered oil in place (mmbbls)	596
Recovery factor	25%
Gross unrisked prospective resources (mmbbls)	151
Less government back in	20%
After government back in (mmbbls)	120.8
Chance of success	9%
Risked resource (mmbbls)	10.9
Ascribed value per barrel	10.00
Risked value (US\$m)	108.7
Commercial risk discount	33%
Expected Monetary Value (US\$m)	72.5
Swala interest	50%
<b>Swala EMV (US\$m)</b>	<b>36.3</b>

Source: OPL estimates, Swala, RISC

## The start of a journey

It should be noted that OPL's valuation for Swala is very much the commencement of a progression as the company meets milestones within its longer term strategy. In particular, the impact of Swala's progress in the development of its asset base including the outcome of later seismic programmes and the progression to drilling activities will have a key bearing on the accretion of value within the portfolio.

Also of great influence to our valuation is the impact of implied valuation increases from transactions such as farm-in deals and acquisitions within the sector. It is arguable that several of the most indicative deals may already have been completed within the last two years. However, in October 2013, Taipan Resources farmed out a 55% interest in Block 2B in Kenya to Premier Oil in return for Premier funding Taipan's costs up to US\$13.275m plus US\$1.0m reimbursement of back costs to Taipan. Given that Premier agreed to fund a total work programme of US\$29.5m in return for its 55% interest, this values the transaction at over US\$7,100 per km<sup>2</sup>, a substantial premium to our current valuation of acreage in the EARS.

## Appendix – Directors' biographies

### **Mr Ernest S. Massawe (Non-Executive Chairman)**

Mr Massawe is a Certified Accountant (ACCA, UK) and holds a Bachelors of Commerce from the then University of East Africa in Nairobi. He is the founder and former Chairman and Managing Partner of what is now the Ernst and Young Tanzania practice after having led the firm for the past 30 years until his retirement on 31 December 2010.

Mr Massawe has had many high profile appointments in the accountancy, financial services, mining and capital markets sectors in Tanzania. As a professional accountant and the country leader for Ernst & Young Tanzania, he was extensively involved in providing financial consulting and business advisory services both in the public and private sectors in Tanzania. He has played a leading role in the development of the capital market and the accountancy profession in Tanzania and was the founder and chairman of the Tanzania Association of Accountants and a board member of the National Board of Accountants and Auditors. He was also the first chairman of the Dar es Salaam Stock Exchange and the Tanzania Chamber of Mines.

He has also served on the Banking and Financial Sector Reform Committee, the Value Added Consultative Board, the USAID sponsored Tanzania Business Centre Advisory Board and the Ministry of Finance's Think Tank on Tax Reform and Fiscal Policy. As an entrepreneur, Mr Massawe has interests in micro-finance, banking, insurance brokerage, real estate development, medium scale gemstone mining and stock brokerage. He is also a director in a number of leading companies in Tanzania.

### **Dr David Mestres Ridge (CEO and Managing Director)**

Dr Mestres Ridge worked first for Total Oil Marine (1998-2000) and then as an independent M&A and business development advisor to oil companies active in the North Sea and North Africa (2000-2006). From 2006-2008, he was a Vice-President at the Royal Bank of Canada, first in the Global Investment Banking Oil and Gas team and then in the Equity Research team.

In 2008-2009 he briefly managed Petrodel Resources, a company active in Tanzania. In 2009-2010 he worked with Black Marlin Energy during its IPO on the Toronto Stock Exchange. David has a BSc in Applied Geology, an MSc in Mining Geology, a PhD in Chemical Engineering and an LLM in Law.

### **Mr Selemani Pongolani (Finance Director)**

Mr Pongolani is a Fellow Chartered and Certified Accountant (FCCA, UK). He is also registered by the National Board of Accountants and Auditors of Tanzania as an Associate Certified Public Accountant (ACPA). He has a Master's degree in Business Administration (MBA Finance and Banking) and a Bsc in Electronics & Communication. He has over 10 years' experience in finance, accounting, management, audit and taxation. He started his career with PWC Tanzania where he worked for five years (2003-2008) before joining Celtel Tanzania Limited as Tax Manager (2008-2009). From 2009 to 2011 he was Finance Manager at Gapco Tanzania Limited, a subsidiary of Reliance Industries Limited dealing with importation, marketing and distribution of petroleum products. He then worked as Senior Finance Manager at PanAfrican Energy Tanzania limited, a subsidiary of Orca Exploration Group engaged in hydrocarbon exploration, development and supply of natural gas in Tanzania (2011-2013).

