

UGANDA OIL ASSESSMENT

ENODO Global, Inc.

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Inquiry:

Do you have information or knowledge of any movements by the Ugandan Government for the release and sale of oil blocks?

Answer:

Inquires of two independent sources, with access to senior Ugandan government authorities confirm that no “immediate” release of oil blocks can be expected.

Situation:

Initial analysis suggests a delay in the Ugandan government’s intent to begin the open competitive bidding process for the licenses of more than a dozen oil blocks, including four lucrative discoveries. The licensing announcement is planned for the end of 2014 with subsequent award of exploration licenses expected during the second half of 2015. In addition to the new blocks that have been demarcated, Uganda will offer 10,000 square kilometers of acreage relinquished from existing oil companies. Among the oil discoveries that will be offered are the Taitai, Ngasa, and Karuka oil fields, as well as Turaco, formerly in block 3A, near the southern tip of Lake Albert. Of note: Uganda has only issued one oil production license to China's state-owned oil firm China National Offshore Oil Corp. for the \$2 billion Kingfisher oil field, despite receiving at least 10 license applications in the past two years.

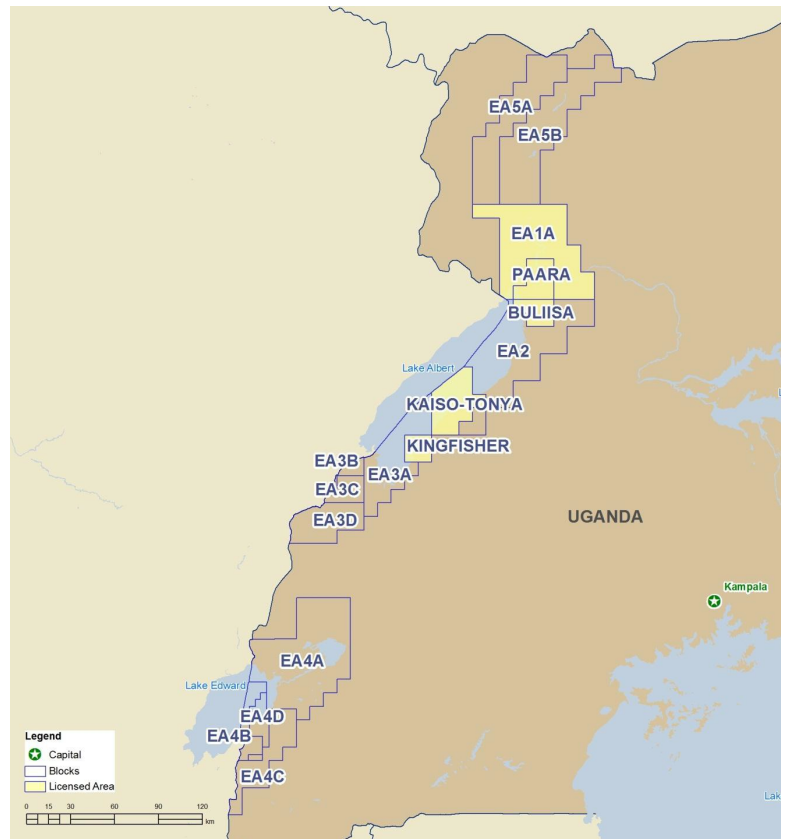


Figure 1 Ugandan Oil Blocks

Background:

Uganda imposed a moratorium on oil licensing in 2007, shortly before exploration companies confirmed commercial oil reserves. The ban was intended to allow the country time to implement regulatory framework designed to ensure oil and gas reserves would benefit Uganda. The awarding of new licenses was initially expected in early 2014, but was postponed to allow the government to complete the legal requirements. Two key oil bills have been passed and lawmakers are completing the final bill, which will complete the sector's regulation.

Oil exploration began in Uganda's Lake Albert basin in the 1990s, with major offshore and onshore finds confirmed in 2006 and 2007. Since 2007, Uganda's crude reserves have grown from less than 500 million barrels to 3.5 billion barrels, with less than 40% of the country's oil region explored. Uganda's share of the oil around Lake Albert has been called Sub-Saharan Africa's largest onshore discovery in 20 years and estimated at 2 billion barrels of confirmed reserves. Uganda's current discoveries can support a peak production of at least 200,000 barrels-a-day, over a 30-year period.

Risk Assessment:

ENODO Global assesses Cox Oil will face a significant level of risk in pursuing oil exploration blocks in and around the Lake Albert and Lake Edward regions of western Uganda. The lack of a coherent strategy, across the Ugandan Government, for the use of oil revenues, excessive bureaucracy, corruption and political interference continue to slow the licensing and development of these oil fields and create instability within the country. Additionally, commercial production is not expected to commence until 2017, though a number of key issues need to be resolved before this occurs. The existing political, regulatory and socioeconomic environment present unique challenges that can negatively impact Cox's investment:

Regional Security Hazards – The DRoC's political instability makes future exploration, development and extraction efforts uncertain.

- Oil production will require political and technical cooperation between the DroC and Uganda, which could lead to conflict if the countries do not honor existing agreements
- Distrust by the DroC drives fears that Uganda may 'steal' part of its share of oil rights and revenues, which increases regional instability
- DroC and Ugandan rebel groups operating in the area pose additional security threats and increase the potential of conflict.

Ugandan National Control – Ugandan President Yoweri Museveni has personal oversight and control over the oil sector, which he uses it to finance and support his patronage networks to remain in power.

- President Museveni has reserved final authority to approve any deals signed with foreign oil companies to ensure the country's interests are protected
- A recently established law gives the energy minister, a presidential appointee, the authority to issue and revoke oil contracts
- Presidential elections are scheduled to take place in 2017, the same time oil production is scheduled to occur.
- Small scale protest against President Museveni are already occurring across the country and could potentially increase if civil society demands are not addressed

Civil Society / Environmental Impact – The majority of oil discoveries are located in environmentally sensitive areas with local villages and tribes already demanding compensation and resources with production years away.

- Future oil extraction and processing will pose major additional risks to the environment, with likely effects on Uganda's important tourist industry
- Ugandan's have protested the secrecy surrounding existing Production Sharing Agreements (PSAs), only part of which have been made public
- Global Witness (www.globalwitness.org) stated there were several significant weaknesses that still need to be addressed in terms of "some important human rights and environmental safeguards" – of particular concern, it said, were "the unique habitats" of the oil region in Uganda

Infrastructure Requirements – Any endeavor beyond simple exploration will require significant infrastructure investments to support operations. These are currently in the planning phase, and could add significant cost and complexity to any project. Infrastructure upgrades include:

- A refinery in Kabale, an oil pipeline from Hoima to the capital of Kampala, and construction of two power plants for two new Central Processing Facilities
- Upgrades to the airstrip in Hoima to eventually become an international airport
- Construction of a multi-product oil pipeline from Eldoret in central-western Kenya to Uganda