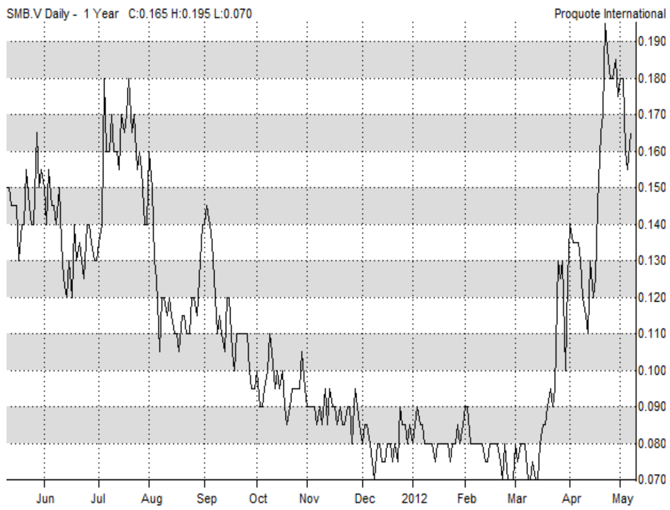
SIMBA ENERGY INC

C$0.165

Kenyan exploration programme update

8 May 2012



Recommendation	**BUY**
Sector:	Oil & Gas
Exchange & Ticker:	TSX.V: SMB
Shares in issue:	193.6m
Fully diluted equity:	312.8m
Market cap:	C$31.9m
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Simba's work programme on Block 2A in Kenya is progressing well and early assessment of the existing data has identified two exploration leads on the acreage already. While we await the publication of a CPR and indications of the resource potential of Block 2A, Simba will conduct a passive seismic survey, expected to commence at the end of May. The company has current cash in excess of C$3.0m which puts it in a strong position to accelerate the current stage of its Kenyan exploration programme over the next six months.

- Simba was granted a Production Sharing Contract (PSC) for Block 2A by the Kenyan Ministry of Energy in August 2011. Block 2A covers 7,800 km^2 in northeast Kenya and overlies the southern tip of the highly prospective Mandera Basin. The southwest corner of the block also extends into the promising Anza Basin. Consequently, Simba believes that Block 2A has excellent potential for large oil and gas discoveries.
- Simba has completed the reprocessing of a number of 2D seismic lines on Block 2A while all the other lines have been scanned and vectorised into digital format. Simba has also reprocessed existing gravity and magnetic data for interpretation in conjunction with the seismic work.
- Based this data, Simba plans to publish a Competent Persons Report (CPR) in the coming weeks. Meanwhile, the company is continuing its Kenyan work programme with a passive seismic survey anticipated to begin at the end of May. The results of this are likely to augment significantly the findings of the CPR.
- In April, Simba conducted a placing to raise over C$4.2m, the majority of which will be used to advance Simba's activities in Kenya. With additional cash also becoming available from the exercise of warrants, we are confident that Simba has more than sufficient resources for its current Kenyan work programme in 2012.
- Kenya represents an increasingly attractive oil exploration province. Tullow recently announced the Ngamia-1 oil discovery on Block 10BB in central Kenya and Afren has commenced a 1,800km 2D seismic acquisition programme on Block 1, immediately to the north of Block 2A. This is expected to be completed in Q3 and we expect the results to be of great relevance for the prospectivity and value of Simba's acreage.

With significant cash resources now in place, Simba is in a very strong position to accelerate its exploration programme on Block 2A. We are confident that, with positive results from the CPR and the passive seismic survey in addition to the creation of a data room, Simba will be in a position to attract a major farm in partner in order to fund a wider exploration drilling programme before the end of the year.

Work programme update

Simba's work programme on Block 2A in Kenya is progressing well and early assessment of the existing data has identified two exploration leads on the acreage already.

The company successfully obtained all the past geophysical data relevant to Block 2A which enabled the work programme, pre-approved by the Kenyan Ministry of Energy, to be accelerated. Simba has already completed an Environmental Impact Assessment (EIA) which has been approved by management and submitted to the Ministry.

Although Simba is about to embark on a passive seismic survey over 750km^2 of Block 2A, we anticipate that the company will release a Competent Persons Report (CPR) in the coming weeks, based on the technical work conducted to date.