**Ms. Elisabeth Obiero (Non-Executive Director)**

Ms. Obiero is a qualified CPA with a Bachelor of Commerce from the University of Nairobi. She has more than 10 years' experience in various accounting sections and industries. From 2002 to 2006 she worked as accountant and Senior Accountant at Kenya Airways and its subsidiary, Kenya Airfreight Handling Limited. From 2006 to 2008 she was an accountant at Woodside Kenya (Nairobi) and responsible for the accounting of the subsidiary. She subsequently moved to Woodside's Head Office in Perth until 2011, where she has been involved in all aspects of oil and gas industry accounting.

**Professor Simon Mbilinyi (Non-Executive Director)**

Professor Mbilinyi was Chief Economic Adviser to President Nyerere (1975-1983); Principal Secretary to the Ministry of Agriculture and Livestock Development (1982-1985) and Ambassador to the European Community, Belgium and Luxembourg (1985-1989) before becoming Principal Secretary of the Ministry of Finance (1989-1991). From 1991 to 1995 he was Managing Director of the National Development Corporation and from 1995 to 1996 was Minister of Finance for President Mkapa.

From 1995 he was Member of Parliament for Peramiho Constituency (1995-2005) and Chairman of the Tanzania Investment Centre (1998-2010); the Open University of Tanzania (2000-2010); the Tanzania Chamber of Mines (2003-2005) and the National Development Corporation (2002-2010). Professor Mbilinyi has a BA in Agricultural Economics (Ithaca University), an MA in Economics (Stanford University) and a PhD in Economics (University of Dar es Salaam).

**The Hon. Abdullah Mwinyi (Non-Executive Director)**

The Hon. Abdullah Mwinyi worked firstly as State Attorney for the Ministry of Legal Affairs (1996-1997) before joining BP as Supply and Trade Coordinator (1999-2002), Project Manager (2002-2004) and Company Secretary (2004-2005). From 2005 to 2007 he was an Associate with Mkono and Company. From 2007 he has been a Member of Parliament and a Member of the East African Legislative Assembly where he is the Chairperson of the Legal, Privileges and Rules Committee. In 2007 he established Asyla Attorneys, where he specialises in corporate, commercial, labour and employment law. The Hon. Mwinyi has an LLB in Law and an LLM in Commercial Law (both from the University of Cardiff).

**Mr Neil C. Taylor (Non-Executive Director)**

Mr Taylor is the former Exploration Manager of East African Exploration Limited (EAX), Black Marlin Energy's E&P subsidiary. A geologist by background, he has over 30 years of experience in the oil and gas business with internationally renowned E&P companies including British Petroleum (1981-1992) and Woodside Energy (1992-2007).

Through his time with those companies, he has been involved with or led exploration and production activities world-wide, including significant work with the giant gas fields of the northwest shelf of Australia and exploration in Europe, North Sea, South East Asia, Australia and the Middle East. Neil joined EAX in 2008 with the remit of growing the company's asset base, and added six new licences to EAX's portfolio during his tenure.



# OLD PARK LANE CAPITAL<sup>+</sup>

## DISCLOSURES AND RISK WARNING

The recommendation system used for this research is as follows. We expect the indicated target price relative to the FT All Share Index to be achieved within 12 months on the date of this publication. A 'Hold' indicates expected performance relative to this index of +/-10%, a 'Buy' indicates expected outperformance of >10% and a 'Sell' indicates underperformance of >10%.

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There is an extra risk of losing money when shares are bought in some smaller companies including AiM, sometimes alternatively known as "penny shares". There can be a big difference between the buying price and the selling price of these shares. If they have to be sold immediately, you may get back much less than you paid for them. The price may change quickly and it may go down as well as up. Past performance of investments referred to above is not necessarily a guide to future performance and the value of the investment may go down as well as up. Some investments are not readily realisable and investors may have difficulty in selling or realising the investment or obtaining reliable information on the value or risks associated with the investment. This publication may not be reproduced or copies circulated without authority.

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# 14. additional information

## 14.1 RIGHTS ATTACHING TO SHARES

The following is a broad summary of the more significant rights, privileges and restrictions attaching to the Company's securities. This summary is not exhaustive and does not constitute a definitive statement of the rights and liabilities of shareholders in the Company. To obtain such a statement, persons should seek independent legal advice.

Full details of the rights attaching to Shares are:

- (i) set out in the Company's MEMARTS to be adopted, a copy of which is available for inspection at the Company's registered office during normal business hours; and
- (ii) in certain circumstances, regulated by the DSE, the CMSA Regulations, and the general law.

All Shares issued pursuant to this Prospectus will, from the time that they are issued, rank equally with the Company's existing issued Shares.

### a) Voting

Subject to the MEMARTS and any rights or restrictions for the time being attached to any class or classes of shares, at a general meeting of Shareholders or classes of Shareholders:

- (i) every Shareholder entitled to vote may vote in person or by proxy, attorney or representative;
- (ii) on a show of hands every Shareholder who is present in person or by proxy, attorney or representative has one vote; and
- (iii) on a poll every Shareholder who is present in person or by proxy, attorney or representative has one vote for every Share held, but, in respect of partly-paid shares, shall have a fraction of a vote for each partly-paid share.

