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SCL - SacOil Holdings Limited - Reviewed provisional results for the year ended 28 February 2011
SacOil Holdings Limited
(Incorporated in the Republic of South Africa)
(Registration number 1993/000460/06)
JSE share code: SCL AIM share code: SAC
ISIN: ZAE000127460
("SacOil" or "the Company" or "the Group")
Reviewed provisional results for the year ended 28 February 2011
Consolidated Statement of Comprehensive Income

	Reviewed Group 12 months to 28 February 2011 R`000	Reviewed Group 12 months to 28 February 2010 R`000
Revenue	35 143	31 724
Cost of sales	(23 615)	(20 210)
Gross profit	11 528	11 514
Operating costs	(7 329)	(5 774)
Profit from manganese operations	4 199	5 740
Corporate head office costs	(4 021)	(1 953)
Corporate action costs	(24 680)	(2 417)
Corporate costs	(28 701)	(4 370)
Investment income	1 271	731
Interest paid	(17)	(13)
Net finance income	1 254	718
Impairment of loans receivable	-	(3 016)
Share-based payment expense	(4 179)	-
Fair value loss on revaluation of monetary investment	(105)	-
Exchange differences on revaluation of foreign loans receivable	(2 124)	-
Other profit and loss items	(6 408)	(3 016)
Loss for the year before tax	(29 656)	(929)
Income tax	(95)	895
Loss for the year	(29 751)	(34)
Other comprehensive income		
Fair value gain on revaluation of property, plant and equipment	-	3 195
Reversal of fair value gain on revaluation of property, plant and equipment	(340)	-
Income tax on other comprehensive income	95	(895)
Other comprehensive income for the year net of income tax	(245)	2 301
Total comprehensive (loss)/income for the year net of income tax	(29 996)	2 267
Weighted average number of shares (`000)	449 629	313 292
(Loss)/Earnings per share (cents)	(6,67)	0,72
Diluted (loss)/earnings per share (cents)	(6,21)	0,72
Headline (loss)/earnings per share (cents)	(6,62)	0,95
Diluted headline (loss)/earnings per share (cents)	(6,16)	0,95
Reconciliation of headline (loss)/earnings:		
(Loss)/Earnings attributable to shareholders	(29 996)	2 267
Impairment loss on revaluation of financial assets held for sale	-	3 016
Fair value gain on revaluation of property, plant and equipment net of tax	-	(2 301)
Reversal of fair value gain on revaluation of property, plant and equipment	245	-

Headline (loss)/earnings	(29 751)	2 982
Headline (loss)/earnings per share (cents)	(6,62)	0,95
Diluted headline (loss)/earnings per share (cents)	(6,16)	0,95
Consolidated Statement of Financial Position		
ASSETS		
Non-current assets	447 173	8 535
Property, plant and equipment	6 644	7 640
Intangible assets	394 642	-
Deferred tax asset	800	895
Loan receivable	45 087	-
Current assets	38 038	40 942
Loan receivable	11 413	27 867
Inventory	2 408	2 305
Trade accounts receivable	5 034	3 558
Sundry accounts receivable	1 283	214
Cash and cash equivalents	17 900	6 998
Total assets	485 211	49 476
EQUITY AND LIABILITIES		
Equity attributable to equity holders	307 818	43 332
Stated capital	374 029	83 726
Share-based payment reserve	27 933	23 754
Revaluation reserves	2 056	2 301
Accumulated loss	(96 200)	(66 449)
Non-controlling interest	161 179	-
Total equity	468 997	43 332
Non-current liabilities	946	934
Liability under instalment sale agreement	-	108
Provision for environmental rehabilitation	946	826
Current liabilities	15 268	5 211
Trade accounts payable	5 833	1 330
Liability under instalment sale agreement	89	138
Deferred tax liability	800	895
Loans payable	8 259	2 503
Sundry accounts payable	287	346
Total equity and liabilities	485 211	49 477
Number of shares in issue (`000)	674 090	313 292
Net asset value per share (cents)	69,57	13,83
Net tangible asset value per share (cents)	11,03	13,83
Consolidated Statement of Cash Flows		
Cash (utilised in)/generated from operations	(26 278)	2 146
Cash generated from/(utilised in) movements in working capital	786	(2 421)
Cash utilised in operating activities	(25 492)	(275)
Investment income	1 062	731
Interest paid	(17)	(13)
Net cash flows from operating activities	(24 447)	443
Net cash flows from investing activities	(54 475)	(263)
Net cash flows from financing activities	89 824	(38)
Net decrease in cash and cash equivalents	10 902	142
Cash and cash equivalents at beginning of the year	6 998	6 856
Cash and cash equivalents at end of the year	17 900	6 998
Consolidated Statement of Changes in Equity		
Stated capital		
Opening balance	83 726	83 726
Shares issued for cash	132 803	-
Shares issued to acquire assets	154 997	-
Shares issued to repay loan	2 503	-
Closing balance	374 029	83 726
Accumulated loss		
Opening balance	(66 449)	(66 415)
Total comprehensive (loss)/profit for the year	(29 996)	2 267
Transfer to revaluation reserves net of tax	245	(2 301)
Closing balance	(96 200)	(66 449)
Revaluation reserves		
Opening balance	2 301	-