Passive seismic poised to commence

Simba has been notified by GeoDynamics Research S.R.L. (Italy) that activities relating to onsite reconnaissance of its 100% interest in Block 2A in Kenya have commenced. Crew and equipment has been mobilised and is scheduled to arrive towards the end of May 2012. As such, we anticipate that an extensive passive seismic data acquisition programme will begin at the end of the month.

The scope of this survey covers 750km^2 with 250 measuring points on 2km spacing to identify and evaluate areas with hydrocarbon potential on Block 2A. The acquisition work in the field is expected to take 30 days with a report due within 30-45 days upon completion of field work.

The planned survey will cover a portion of both basins; the Mandera and the Anza, within Block 2A. Simba has already identified two exploration leads on its licence by re-working existing 2D seismic data. These leads will receive the immediate focus of the survey along with any additional leads identified from ongoing 2D re-interpretation.

The potential areas identified will most likely be further evaluated by conventional 3D or 2D seismic and/or gravity gradiometer prior to selecting a drill site.

Passive seismic in action

Simba completed the reprocessing of a number of 2D seismic lines on Block 2A while all the other lines have been scanned and vectorised into digital format. Simba has also reprocessed existing gravity and magnetic data for interpretation in conjunction with the seismic work. This work programme will continue with a passive seismic survey outlined above.

Passive seismic is the detection of natural low frequency earth movements with the purpose of detecting geological structure and locating the presence of hydrocarbons. The data gathered from multiple measurement points that are separated by several hundred metres over periods of several hours to several days using portable seismometers.

This survey method is very different from the conventional seismic acquisition which consists of numerous measurements that are spatially very close together and relatively short (frequently minutes only).

We are confident that the company is making good progress in Kenya and the results of the current phase of the passive seismic work programme is likely to enable Simba to compile sufficient data for the publication of a NI 51-101 technical report.

The National Instrument 51-101 Standards for Disclosure of Oil and Gas Activities is a requirement by the Canadian Securities Administrators (CSA) that sets out the requirements and standards for disclosure by reporting issuers (i.e. Simba) engaged in oil and gas activities.

New funds raised

On 16 April, Simba announced a non-brokered private placement of 53,036,250 ‘units’ at $0.08 per unit to provide total gross proceeds of up to C$4,242,900. Each unit consists of one common Simba Energy share and one share purchase warrant. Each warrant is exercisable into one common share of the company for a period of 24 months from closing at an exercise price of $0.16 per share.

The net proceeds of this placement will be used for advancing Simba’s outstanding Production Sharing Contracts (PSCs), particularly in Kenya, and general working capital requirements.

In connection with the placing Simba issued to certain finders 1,209,000 warrants. Each warrant is exercisable into one common share for a period of 24 months from closing at an exercise price of $0.16 per share. The securities issued with respect to the private placement are subject to a four month hold period in accordance with applicable Canadian securities laws.

Use of proceeds

Of the C$4.2m raised in the private placement, approximately C$1.0m was raised in smaller amounts and subsequently used to finance the ongoing working capital requirements of the company prior to the announcement of 16 April. Consequently, we estimate that Simba now has approximately C$3.0m of cash in the bank which we believe to be more than sufficient to fulfil the group’s current work programme in Kenya in 2012.

Given the recent strong performance of the share price over the last month, a significant number of warrants have been exercised that were due to expire at the end of May. This has provided the company with regular but unpredictable additional funds over the last few weeks.

Simba has approximately 105.1 million warrants outstanding most of which are priced at between C$0.12 and C$0.16 and a substantial segment of 29.7 million warrants, priced at C$0.15 are due to expire on 31 May 2012. In the event that the share price regains its recent levels in excess of C$0.16 per share, we can reasonably assume that a portion of the C$4.3m of cash available from the total exercise of the C$0.15 warrants will accrue to Simba.

Additional upside from warrants

The proceeds of the recent placing alone are more than sufficient for Simba to conduct its passive seismic survey on Block 2A, which we anticipate will cost no more than US$1.0m inclusive of all ancillary costs. In addition, we believe that Simba will have enough cash in reserve to fund all of its working capital requirements, publish its forthcoming CPR and maintain the PSCs on its other African acreage (this element does not require any immediate cash commitments).