A poll may be demanded before a vote for show of hands is taken, or before or immediately after the declaration of the result of the show of hands by the chair of the meeting, by at least five Shareholders present and entitled to vote on the resolution or by any one or more Shareholders representing at least 5% of the votes that may be cast on the resolution on a poll.

### (b) Dividends

Subject to the Companies Act, the DSE Listing Rules, the rights of any preference Shareholders and the rights or restrictions attached to a share or class of shares, the Directors may pay a dividend in respect of Shares as, in their judgment, the financial position of the Company justifies.

Dividends shall (subject to the rights of any preference shareholders and to the right of the holders of any shares created or raised under any special arrangement as to dividend), be payable in the proportion which the amounts paid (not credited) on shares bears to the total amounts paid and payable (excluding amounts credited) on the share. Interest is not payable by the Company in respect of the dividend.

The Directors may authorise the payment to Shareholders of an interim dividend as the Directors may determine.

### (c) Transfer of Shares

Subject to the MEMARTS and to the rights or restrictions attached to any share or class of shares, a Shareholder may transfer Shares in accordance to the CMSA Regulations and DSE Rules.

### (d) General Meetings and Notice

Each Shareholder is entitled to receive notice of and to attend general meetings for the Company and to receive all notices, accounts and other documents required to be sent to Shareholders under the Companies Act or the DSE Listing Rules.

### (e) Winding Up

Subject to the Companies Act and to the rights of Shareholders entitled to Shares with special rights in a winding up, if the Company is wound up and the property of the Company is more than sufficient to pay all of the debts and liabilities of the Company and the costs, charges and expenses of the winding up, all monies and property to be distributed between Shareholders shall be distributed to them in proportion to the Shares held by them. The amount that would otherwise be distributed to the holder of a partly paid share must be reduced by the amount unpaid on that share at the date of the distribution; and if the effect of the would be to reduce the distribution to the holder of a partly paid share to a negative amount, the holder must contribute that amount to the Company.



## 14. additional information (cont.)

A liquidator may, with the sanction of special resolution of the Company, divide among the Shareholders the whole or any part of the property of the Company and may determine how the division is to be carried out between Shareholders or different classes of Shareholders.

In the event of a breach of the DSE Listing Rules or a breach of a restriction agreement entered into by the Company under the DSE Listing Rules relating to Restricted Securities (as defined in the DSE Listing Rules), the Shareholder holding the Restricted Shares in question shall cease to be entitled to be paid any dividends, distribution or any voting rights in respect of those Restricted Securities during the period of such breach.

### (f) Variation of Class Rights

The rights attached to any class of shares may unless their terms of issue state otherwise, be varied with the written consent of the holder of 75% of the shares of the class or by special resolution passed at a separate meeting of the holder of shares of the class.

The provisions of the Constitution relating to general meetings shall apply so far as they are capable of application and with necessary alternations to every such separate meeting except that a quorum is constituted by two persons who together hold or represent by proxy, attorney or representative, at least 25% of the issued shares of that class.

The rights conferred on the holders of any class of shares are to be taken as not having been varied by the creation or issue of further shares ranking equally with them.

### (g) Changes to Capital Structure

The Company may by ordinary resolution and subject to the Companies Act and applicable CMSA Regulations and DSE Rules:

- (i) increase its share capital by the issue of new shares of such amount as is specified in a resolution;
- (ii) consolidate and divide all or any of its share capital into shares of larger amounts than its existing shares;
- (iii) sub-divide all or any of its shares into shares of smaller amount than is fixed by the Constitution, but so that in the sub-division the proportion between the amount paid and the amount (if any) unpaid on each such share of a smaller amount is the same as it was in the case of the share from which the share of a smaller amount is derived; and
- (iv) cancel shares that, at the date of the passing of the resolution, have not been taken or agreed to be taken by any person or have been forfeited and reduce its share capital by the amount of the shares so cancelled.

### (h) Shareholder Liability

As the Shares issued under the Prospectus are fully paid shares, they are not subject to any calls for money by the Directors and will therefore not become liable for forfeiture.

### (i) Alteration to the MEMARTS

In accordance with the Companies Act, the MEMARTS can only be amended by a special resolution passed by at least three quarters of Shareholders present and voting at the general meeting.

