

Stakeholder Report Fourth Quarter of 2013

Current operations and exploratory work continue unabated.

The Vavaki Group is seeing impressive results and steady growth in its short-term finance business. Since starting operations at Warrian Enterprises in September, we have financed 18 short-term transactions and realised returns on 13. We are on pace to exceed our goal of 40% annual returns on invested capital in the first year of operations, but we are not relaxing.

At Mukana Global, the business model continues to be refined and opportunities continue to crystallise. The pace of work and new discussions has not diminished, despite our attempts to rationalise the workload. Real estate in Mozambique continues to grow. We continue with substantial business exploration in the trading and agri-business sectors across the

region. Having completed four intensive months of grassroots research in the SME financing space in South Africa, we are getting closer to being able to refine and focus the model in the context of a very challenging market environment.

We would also like to take a moment to remember one of the world's greatest leaders and to pledge support for the ideals and vision that he promoted. We stand with all South Africans in remembering Nelson Mandela. Our work in the region may not be possible today if it had not been for his tolerance, bravery, and humility. His name is an inspiration.

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

- *Warrian Enterprises Pvt Ltd*
Harare, Zimbabwe

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 some of our transactions, we are able to mitigate risk. Since September 2013, we have financed 18 transactions and realised returns on 13.

Investment Return: TBD

- *Equipment Leasing*
Harare, Zimbabwe

The problem of liquidity and capital is widely documented across Southern Africa, particularly where it concerns capital-intensive activities undertaken by small firms. Vavaki has restructured its first small-scale equipment leasing activities and is now renting out the assets to entrepreneurs.

Investment Return: TBD

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

Cable Fin is a financial services firm that provides micro-loans to working people whose financial needs are not served by traditional banks. Vavaki provided a 12 month amortising term loan to Cable Fin, which was repaid in 9 months and yielded an IRR of 36%.

Investment Return: 36% IRR

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.

- Continue to grow financing relationships with existing partners and seek new partners.
- Raise capital to facilitate growth.
- Improvements in our existing equipment leasing operations and related small-scale mining partners.

Mukana Global: Existing Projects

- *Mukana Green AG* *Investment Status: Trading*
Switzerland & Southern Africa Regional *balance sheet funded, operations underway.*
Mukana Green is a diversified regional agriculture and trading platform. It is dedicated to building sustainable, long-term operations in strategic locations across Southern Africa. Mukana Green will invest in traditional agricultural communities, politically-sensitive agri-business, 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: Fully funded,*
Johannesburg & Cape Town, South Africa *operations underway.*
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: Share capital is*
Maputo, Mozambique *funded, shareholder loan approved, operations underway.*
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.

- Mukana Imobiliaria to establish and fund its construction subsidiary – Mukana Construcoes, Limitada.
- Continue due diligence on opportunities in Botswana.
- Mukana Green regional operations to be put to the test in the next two quarters: is it sustainable?
- Mukana Growth strategy to be rationalized and refined.
- Potential exploratory trips to Namibia and Malawi in 2014.

What Has Worked?

- Be persistent, not patient. Things can take a long time in Africa, and they can take forever if you don't push them.
- Go out of your way to complete your own due diligence: You cannot rely on hearsay. Do your empirical research yourself, on the ground.
- 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.
- Keep your amicable relationships strong: the continent is blessed with some of the warmest, most generous, most friendly individuals on the planet. Let those friendships blossom.
- 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.

What Lessons Have We Learned?

- **Exogenous market factors are real:** Education levels, global awareness, infrastructure, political stability are all legitimate concerns. They impede growth at a macro-economic level and make your life harder on a micro-level. We have to deal with each of these issues on a direct, personal level.
- **Timeframes:** We have heard from some of the best funded, most sophisticated investors on the planet. We have observed and interacted with large groups operating in the region. 5-7 year horizons can easily turn into 10-20 years.
- **Is a 3-strikes policy too generous?** We stick to strict standards, enforcing a “3-strikes-and-you-are-out” policy, for example. Is that 1 or 2 strikes too many, however?
- **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.

- You will not anticipate everything that will go wrong: as much as you plan to avoid potential pitfalls, you will never identify them all. Things will go wrong and “risk management” in this part of the world means something radically different than in developed markets.
- Strike a careful balance between diversifying your assets and spreading yourself too thin: On the one hand, you cannot sink all of your time on one project/one revenue stream (it is too risky and you will agonize while you wait for approvals). On the other hand, you do not want to spread yourself across too many projects and risk losing track. This is basic “Business 101” in developed markets but far more complicated in Africa.