However, should Simba accrue significant additional cash from the exercise of warrants over the next month, we believe that the company may embark upon an airborne gravity over Block 2A which could provide additional valuable data for a CPR and facilitate more attractive farm in terms for Simba when the exploration programme moves into the next phase. We believe that such a survey would cost considerably less than US$2.0m.

NB. Gravity gradiometry is used in hydrocarbon exploration to measure the density of the subsurface and the rate of change of rock properties. From this, it is possible to build a picture of subsurface anomalies which can then be used to more accurately target potential oil and gas accumulations.

Industry developments in Kenya

Looking ahead over the next twelve months, Simba now has the means to make significant progress with its work programme on Block 2A. However, we believe that the company's profile will also receive a substantial boost from exciting oil and gas sector developments in the rest of Kenya and in acreage adjacent to Simba's acreage.

In particular, Tullow Oil announced the first oil discovery in Kenya in March with the Ngamia-1 exploration well on Block 10BB to the west of Simba's acreage in the Turkana Basin.

Subsequently, the Kenyan government has confirmed that it expects that a further four exploration wells will be drilled in the country in the current year and of the 16 un-licenced blocks currently open for oil and gas exploration, nine have since received expressions of interest from international companies.

Ngamia-1 oil discovery

On 26 March 2012, Tullow announced that the Ngamia-1 exploration well, located in the Turkana County of Block 10BB, was drilled to an intermediate depth of 1,041 metres and encountered in excess of 20 metres of net oil pay.

The well was successfully logged and sampled and moveable oil with an API greater than 30 degrees has been recovered to surface. This oil has similar properties to the light waxy crude discovered in Uganda where Tullow has made a series of major discoveries. Tullow operates Block 10BB with a 50% interest and is partnered by Africa Oil, also with a 50% stake.

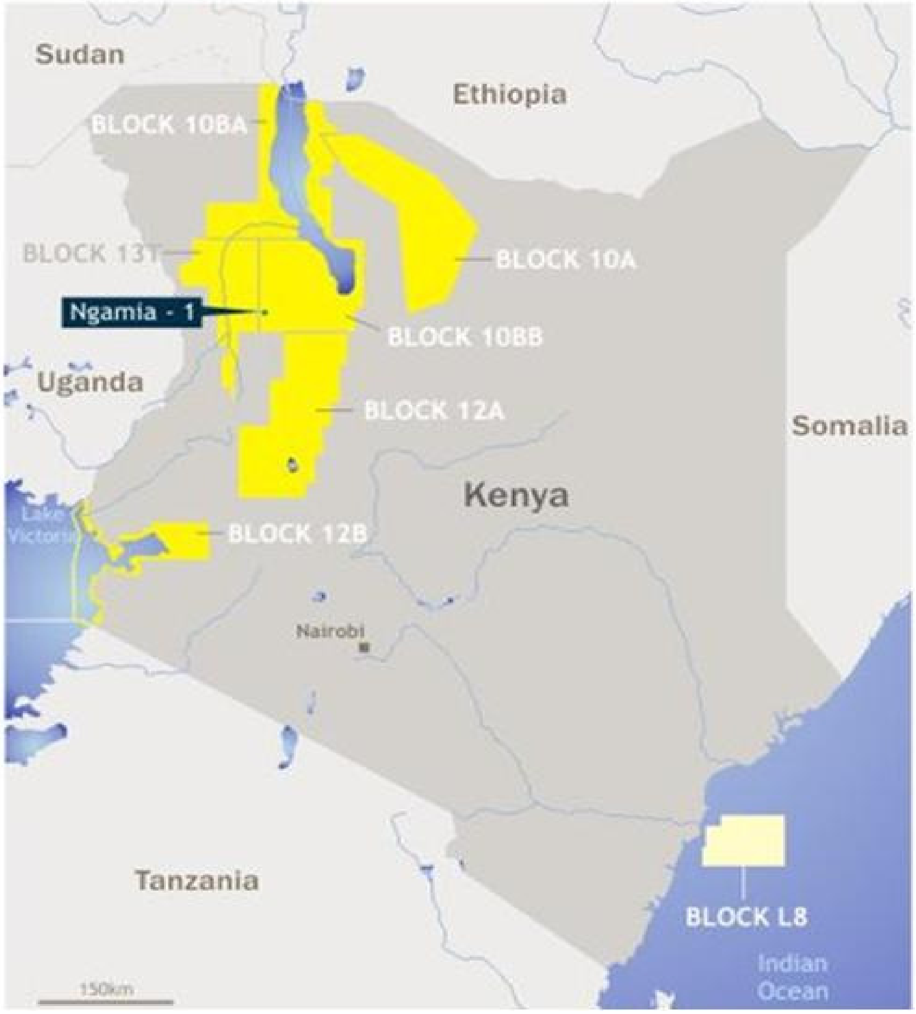
Drilling continued throughout April and on 7 May, it was announced that Ngamia-1 was drilled to an intermediate depth of 1,515 metres and the total net oil pay encountered so far increased to over 100 metres across multiple reservoir zones.