### 14.2 TERMS AND CONDITIONS OF OPTIONS

The Options to be issued to the Directors, management and employees of the Company will be issued on the following terms and conditions:

- (a) Each Option gives the holder the right to subscribe for one (1) Share.
- (b) The Options are exercisable at any time on or before that date that is 5 years from the date of issue.
- (c) The exercise price of each Option is TZS 750 each;
- (d) The Options are not transferable.
- (e) The Options are exercisable by delivering to the registered office of the Company a notice in writing stating the intention of the holder to exercise a specified number of Options, accompanied by an Option certificate, if applicable, and a cheque made payable to the Company for the subscription monies due, subject to the funds being duly cleared funds. The exercise of only a portion of the Options held does not affect the holder's right to exercise the balance of any Options remaining.
- (f) All Shares issued upon exercise of the Options will rank pari passu in all respects with the Company's then issued Shares.
- (g) There are no participating rights or entitlements inherent in the Options and holders will not be entitled to participate in new issues of capital to Shareholders during the currency of the Options. However, the Company will ensure that for the purposes of determining entitlements to any such issue, Option holders will be notified of the proposed issue at least seven (7) Business Days before the record date of any proposed issue. This will give holders the opportunity to exercise their Options prior to the date for determining entitlements to participate in any such issue.
- (h) In the event of any reconstruction (including consolidation, subdivision, reduction or return of capital) of the issued capital of the Company prior to the expiry date, all rights of the Option holder will be varied in accordance with the DSE Rules.
- (i) In the event the Company makes a pro rata issue of securities (except a bonus issue), the exercise price of the Options will change in accordance with the formula set out in DSE Rule.
- (j) In the event the Company proceeds with a bonus issue of securities to Shareholders after the date of issues of the Options, the number of securities over which an Option is exercisable may be increased by the number of securities which the Option holder would have received if the Option had been exercised before the record date for the bonus issue.

### 14.3 INTERESTS OF DIRECTORS

Other than as set out below or elsewhere in this Prospectus, no Director holds, or has held within the 2 years preceding lodgement of this Prospectus with CMSA any interest in:

- (a) the formation or promotion of the Company;
- (b) any property acquired or proposed to be acquired by the Company in connection with:
  - (i) its formation or promotion; or
  - (ii) the Offer; or
- (c) the Offer,

and no amounts have been paid or agreed to be paid and no benefits have been given or agreed to be given to any of those persons:

- (a) as an inducement to become, or to qualify as, a Director; or
- (b) for services rendered in connection with:
  - (i) the formation or promotion of the Company; or
  - (ii) the Offer.

### 14.4 INTERESTS OF EXPERTS AND ADVISERS

Other than as set out below or elsewhere in this Prospectus, no:

- (a) person named in this Prospectus as performing a function in a professional, advisory or other capacity in connection with the preparation or distribution of this Prospectus;
- (b) promoter of the Company; or
- (c) underwriter (but not a sub-underwriter) to the issue of a financial services licensee named in this Prospectus as a financial services licensee involved in the issue,

holds, or has held within the 2 years preceding lodgement of this Prospectus with CMSA, any interest in:

- (a) the formation or promotion of the Company;
- (b) any property acquired or proposed to be acquired by the Company in connection with:
  - its formation or promotion; or
  - the Offer; or
- (c) the Offer,

and no amounts have been paid or agreed to be paid and no benefits have been given or agreed to be given to any of these persons for services provided in connection with:

- (a) the formation or promotion of the Company; or
- (b) the Offer.

Arch Financial & Investment Advisory Ltd has acted as Lead Nominated Advisor in relation to the Offer. The Company estimates it will pay \$16,000 including VAT for these services, based on the maximum subscription of \$3,000,000 being raised.

BDO accountant has acted as Reporting Accountant and has prepared the Reporting Accountant's Report which is included in Section 9. The Company estimates it will pay BDO a total of \$25,000 including VAT for these services.

Asyla Attorneys has acted as the Company's Tanzanian solicitors in relation to the Offer and has prepared the Tanzanian Solicitor's Report which is included in Section 11. The Company estimates it will pay a total of \$10,000 including VAT for these services.

RISC Pty Ltd (RISC) has acted as the Company's Independent Technical Specialist and has prepared the Independent Technical Specialist Report which is included as an attachment. The Company estimates it will pay RISC a total of \$25,000 including GST for these services.