Revaluation reserves net of deferred tax	-	2 301
Transfer of revaluation reserves to other comprehensive income net of tax	(245)	-
Closing balance	2 056	2 301
Share-based payment reserve		
Opening balance	23 754	23 754
Share-based payment expense	4 179	-
Closing balance	27 933	23 754

Notes

1. Basis of preparation

The annual financial statements of the Group for the year ended 28 February 2011 have been prepared in accordance with the Group`s accounting policies, which comply with International Financial Reporting Standards, IAS 34, as well as the AC 500 standards as issued by the Accounting Practices Board or its successor, the Listings Requirements of the JSE Limited and the Companies Act of South Africa and are consistent with those of the previous period. These financial statements have been prepared on a going concern basis.

All monetary information and figures presented in these financial statements are stated in thousands of Rand (R`000), unless otherwise indicated.

2. Auditors` review report

The provisional financial statements have been reviewed by the Group`s auditors, BDO South Africa Inc. Their unmodified review opinion is available for inspection at the Company`s registered office.

3. Comments on the results

The Group reported a headline loss of 6,62 (2010: earnings of 0,95) cents per share. The headline loss includes a loss of 6,38 cents per share directly attributable to corporate actions during the period under review as well as a loss of 1,15 cents per share from other profit and loss items.

A net asset value of 69,57 (2010: 13,83) cents per share and a tangible net asset value of 11,03 (2010: 13,83) cents per share were reported.

The Company`s chemical manganese processing plant, the Greenhills plant, increased sales by 11 per cent. Profit from the manganese operations equated to R4,2 million (2010: R5,7 million) before tax. The management team continues to manage costs strictly and perform regular reviews of costs and selling prices to ensure that margins are maintained. The decrease in profit is mainly due to increased costs to maintain and upgrade the plant during the period under review. Sales and production levels were maintained and the Company expects this to continue during the ensuing reporting period.

Corporate action costs of R24,7 million is directly attributable to corporate actions taken by the Group during the period under review. These costs include advisory and professional fees paid in relation to, inter alia;

- the successful restructuring of the Group`s investment in the Block III rights, Albertine Graben ("Block III") in the Democratic Republic of the Congo ("DRC") ("Block III Rights");
- the Group`s investment in oil prospecting licenses OPL233 and OPL281 in Nigeria;
- the successful raising of R133,0 million in equity; and
- the Company`s successful admission to the AIM Market of the London Stock Exchange plc ("AIM") on 8 April 2011.

Included in other profit and loss items for the period is R4,2 million in relation to share-based payment expenses recognised in terms of IFRS 2 - Share-based Payments, as well as exchange differences recognised of R2,7 million in relation to the revaluation of foreign loans receivable at year-end.

4. Overview of foreign business interests

The Group is party to transactions pertaining to Block III in the DRC and OPL281 and OPL233 in Nigeria ("the Transactions").

4.1 Democratic Republic of the Congo

Block III

SacOil owns 50 per cent of the issued capital of Semliki Energy SPRL ("Semliki"), a company incorporated in the DRC which, in turn, holds the oil concession rights pertaining to Block III.

A Presidential Ordinance approving the Block III Production Sharing Agreement has been issued to Semliki, whereby Semliki has the right to apply (after fulfilling certain contractual obligations) for an exploration permit.

