

The Directors  
 Shumba Energy Limited  
 Mauritius International Trust Company Limited  
 4th Floor, Ebene Skies  
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 Ebene 80817  
 Republic of Mauritius

11<sup>th</sup> November 2021

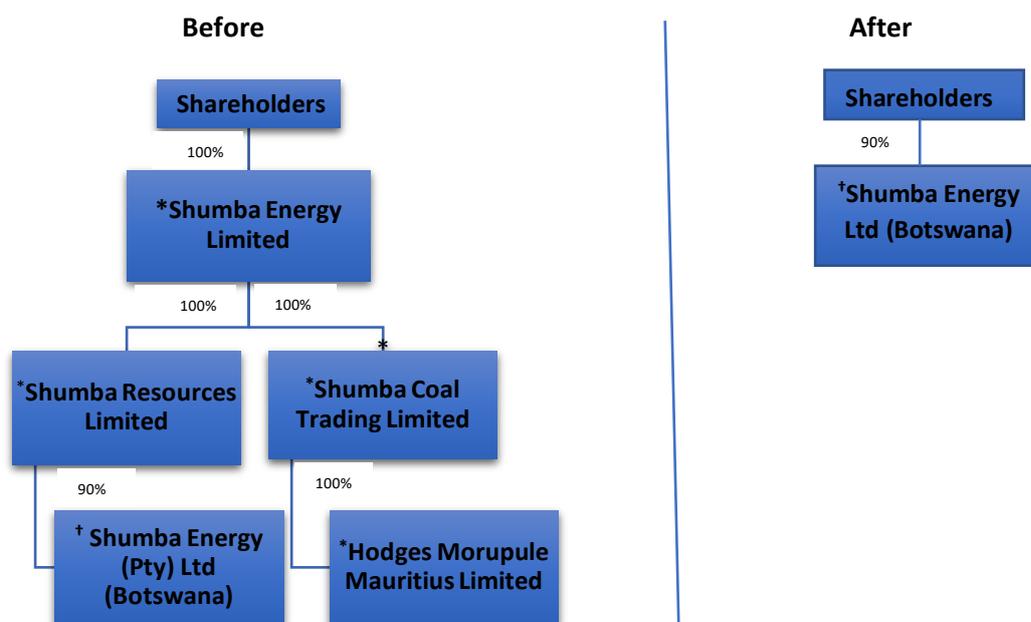
Dear Directors,

## INDEPENDENT EXPERT’S OPINION

### 1. Introduction

Shumba Energy Limited (“**Shumba Energy (Mauritius)**”) is a company incorporated in Mauritius. Shumba Energy (Mauritius) shares are listed on the Foreign Main Board of the Botswana Stock Exchange (**BSE**). Shumba Energy (Mauritius) has a number of subsidiaries including Shumba Energy (Pty) Ltd (“**Shumba Energy (Botswana)**”), which is domiciled in Botswana and was formerly known as Sechaba Natural Resources (Pty) Ltd. We will refer to Shumba Energy (Mauritius) and its subsidiaries as (**Shumba Group**).

#### Shumba Group Organisation Chart Before and After the Corporate Reorganisation



\*Incorporated in Mauritius

† Intersperce (Pty) Ltd holds 10% of shares outstanding

Shumba Energy (Mauritius) has engaged Serala Capital (Pty) Ltd (“Serala Capital”, “us”, “we”) to prepare a report on whether, in our opinion, the prospective re-domiciliation and reorganisation described below is fair and reasonable to the shareholders of Shumba Energy (Mauritius) (**this Opinion**).

It is our understanding that approval is to be sought from Shumba Energy (Mauritius) shareholders for a re-domiciliation and reorganisation transaction, which in the main involves the following components (“**Corporate Reorganisation**”).