### 14.5 ESTIMATED GROSS PROCEEDS AND EXPENSES OF THE OFFER

The total gross proceeds of the Offer are estimated to be approximately TZS 1,600,000,000 in the case of the Company raising the minimum subscription of 3,200,000,000 shares and TZS 4,800,000,000 in the case of the Company raising the maximum subscription of 9,600,000 shares and are expected to be applied towards the items set out in the table below:

Item	Minimum Subscription of TZS 3,200,000,000	Maximum Subscription of TZS 4,800,000,000
DSE fees	15,000,000	15,000,000
CMSA fees	3,200,000	4,800,000
Nominated Advisor's fees	27,000,000	27,000,000
Agency fees	64,000,000	96,000,000
Legal expenses	16,000,000	16,000,000
Independent Technical Specialist's fees	40,000,000	40,000,000
Reporting Accountant's fees	40,000,000	40,000,000
Print and mailing expenses and Miscellaneous	32,000,000	32,000,000
<b>TOTAL, TZS</b>	<b>210,200,000</b>	<b>243,800,000</b>

### 14.6 CONTINUOUS DISCLOSURE OBLIGATIONS

The Company is a 'disclosing entity' and, as such, will be subject to regular reporting and disclosure obligations. Specifically, like all listed companies, the Company is required to continuously disclose any information it has to the market which a reasonable person would expect to have a material effect on the price or the value of the Company's securities.

Price sensitive information is publicly released through DSE before it is disclosed to shareholders and market participants. Distribution of other information to shareholders and market participants is also managed through disclosure to the DSE. In addition, the Company will post this information on its website after the DSE confirms an announcement has been made, with an aim of making the information readily accessible to the widest audience.



## 14. additional information (cont.)

### 14.7 ELECTRONIC PROSPECTUS

Any person accessing the electronic version of this Prospectus for the purpose of making an investment in the Company must be a Tanzanian resident and must only access the Prospectus from within Tanzania.

If you have received this Prospectus as an electronic Prospectus, please ensure that you have received the entire Prospectus accompanied by the Application Form. If you have not, please contact the Company and the Company will send you, for free, either a hard copy or a further electronic copy of this Prospectus or both. Alternatively, you may obtain a copy of this Prospectus from the Company's website.

The Company reserves the right not to accept an Application Form from a person if it has reason to believe that when that person was given access to the electronic Application Form, it was not provided together with the electronic Prospectus and any relevant supplementary or replacement Prospectus or any of those documents were incomplete or altered.

### 14.8 LITIGATION

As at the date of this Prospectus, the Company is not involved in any legal proceedings and the Directors are not aware of any legal proceedings pending or threatened against the Company.

### 14.9 FINANCIAL FORECASTS

The Directors believe that they do not have a reasonable basis to forecast future earnings on the basis that the operations of the Company are inherently uncertain. Accordingly, any forecast or projection information would contain such a broad range of potential outcomes and possibilities that it is not possible to prepare a reliable best estimate forecast or projection.



## 15. directors' consent

This Prospectus is issued by the Company and its issue has been authorised by a resolution of the Directors.

In accordance with the Companies Act, each Director has consented in writing to the lodgement of this Prospectus with the CMSA.

A handwritten signature in black ink, appearing to read 'Ernest Massawe'. The signature is stylized with a large, looped 'E' and a trailing flourish.

Ernest Massawe  
FOR AND ON BEHALF OF SWALA OIL AND GAS (TANZANIA) PLC

## 16. document available for inspection

Copies of the following documents may be inspected at Swala Oil and Gas (Tanzania) plc business office at Regent Business Park, 3rd Floor, 172 Chwaku Street, Mikocheni, Dar es Salaam during usual working hour from 09:00 up to 16:00:

- » The Memorandum and Article of Association
- » Written consent of Nominated Advisor, Reporting Accountant and Legal Advisors named in this Prospectus
- » Certificate of Incorporation
- » Technical Specialist Report
- » Old Park Lane Capital Research Report and Share Valuation



## 17. receiving agents



### CRDB Bank

PSPF Golden Jubilee Tower, 12th Floor  
Dar es Salaam, TANZANIA

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Fax +255 736 502850  
Website [www.crdbbank.com](http://www.crdbbank.com)



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Email [info@tanzaniasecurities.co.tz](mailto:info@tanzaniasecurities.co.tz)  
Website [www.tanzaniasecurities.co.tz](http://www.tanzaniasecurities.co.tz)



### Solomon Stockbrokers Ltd

PPF House, Ground Floor  
Morogoro Road/Samora Avenue

P.O. Box 77049, Dar es Salaam  
Tel +255 22 2124495/2112874  
Fax +255 22 213 1969  
Email [info@solomon.co.tz](mailto:info@solomon.co.tz)  
Website [www.solomon.co.tz](http://www.solomon.co.tz)



### Orbit Securities Co. Ltd.

Golden Jubilee Towers,  
4th floor Ohio Street  
P.O. Box 3183 I, Dar es Salaam

Tel +255 22 2111758  
Fax +255 22 2113067  
Email [orbit@orbit.co.tz](mailto:orbit@orbit.co.tz)  
Website [www.orbit.co.tz](http://www.orbit.co.tz)



### Vertex International Securities Ltd

Annex Building - Zambia High Commission  
P.O. Box 13412, Dar es Salaam

Tel +255 22 2116382  
Fax +255 22 2110387  
Email [vertex@vertex.co.tz](mailto:vertex@vertex.co.tz)  
Website [www.vertex.co.tz](http://www.vertex.co.tz)



