
Maris Africa Fund

Fund Report
February 2011

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First Closing	9th June, 2009
Final Closing	8th December, 2010
Commitments	\$26 million
Fund's domicile	Cayman Islands
Structure	One General Partner 55 Limited Partners
Investment focus	Early Stage Development capital Buy-out investments Sub Saharan Africa

FUND UPDATE AND OVERVIEW

Having surpassed our \$20 million target in Q3 last year we closed the fund in December at \$26 million. We look forward to focusing all our efforts on supporting portfolio companies, executing deals and enhancing the value of the fund.

South Sudan recently voted by an overwhelming 99% majority for secession from the North and is set to become Africa's 54th state and the 193rd country in the world. Whilst we are delighted with the result, we remain cautious about the transition to independence and self-government. Our investments there have performed well, especially considering the sharp depreciation of the Sudanese Pound. Network Support Services had a particularly strong year, as did Operational Support Services. For example, OSS Trucks recorded net profit 117% ahead of forecast. On the other hand, Afritise, whilst profitable, has had a challenging year and we have replaced management.

A malfunctioning mill significantly impaired gold production at Karebe Gold Mining Ltd, as did sub-standard power supply from Kenya Power and Lighting. Whilst the company has missed forecasts and battled to produce through Q4, almost all the major groundwork has been completed and underground mining and blasting is ongoing. The indications from levels 1 and 2 are of grades in line with our forecast and better than anticipated grades at level 3. The replacement of our existing mill with a larger new mill should improve Karebe's fortunes in 2011 and beyond.

The fund's next investment, scheduled for February, will be in a microfinance company in Zimbabwe, with investments in Mozambique (serviced warehousing, offices and accommodation in Tete province) and Angola (machinery dealership) to follow in March.

On behalf of Andrew, Coco and myself, I would like to welcome Keith Gardner and Johannes Gunnell into the Maris Capital fold and Marc Beuls and Kamal Dadi to our Advisory Board. We would also like to thank you all for your continued support.

We will hold this year's investor meeting on 29th September 2011, and an investor visit to portfolio companies in South Sudan and Kenya from 20th - 24th February, 2012.

Charlie Tryon

PORTFOLIO COMPANIES AT 10/02/11 (US\$ M)

Invest. Date	Name	Geography	% Equity	Industry	Proceeds/			Multiple to Cost
					Cost	Fair Value	Realise Gain	
June 09	KGML	Kenya	80%	Gold mining	\$1.83	\$6.10	\$0	3.33
Sept 09	NSS	S Sudan	60%	Telecoms	\$1.46	\$1.61	\$0.15	1.09
Sept 09	Afritise	S Sudan	30%	Advertising	\$0.14	\$0.14	\$0	1.00
Sept 09	OSS	S Sudan	47%	Services	\$1.02	\$1.18	\$0.16	1.16
Total					\$4.45	\$9.03	\$0.31	2.03x

*Includes an unrealised gain of \$4.27m on KGML, and dividends of \$0.31m paid to the fund by OSS and NSS.

FUND SUMMARY (US\$ M)

Capital committed	26.09
Capital called**	5.77
Investments	4.45
Advisory fee	1.13
Establishment and operating cost	0.21
Other	0.02
Gain on revaluation	4.27
Dividends paid to fund	0.31
Value of fund	9.03
Fair Value/Capital called	1.56x
Capital distributed	Nil
Available for drawdown	20.33

**Excludes overfunded commitments held in escrow

Capital accounts have been completed to December 31st, 2010.

ADVANCED INVESTMENT PIPELINE

1. Microfinance, Zimbabwe

The fund will offer development capital to a growing microfinance business that provides SME financing and microloans in four regional clusters across Zimbabwe. Maris Africa Fund will invest alongside two Southern African investment companies and anticipates a first drawdown at the end of February.

Investment stage:	Terms agreed and IC approved - awaiting legal opinion
Equity stake:	19%
Maris Africa Fund Cost	c. \$1.5m (round 1 2010 & round 2 c.2012)

2. Machinery dealership, Angola

The fund will buy into an Angolan machinery dealership in partnership with a Gulf based investor that owns similar dealerships in Africa and Oman.

Investment stage:	Terms agreed and IC approved - awaiting regulatory permissions and bank guarantee approval
Possible equity stake:	33%
Maris Africa Fund cost:	\$1m

3. OSS, Mozambique

The project involves a phase 1 construction of a commercial industrial park, with office and workshop/warehouse combinations, and a phase 2 construction of self catering apartments. These will be leased to subcontractors arriving in Tete to service the large scale investments in the open cast coal mining sector.

