UGANDA OIL AND GAS OUTLOOK 2024

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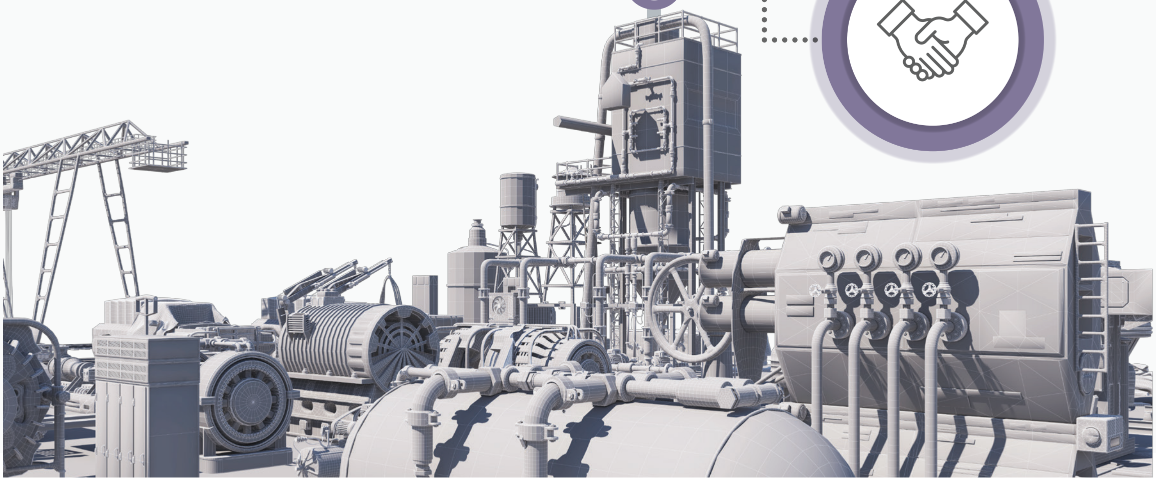


A YEAR OF TRANSITION

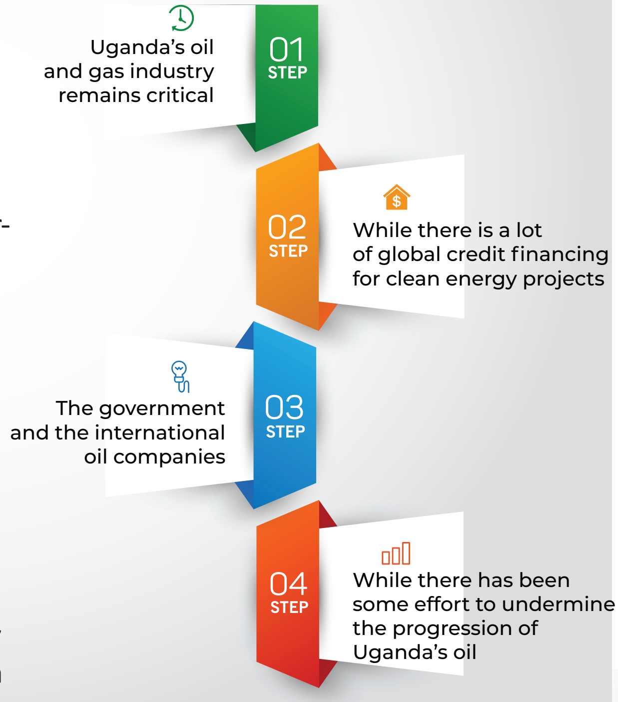
Uganda's oil and gas industry remains critical to the future of the country's energy transition due to its significance in generating the revenue needed to support clean technologies.

While there is pressure on Uganda to develop clean energy projects, there is limited availability of cheap financing for these projects, and there is no robust legal framework to promote these green technologies.

The African Development Bank estimates Uganda's climate finance needs at $17 billion – $28 billion for the years 2020–30.

The government and the international oil companies have invested more than $4 billion in Uganda's oil and gas industry to date.

While there has been some effort to undermine the progression of Uganda's oil and gas industry, we unreservedly support its growth even though we see risks further down the road.