On 31 March 2011, Semliki successfully concluded a farm-in agreement with Total

E&P RDC ("Total") pursuant to which Total acquired a 60 per cent undivided interest ("the Block III Interest") in, and became the operator of, Block III. Refer to paragraph 10 below for details of the transaction.

4.2 Nigeria

Blocks OPL233 and OPL281

Subsidiaries of the Company have entered into farm-in agreements in relation to oil concession Blocks OPL281 and OPL233 in Nigeria. Oil concession Block OPL233 is located in the shallow water area of the Niger Delta of discovered but undeveloped oil assets. Oil concession Block OPL281 is an onshore block covering some 138 km2, and is located in the western delta region of Nigeria approximately 25 km due east from the Forcados terminal.

Energy Equity Resources Limited ("EER") Joint Venture

In the important Nigerian oil and gas market, SacOil has formed a joint venture with the established oil and gas company, EER, to acquire and/or develop oil and gas assets in Nigeria as announced by the Company on 12 October 2010. This joint venture facilitates the acquisition by the Company of interests in oil and gas assets in Nigeria, including those relinquished and disposed of by international oil companies in compliance with Nigeria`s indigenisation legislation.

Shareholders are referred to previous SENS announcements, the first of which was made on 12 October 2010 and the last of which was made on 4 March 2011, and to the Company`s Appendix to AIM Announcement dated 8 March 2011, for further details of the Transactions. These documents can also be found on www.sacoilholdings.com

5. Admission to AIM

On 8 April 2011 SacOil announced the commencement of trading in its shares on AIM after an introduction by the Company`s Nominated Adviser and joint broker finnCap Limited and joint broker Renaissance Capital Limited ("the Admission"). The Company remains listed on the Main Board of the JSE Limited.

6. Board and management

On 11 April the board of directors announced the appointment of Messrs John Bentley and Bill Guest as non-executive directors of the Company with effect 1 May 2011. The board believes that their wealth of global experience and skills, combined with their extensive operational experience, will be a significant asset to the Company. Their appointment will further enhance the Company`s vision to become a Pan-African upstream oil and gas company.

The Company also appointed Mr Bradley Cerff as Vice President - Commercial with effect from 9 May 2011. Mr Cerff has a MSc degree and an MBA degree.

Mr Cerff has extensive knowledge of geophysical, geological, engineering techniques and applications for oil and gas prospect and field evaluation. He also has extensive experience in oil and gas financial analysis, planning and modelling. His strong technical background in supervising and conducting oil and gas field evaluations will be an asset to the Company. Mr Cerff will be responsible for evaluation of new upstream opportunities as well as coordinating, organising and managing the Company`s portfolio of assets.

7. Litigation update

The Company previously reported on the application instituted by Identiguard International (Proprietary) Limited ("Identiguard") against SacOil (Proprietary) Limited, an entity in which the Company owns 50 per cent of the issued share capital. Identiguard obtained a judgment against the DRC Government. In partial execution of that judgment, Identiguard sought to attach the payment of the supplementary signature bonus (US$2,0 million) under the Block III Production Sharing Agreement that was concluded between SacOil (Proprietary) Limited and the DRC Government. Despite SacOil (Proprietary) Limited`s opposition to the application, the South Gauteng High Court has now delivered judgment in favour of Identiguard and authorised the notice of attachment. The South Gauteng High Court also ordered SacOil (Proprietary) Limited to pay the costs of the application. The South Gauteng High Court dismissed an application by SacOil (Proprietary) Limited to file an affidavit to place further information before the Court. We are of the view that the inclusion of this affidavit could have had a material impact on the outcome of the matter.

SacOil (Proprietary) Limited has accordingly instructed its South African legal representatives, Deneys Reitz Inc, to apply for leave to appeal against the South Gauteng High Court judgment.

8. Funding

During the period under review the Company raised a total of R133,0 million in equity. As stated at Admission to AIM on 8 April 2011, the directors of SacOil have no reason to believe that the working capital available to the Company or the Group will be insufficient for at least 12 months from the date of its Admission.

9. Dividends

The board has resolved not to declare any dividend to shareholders for the period under review.

