

## Swala Oil & Gas (Tanzania) Limited

Pathfinder research

September 2013



### PRIVATE COMPANY RESEARCH

Sector: Oil & Gas  
 Proposed exchange: Enterprise Growth Market  
 Dar es Salaam (Tanzania)  
 Shares in issue: 35.2m  
 Proposed date of listing: Q4 2013

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**Swala Oil & Gas (Tanzania) Limited (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 and exclusive negotiations are underway for a third. 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. The company is also in advanced discussions to acquire 50% of the Eyasi licence where a successful outcome will expand its acreage position to nearly 25,900 km<sup>2</sup>.
- Swala recently embarked on the first phase of a 500 km 2D seismic acquisition programme focusing initially on Kilosa-Kilombero. This programme will move onto Pangani later this year and is expected to be completed within the next four months. This will satisfy Swala's commitments for the Second Contract Year under the terms of its Production Sharing Contract (PSC).
- In the event that Swala's seismic work identifies structures suitable for future drilling, the company, with the agreement of its partners, may commission a CPR for each licence with initial 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.
- In the near term, Swala intends 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 year work commitments on its licences 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. A significant proportion of this cash is being 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\$40.9m to Swala ahead of its proposed introduction to the Enterprise Growth Market of the Dar es Salaam Stock Exchange in Tanzania.**

# Introduction to Swala

Swala Oil & Gas (Tanzania) Limited (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. The company is also in exclusive negotiations with the Tanzanian Petroleum Development Corporation (TPDC) for the award of 50% interest in a third licence called Eyasi.

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. A significant proportion of this 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 has indicated that it intends to list on the Enterprise Growth Market (EGM) of the Dar es Salaam Stock Exchange within the next month. We believe that Swala is well positioned to conduct this process after completing its first year work commitments on its licences five months 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

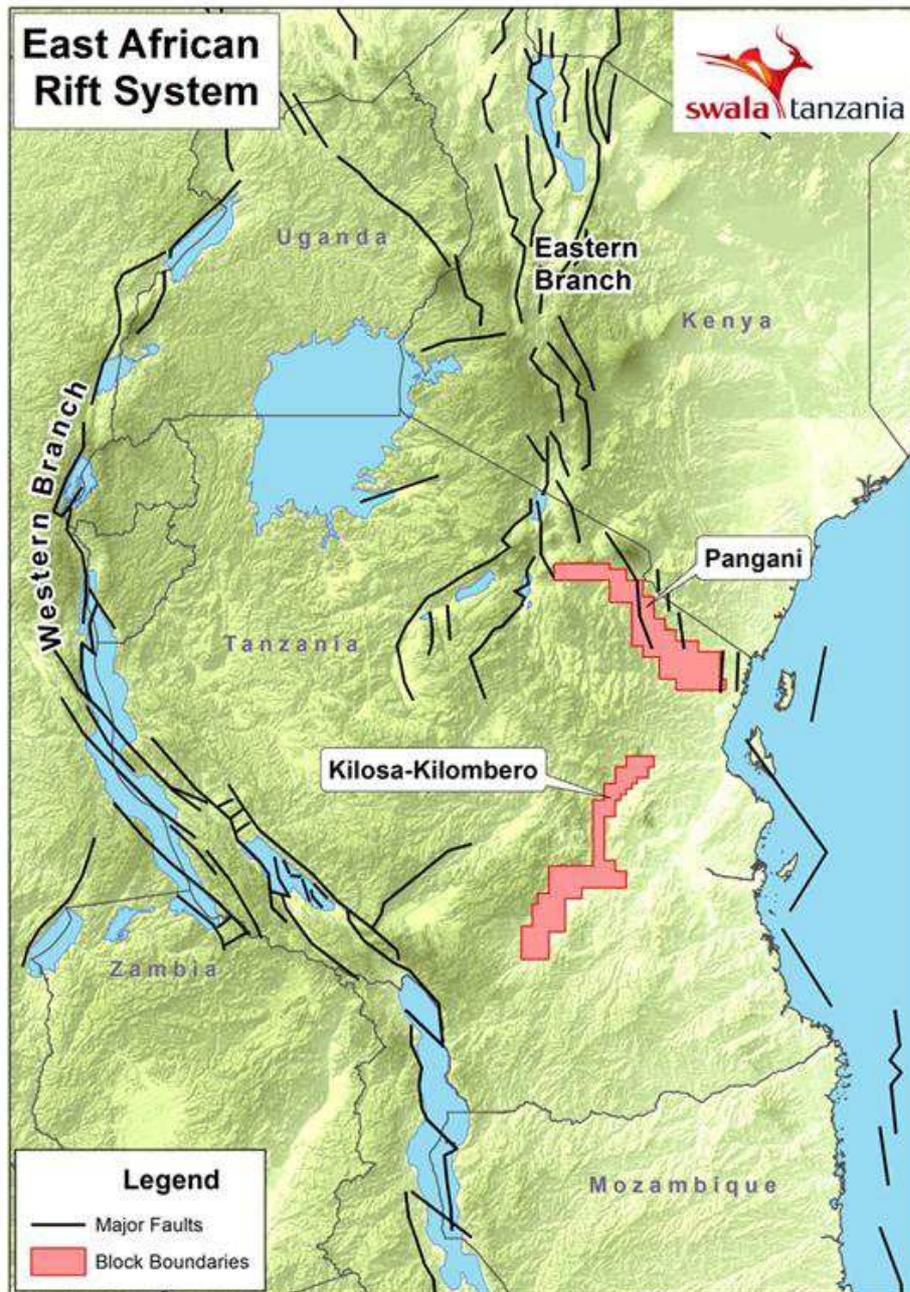
As a private company, Swala has approximately 35.2 million shares in issue. Of this, almost 26.2 million are held by SWE. Although this represents 74.4% of the total share capital of Swala, 3.27 million shares are held in trust by Swala and are not counted as part of the parent company's ownership. The remaining 8.99 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 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.