A sidetrack was required in this section and following completion of logging and sampling, oil samples again with an API greater than 30 degrees were recovered to surface from the newly drilled section with similar properties to the light waxy crude encountered in the upper reservoir zone.

Tullow is continuing drilling to approximately 2,700 metres to explore for deeper potential and on completion of operations, the drilling rig will move to the Tullow operated Block 10A where the Paipai-1 wildcat will spud in the second half of the year. Tullow's licences are illustrated below.

The Ngamia structure is the first prospect that Tullow has tested as part of a multi-well drilling campaign in Kenya and Ethiopia. The company has identified several leads and prospects similar to Ngamia and we believe that Ngamia-1 represents an early stage in the de-risking of Kenya as a significant oil province

Location of Ngamia-1 and Tullow's Kenyan licence portfolio

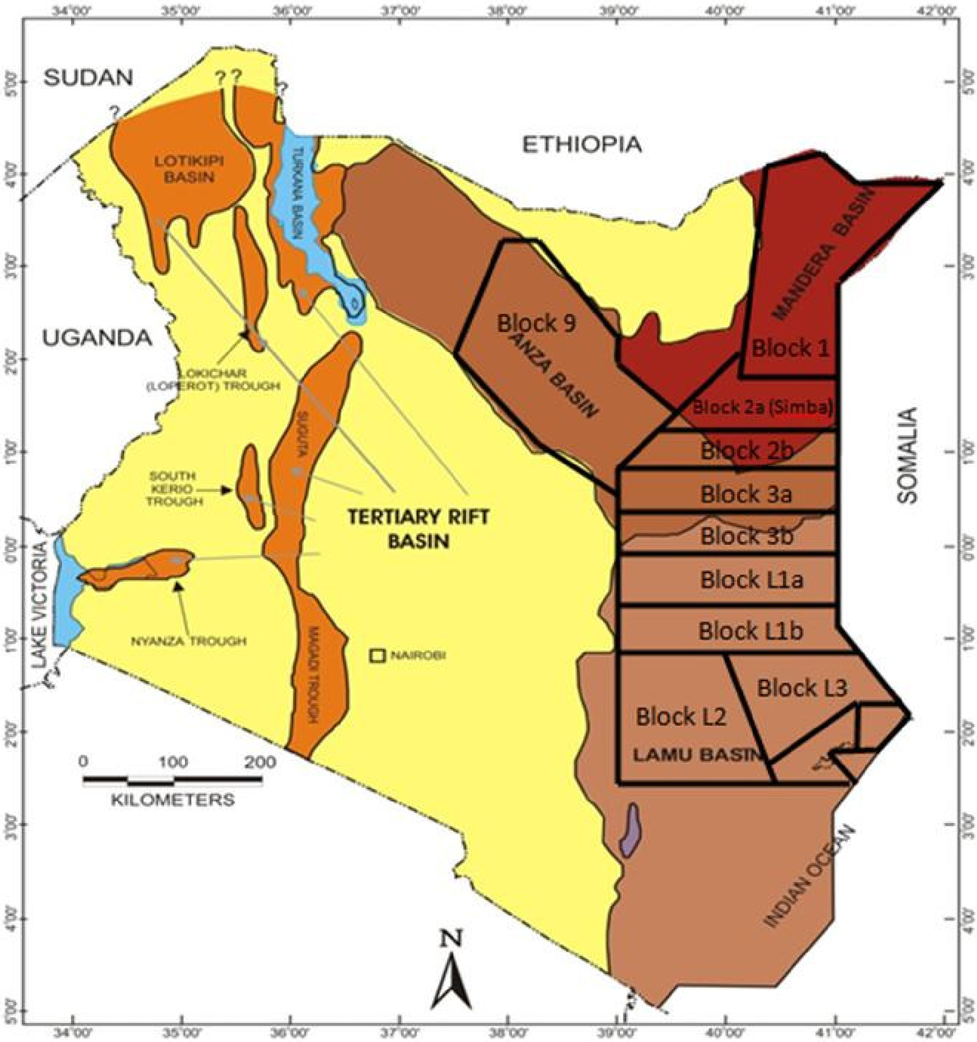