Investment stage:	Terms agreed and IC approved - construction to commence April
Equity stake agreed:	50%
Total Cost:	\$1.5m

INVESTMENT PIPELINE

The fund is considering further investments in an outdoor advertising company with operations in three countries in West Africa, and in a 50 room greenfield hotel project in Kenya. Further pipeline sectors include agriculture, financial services and light manufacturing.

PORTFOLIO COMPANY



KAREBE GOLD MINING LIMITED

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Karebe Gold Mining Limited, Kenya ("KGML") is one of two gold mining companies in Kenya. Production on the tailings resource stands at 1,280 oz of gold and 220 oz silver. Underground mining commenced in September 2010 and underground mining on reef in January 2011. KGML is headquartered in Kisumu, Kenya.

MARIS AFRICA FUND COMMITMENT

Investment Date	January 2009
Development Stage	Start-up
Investment cost	\$1.83 million
Shareholders loan	\$0.39 million
Fair Value at 30th September, 2010	\$6.10 million
Equity Investors	Equity stake
Maris Africa Fund	80%
Management (David May)	20%
Fund Board Membership	2 board seats

Financials (US\$m)	2009A	2010E	2010A
Revenues	-	3.17	1.54
EBITDA	(0.10)	1.61	0.00
Net Income	(0.11)	1.37	0.00

2010 proved to be a turbulent year for KGML. The first half results were encouraging with the successful tailings retreatment operations generating \$1.54m in revenue. Unfortunately the expected second half results were severely impacted by sub-standard electricity supply from Kenya Power & Lighting Company and, more importantly, poor operational performance of the new ball mill.

We purchased the original hi-tech mill after much industry consultation. The mill was designed with a number of new features including rubber liners and power saving mechanisms to reduce our power costs. Poorly engineered gears, bearings and mill liners have inhibited production and resulted in a throughput of less than 1ton of ore per hour, only 34% of its stated capacity output. As a result we have milled only 861 tonnes running at a grade of 6g/ton to date netting 5.1kgs (158 oz) bullion to January, a deeply disappointing result considering we anticipated milling four times more ore than actually achieved. The manufacturers have admitted fault and we are in the process of seeking to return the equipment to them.

After extensive conversations with the management, mill manufacturers and third party specialists we have concluded that making modifications to the current mill will be both costly and very time consuming. We are seeking a full refund on the equipment due to the manufacturers design faults whilst we secure a larger new mill from an alternative source. The replacement mill we are looking to acquire is double the capacity of the current mill and should arrive in Kenya in June and be commissioned in July. Rather than opt for a new innovative design, we have decided to acquire a simple 'stock standard' designed mill that has been well reviewed by other operators, with steel liners and standard bearings that offers no power saving or electronics advancements. In the interim the company will continue working with the ball mill and look to process high grade ore being blasted from the reef at the second and third levels of the mine. Initial indications are that

the grades are higher than expected and even on the very low production rates being achieved we will be able to meet our cashflow requirements for the basic mine development plans. We are also recommencing the re-treatment of tailings through our CIL plant and a small series of static leach tanks to improve our cashflow during March-June while we await the arrival of our 3.5ton/hr ball mill from China.

Despite our revised forecasts, which no longer see KGML achieving the original 2010 and 2011 forecasts, we remain confident in the valuation of the mine. Firstly, given the low production levels achieved in the final months of 2010, much of the mine's original value has yet to be processed and realized. Secondly, the existence of higher grades than originally anticipated combined with a gold price that started 2011 at over \$400 greater than that assumed in our valuation model, gives us reassurance that our forecasts on indicated resource and price of gold are cautious. Finally, while the setbacks associated with the mill have resulted in negligible earnings for 2010, the conservative valuation multiples we originally applied to these 2010 earnings (as part of a wider blended valuation methodology) and the increased volumes expected in the longer term with a larger mill, provide sufficient flexibility that we do not feel it appropriate or necessary to adjust the overall valuation downwards.

We have agreed to extend a further \$100,000 loan to KGML as part of the original \$600,000 loan facility agreed with the company, to enable the immediate acquisition of the new mill. KGML has almost completed the construction of our staff housing, a basic assay laboratory and commenced blasting and full underground mining since our last report. The workforce is growing in skills and confidence and the company continues to recruit more experienced mining staff to develop the capacity of the company. In areas other than milling, the company is better positioned operationally now than at any point since we broke ground in 2009.