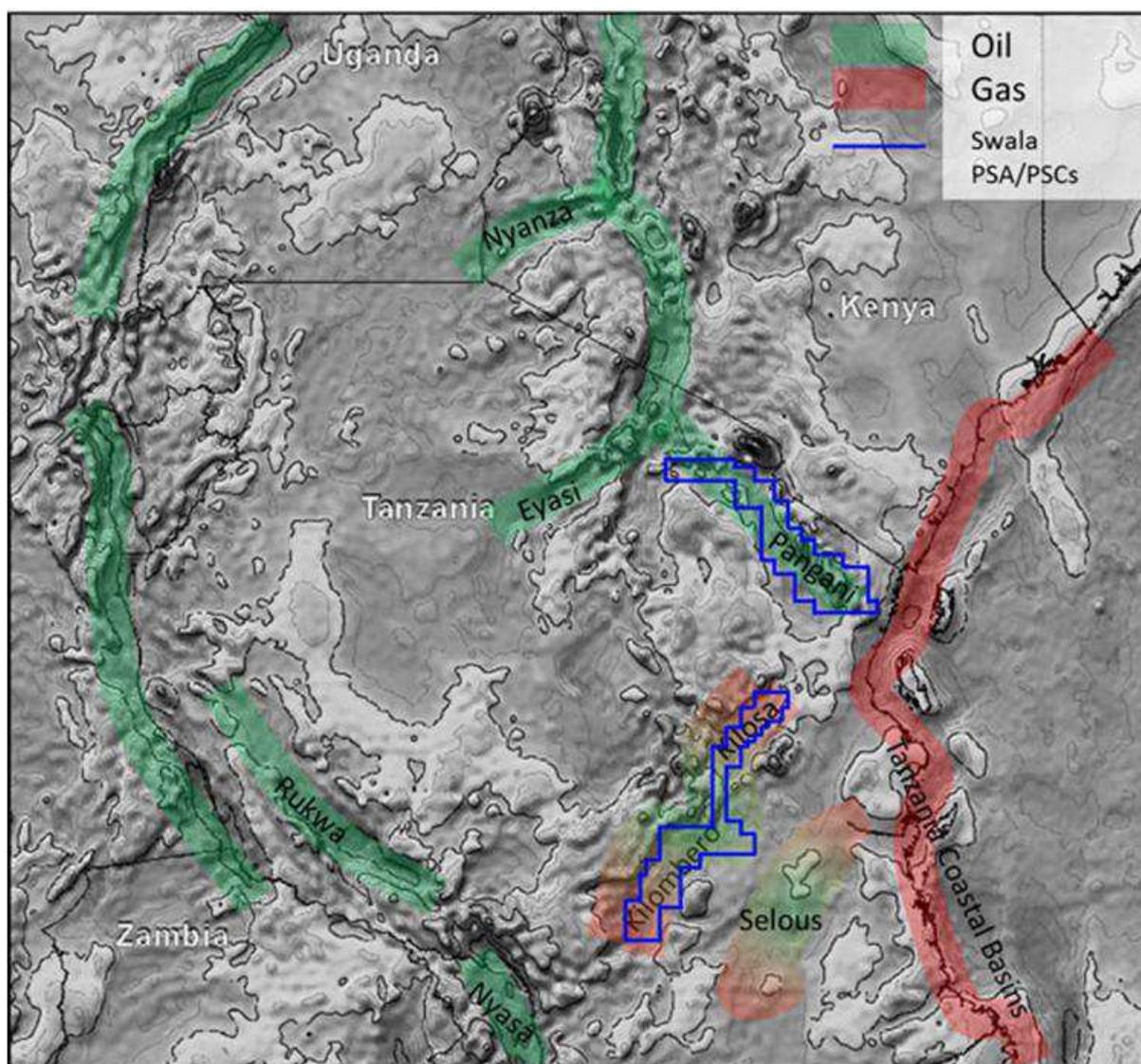
## Focus on Tanzania

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	
Archean	Late Archean Middle Archean Early Archean		3800?
Pre-Archean			