10. Post-balance sheet events

Block III

10.1 Farm-in agreement with Total ("Total Agreement")

On 31 March 2011 Semliki and Total successfully concluded a farm-in agreement in terms of which Semliki agreed to sell the Block III Interest to Total for an initial consideration of US$15,0 million. The agreement makes provision for Semliki to receive a bonus payment of US$58,0 million in the event that the Final Investment Decision ("FID") date is achieved and for a second bonus payment of US$50,0 million in the event that the First Oil Date is achieved. Total, in its capacity as operator of Block III, undertakes to use its reasonable endeavours to ensure that:

- the FID date is achieved within three years of the date upon which all the conditions precedent are satisfied or waived ("Completion Date"); and
- the First Oil Date is achieved within two years of the FID date. Total undertakes to carry Semliki`s 40 per cent share of costs incurred pursuant to the provisions of the Block III Production Sharing Agreement and the Block III Joint Operating Agreement, provided that Total is entitled to recover such costs and interest thereon from Semliki`s entire share of cost oil and 80 per cent of Semliki`s share of profit oil under the Block III Joint Operating Agreement.

Total further undertakes to effect payment of the Block III Cession Bonus to the DRC Government within three business days of the Completion Date.

10.2 Rationale

Semliki has entered into the Total Agreement because SacOil has been seeking an operational partner to assist with the evaluation and exploration of the Block III rights. The board believes that engaging one of the super oil majors, such as Total, will give the Company access to the skills and technical expertise necessary to successfully advance the exploration of Block III. Not only does Total have the skills and expertise, but also the operational capacity to fulfill this role.

The implementation of the Total Agreement will significantly de-risk SacOil in respect of commercialising the Block III rights, executing the Block III Work Programme and the financial risk in relation to the funding of the operations of Block III since Total will be the operator. The implementation of the agreement will also permit cash flow to be released from the transaction which can be utilised to fund the Company`s Nigerian activities.

In terms of the Total Agreement, Total, in its capacity as operator, will use its reasonable endeavors to ensure that one exploration well is drilled by the Block III Contractant before 31 December 2012 or by the earliest possible date thereafter. Total has the necessary infrastructure including pipelines in place to extract and supply crude oil.

The DRC Minister of Hydrocarbons approved the transfer of the Block III Interest to Total and the appointment of Total as the operator of Block III.

10.3 Value to SacOil

The board is of the view that, due to the nature of the Total Agreement, it is not possible to accurately assess the accretion of value to SacOil pursuant to the Total Agreement; however, in evaluating the merits of the Total Agreement, the board has considered the following:

- in aggregate, US$61,5 million will be paid by Total to SacOil by the First Oil Date;
- it estimates the quantum of SacOil`s share of the Carried Costs in relation to the exploration costs to be in the region of US$35,0 million;
- the directors believe the value of SacOil`s residual effective 12,5 per cent interest in the Block III Rights will be considerably higher with the assistance of Total, in comparison to the value that its previous effective 42,5 per cent interest in the Block III Rights would have in the absence of the Total Agreement; and
- the Competent Person`s Report dated 24 February 2011 produced by Bayphase Limited in relation to SacOil`s interest in Block III values the Total farm in

to Block III to SacOil on a cost approach basis on completion as US$128,9 million.
11. Greenhills plant
The Greenhills plant continues to operate profitably. SacOil has progressed its stated strategic focus of targeting the acquisition of exploration, discovered but undeveloped, and/or previously producing but now shut in near-term producing and production assets on the African continent. Because of the Company`s new strategic focus and the fact that the Greenhills plant has become a non-core asset of SacOil, the management team is currently exploring strategic alternatives for its manganese operations, one of which could be to dispose of the plant.
12. Future direction
SacOil is intent on becoming a leading independent African upstream oil and gas company with a balanced portfolio of Pan-African assets. SacOil`s assets are in all phases of the upstream cycle - exploration, appraisal and near production - and are currently in the DRC and Nigeria. The board continues to seek other opportunities which have the potential to add value to the Group.
By order of the board
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24 May 2011
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Nominated Adviser: finnCap Limited
Auditors: BDO South Africa Inc.
Corporate legal advisers: Deneys Reitz Inc.
Sponsor: Standard Bank Limited
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