### CORE Securities Ltd

Elite Building, 4th Floor  
Samora Avenue/Morogoro Road  
P.O. Box 76800, Dar es Salaam

Tel +255 22 2123103  
Fax +255 22 2182521  
Email [info@coresecurities.co.tz](mailto:info@coresecurities.co.tz)  
Website [www.coresecurities.co.tz](http://www.coresecurities.co.tz)



### Zan Securities Ltd

Haidery Plaza, Mezzanine floor  
Kisutu/Upanga Street

P.O. Box 5366, Dar es Salaam  
Tel +255 22 212 6415  
Fax +255 22 212 6414  
Email [info@zansec.com](mailto:info@zansec.com)  
Website [www.zansec.com](http://www.zansec.com)



### Rasilimali Ltd

CHC Building, 3rd Floor  
Samora Avenue

P.O. Box 9373, Dar es Salaam  
Tel +255 22 2111711/  
+255 (0) 744 777818  
Fax +255 22 2113438  
Email [rasilimali@africaonline.co.tz](mailto:rasilimali@africaonline.co.tz)



# 18.

## list of investment advisers

### Tanzania Securities Limited

7th Floor, IPS Building  
Samora Avenue / Azikiwe Street

P.O. Box 9821, Dar es Salaam, Tanzania

Tel 255 (22) 21 12807  
Fax 255 (22) 21 12809

Email [tsl@muchs.ac.tz](mailto:tsl@muchs.ac.tz)  
[info@tanzaniasecurities.co.tz](mailto:info@tanzaniasecurities.co.tz)

Website [www.tanzaniasecurities.co.tz](http://www.tanzaniasecurities.co.tz)

### Orbit Securities Company Limited

Golden Jubilee Towers Ohio Street  
P.O. Box 31831, Dar es Salaam, Tanzania

Tel 255 (22) 2111758  
Fax 255 (22) 2113067

Email [orbit@orbit.co.tz](mailto:orbit@orbit.co.tz)  
Website [www.orbit.co.tz](http://www.orbit.co.tz)

### Solomon Stockbrokers Limited

PPF House, Ground Floor  
Morogoro Rd./Samora Avenue

P.O. Box 77049, Dar es Salaam, Tanzania

Tel 255 - 22 - 2124495/2112874  
Fax 255 - 22 - 213 1969

Email [info@solomon.co.tz](mailto:info@solomon.co.tz)  
Website [www.solomon.co.tz](http://www.solomon.co.tz)

### Bank M Tanzania Limited

Money Centre – 8 Ocean Road

P.O. Box 96, Dar es Salaam, Tanzania

Tel +255 22 2127824  
Fax +255 22 2127825

Website [www.bankm.co.tz](http://www.bankm.co.tz)

### Consultants for Resources Evaluation Limited

Elite Building, 4th Floor  
Samora Avenue/Morogoro Road

P.O. Box 768000, Dar es Salaam, Tanzania

Tel 255 - 22 - 2123103  
Fax 255 - 22 - 2182521

Website [www.coresecurities.co.tz](http://www.coresecurities.co.tz)

### ARCH Financial & Investment Advisory Limited

2nd Floor, Wing C, NIC Life House  
Sokoine Drive/Ohio Street

P.O. Box 38028, Dar es Salaam, Tanzania

Tel +255 22 732922396  
Fax +255 22 732928489

### River Capital Partners

10th Floor, Amani Place Ohio Street

P.O. Box 1258, Dar es Salaam, Tanzania

Tel +255 22 2126050  
Fax +255 22 21216049

### Unit Trust of Tanzania (Fund Manager)

3rd Floor, Sukari House  
Sokoine Drive / Ohio Street

P.O. Box 14825, Dar es Salaam, Tanzania

Tel +255 22 212 250 1/  
213 7592/ 212 8460 /61

Fax +255 22 21 3 7593

Email [uwekezaji@utt-tz.org](mailto:uwekezaji@utt-tz.org)  
Website [www.utt-tz.org](http://www.utt-tz.org)

### Equity Investment Management Limited

4th Floor, 50 Mirambo Street

P.O. Box 8020, Dar es Salaam, Tanzania

Tel +255 22 211 2926  
Fax +255 22 211 3645

### Choice Capital Management Company Ltd

5th Floor, NIC Life House, Wing B  
Sokoine Drive/ Ohio Street

P.O. Box 61269 Dar es Salaam, Tanzania

Tel +255 22 213 3997

Website [www.choicecapitalmanagement.com](http://www.choicecapitalmanagement.com)