- a. Shumba Resources Limited (Shumba Resources) will cede (transfer) to Shumba Energy (Mauritius) Shumba Resource’s rights in intercompany loans advanced to Shumba Energy (Botswana)
- b. The intercompany loans advanced to Shumba Energy (Botswana) (the **Shareholder Loans**) would then be structured to have a default conversion to equity.
- c. Shumba Energy (Mauritius) would in turn transfer its rights in the Shareholder Loans to Shumba Energy (Mauritius) shareholders in proportion to their respective shareholding. For example a shareholder owning 10% of the equity in Shumba Energy (Mauritius) would receive 10% of the debt. The Shareholder loans would then become due and payable to the shareholders of Shumba Energy (Mauritius).
- d. Shumba Energy (Mauritius) shareholders would consequently convert the Shareholder Loans into equity and Shumba Energy (Botswana) will issue shares (the **Loan Conversion**). The Loan Conversion would comprise the following salient points.
  - The minority shareholder in Shumba Energy (Botswana), Intersperce (Pty) Ltd, (“the Botswana Partner”) would receive shares for no consideration.
  - The shareholding for the Botswana Partner would remain the same at 10% before and after the Corporate Reorganisation.
  - Shumba Resource’s shareholding in Shumba Energy (Botswana) would be immensely diluted. The shareholders of Shumba Energy (Mauritius), combined, would essentially own nearly all (99.999%) of Shumba Group’s 90% shareholding in Shumba Energy (Botswana).
  - The remaining tiny shareholding that Shumba Resources would have in Shumba Energy (Botswana) would be re-purchased/cancelled in due course.
- e. Shumba Energy (Mauritius) would transfer all remaining assets and liabilities to Shumba Energy (Botswana).
- f. Shumba Energy (Mauritius) would delist on the BSE Foreign Main Board subject to obtaining necessary approvals.
- g. Shumba Energy (Botswana) would then seek admission of its shares to be listed on the BSE Domestic Main Board.
- h. The Shumba Group entities domiciled in Mauritius would be wound up.

## 2. Approach

Shumba Energy (Mauritius) shareholders would retain their existing underlying stake in Shumba Group upon completion of the Corporate Reorganisation. This would mean the underlying economic interests of Shumba Mauritius (Energy) shareholders would largely remain the same immediately after the Corporate Reorganisation, save for the Loan Conversion, which we consider

in section 4.2 of this Opinion. Therefore, conducting a valuation of Shumba Energy (Mauritius) shares may be of secondary importance and does not form part our engagement or this Opinion.

We have formed this Opinion by evaluating whether the potential advantages of the Corporate Reorganisation outweigh the disadvantages, and by considering other factors outlined in section 4.3 of this Opinion. The matters that we took into account include:

- the impact on Shumba Group's prospects of raising capital;
- alignment of the place of incorporation of Shumba Group's parent company with the location of assets, principal operations and shareholder base;
- possible sentiments of investors on the change of jurisdiction;
- costs and expenses that would arise from the Corporate Reorganisation;
- estimated cost savings;
- the impact of the Loan Conversion on the underlying interests of Shumba Energy (Mauritius) shareholders;
- the consequences if the Corporate Reorganisation is not implemented.

Our assessment and opinion are based on the Corporate Reorganisation as a whole. We have not evaluated whether each component outlined in section 1(a)-(h) of this Opinion, taken individually, is fair and reasonable to shareholders. Our conclusion is based on whether, the Corporate Reorganisation is, on balance, fair and reasonable to the Shumba Energy (Mauritius) shareholders as a whole.

We have only assessed the Corporate Reorganisation detailed in an advanced copy of the circular that is to be distributed to the Shumba Energy (Mauritius) shareholders (**the Circular**), summarised in section 1(a)-(h) of this Opinion. We have not assessed the Corporate Reorganisation by comparing it with alternative ways that Shumba Group can achieve a re-domiciliation and attain a listing on the BSE Domestic Main Board. For example we have not compared the Corporate Reorganisation with a re-domiciliation and reorganisation that does not involve the Loan Conversion even if such a scenario were possible.

We have mentioned other relevant matters, such as tax and legal implications in section 4.3.

### 3. Summary of Opinion

We believe that the Corporate Reorganisation is fair and reasonable and in the interests of Shumba Group and its shareholders as a whole.

We believe that, on balance, the advantages of the Corporate Reorganisation outweigh the disadvantages.

Our conclusion that the Corporate Reorganisation is in the best interests of Shumba Energy Ltd (Mauritius) shareholders should be understood in context our approach, assumptions, scope and reliance on information, discussed further below.

