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Obtala Limited
29 September 2017

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Obtala Limited
("Obtala", the "Group" or the "Company")
(AIM: OBT)

Q3 2017 Quarterly Business Update

- In discussion with several parties to provide tranches of $25m in trade finance to support growth in timber trading division profits; one LOI signed to date
- 15,000m3 of logs harvested and 4,500m3 of export grade timber produced
- Engineers continuing work on completion of veneer factory in Gabon with view to commencing production in 2018
- Construction of new 100m3 daily capacity sawmill in Mozambique on track for completion at end 2017
- Final WoodBois purchase price estimated to be $12.2m after $2.6m working capital adjustment to second $3m cash tranche moves payment down to $400k
- Melon harvest processed at upgraded refrigerated packhouse. First exports through Mombasa, Kenya extremely encouraging
- Forestry and Agriculture boards installed to focus decision making and broaden the universe of potential stakeholders with increased independence

First Quarter of Substantial Revenue and Production Growth

Q3 2017 marks the first quarter of significant production and revenues for Obtala, following the acquisition of WoodBois on 30 June 2017, the commencement of the annual timber cutting period in Mozambique, which was delayed to June, and the harvest period for our cash crops in Tanzania. In preparation for this, the Board took the decision to give the forestry (Argento Ltd) and agriculture (Montara Ltd) division their own Boards of Directors, as announced on 28 September 2017. Each Board will report its own P&L, with the forestry division further segmented into Timber Trading and Timber Production, to provide quarterly, interim and annual revenue and profit numbers to the market moving forwards. At the same time, we are finishing our global 9-month roll-out of SAGE ERP system custom designed to give visibility on our businesses and have engaged with transfer pricing and tax consultants to optimize the overall tax position of the Group considering expected revenues and the acquisition of WoodBois.

Forestry Production

As we noted in our Q2 2017 trading update, the arrival of two new Komatsu bulldozers and the installation of three new horizontal saws to our sawmill in Gabon in June, as well as added sawmill equipment in Mozambique has led to marked increases in harvesting and sawmill production. In the third quarter over 15,000m3 logs were harvested from the forest and 4,500m3 of export grade sawn timber were produced. Monthly production in Gabon increased from 900m3 in July to 1,500m3 in August (despite public holidays), while our sawmill in Uape produced up 25m3 per day under the supervision of our new sawmill manager.

Prices for our main species have remained stable, with average realized sales price of $400 - $900 per m3 depending on species and grade. In September, engineers commenced installation work at our veneer factory in Mouila. The structure is already complete and equipment (peeling lines, dryer) is already on site awaiting installation, with work expected to be completed in time to commence production in early 2018. The integration of WoodBois has already proven invaluable in locating the best prices and customers (including cut specifications) for our Mozambican hardwoods.

Work is continuing at our 10.5-hectare sawmill site in Nampula, Mozambique and remains on course to be completed in time to commence production from January 2018. Site clearance works are complete and the boundary wall 70% complete with phase 1 wetmill, drying shed and infrastructure works underway. 8 management plans are now approved, covering 268,965 hectares.

Timber Trading

Trading performance is in line with the previous quarters, with the year-end performance determined by the timing and availability of increased trade finance. As stated in our notes relating to the acquisition of WoodBois, we have identified great potential in the timber trading business if provided with additional trade finance. Since WoodBois' founding in 2004, the trading division has generated $135m in cumulative revenue, with only a single customer default during the financial crisis, a reflection of the founders' relationships with its customers and trading experience. With limited capital, WoodBois' annual revenues of c.$15m represent less than 0.5% of the reported African export market alone. We are in advanced talks for a $25m trade finance

facility which we expect to draw down in the fourth quarter and provide the trading division with the necessary capital to achieve 3-4x growth in the next 18 months. This facility will also help finance the working capital for our own production assets and significantly improve cashflow.

Agriculture Production

We commissioned our upgraded refrigerated packhouse on 14th September 2017 to coincide with our first significant melon harvest. Last week we successfully exported our first container of melons via Mombasa, Kenya and are shipping a further three containers (50 tonnes) this week. Pricing in our markets has been in line with our expectation, and we have found that the port in Mombasa is well suited to the handling of fresh produce. We are continuing to plant additional hectares of melons, and staggering our market garden which is producing a variety of different produce to test with our clients with a view to accelerating planting in 2018 on the back of firm demand. Due to the late arrival of rains in Tanzania we now intend to plant 50 hectares of mango orchards between now and early 2018, as per our hybrid model.

In the summer we took the decision to halt production at our dried fruit processing plant after being informed by local authorities we could no longer use wood to fire processing facilities. The current plan is to upgrade the system with new state of the art drying facilities which we will be able to use during the mango season, and for the variety of fruit and vegetable products grown on the market garden. This will result in year round dried produce production starting in 2018. The new system also offers a much greener energy solution in line with our Company ethos. Total capital expenditure is conservatively estimated at $250k with resulting capacity to produce over 10 tonnes of dried produce per month.