### FTC Consultants Limited

2nd Floor, Osman Towers, Zanaki Street

P.O.Box 22731 Dar Es Salaam, Tanzania

Phone +255 (77) 467 6676

Fax +255 (22) 213 0519

Website: [www.ftc-tz.com](http://www.ftc-tz.com)

### Sifa Advisory Limited

P.O. Box 4123, Dar es Salaam, Tanzania

Tel +255 22 2137570

Fax +255 22 2136570

Website [www.sifacapital.com](http://www.sifacapital.com)

### Gem Consulting Limited

8th Floor, Office Academy Scheme Building,  
Plot 2385/12, Azikiwe Street,

P.O. Box 3219, Dar es Salaam, Tanzania

### Trident East Africa Limited

3rd Floor, Maktaba Complex (Tanzania Library  
Services Building) Bibi Titi Road,

P.O.Box 38346, Dar es Salaam, Tanzania

Email [info@tridenteafrica.com](mailto:info@tridenteafrica.com)

### National Bank of Commerce Limited

Sokoine Drive & Azikiwe Street

P.O. Box 1863, Dar es Salaam, Tanzania

Tel +255 22 2199793/  
+255 768980191

Fax +255 22 2112887/ 2113749

E-Mail [contact.nbc@nbctz.com](mailto:contact.nbc@nbctz.com)

Website [www.nbctz.com](http://www.nbctz.com)

### Rasilimali Limited

CHC Building, 3rd Floor Samora Avenue  
P.O. Box 9373, Dar es Salaam, Tanzania

Tel 255 - 22 - 2111711/  
255 (0) 744 777818

Fax 255 - 22 - 2113438

Email [rasilimal@africaonline.co.tz](mailto:rasilimal@africaonline.co.tz)

### Enterprise Growth Market Advisors Limited (EGMA)

Mezzanine Floor, Haidery Plaza  
Kisutu/Upanga Street

P.O. Box 20651, Dar es Salaam, Tanzania

Tel +255 759 191093

Fax +255 22 2126414

### Exim Advisory Services Ltd

8th Floor, Office Academy  
Scheme Building  
Plot 2385/12, Azikiwe Street

P.O. Box 3219, Dar es Salaam, Tanzania

### Standard Chartered Bank Tanzania Limited

International House  
Shaaban Robert Str. Garden Avenue

P.O. Box 9011, Dar es Salaam, Tanzania

Tel 255 (22) 2122160 / 2122162

Fax 255 (22) 2122089

### Ernst & Young Advisory Services

Utalii House 36 Laibon Road, Oysterbay  
P.O. Box 2475, Dar es Salaam, Tanzania

Tel +255 22 266 6853 / 266 7659

Fax +255 22 266 6869

Email [EYAS@tz.ey.com](mailto:EYAS@tz.ey.com)  
[guarantee@raha.com](mailto:guarantee@raha.com)

### Skylink Financial Services Limited

4th Floor, Amani Place, Opposite Dar es Salaam  
Serena Hotel

P. O. Box 21338, Dar es Salaam, Tanzania

Tel +255 22 2115381

Fax +255 22 2112786/  
+25502202114562

Email [info@skylinkfinancialservices.com](mailto:info@skylinkfinancialservices.com)

### LJK Konsulting Limited

Plot No. 294, Regent Estate

P. O. Box 20651, Dar es Salaam, Tanzania

Tel/Fax +255 22 2124383

Email [info@mekonsult.co.tz](mailto:info@mekonsult.co.tz)



## share purchase application form

SWALA OIL AND GAS TANZANIA PLC

Serial Number

Agent/Broker Stamp &amp; Signature

Agent Code No

 Photograph  
(35mm x 45mm)

## 1. DETAILS OF A PURCHASER (NATURAL PERSON)

First Name

Middle Name

Applicant's Last name (surname)

ID Type (Passport/Voters ID/Driving Licence/Official)

ID Number

Nationality

Applicant's CDS A/C NO (If available)

Gender (circle)

M / F

Applicant Type\* (circle)

Minor / Individual

 \*If the applicant is a Minor, the parent, guardian or sponsor  
should complete no. 3 below

## 2. BODY CORPORATE

Name of Institution/Company

Registration number

Beneficial Owners

Place of Incorporation/Registration

## 3. PARENT/GUARDIAN/SPONSOR/LEGAL REPRESENTATIVE

Full Names

ID Type (Passport/Voters ID/Driving Licence/Official)

ID Number

## 4. CONTACT AND BANK DETAILS

Bank Name

P.O. Box

Physical address

Email

Tel No

Banker Branch

Account No

5. NUMBER OF SHARES applied for

Amount (TZS)

## 6. PAYMENT DETAILS (Tick as appropriate)

☐ Cash☐ Banker's cheque☐ Direct deposit to the Receiving Agent's Account

## 7. RECEIPT OF ALLOTTED SHARES AND ANY FUTURE DIVIDENDS (Tick as appropriate)

a) Please send my DSE CDS Receipt through

☐ My address or☐ My Receiving agent

b) Please send my refunds if any to

☐ My Receiving agent or☐ Credit my account as per bank details under 4.

c) Send my future dividends through

☐ My Address or☐ Credit my account, bank details under 4.