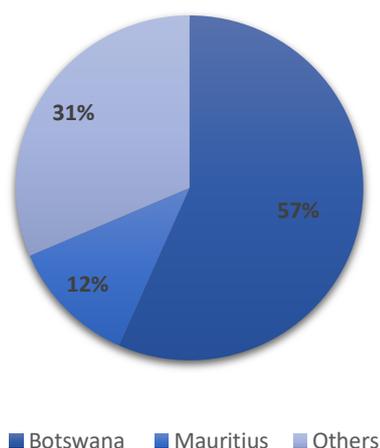
## 4. Evaluation of the Corporate Reorganisation

### 4.1. Advantages

#### *A listing on the Domestic Main Board of the BSE may improve the ability of Shumba Group to raise capital*

Shumba Energy (Mauritius) shares are listed on the BSE Foreign Main Board. Whilst Shumba Energy (Mauritius) is incorporated in Mauritius, as at the date of the most current share register availed to us (October 2020), the majority of Shumba Energy (Mauritius) shareholders were resident in Botswana. 12% of Shumba Energy (Mauritius) shareholders resided in Mauritius, whilst 57% were domiciled in Botswana.

#### Proportion of Outsanding shares by Country of Residence (October 2020)



Source: Shumba Energy, Serala Capital

At present, institutional investors in Botswana may not have appetite to invest in Shumba Energy (Mauritius) because the Company is not included in institutional investors' Botswana equity benchmarks. Benchmarks are tools that investors use to evaluate how fund managers have performed relative to relevant financial market metrics such as stock market indexes. The typical benchmark used for Botswana equities is either the BSE Domestic Company Index or the BSE Domestic Company Total Return Index. Botswana institutional investors may view Shumba Energy (Mauritius) as a peripheral investment opportunity and may not want to take the risk of underperforming their respective Botswana equity benchmarks. This risk aversion may result in investors choosing not to invest in Shumba Energy (Mauritius) at all or only investing minimal amounts. This hurdle will be removed if Shumba Group lists on the BSE Domestic Main Board.

Shumba Group needs to look at ways to enhance its capital raising prospects, given Shumba Group's current financial circumstances. Shumba Energy will need to bolster its capital raising

efforts to ensure it can cover future expenditure. Operating costs continue to exceed operating income. The 2020 consolidated group financial statements showed that Shumba Energy Mauritius had operating losses of USD 2,375,836 and accumulated losses USD 9,313,206. Therefore it will be crucial that Shumba Group can obtain adequate funds in the near term to continue its operations and remain a going concern. A listing on the BSE Domestic Main Board may improve the Group's ability to raise capital from Botswana institutional investors.

***Better alignment of the parent company's place of incorporation with the location of assets, operations and shareholder base***

As illustrated, most of the Shumba Energy (Mauritius) shareholder base is located in Botswana.

Shumba Group's primary business activities are in Botswana. The 2020 Shumba Energy (Mauritius) annual report identifies the principal activities being:

- to acquire and develop coal exploration licences *in Botswana* for the exploration, mining, production and sustainable supply of thermal energy; and
- to invest in sustainable energy such as thermal energy and solar energy.

It is our understanding that all of Shumba Energy's exploration assets are located in Botswana. These assets amounted to \$15,122,560 in the last audited financial statements. The projects in Botswana include the Sechaba Independent Power Producer project, Mabesekwa Export Independent Power Producer and Sechaba Independent Power Producer project, Tati Solar Project and the Morupule South Mine project.

Following completion of the Corporate Reorganisation, potential investors may find the corporate structure more understandable and appealing because of better alignment with the location of Shumba Groups assets, operations and shareholder base. This may, in turn, increase the Shumba Group's attractiveness as a potential merger and acquisition counterparty.

Botswana investors, who form most of the shareholder base, may also prefer the post-reorganisation corporate structure because they will be more acquainted with Botswana's legal and regulatory environment. Botswana investors may associate a company incorporated in a foreign jurisdiction with higher risk, dampening their appetite to invest in Shumba Energy (Mauritius).