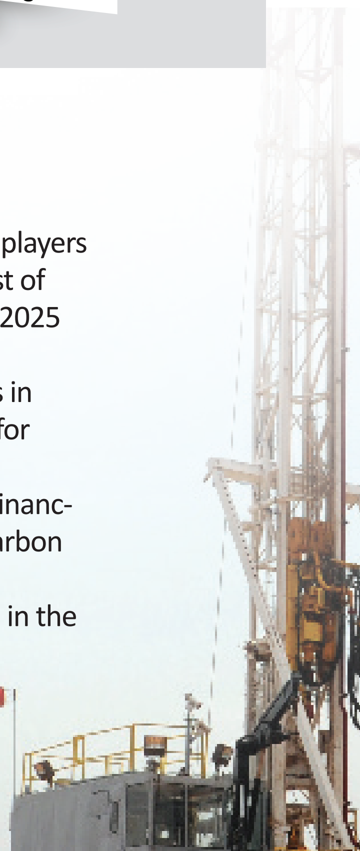
HOPE AMIDST UNCERTAINTY

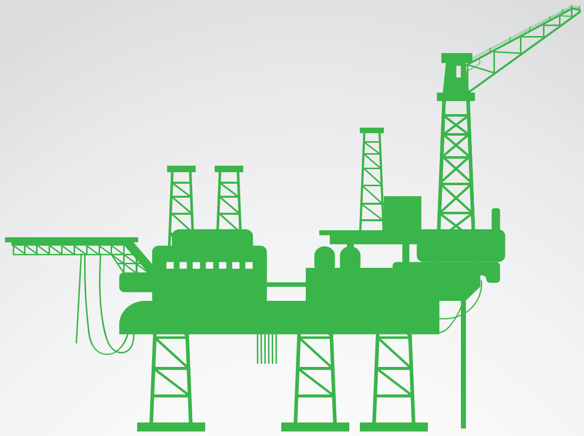
The year 2024 promises to be one of reckoning for Uganda's oil and gas industry as players pay more attention to the political risk. Oil and gas players will want to conclude most of the major investment decisions in 2024 before the political temperature heats up in 2025 ahead of the early 2026 general elections.

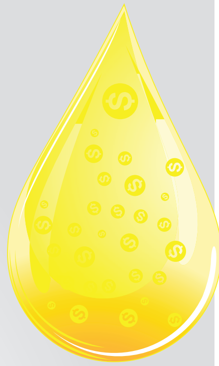
Away from the politics, the shareholders of the major upstream oil and gas projects in Uganda will navigate a tight credit market in 2024 as they try to nail down financing for their different projects.

Credit markets have faced a lot of pressure and criticism in recent years over their financing of fossil fuel projects. Environmentalists blame oil and gas projects for spewing carbon emissions into the horizon, and thereby adding to global warming.

Different forecasts estimate a drop in investment spend on global oil and gas assets in the upstream and midstream projects as demand for oil weakens slightly.







HOPE AMIDST UNCERTAINTY

Uganda's Ministry of Finance is expected to come up with new proposals on how to avail the much-needed capital to the Uganda National Oil Company, the finance arm of the state in the oil and gas industry, for it to undertake its mandate.

There is a high chance government will turn to the domestic financial markets, targeting institutions such as the National Social Security Fund, as a source of capital for some key oil and gas projects.

Until substantial project debt is made available, we see a delay across the board within Uganda's upstream oil industry.

Although all the four oil rigs are in Uganda, work programmes in the Tilenga and Kingfisher fields are moving at a slower pace. We expect work to ramp up when negotiations for the project debt are completed.

Australia's Armour Energy Limited, the operator of the Kanywataba contract area in Ntoroko district in western Uganda, is currently under receivership as the company looks for new investors to take up the majority of its shares. The company was supposed to have drilled its first oil well in March 2023, and follow that up with two other wells at its Turaco oil block in 2024. No well has been drilled yet, and we don't expect the two wells at Turaco in 2024 to be drilled either based on the company's financial position.

Nigeria's Oranto Petroleum is yet to drill its first well at the Ngassa shallow and deep contract areas as the company is yet to execute a lake solution for its project. While the company has undertaken a number of studies and carried out a couple of seismic surveys, it is yet to drill a well, six years after it was issued its first exploration licenses over the area.

Oranto received a two-year extension to its license areas in December 2023.