The 2.5t/hr ball mill operating at only 34% capacity on site



Replacement 3.5t/hr ball mill awaiting inspection in Zhengzhou, China

PORTFOLIO COMPANY



NETWORK SUPPORT SERVICES

Network Support Services Limited, South Sudan, (“NSS”) is the dominant GSM infrastructure construction and maintenance business in South Sudan. Managed by Gary Ensor, the company has a 50% share of the site support and maintenance market. NSS is headquartered in Juba, has regional offices in Wau, Rumbek and Tambura and a support office in Nairobi, Kenya.

MARIS AFRICA FUND COMMITMENT

Transfer Date	September 2009
Transaction Type	Non-cash share transfer
Fund Ownership	60%
Valuation (cost)	\$1,460,891
Realised gain	\$150,000
Equity Investors	Equity stake (%)
Maris Africa Fund	60
Aspen Wind Corporation	25
Management	15
	100
Fund Board Membership	1 board seat - C Tryon

Financials (US\$M)	2009A	2010E	2010A
Revenues	6.1	4.1	5.25
EBITDA	0.74	0.82	0.89
Net Income	0.67	0.74	0.89*

*Unaudited figures awaiting confirmation of 2010 depreciation charge

NSS has constructed 22 GSM sites and manages a total of 100 GSM sites for Zain in South Sudan. Other clients include Nokia Siemens Networks, Ericsson and VSAT operator Mada Communications. Two further GSM operators have approached NSS to support their GSM network and we hope to add significant sites to our existing operation this year.

Revenues for 2010 were almost 30% higher than forecast and EBITDA was 9% above forecast. The company paid off a debt of \$300k in 2010, outlaid over \$200k in capital expenditure and paid a dividend to shareholders of \$250k in Q1 of 2011. EBITDA is up 20% year on year despite revenues being down 14% on 2009. This is in line with the management’s planned 2010 strategy of cutting back on less profitable, capital intensive site construction work.

The outlook for 2011 is encouraging with continued if cautious expansion in the emergent telecommunications industry. Following the recent Southern Sudanese referendum, we expect to see growth ahead, though we anticipate some teething problems as the new government settles in.



PORTFOLIO COMPANY



OPERATIONAL SUPPORT SERVICES

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Operational Support Services Limited, South Sudan, ("OSS") is a camp services and logistics provider. OSS owns 100% of Acacia Village, a 34-room apart-hotel, 75% of OSS Trucking, and 50% of OSS Workshop.

MARIS AFRICA FUND COMMITMENT

Transfer Date	September 2009
Transaction Type	Non-cash share transfer
Development Stage	Expansion
Fund Ownership	47%
Unfunded commitment	0
Valuation (cost)	\$1,021,185
Realised gain	\$163,000
Equity Investors	Equity stake (%)
Maris Africa Fund	47
Long Range Limited	53
	100
Fund Board Membership	2 board seats

OSS Consolidated (US\$M)

<u>Financial Year Summary</u>	<u>Yr end 2010E</u>	<u>Yr end 2010A</u>
Revenues	1.27	1.93
EBITDA	0.69	0.80
Net Income	0.55	0.63

1. ACACIA VILLAGE

<u>Financial Year Summary</u>	<u>2009A</u>	<u>Yr end 2010E</u>	<u>Yr end 2010A</u>
Revenues	1.01	0.84	0.95
EBITDA	0.94	0.54	0.47
Net Income	0.83	0.43	0.35

At Acacia Village the latter part of the year saw tented units upgraded to hard units and the building of a full perimeter wall for added security. These improvements further bolster Acacia's position as Juba's most comfortable hotel, which is reflected in its high occupancy rates.

The noticeable fall in revenues (6%) between 2009 and 2010 can be attributed to the building works conducted in 2010 which resulted in the decommissioning of a number of units within the camp. The 60% difference in net income is in part due to the decrease in revenue previously mentioned, but more significantly due to the appreciation in the building and land value posted in our 2009 accounts of \$334k.

Acacia exceeded forecast sales by over 10% but operating expenses, especially maintenance and fuel costs, were higher than forecast. The impact of depreciation was also greater than expected. With the referendum completed, we will continue to engage with potential buyers of Acacia Village and look forward to improved results in 2011 as a result of our expansion works completed in 2010.

2. OSS TRUCKS

<u>Financials (US\$M)</u>	<u>Yr end 2010E</u>	<u>Yr end 2010A</u>
Revenues	0.42	0.72
EBITDA	0.15	0.30
Net Income	0.12	0.26

OSS Trucks has had an excellent year. The company has fully repaid its debts and won significant contracts to support the local elections in 2010 and referendum in 2011. Revenues for OSS Trucks in 2010 beat forecasts by 70%, actual EBITDA was 97% ahead of expectations, while net income was 117% above forecast. The company is debt free and subject to a board meeting in Q1 2011 will pay a modest dividend to shareholders in addition to increasing its fleet.