Source: creationwiki.org

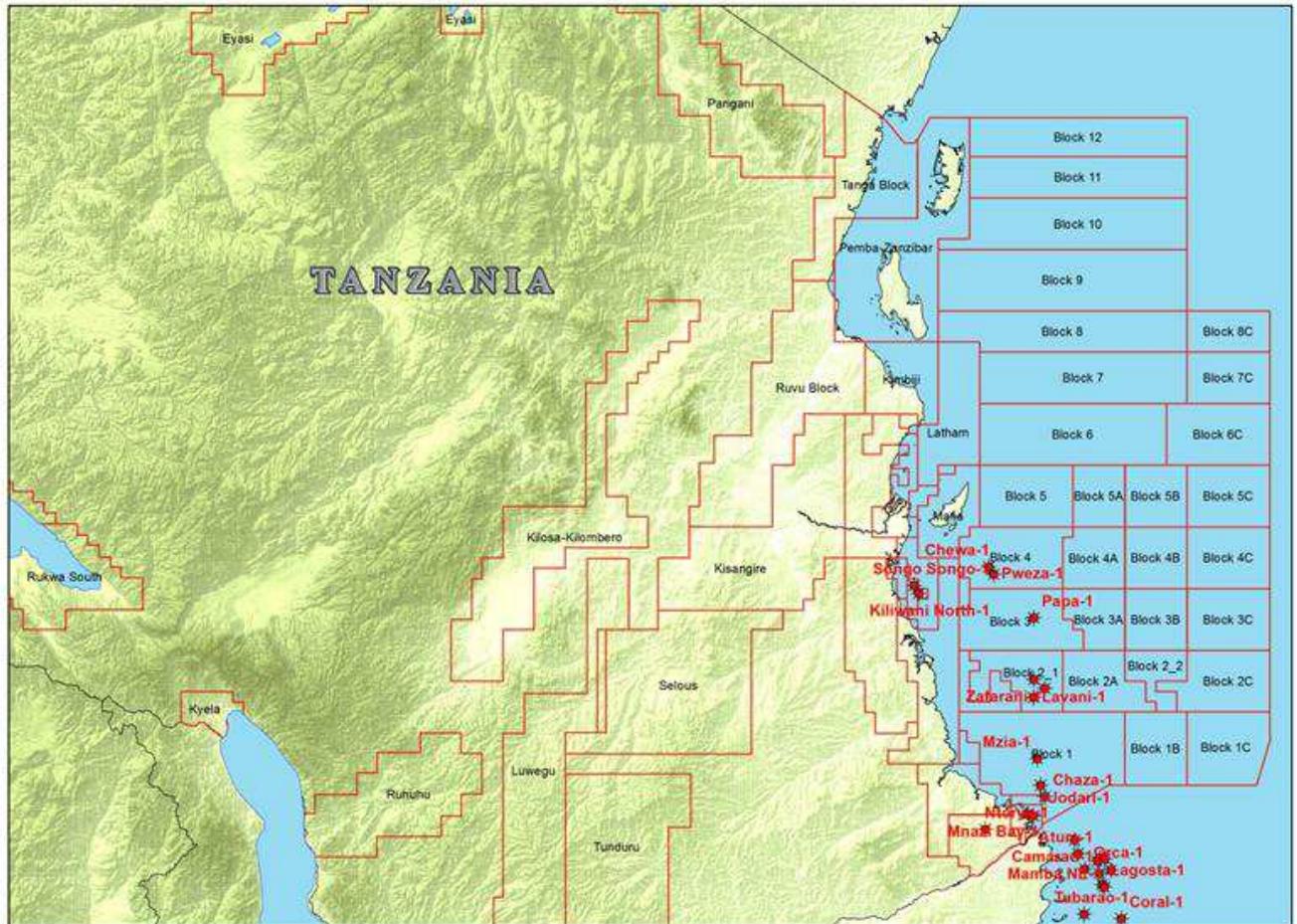
The Permian sediments, known as the Karoo in Interior Rift Basins include very rich and mature gas-prone source rocks and the early wells that were drilling in these areas yielded gas shows and minor oil shows. These hydrocarbon shows have been subsequently complemented by seismic surveys that show the 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