The cost of drilling one well on the sensitive Ngassa contract area, which is found on the banks of Lake Albert, goes anywhere between \$20 million and \$30 million. Finding that money in the current financial system will turn out to be tough.

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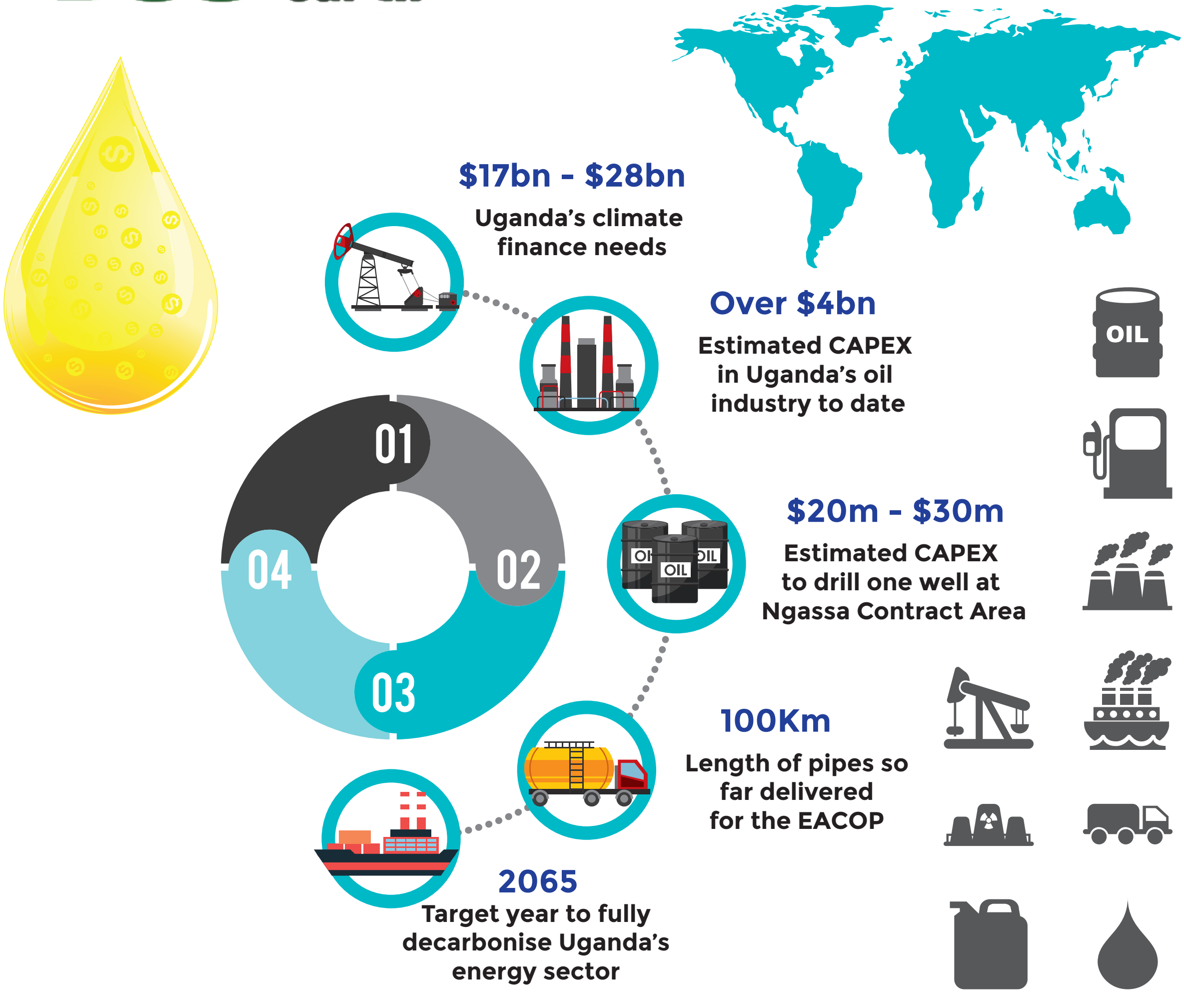