3. OSS Workshop

<u>Financials (US\$M)</u>	<u>Yr end 2010E</u>	<u>Yr end 2010A</u>
Revenues	na	0.27
EBITDA	na	0.02
Net Income	na	0.02

The workshop had a good first year and generated a small profit. Business continues to develop steadily as customers increasingly opt for vehicle service and maintenance contracts. Both companies look well placed to develop their established positions in the market. However, given the weakness seen in the local currency in Q4 surrounding the referendum, a shortage of vehicle parts and the high cost of fuel, 2011 looks to be a more challenging year than last.



Nigel and Elliot, Acacia's bush Duikers



New units

PORTFOLIO COMPANY



PORTFOLIO COMPANY: AFRITISE

Afritise Limited, South Sudan (“Afritise”) is the dominant outdoor advertising company in South Sudan. Afritise is headquartered in Juba, South Sudan and has eleven full-time employees.

MARIS AFRICA FUND COMMITMENT

Transfer Date	September 2009
Transaction Type	Non-cash share transfer
Development Stage	Early stage
Fund Ownership	30%
Transfer cost	\$96,000
Additional commitment July 2010	\$39,000
Valuation	\$135,000
Basis - cost	
Equity Investors	Equity Stake (%)
Pan African Advertising	70
Maris Africa Fund	30
	100
Fund Board Membership	1 board seat - C Tryon

Financials (US\$M)	2009A	Yr end 2010E	Yr end 2010A
Revenues	0.31	0.42	0.33
EBITDA	0.13	0.20	0.07
Net Income	0.10	0.15	0.07*

*Unaudited figures awaiting confirmation of 2010 depreciation charge

Afritise has had a tough year in 2010, but has finished on a promising note. New contracts took longer than anticipated to come on stream and impacted revenues negatively. However, having secured the exclusive airport contract, we are rapidly filling advertising space. Despite gloomy figures for 2010, Afritise should have a better 2011 through contracts with the two largest GSM operators, and a potential third contract with a further GSM operator. At the end of 2010 Afritise replaced the incumbent manager with a new General Manager, Jonathan Best who has already made a strong start in generating new contracts. With South Sudan looking toward a new future as an independent country, the advertising market should see good growth.



MARKET OVERVIEWS

SOUTHERN SUDAN

In January South Sudan voted overwhelmingly for independence in a decision that was officially accepted by the North's President Bashir. Actual independence is expected to be declared on July 9th, 2011. Over 4,000 election observers led by former US President Jimmy Carter declared the referendum peaceful and credible.

The process of disentanglement from the north now begins. Citizenship, currency and the contested and volatile region of Abyei are among issues that remain unresolved. Also unresolved is the future division of Sudan's \$38 billion of foreign debt, for which it is seeking relief. Tens of thousands of soldiers belonging to the North and South armies will also need demobilisation. Difficult negotiations centre on oil rights. The oil wealth-sharing deal included in the 2005 Comprehensive Peace Agreement expires in July and the exact revenue sharing arrangement from the estimated 500,000 barrels of oil production per day is yet to be agreed. Oil revenues make up 98% of the South Sudan's budget. The process of dividing three producing oil blocks that straddle the border now commences - the Chinese state oil company CNPC has a combined 40% stake in these blocks. South Sudan will be the world's newest country and the peaceful referendum should prompt an influx of regional investors as the country aligns itself southwards with the East African Community. Kenya Commercial Bank is planning to double its branches in the next five years and Juba is already seeing new entrants into its financial services sector. Meanwhile competition for natural resources continues, including for large scale agricultural projects.

South Sudan is forecasting high growth albeit from a very low base. According to the United Nations, half of South Sudan's eight million people live on less than \$1 a day and need food aid. Challenges ahead also include currency risk (the Sudanese pound depreciated sharply and currently stands at 3.4 vs the US dollar compared to 2.1 back in 2009), tribal rivalries within the South and problems caused by the lack of basic infrastructure and skills due to decades of conflict.

KENYA

The implementation of a new constitution and the International Criminal Court proceedings connected to the outbreak of violence in 2007 remain top of the political agenda. A more active Kenya Anti-Corruption Commission is making promising headlines.

