

Stakeholder Report Third Quarter of 2013

Operations on the ground are now proceeding at full pace. We have management capabilities across three countries, several financing transactions underway, and multiple registered entities.

On The Vavaki Group side, after months of delays, we are finally seeing meaningful progress. In the last two months, we have funded three separate transactions: trade finance for a leading consumer goods corporate, working capital brokered by an invoice discounting firm, and a cross-border commodity transaction. We expect repayment on all three within the next months.

At Mukana Global, all three operating companies are now operational. SME and trade finance in South Africa. Real estate in Mozambique. Diversified food, trading, and agriculture across

the region. Local management is in place, control systems are being developed, and we are evaluating new investment opportunities.

Day to day life can best be described as an emotional rollercoaster. Everything is harder than it seems and things work as expected only occasionally. That being said, when all seems hopeless and dysfunction strains our patience, we gently smile and remind ourselves: it could be worse, we could be in Washington, DC.

...all of a sudden, “political risk” takes on a new meaning.

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 our transactions, we’re able to mitigate most of our risk. We have established a trading entity and have funded 3 separate short-term transactions: (i) trade finance for a leading consumer goods company, (ii) invoice discounting brokered by an invoice discounting exchange, (iii) a cross-border commodity trade.

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.

- Returns on the first 3 short-term finance transactions expected in the next few weeks.
- Incremental transactions and invoice discounting expected with various counterparties.
- 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.

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 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: 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 coming soon, 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.

- Potential establishment of Mukana Green operations in Botswana and Zambia.
- Mukana Imobiliaria to establish and fund its construction subsidiary – Mukana Construcoes, Limitada.
- Mukana Green regional trading transactions to begin.
- Mukana Growth strategy to be rationalized and refined.
- Potential exploratory trips to Namibia and Malawi in 2014.

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.

What Lessons Have We Learned?

- Even good news is not necessarily good news: On countless occasions, we have been told that “approval will come tomorrow” or even that “it is approved.” Do not be fooled. Until you have the signed paper in your hand or money in your account, do not assume success. The lack of organization and levels of confusion within bureaucracies (both private sector and governmental) is astounding at times.
- 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.
- 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.