## 7. SIGNATURES OR AUTHORIZED ATTORNEYS'

Signature(S)

Date

Company Seal

## FOR OFFICIAL USE

Full Name

Serial Number

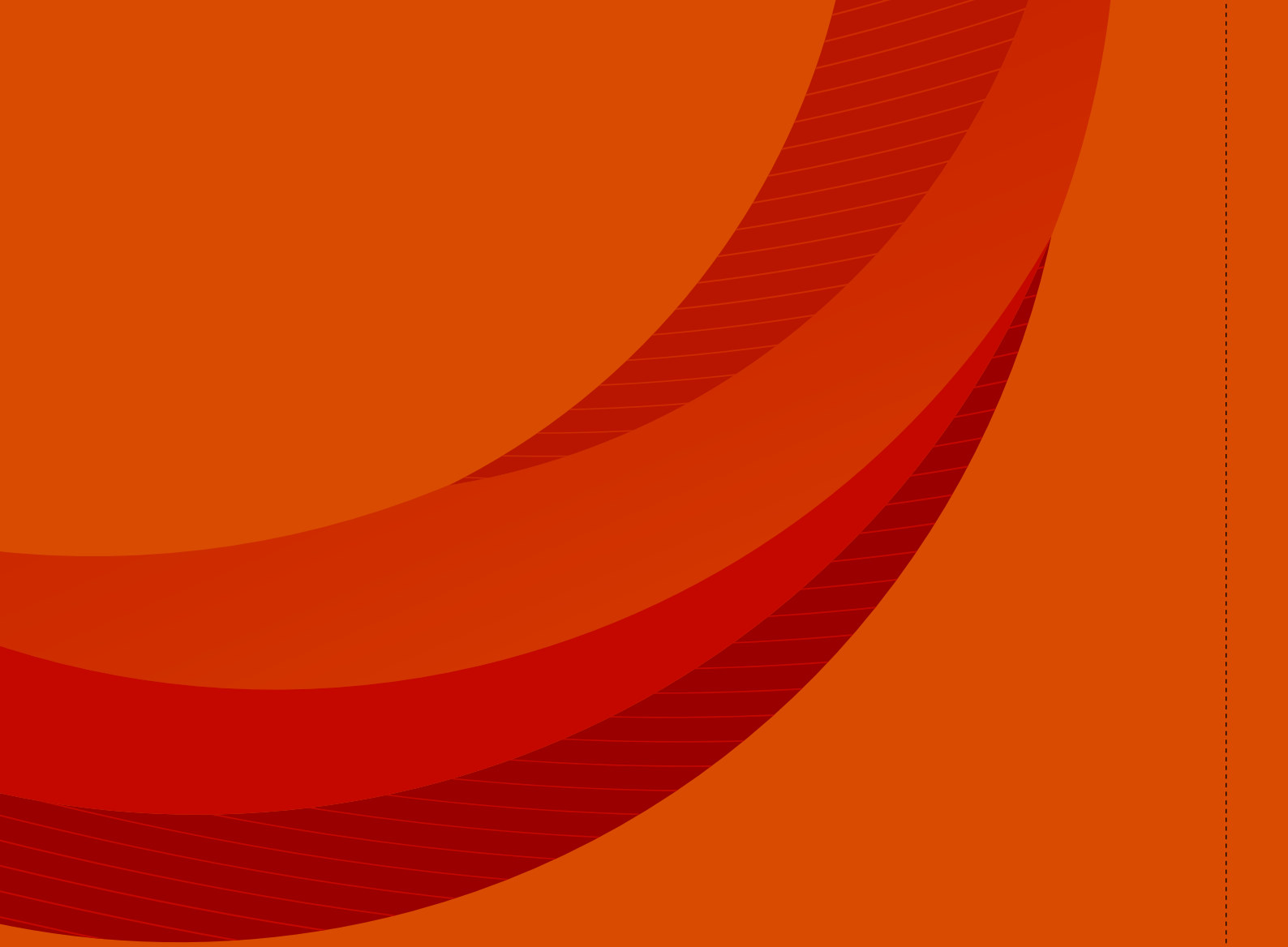
Agent's Code

No. of shares

Applied for Funds Submitted TZS

Agent's Stamp and Signature

 Photograph  
(35mm x 45mm)









2nd Floor Oyster Plaza  
Plot No. 1196 - Oysterbay Haile Selassie Road  
P.O. Box 105266, Dar es Salaam, Tanzania

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