***Cost savings***

The directors estimate the cost savings will be USD 500 000 per annum. From our understanding, the annual cost savings include the following:

- audit fee
- secretarial fees
- director fees
- accounting and tax advice fees
- legal advice fees
- travel by the Botswana based team
- mandatory director insurance

These savings, if realised, would provide much needed assistance to Shumba Group's cash flow .

## ***Reduction of legal risk and compliance burden***

Currently, Shumba Group has exposure to legal and regulatory risk in both Mauritius and Botswana. Shumba Energy (Mauritius) has to comply with relevant Mauritius laws and regulations at the parent company level, including the Mauritius Companies Act 2001. Shumba Energy (Mauritius) also has to adhere to the BSE Listing Requirements. The Botswana subsidiaries have to comply with relevant Botswana laws. Following the re-domiciliation, Shumba Group will no longer be subject to Mauritius laws and regulations. Therefore it would no longer be subject to the risk of non-compliance with those laws and regulations.

There would be fewer legal entities in Shumba Group following the Corporate Reorganisation. There would no longer be two tiers of legal entities above Shumba Energy (Botswana). This would reduce the legal risk and compliance burden associated with having inefficient multiple tiers and legal entities in the corporate structure.

Investors, lenders, and key stakeholders may believe that the simplified organisational structure with fewer legal entities will ease doing business with the Shumba Group. For example the amount of due diligence prospective investors and lenders would be required to undertake on Shumba Group may be less because of the simplified corporate structure. This may also assist in improving interest in Shumba Group and its funding prospects.

## **4.2. Disadvantages**

### ***The Loan Conversion would adversely impact the underlying interests of Shumba Energy (Mauritius) shareholders***

There are two shareholders in Shumba Energy (Botswana). These two shareholders are Intersperce (Pty) Ltd (Botswana Partner) and Shumba Resources Ltd. Shumba Resources is domiciled in Mauritius and is a wholly-owned subsidiary of Shumba Energy (Mauritius). Currently Shumba Resources has 90% shareholding in Shumba Energy (Botswana), and the Botswana Partner holds 10%. Shumba Resources, the Botswana Partner and Shumba Energy (Botswana) are parties to a shareholders agreement (the **Shareholders Agreement**)

According to the Shareholders Agreement, from our understanding, any increase, decrease or variation of the Company's share capital must be approved or agreed to in writing by shareholders holding at least 95% of the issued share capital of Shumba Energy (Botswana). The Shareholders Agreement does not stipulate that the Botswana Partner (or any other shareholder) is entitled to retain their proportionate shareholding without payment or other consideration for maintaining their current stake.

Under the agreement, currently, the Botswana Partner would only receive distributions for its 10% equity stake after the Shareholders Loans are paid off. Following the Loan Conversion, Shumba Group would lose this contractual priority it has under the Shareholders Agreement regarding repayment of the Shareholder Loans that would be converted to equity.

As stated above Shumba Energy (Mauritius) has substantial accumulated losses, very little revenue and operating expenses far outweigh revenues. The same holds for the Shumba Energy (Botswana) subsidiary. Therefore, we believe it is appropriate to consider the impact of the loan conversion in

a scenario where Shumba Energy (Botswana) ceases to be a going concern and undergoes liquidation.

Shumba Group would lose any priority concerning the Shareholder Loans in the event of a liquidation of Shumba Energy (Botswana). Botswana legislation does not expressly subordinate shareholder loans below other unsecured creditors when a company is in liquidation. This means the unsecured shareholders loans would rank equally (*pari passu*) with other unsecured creditors in the event Shumba Energy (Botswana) is in liquidation. Following the Loan Conversion, Shumba Group would lose its equal ranking with concurrent creditors and its senior ranking to the Botswana Partner for the Shareholder Loans converted into equity. Subsequent to the Loan Conversion, in a liquidation, the Shareholder loans converted to equity would rank equally with the Botswana Partner equity for any residue.

As part of the Loan Conversion, Shumba Energy (Mauritius) shareholders would give up shares to the Botswana Partner that would otherwise belong to the shareholders. Therefore, following the Loan Conversion, Shumba Energy (Mauritius) shareholders would lose their payment priority over the Botswana Partner without a commensurate increase in their proportionate shareholding in Shumba Energy (Botswana) to compensate for the loss in priority.