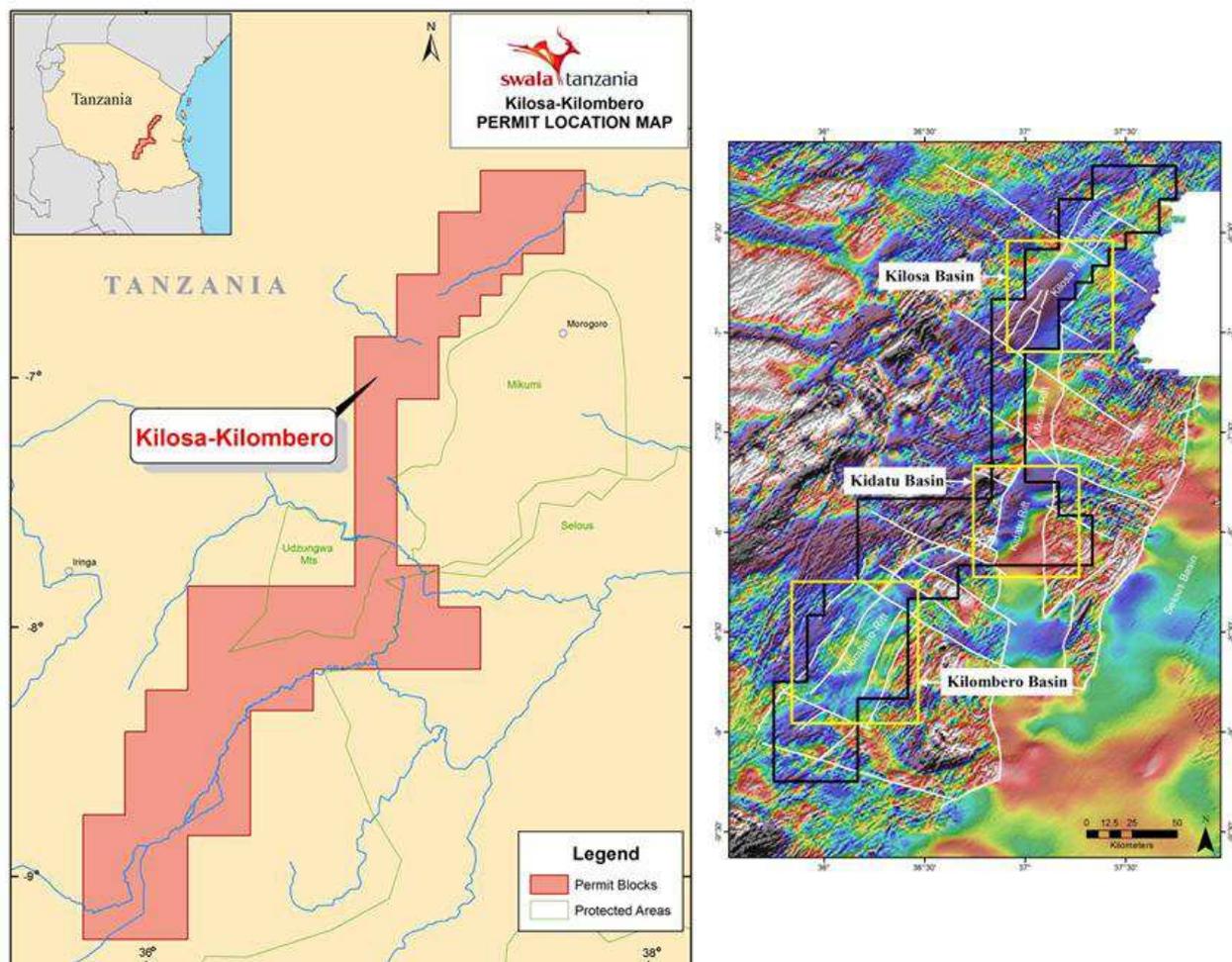
Kilosa-Kilombero (Swala: 50% and operator) is a huge licence covering a gross area of 17,675 km<sup>2</sup> (8,838 km<sup>2</sup> net to Swala). The company's partner in the licence is Otto Energy (Tanzania) Pty Limited; a subsidiary of ASX listed, Otto Energy.

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

This work has enabled Swala to focus its planning of a seismic survey for 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

## Current activity

Swala and Otto Energy are in 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 comprises a 500 km seismic acquisition programme which is currently underway.

Swala commenced a 2D seismic acquisition programme on Kilosa-Kilombero in early August. The company is initially acquiring 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 is being 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 have enabled Swala to focus its seismic activity on these prospective basin areas.

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

### First phase of the programme

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

Basin thickness in Kilosa is estimated to be up to 7,000 km 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.

Upon completion of this phase of the work programme, Polaris will decamp to the Kidatu Basin due south of Kilosa for the second of five seismic programmes planned across the Kilosa-Kilombero and Pangani licences. The whole programme is expected to be completed over the next 3-4 months and will satisfy the Exploration Work Programme commitment for Swala's Second Contract Year under the terms of its PSC.

Swala plans to conduct a total of 300 km out of 500 km of 2D seismic acquisition on Kilosa-Kilombero and we anticipate that its share of the seismic costs will be at least US\$4.5m comprised of a loan from SWE. This loan will either be repaid upon listing on the EGM or SWE may elect to convert part of the loan into equity in order to maintain its current shareholding level.