COP 28 RESOLUTION

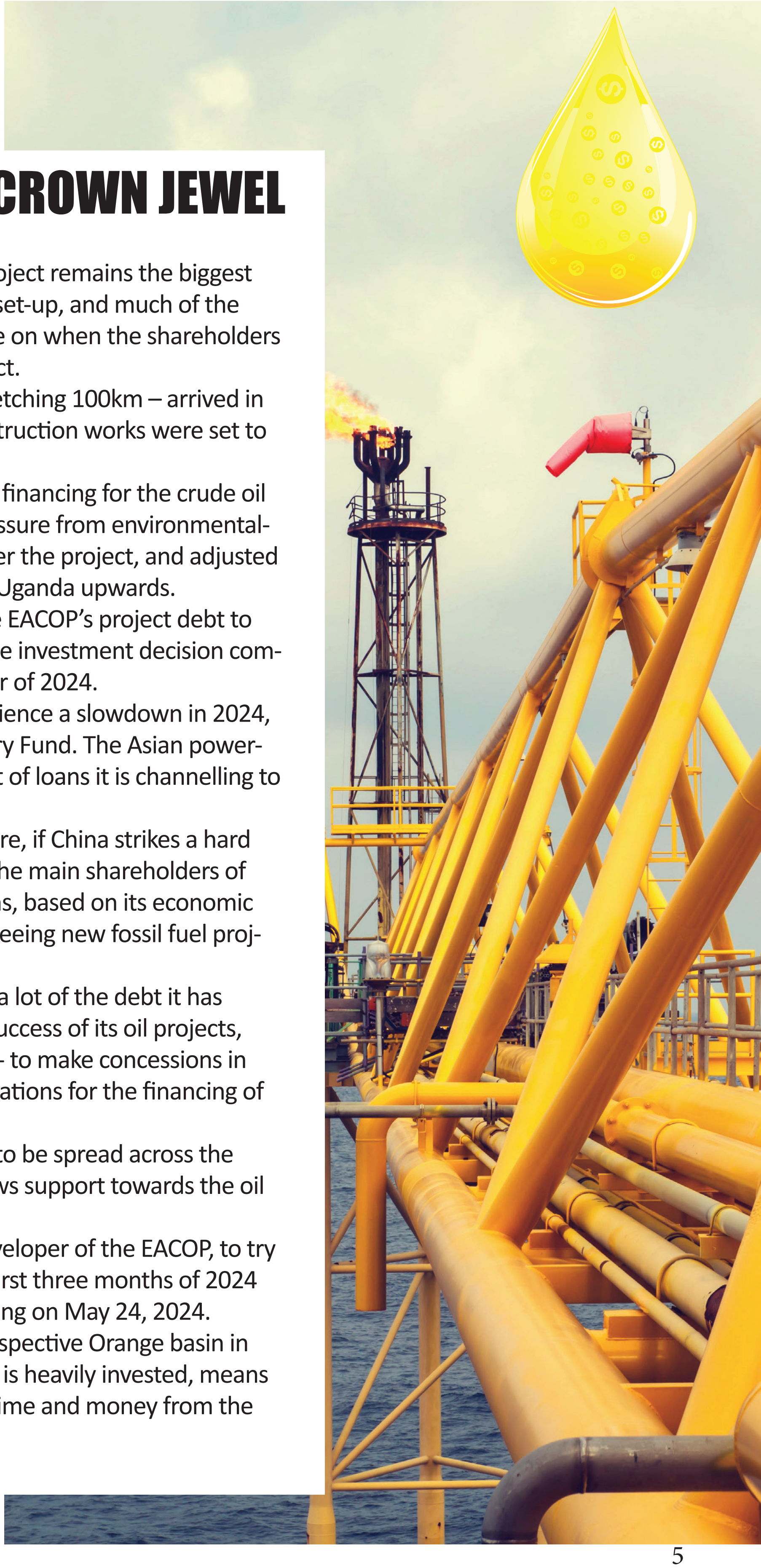
A declaration at the COP 28 meeting in December 2023 in Dubai, UAE, which signalled the "beginning of the end of the fossil fuel era" by introducing the first global stocktake, lays down action points for countries to introduce plans that will lead to the reduction of carbon emissions.

Uganda will look at the Dubai declaration as a package that triggers mixed feelings – on one hand it leaves a slight window for investments to flow into the oil and gas industry, but on the other sets the clock on how far the country's oil project can go.