We have continued to adopt systems with a focus on preserving biodiversity, natural resource management and soil fertility improvement based on sound ecological principles. Water resources and usage are key to sustainable farming and we are working to optimise irrigation and management, ensuring adequate drainage. Our ethos is to be profitable and efficient in the short term, while ensuring the land remains fertile and productive for future generations. To achieve this objective we are employing a range of sustainable cultivation techniques, for example the use of bee hives for pollination of sweet melons while producing honey as a by-product.

Finance and M&A Strategy

Although we continue to be shown potentially accretive acquisition opportunities in Sub Saharan Africa, management focus remains on the integration of WoodBois, finalizing a trade finance facility to support our timber trading division, and achieving our revenue and profitability targets, which will be the responsibility of our newly installed forestry and agriculture boards.

We have continued to analyse the forestry value chain and conclude there is a great opportunity to utilize wood waste for electricity generation at our sawmills, and remain in dialogue with various funding bodies regarding specific energy projects subject to ongoing feasibility studies.
The Company is continuing to investigate whether a dual-listing in Hong Kong/China or Australia may be appropriate to increase liquidity and give Asian investors an easier platform with which to invest. Any such listing is not expected before the conclusion of 2017.

Board Changes and Key Hires

We are pleased to announce that separate agriculture and forestry boards have now been installed, at Montara and Argento respectively, whose responsibilities will include setting budgets, financial reporting, deciding on key hires, and reviewing M&A and strategic investment opportunities, reporting to the Obtala Board. The forestry business will itself be segregated into forestry production and timber trading. During the past 12 months, it has become evident that a separation of the two boards will strengthen our universe of potential investors and partners, as new funds and/or trade finance facilities can be directed towards specific business lines with their own P&L, board and management teams.

Third Party Research

Following the completion of the WoodBois acquisition and the separation of the forestry and agriculture boards, we anticipate expansion of and updates to our research coverage in order to effectively communicate our progress and expected performance to the market well in advance of the end of the fourth quarter and our 2017 results.

Social Impact

One of the most fundamental positive social impacts associated with Obtala's strategic growth objective is the employment and training opportunity we bring to regions of high unemployment. We currently employ 768 staff members, 95% of whom are from local communities. Our staff are provided with training and education and are actively engaged to increase environmental awareness. In Tanzania we have facilitated health and well-being enterprises such as netball and football teams for our farm workers, and have sponsored upgrades to the local hospital where an immunisation initiative was carried out for employees. In Mozambique we are supporting the launch of a community forestry concession in collaboration with the World Bank, enabling us

to promote sustainable use of the forest landscape while transferring skills and knowledge to local communities.

WoodBois Acquisition Completion

Following the completion of the WoodBois acquisition we have spent a great deal of time learning about each other's businesses and determining the best way in which Obtala can support WoodBois' existing business in the short and medium term. Following an offsite in September, investment opportunities have been identified and prioritized for the next 12 months. On the human resource side, we have prioritized the hiring of a financial director in Gabon and Copenhagen to support increased levels of activity in the production and trading division respectively and ease the administrative burden on our top revenue producers.

The acquisition completion accounts were completed in time for the release of our interim financial statements on 28 September 2017. Based on the conditions of the acquisition, an estimated negative working capital adjustment of $2.6m will be made to the $3m deferred cash consideration portion of the purchase price, resulting in a revised acquisition price of $12.2m. The final number will be determined upon the completion of the 2017 audited financial statements.

Website update

Our updated website will launch today which will be complemented by Chinese versions of our corporate materials.

Miles Pelham, Chairman of Obtala commented: "The time spent during the past three months working alongside the WoodBois team, who have decades of forestry trading experience, has cemented our view that we are on the cusp of a super cycle in timber and agriculture pricing. I was already aware of the strong demand in China for these resources, but having studied WoodBois' diverse customer base and investment opportunities I am ever more aware of the impact with which population growth, and in particular growth in the global middle class, is creating demand for food and housing that is simply not being matched on the supply side. This is seen not only in Asia, but with our customers in Africa, the Middle East, and South America.

We have spent the past quarter putting in place the structure I believe is required to ensure we can not only best manage both businesses moving forward, but also invest wisely the capital that will inevitably need to be directed towards sustainable forestry and agriculture businesses in Africa given the abnormal risk return trade-offs emerging from this supply-demand imbalance. Our immediate financing focus for the next quarter will be securing a substantial trade finance facility for our timber trading division, which has a near immaculate default record, and yet has historically been restricted access to capital. In an environment of low interest rates with investors hunting for yield, there is an outsized opportunity to fund our trading business to many multiples of current revenue and profit levels that I am sure we will begin to capture in the coming months."

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