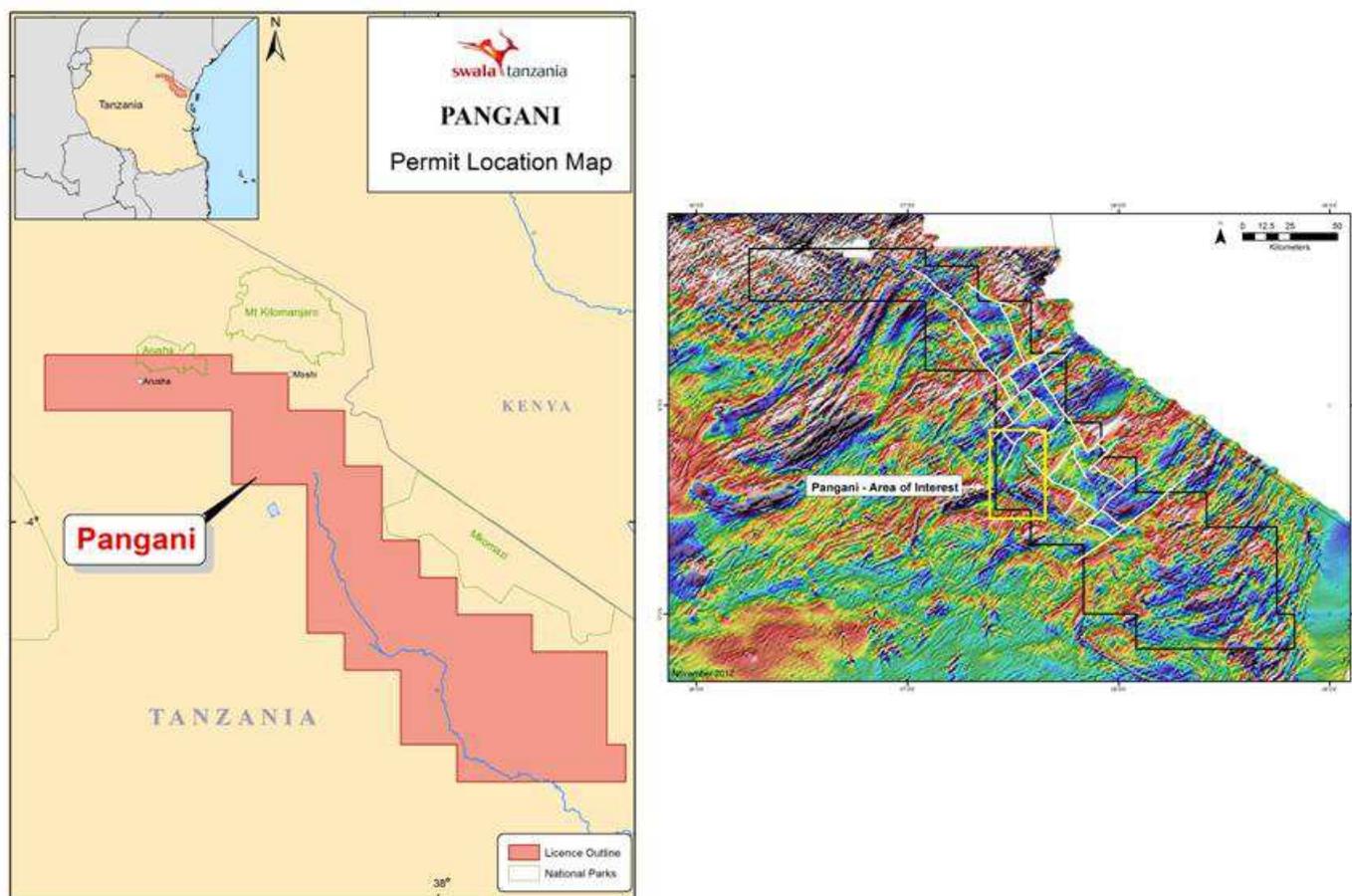
Although this represents very early stage exploration and 300 km of seismic over a licence covering 17,675 km<sup>2</sup> will cover a comparatively modest area, the company has identified significant areas of distressed vegetation from satellite analysis of the basin edges which will provide a focus for the seismic coverage.