Finally, it is worth noting that that Clause 6.2 of the Constitution of Shumba Energy (Botswana) provides that all securities issued by the Company shall be issued against consideration in cash or in-kind and be fully paid up. From our understanding, the Botswana Partner would receive shares and not pay for the shares in cash or in kind. In light of this observation, we have assumed that the directors of Shumba Energy (Mauritius) (**the directors**) have received appropriate legal advice on how the Botswana Partner can lawfully receive shares for no consideration without violating clause 6.2 of the of Shumba Energy (Botswana)'s Constitution.

### ***Potential investors may view Mauritius as a more favourable jurisdiction of incorporation than Botswana***

Under the legal system of Mauritius, the final court of appeal is the Judicial Committee of the Privy Council (Privy Council). Members of the Privy Council are mostly senior judges from the Commonwealth and the United Kingdom Supreme Court, whose decisions are generally well regarded internationally. Foreign investors, may prefer to have a reputable court located outside the country of incorporation as a final court of appeal. Foreign investors may believe that the Privy Council's decisions would be relatively more independent in the event of litigation.

Mauritius was rated favourably in the World Bank's Doing Business report. Out of 190 countries, Mauritius ranked 13th whilst Botswana ranked 87th in the 2020 Doing Business rankings. The World Bank released a statement in September 2021 that it was discontinuing the Doing Business report following a controversy concerning data irregularities on Doing Business 2018 and 2020 reports. However, Mauritius favourable rating in the report may still be ingrained in the minds of some investors, given how influential the report has been in recent years.

### ***Costs of the Corporate Reorganisation***

Shumba Group will incur various costs associated with the Corporate Reorganisation. The directors estimate the total cost of the Corporate Reorganisation will be a maximum of USD125 000. Most of these costs are likely to be one-time expenses that we believe would be more than offset by the estimated cost savings, which would be recurring savings.

## 4.3. Other Considerations

### *Tax Implications*

Tax implications are a pertinent matter in assessing the merits of a reorganisation of this nature. We understand that Shumba Group received advice in 2018 on the Botswana tax implications of the Corporate Reorganisation. We believe there may be limitations for assessing or relying on the 2018 tax advice because it is not current. We have not commented on the 2018 advice in this Opinion. We also understand that Shumba Energy (Mauritius) has not sought advice on the potential tax implications of the Corporate Reorganisation under Mauritius laws and regulations.

Therefore, we recommend that Shumba Energy (Mauritius) shareholders should consider, where appropriate, obtaining specialist tax advice that would also take into account their respective unique circumstances and tax jurisdictions.

### *Change of jurisdiction and Shareholder Rights*

The change of the place of incorporation of the parent company from Mauritius to Botswana is a central component of the Corporate Reorganisation. We believe an assessment of the legal implications and impact on shareholders rights would be appropriate. However, there is no information in the Circular outlining the similarities and differences between Botswana and Mauritius law, and we did not receive such information during our discussions with Shumba Energy (Mauritius). Therefore, we have not assessed the impact the change in jurisdiction will have on shareholders rights and its legal implications to shareholders in general.

(By impact on shareholder rights with we are referring to the impact on shareholder on matters such as but not limited to: issue of shares; share buybacks; dividends; transfer of shares; voting rights; variation of class rights; duties, powers, appointment and removal of directors; approval of major transactions; related party transactions; protections for minority shareholders; takeovers; voluntary and involuntary winding up of companies).

### *Consequences if the Corporate Reorganisation is not approved and Implemented*

If Shumba Energy (Mauritius) shareholders do not approve the Corporate Reorganisation then:

- the parent company, Shumba Energy (Mauritius), will continue to be incorporated in Mauritius;
- the existing organisation structure will generally remain in place; and
- Shumba Energy (Mauritius) would continue to be listed on the BSE Foreign Main Board.