At the COP 28 meeting in Dubai, Uganda launched its Energy Transition Plan – a blueprint with ambitious targets of how the country intends to decarbonise its energy industry by 2065.

We expect Uganda's Ministry of Energy and the international oil companies to unveil plans of new clean energy technologies in line with some of the recommendations listed in the Energy Transition Plan, and also make more declarations of their commitment to reduce carbon emissions.

Within those plans, however, we expect the two parties to make a stronger case for the need for developing countries such as Uganda to end energy poverty by exploiting their oil and gas resources if the global energy transition is to make sense.



EACOP – STILL THE CROWN JEWEL

The East African Crude Oil Pipeline project remains the biggest gamechanger for Uganda's oil and gas set-up, and much of the attention in the first half of 2024 will be on when the shareholders can finally close financing for the project.

Recently, the first batch of pipes – stretching 100km – arrived in Dar es Salaam, offering hope that construction works were set to start.

However, the slow progress in closing financing for the crude oil pipeline project, and the increased pressure from environmentalists, has thrown further uncertainty over the project, and adjusted the risk of a delayed First Oil target for Uganda upwards.

Still, we expect nearly $3 billion of the EACOP's project debt to come from China, with signing off of the investment decision coming at the beginning of the third quarter of 2024.

China's economy is expected to experience a slowdown in 2024, according to the International Monetary Fund. The Asian powerhouse has already reduced the amount of loans it is channelling to African infrastructure projects.

It should not surprise anyone, therefore, if China strikes a hard bargain on the negotiation table with the main shareholders of the EACOP in the next couple of months, based on its economic fortunes amid other global financiers fleeing new fossil fuel projects.

Considering that Uganda has hedged a lot of the debt it has stocked up in the recent years on the success of its oil projects, we expect the country – if called upon - to make concessions in facilitating the conclusion of the negotiations for the financing of EACOP.

We also expect financial concessions to be spread across the upstream industry as government shows support towards the oil project.

We expect TotalEnergies, the lead developer of the EACOP, to try and wrap the negotiations within the first three months of 2024 ahead of its annual shareholders meeting on May 24, 2024.

Also, the emergence of the highly prospective Orange basin in offshore Namibia, where TotalEnergies is heavily invested, means Uganda's oil asset has to compete for time and money from the French oil major.

OIL REFINERY – ALGERIA'S INTEREST

Some above ground surface works have started as Uganda's government tries to build momentum for its refinery project. The government's selection of COEGA, a South African company, to open up the Kabalega Industrial Park is a promising sign of more light works on the project.

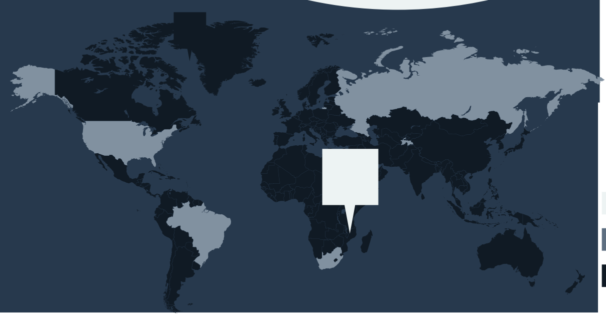
Uganda's government has agreed to execute the refinery project singlehandedly, although private investors are invited to participate.

Algeria has shown the strongest interest in investing in Uganda's oil refinery project. Sonatrach, Algeria's national oil company, is expected to play a major part in Uganda's oil refinery project.

A 60,000 barrels of oil per day refinery will be located in Kabaale, Hoima district. The project will also include a 211km multi-products pipeline to a storage terminal in Mpigi district.

We expect the government to incorporate a refinery company in 2024. The company will lead most of the negotiations for the project.

Some of the agreements we expect the government to conclude during 2024 include the Implementation Agreement, which is the anchor for all the other agreements. Another key agreement that we expect to be concluded in the year is the Crude Oil Supply Agreement, which confirms the availability of oil supplies. The conclusion of these agreements should then allow the government make a final investment decision for the project.



CONCLUSION

The first quarter of 2024 could likely see some agitation from local suppliers within the oil industry due to the uncertainty over the conclusion of the financial closure for the East African Crude Oil Pipeline.

We expect these tensions to ease in the second half of the year in the wake of more clarity over the direction of Uganda's oil industry.

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