# 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 recently 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 has already 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 has identified areas of distressed vegetation which may be indicative of hydrocarbon seeps. It will also help the company to focus a seismic programme for the second year of the work programme on the licence.

## Forward plans

Swala will conduct a 200 km 2D seismic survey as part of the current programme. As with Kilosa-Kilombero, an Environmental Impact Assessment was undertaken in the second quarter of 2013 and seismic operations on the ground are expected to commence when the first phase of seismic on Kilosa-Kilombero is completed. The seismic data will be used to identify structures for future drilling.

We anticipate that Swala's share of the seismic will cost up to US\$4.5m funded by a loan from SWE under the same terms as apply to the Kilosa-Kilombero work programme. Although Swala is at an 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 year 1 of the Initial Exploration Period has 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
	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.

**Profit oil share in Tanzania**

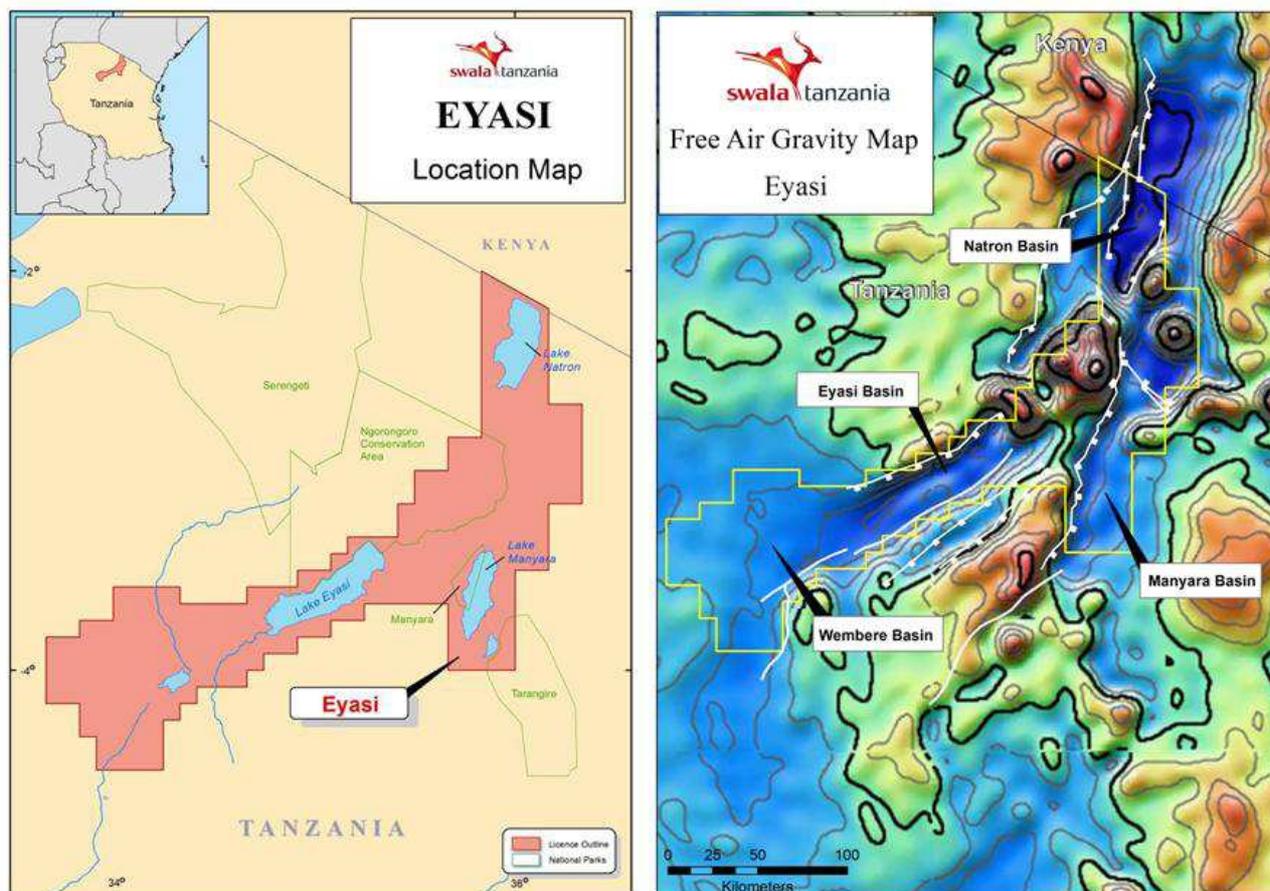
<b>Oil</b>	<b>Daily production rate (bopd)</b>	<b>TPDC's share</b>	<b>Contractors' share</b>
	0 - 12,499	45%	55%
	12,500 - 24,999	55%	45%
	25,000 - 49,999	60%	40%
	50,000 - 99,999	65%	35%
	100,000 and above	70%	30%
<b>Gas</b>	<b>mmcfpd</b>		
	0 - 19.99	60%	40%
	20 - 39.99	65%	35%
	40 - 59.99	70%	30%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