## 5. Reliance on Information

Shumba Energy (Mauritius) recognises and confirms that, in preparing this Opinion, Serala Capital has relied upon and assumed that the information furnished by or discussed with Shumba Energy (Mauritius) and their respective representatives (**“the Information”**) is accurate, complete and not misleading. Shumba Energy (Mauritius) understands and agrees that Serala Capital will not verify or have any obligation to verify the Information or to conduct an independent evaluation or appraisal of the assets or liabilities of Shumba Energy (Mauritius).

We have assumed that any projections or forecasts furnished by or discussed with Shumba Energy (Mauritius) or their respective representatives have been reasonably prepared and reflect the best available estimates and judgments of management, as appropriate.

Shumba Energy (Mauritius) has agreed to promptly notify Serala Capital of any inaccuracy or misstatement in, or misleading omission from, any information previously furnished to Serala Capital.

Serala Capital has prepared this Opinion by using and relying on public information. We have assumed that the public information is true, accurate, complete and not misleading.

## 6. Assumptions and Scope

This Opinion is to accompany the Circular, which is to be sent to the Shumba Energy (Mauritius) shareholders. Therefore, we do not intend for this Opinion to be used or relied on for any other purpose.

In preparing this Opinion, we did not consider individual shareholders' financial circumstances, objectives, or needs. The basis for an individual's decisions to approve may include, amongst other things, a shareholder's investment objectives, liquidity constraints, tax circumstances and unique circumstances. Therefore, Shumba Energy (Mauritius) shareholders should consider, where appropriate, obtaining their own independent professional advice concerning their individual circumstances.

Shumba Energy (Mauritius) has acknowledged that it has engaged Serala Capital as an independent contractor. Our engagement or this Opinion does not create a fiduciary or agency relationship between Serala Capital and Shumba Energy (Mauritius).

Apart from this Opinion, we are not responsible for the contents of the Circular or any other document in connection with the Corporate Reorganisation.

This Opinion is premised on conditions and circumstances prevailing as at the date of this Opinion. These conditions may change materially after this Opinion has been issued.

This Opinion does not include any tax, legal or accounting advice, and should not be interpreted to include any such advice.

In assessing the Corporate Reorganisation and arriving at our conclusion, we have made certain assumptions, which includes that:

- the legal mechanism to implement the Corporate Reorganisation is lawful and effective;
- Shumba Energy (Mauritius) is compliant with relevant laws, regulations and contracts and will continue to be in place;
- there are no current legal proceedings that may affect the Corporate Reorganisation;
- all the information that we received and relied on is true and accurate, as more fully set out in section 5;
- if the Corporate Reorganisation proceeds it will be implemented under the terms stated in the Circular;
- there are no changes to the terms and conditions of the Corporate Reorganisation outlined the Circular we received that is to be issued to the shareholders of Shumba Energy (Mauritius);
- Other assumptions mentioned in this Opinion.

## 7. Independence

Serala Capital has no interest in the outcome of the approval of the Corporate Reorganisation. We are entitled to a fixed fee for preparing this Opinion. The fee is payable whether or not Corporate Reorganisation is approved. Other than this fee we do not have a right to any direct and or indirect benefit in connection with issuing this Opinion.

## 8. Consent

We consent to this Opinion being included in the Circular to be issued to the shareholders of Shumba Energy (Mauritius). We are providing our consent with the understanding that if there are any references in the Circular to any part of this Opinion or its conclusions, the Circular will also include this Opinion in its entirety. The whole or any parts of or references to this Opinion must not be included in any other document without the written approval of Serala Capital.

## 9. Sources of Information

We have been provided with, sourced and considered the following sources information when preparing this Opinion:

### *Publicly Available Information*

- Shumba Energy Limited 2020 Annual Report
- Shumba Energy (Pty) Ltd Constitution
- World Bank Doing Business 2020 report and ranking, and related World Bank press releases

### *Non-Public Information*

- advanced draft of the Circular that we received on the 28<sup>th</sup> October 2021
- shareholders agreement between Intersperce (Pty) Ltd and Shumba Energy (Botswana) and Shumba Resources Ltd

We have also had discussions with and obtained information from representatives of Shumba Group.

Yours Faithfully,



Mothusi O. Lekaukau, CFA  
Chief Executive Officer