Economically, in 2010 the country grew by around 4.8%, up from 2.6% in 2009 and the IMF predicts growth of 5.3% in 2011. This is being driven by the financial services, communication and construction sectors. Tourism is also performing substantially better than in 2009, however the agriculture sector, which makes up 23% of the economy, is facing challenges due to drought and by weakness in the Eurozone, the main customer for Kenya's flowers and fruit exports. As regards foreign affairs, the outlook for Kenya's relations with its neighbouring countries presents a mixed picture. Piracy and instability in Somalia continues to be a destabilising influence in the Horn of Africa and has raised shipping costs for Mombasa and deterred cruise ships from visiting the area. More positively, independence in South Sudan opens opportunities for the region. The proposal for Juba to feed into the oil pipeline from Uganda to the Kenyan port of Lamu could prove a strong economic growth driver.

ZIMBABWE

Zimbabwe's recovery continues from its low base though political rumblings are undermining confidence. Driven by mining exports and a recovery in certain agricultural sectors, GDP growth should reach around 8% in 2011. Agricultural output rose 34% in 2010 and is expected to continue rising. Tobacco output is expected to increase by around 40% in 2011 and cotton and sugar production are both expected to be up 15%. The reopening and recapitalization of existing mines is expected to raise gold and platinum production by 70% in 2011. Diamond exports rose from \$37m in 2009 to \$360m in 2010 and the anticipated c\$500m investment by Essar in ZIMASCO should significantly improve prospects for the chrome industry.

MARKET OVERVIEWS

Zimbabwe's manufacturing sector, however, continues to face tough challenges. Historically, it has been able to depend on the dual advantages of reasonably priced labour and cheap power, particularly during the period of hyperinflation. However, it is now struggling to compete after decades of underinvestment and a sharp readjustment in the real costs of production.

Banking sector deposits stood at \$2.1bn in November 2010, up from \$1.4bn in January. Credit available for the private sector rose by 100% in 2010 but the total figure was still only \$1.5bn by November 2010. With liquidity still constrained, lending rates are prohibitive. Typically, larger companies can pay between 12 and 18%, though this is still a significant improvement from levels as high as 30% in 2009. The money market remains inactive due to the continued absence of an interbank market and any lender of last resort. The wave of foreign capital expected by local business following dollarisation has not yet arrived. Furthermore, it is unlikely to arrive until elections are concluded. These were announced by President Mugabe in January, although a firm date has still to be set. It is still unclear whether they will take place this year.

MOZAMBIQUE

Mozambique's growth performance remains strong. Easing macroeconomic policies in response to the global crisis helped sustain economic growth, allowing Mozambique to fare better during the global downturn than its peers in sub-Saharan Africa. Real GDP growth has been projected at 7¼ percent in 2010, well above the rates seen across similar countries. This has been driven by a recovery in external demand, particularly commodities such as processed aluminium which accounts for over 50% of exports. However, there was social upheaval as food riots broke out in September 2010. The rise in world food prices was further exacerbated by a weakening currency due to balance of payments pressures. This resulted in headline inflation reaching 17 percent in the twelve months to September. These pressures have eased however and the metical has since increased in value by 12 percent. Furthermore the outlook looks positive driven by increasing external demand and foreign direct investment in the form of some high profile megaprojects. As a result, economic activity should accelerate to 7½ percent in 2011 and average 8 percent over the medium-term. Inflation is projected to return to single digits in 2011 and to slowly trend down towards the monetary authorities' medium-term target of 6 percent.

ANGOLA

Growth for 2010 was revised downwards to 5-6 percent due to a heavy backlog of government payment arrears and the lack of liquidity in the market. Angola was severely impacted by the world economic downturn due to the almost total reliance of its economy on the oil sector. However, as oil prices have improved, so too has economic activity. GDP growth for 2011 is predicted to be in the region of 7.5%. More importantly, the non-oil sectors are predicted to recover and show strong growth, particularly the construction sector (14.2% CAGR 2010-14). Agriculture and light industry are also expected to show encouraging medium to long term growth prospects as the government makes attempts to diversify the economy. Angola recently resolved its differences with the IMF and an initial loan agreement was approved in November 2009 with further loans in the pipeline. This has certainly helped to improve Angola's economic and political credibility in the international business community. The government is also making use of lines of credit from China, Brazil, Portugal, Germany, Spain, and the EU to rebuild Angola's public infrastructure, with tens of billions of US\$ already having been spent. Angola has ambitions to be a regional player and is the 7th largest economy on the continent and the second largest economy in southern Africa after South Africa. However, it remains a significantly challenging investment environment with high barriers to entry caused by over-burdensome bureaucracy and very high costs of doing business.