

Stakeholder Report Second Quarter of 2013

As discussed in last quarter's update, our strategy has matured considerably and the group has now evolved into two distinct operations: (i) The Vavaki Group, which will continue with private-equity style investments (where we support existing management teams and companies) and (ii) Mukana Global, which will establish and grow entrepreneurial companies from the ground-up.

This fits the environment that we see around us and suits the diversity of the team. We are now well positioned to take advantage of whatever opportunity presents itself, regardless of the form it may take.

The second quarter of 2013 was even busier than the first. A large portion of our time was (and continues to be) devoted to setting up multiple operating companies and financing vehicles. At the same time, the number of investment

opportunities coming through the door has not abated. We have considered a number of "large" projects, some of which remain in the pipeline.

Despite positive signs earlier this year, we have noticed that the political tone across a number of countries in the region has taken an ever so slightly more negative turn. This is not helped by renewed concerns over the global economy and market volatility, which may have an impact on commodity-dependent economies. We remain optimistic, however, and will continue to plan for the long-term. With certain projects that are about to start, we are well positioned to generate returns from a stressed macro environment.

Please accept this quarterly report as a summary of our recent activities and upcoming work. As always, we welcome your feedback and expressions of interest.

The Vavaki Group: Existing Projects

- *Consumer Goods Financing Facility
Harare, Zimbabwe*

Investment Return: TBD

The region's liquidity shortage provides a big opportunity to provide working capital or trade finance. We are targeting returns of 40%+ per year, and by purchasing credit insurance on our transactions, we're able to mitigate most of our risk. We have established a trading entity and hope to commence operations this month.

- *Equipment Leasing
Harare, Zimbabwe*

Investment Return: TBD

The problem of liquidity and capital is widely documented across Southern Africa, particularly where it concerns capital-intensive activities undertaken by small firms. Too many local businesses possess the expertise but lack the financing to execute their plans. In late 2011 - early 2012, Vavaki structured a debt and equity transaction with a partner firm. We purchased capital equipment upfront, entered into a 12 month Hire-Purchase facility, and took an equity stake in the company. Business began in early 2012. However, following a thorough review of the operation, extensive deliberations with our partners, and plenty of patience, Vavaki wound-down its investment. Vavaki has since restructured its activities in this space and has redeployed the equipment elsewhere, where it is rented out to small-scale entrepreneurs.

- *Cable Fin (Pvt) Ltd
Harare, Zimbabwe*

Investment Return: 36% IRR

Cable Fin is a financial services firm that provides micro-loans to working people whose financial needs are not served by traditional banks. Recognizing the need for financial services and short-term credit among Zimbabwe's large unbanked population, Vavaki provided a 12 month amortising term loan to Cable Fin, which allowed the company to continue its rapid expansion and plan for the future. Vavaki is currently working with Cable Fin on a next round of investment.

The Vavaki Group: What is Next?

We expect to work on the following items this quarter. Some of these opportunities may result in investment opportunities.

- Short-term trade finance for a leading Zimbabwean consumer goods company. Financing operations to begin imminently.
- Continuing due diligence on a high-potential, high-growth insurance company in Zimbabwe.
- Continuing negotiation of a second round investment in Cable Fin (Pvt) Ltd, building upon our existing relationship.
- Improvements in our existing equipment leasing operations and related small-scale mining partners.
- Discussions with local firms in the invoice discounting (or “factoring” space), an emerging financial product for the region.

Mukana Global: Existing Projects

- *Mukana Green* *Investment Status: Coming Soon*
Mozambique, Zimbabwe & Regional
Mukana Green will be a diversified regional agriculture and trading platform. It will be dedicated to building sustainable, long-term operations in strategic locations across Southern Africa. Mukana Green will invest in traditional agricultural communities, politically-sensitive commercial farming, and regional trading transactions. To date, no one has successfully cracked the formula to release the potential of African agriculture. If our work succeeds, it will be ground-breaking.
- *Mukana Growth Pty Ltd* *Investment Status: Operations to commence in September 2013*
Johannesburg & Cape Town, South Africa
Mukana Growth is a multi-product financing and trading platform in South Africa. We are dedicated to empowering SMEs, resolving trade dislocations, and funding long-term growth in valuable markets. Mukana Growth operates in niche environments, with partners that cannot obtain capital through traditional channels (such as SME, BEE, and women-owned firms in South Africa). In this way, we help to fund enterprises, expand employment, and release the potential of local entrepreneurs.
- *Mukana Imobiliaria, Limitada* *Investment Status: Operations to commence in September 2013*
Maputo, Mozambique
Mukana Imobiliaria is a diversified real estate and construction business operating in Mozambique. By all accounts, Mozambique’s recent macro-economic growth has been formidable. With one of the largest hydrocarbon finds of the last decade, this is unlikely to change any time soon. It will take time but history has shown that the biggest beneficiaries of extractive-industry investment are the land owners. Along with this comes a massive need for construction, real estate development, and brokerage. Our business is a direct corollary to the country’s oil and gas play. If we can add to that by doing things in the right way and by building the right team, we will be able to contribute to Mozambique’s success.

Mukana Global: What is Next?

We expect to work on the following items this quarter. Some of these opportunities may result in investment opportunities.

- Operations at Mukana Growth Pty Ltd to begin in Q3 2013.
- Operations at Mukana Imobiliaria, Limitada to begin in Q3 2013.
- Mukana Imobiliaria, Limitada to establish and fund its construction subsidiary – Mukana Construcoes, Limitada – in Q3 2013.
- Mukana Green legal, administrative, and operational structure to be established in 2013. Initial areas of focus will include a small-scale agriculture project in rural Manica Province, Mozambique and regional trading transactions.
- Potential exploratory trips to Namibia and Malawi in 2013.
- Management and team structure to be rationalized and relocated across the region by the end of 2013.

What Has Worked?

- Spend time where no one else is spending time: you never know where your next great investment or partner will come from. It also pays tremendous social dividends if communities see that you are investing in them.
- Go out of your way to enforce standards: Be clear about expectations before commencing operations. Develop a “3-strikes and you are out” policy. You will be surprised by how many people thank you for it.

- There is an amazing appetite for new solutions: whether dealing with small-scale African farmers or commercial entrepreneurs, there is a formidable reception for new ideas. Economic actors are generally tired of traditional counterparties, such as banks or charities.
 - Stick with it: your local partners – rightly so – may express frustration at the slow pace of foreign direct investment approvals. Warn them upfront. Execute your investments the right way. Reassure your partners
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What Lessons Have We Learned?

- **Supervision is key:** even the most trusted employees need to be supervised consistently. Sometimes this means that positive feedback is needed. Other times, you simply need to maintain standards.
- **Prepare to be surprised:** we have been positively surprised when we feared the worst and disappointed when we were relaxed. Africa keeps you on your toes.
- **Choose your legal advisors carefully:** as a rule of thumb, reliable legal advice in this part of the world is lacking. In too many instances, you will be disappointed by the services offered by large, reputable firms. At the same time, using smaller, less experienced lawyers may not be an adequate solution. Pick your battles carefully.
- **There are only 365 days in the year:** you cannot explore every country on the continent in too short of a timeframe.