Source: Tullow Oil

Activities on Block 1

Privately held London based company, Lion Petroleum Corp and its partner Afren (LSE: AFR), have commenced a 1,800km 2D seismic acquisition programme on Block 1 in the far northeast of Kenya. This could prove to be very interesting for Simba given that Block 1 is located immediately north of Block 2A in the Mandera Basin in northeast Kenya. Lion is also the operator of Block 2B immediately to the south of Simba's licence. Please refer to the map below for the respective locations of Simba's and Lion's acreage in Kenya.

Licence areas and basins in Kenya



Source: Simba Energy

Seismic activity on Block 1

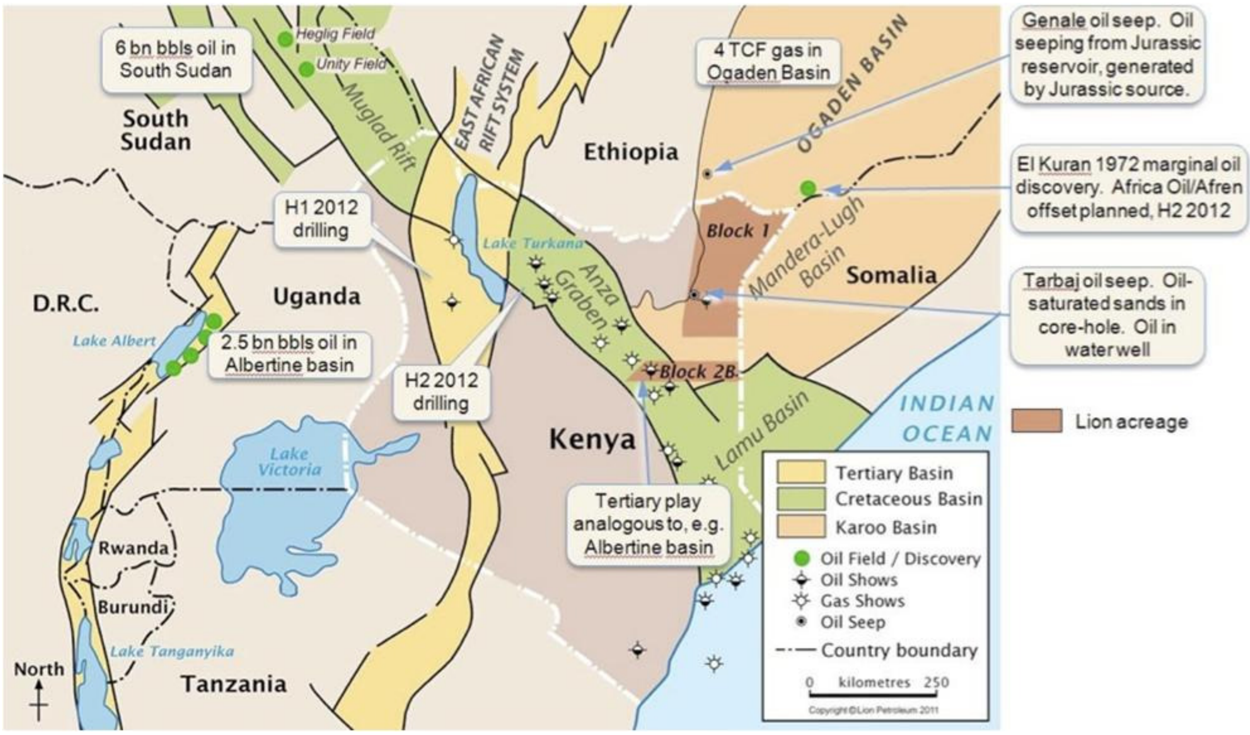
The Mandera Basin is very lightly explored and Block 1 has not witnessed any exploration activity for over 20 years. Nevertheless, Lion's seismic crew established operations in Block 1 in late November last year and the recording of new seismic data has now commenced.

