

# PRESS RELEASE

(DSE:SWALA)

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## UPDATE ON OPERATIONS AND DISCUSSIONS WITH ORCA

### Summary

- Positive results from the Songo Songo field production announced by Orca in its third quarter report;
- Swala has made significant advances in addressing the earlier announced concerns of Orca's board with respect to a potential transaction and its financing structure;
- Regulatory and tax issues addressed, resolution of IFC approval requires Orca engagement;
- Swala remains confident that its interests are completely aligned with those of the Orca shareholders.

### Operational results

Swala Oil & Gas (Tanzania) Plc ("Swala" or "the Company") notes the positive results from the Songo Songo field announced by Orca Exploration Group Inc ("Orca") in its third quarter report. The funds from operations have been retained to meet the PanAfrican Energy Tanzanian Limited ("PAET") capital investment programme, IFC Loan payment, TPDC Profit Gas share and Additional Profit Tax obligations. Despite the uncertainty in amount and timing of future expenditures, it is anticipated based on current forecasts that PAET's obligations over the next 12 months can be met from the reinvestment of current working capital and the forecast cash flows without the requirement for Swala's additional support through its holdings in PAE PanAfrican Energy Corporation, PAET's holding company.

### Status of discussions with Orca and its advisors

In July 2019, Orca announced that it had created a special committee of independent directors (the "**Special Committee**") to review strategic alternatives available to maximize value to the Orca shareholders and the board indicated at that time that the Special Committee expected to engage with Swala regarding its ongoing interest in acquiring Orca. Orca noted that for a transaction with Swala to receive the support of its board, Swala required certain matters to be addressed as part of any offer they were to make, which included (i) being satisfied that there was certainty that a possible transaction would close and that the requisite financing was in place; (ii) all relevant tax considerations and regulatory requirements of the competent authorities in Tanzania were addressed; and (iii) ensuring compliance with the terms and conditions of Orca's financing arrangements with IFC (the "**IFC Loan**") and the exercise of its rights under such arrangements.

On 6<sup>th</sup> September 2019, Orca announced that it had retained RBC Capital Markets ("**RBC**") as financial advisors to review strategic alternatives and assist the Special Committee with this process. Swala and RBC (on behalf of Orca) have yet to agree to a process for formal discussions with respect to a potential transaction.

The following is a summary of how Swala has addressed the key deal issues with RBC to date:

- **Financing and closing certainty** – since Swala's announcement on 3<sup>rd</sup> June 2019 disclosing that it had presented Orca with evidence of a 59-page completed commercial term sheet for a US\$75 million financing to complete the proposed transaction, Swala has continued to remove many of the conditions allowing the Company to move to definitive agreements within weeks following formal negotiations and discussions with Orca. To assist RBC in its review, Swala facilitated meetings between RBC and principals of its financiers and agents in respect of the financing.

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- **Tax and regulatory requirements** - Swala has reviewed matters, consulted with authorities and advisors in Tanzania and has presented to RBC its views on regulatory and potential taxation issues. Other than standard shareholder, Canadian regulatory and stock exchange approval and BVI statutory and regulatory approval, (all of which are customary for a transaction of this nature) the only regulatory approval required to effect the transaction is the approval of the Fair Competition Commission in Tanzania (“FCC”) whose role is to control mergers and acquisitions that have the effects of appreciably preventing, restraining and distorting competition in the country (for which the proposed transaction with Orca clearly does not). Swala has had several positive meetings with the Government, a cornerstone policy of which is the increased local participation in the oil and gas sector.
- **Compliance with IFC** -- the proposed transaction triggers certain liquidity rights of IFC and requires their consent to any change of control of Orca. Swala is also pursuing discussions with other parties for alternative financing in the event the IFC demands full or partial repayment as a condition of allowing the transaction to proceed. There are a number of possible outcomes with IFC, none of which can be fully determined without Orca facilitating IFC’s engagement.

The Company sees no further obstacles to progressing the proposed transaction, which could be accelerated by the early engagement with IFC. Swala remains concerned regarding the potential transaction’s exposure to capital markets risks given the protracted delay in engagement by Orca. Because of these concerns, discussions with RBC have progressed alongside Swala’s continued discussions with a number of major shareholders of Orca estimated to own in aggregate over 50% of the outstanding Class B Subordinated Voting Shares. Based on this dialogue, Swala is confident that its interests are completely aligned with those of the Orca shareholders and Swala continues to believe that the proposed transaction provides the most value for shareholders of both Orca and Swala, along with the people of Tanzania.

**This announcement is made under Rule 15 of the Substantial Acquisitions, Take-Overs and Mergers Regulations 2006 (“the Regulations”). It is not an announcement of a firm intention to make an offer under the Regulations or otherwise. There can be no certainty that any offer will be made, nor as to the terms on which an offer may be made. Readers are cautioned that Swala may determine not to proceed with the Possible Offer. This could occur if, among other reasons, Swala identifies material adverse information concerning the business, affairs, prospects or assets of Orca not previously disclosed by Orca or if Orca implements or attempts to implement defensive tactics in relation to the Proposal.**

### Forward-Looking Statements

This news release includes “forward-looking statements” and “forward looking information” (collectively “forward looking statements”) within the meaning of applicable securities laws, including in respect of the commencement of the proposed transaction, the terms thereof and the successful completion of the transaction contemplated thereby. These statements are based on management’s current expectations, beliefs, assumptions and estimates and are not guarantees of timing, future results or performance. Forward-looking statements involve certain risks and uncertainties and other factors that could cause actual results to differ materially from those indicated in such forward-looking statements and accordingly, readers are cautioned not to place undue reliance on any of the forward-looking statements. These risks and uncertainties include but are not limited to, the ability to enter into definitive agreements in respect of the transaction on terms acceptable to Swala and in a timely manner, the ability to obtain all requisite regulatory and shareholder approvals and consents at all or in a timely manner, and the completion by Swala of the financing with the investor at all or in a timely manner and in a sufficient amount necessary to fund the Proposed Transaction.

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## **About Swala:**

Swala is the first Oil and Gas company listed on an East African Stock Exchange with a significant local ownership. Swala holds assets in the world-class East African Rift System with a total net land package in excess of 14,000 km<sup>2</sup> as well as a 7.93% interest in PAE PanAfrican Energy Corporation. New discoveries have been announced by industry participants in a number of licences along this trend that extend the multi-billion-barrel Albert Graben play so successfully developed by Tullow Oil into the eastern arm of the rift. Swala has an active operational and business development programme to continue to grow its presence in the hydrocarbon provinces of East Africa and globally.