Source: Swala, TPDC

## Eyasi licence

On 14 June 2013, it was announced that Swala was invited to conduct exclusive negotiations with the TPDC for the award of a 50% interest in the Eyasi licence in northern Tanzania. If the interest in the Eyasi licence is awarded, Swala will also become the operator of the licence.

### Location of Eyasi and gravity map depicting basin locations



Source: Swala

### Prospectivity of Eyasi

Swala has reviewed historical gravity and magnetic data and surface geology investigations undertaken by the company suggest that the Eyasi licence area may contain four separate basins with potential sediment thicknesses of between 2,500 and 3,000 metres (outlined on previous map). Each of the four basins; Natron, Eyasi, Wembere and Manyara, has an area of approximately 2,000 km<sup>2</sup> and the potential to provide source materials for hydrocarbon generation.

# Indicative valuation of Swala

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

As with SWE, applying a valuation to Swala in the very early stages of development is highly indicative and also subjective given that there are no reserves or prospective resources defined across the company's asset base. However, corporate activity in the EARS, admittedly the Kenyan and Ethiopian regions, has been buoyant over the last twelve months 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 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 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 Mander 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 acreage and applied a 50% discount to the indicative value of Swala's two signed PSCs. This provides us with an initial asset valuation of US\$33.9m. We are confident that the company will acquire the Eyasi licence in time although we believe a higher discount is necessary at this stage to reflect this uncertainty.

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\$39.1m. This excludes any cash that may be raised at the time of listing on the EGM in Dar es Salaam as this is currently unknown to us.

### Preliminary asset valuation for Swala

Asset	Swala interest %	Net area km <sup>2</sup>	Value US\$000/km <sup>2</sup>	Discount %	Valuation US\$m
Kilosa-Kilombero	50%	8,838	3,894	50%	17.2
Pangani	50%	8,578	3,894	50%	16.7
Eyasi	50%	8,426	3,894	75%	8.2
Corporate overhead					-3.0
<b>Asset valuation</b>					<b>39.1</b>

Source: OPL estimates

## The start of a journey

It should be noted that OPL's preliminary valuation 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 early 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, we wait with interest to see the result of Taipan Resources proposed farm out of a 50% interest in Block 2B in Kenya and also Aminex's and Solo Oil's proposed farm-out of the Ruvuma Basin PSA which is located predominantly onshore Tanzania.

## 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.

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