The new seismic data is expected to delineate exploration prospects that Lion and Afren will drill in 2013. Depending on rate of acquisition, the 1,800 km seismic survey is expected to be completed during Q3 of the current year. In the first half of 2011, the partnership acquired airborne gravity and magnetic data to define the major basin geometry and to plan the new seismic programme.

Block 1 covers 31,781km^2 in the Mandera Lugh Basin, which extends northeast into Ethiopia and Somalia where it is known as the Ogaden Basin. Lion has a 50% working interest in the block and is carried by the operator, Afren, through the first 600 km of seismic for an expected gross cost of US$6.0m.

The map below depicts Lion's acreage in the wider geological and geographical context. Of particular note is the gap between Blocks 1 and 2B which represents Simba's Block 2A. As such, we believe that positive news flow from Lion's and Afren's work programme on Block 1 could have very significant implications for the prospectivity and value of Simba's acreage.

The East African Basin system



Source: Lion Petroleum Corp

Activity in the offshore region

Although the offshore area of Kenya is a separate geological region from the Mandera Basin, it has attracted a number of international oil explorers over the last five years. In particular, Tullow completed a farm-in to Block L8 in 2011 where it currently holds a 15% equity position with a 5% additional equity option. The company will participate in the high-impact Mbawa-1 well which is expected to be drilled in Q3 2012. Tullow has identified a potential oil prone area in this gas rich province and we believe that positive result in a comparatively underexplored region such as Kenya can only provide a positive context for Simba's activities.

Existing regional evidence

We believe that there is solid evidence of a working petroleum system in the Mandera basin. The Tarbaj oil seep is located in the south-west portion of Block 1 and in Ethiopia, close to the Block 1 border, the El Kuran 1 & 2 wells drilled by Tenneco in 1972 encountered oil. An offset exploration well is expected to be drilled later this year by Africa Oil. To the west of El Kuran, the Genale oil seep occurs on the Mandera Basin flank. Further north, the basin is gas productive from the Hilal and Calub fields, which also contain light oil.

Block 2A: Simba's interest

There is already 650km of 2D seismic coverage on Block 2A which has identified several structures and a major stratigraphic pinch-out. What seismic coverage there is available also indicates a stable stratigraphic sequence with a number of good exploration leads.

The exploration history of Block 2A is short although Amoco drilled two wells in 1987. The Elgal-1 was drilled to 1,280 metres and Elgal-2 was completed at 1,908 metres although both wells were plugged and abandoned as no reservoir rocks were encountered. Historical exploration wells directly east of Block 2A in Somalia, including Das Eun-1, Gheferso-1 and Lach Bissigh-1, were also dry.

Resource potential

We believe that the prospectivity of Block 2A will improve substantially over the next twelve months as the extensive seismic survey in Block 1 progresses. The result of this work programme is likely to enable Simba to draw several direct inferences regarding its own block.

At present there are no reserves or prospective resources associated with Simba's Block 2A. However, there are some indicative estimates of resource potential in adjacent blocks that have direct relevance to Simba. In particular, Afren's management estimates that there could be 751 mmboe of unrisked gross prospective resources on Block 1.

Additionally, independent petroleum consultant, Sproule, has estimated that Block 2B has an unrisked gross prospective resource of nearly 387 mmboe from 17 individual leads. Block 2B is a similar size to 2A. However, it should be conceded that this resource is attributed predominantly to the Anza Basin making direct correlation with the potential of Block 2A slightly less indicative.

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The recommendation system used for this research is as follows. We expect the indicated target price relative to the FT All Share Index to be achieved with 12 months on the date of this publication. A 'Hold' indicates expected performance relative to this index of +/-10%, a 'Buy' indicates expected outperformance of >10% and a 'Sell' indicates underperformance of >10%.

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