# Condensed Unaudited Interim Consolidated Results for the six months ended 31 December 2019

minergycoal.com

**Minergy Limited**
(Incorporated in accordance with the laws of Botswana) (Company number: BW00001542791) ("Minergy" or "the Group" or "the Company")

## KEY ACHIEVEMENTS

- **Beneficiation** plant commissioned
- **Additional** debt funding secured and received
- **Long-term** off-take agreement signed
- **New** CEO and CFO appointed
- **AIM** listing scheduled for Q4 of 2020

## INTRODUCTION

Minergy Limited ("Minergy" or "the Group" or "the Company") is a Botswana registered company listed on the main board of the Botswana Stock Exchange ("BSE"). Minergy's core business is coal mining and trading and it is committed to becoming the supplier of choice to industrial customers and power utilities across southern Africa. The Company is a leader and a pioneer in developing the Botswana coal industry.

## OPERATIONAL OVERVIEW

This six-month period from the previous reporting date of 30 June 2019 has been challenging but not surprising for a start-up mining operation that is operating in very tough financial and economic environments. The momentum gained from the accelerated mine development in an extremely short period has been slowed down by typical ramp-up operational matters, working capital shortages and adverse market conditions.

The commissioning and performance of the coal handling and preparation plant ("CHPP"), after the initial six-month delay, has not been without its challenges. The balancing of the plant, excessive water usage, the challenges related to working with mobile equipment and contractor shortcomings, has had the effect of lower volumes being produced. Significantly, stability has been achieved in most of these areas albeit late into the period under review.

These issues have had an associated cost impact (see financial review for additional details). The move to nameplate capacity and cost reductions are a top priority for the remainder of the financial year.

In-pit and pre-stripped stocks have proven adequate for plant feed, with about 220,000 tons of run-of-mine product extracted.

Operationally, Minergy has performed well in a relatively short period of time, despite a few setbacks, which is testament to the quality of team and their ingenuity.

Most pleasing is that at the date of this announcement, no reportable safety incidents occurred, with no lost time and no injuries reported. The mine continues to provide employment, training and skills development, benefiting a number of people from the Kweneng district. Currently 92% of the 270 people employed at the mine are Batswana.

## SALES PERFORMANCE

On a positive note, the group is pleased to announce its first revenue with 85,000 tons of product having been successfully sold during the period September 2019 to December 2019. The product was delivered into South Africa, Namibia and Botswana. We are also pleased to report that the quality of the coal produced has been consistent and well received in the respective markets.

Botswana was impacted by unusually heavy rain over December 2019, hampering accessibility into the mine resulting in fewer tons sold than originally forecasted for the period under review. These tonnages were delivered in January 2020, post the interim period.

During the ramp-up phase, marketing efforts were focussed on sales that generated cash to address short-term working capital requirements. Minergy successfully concluded a three-year off-take agreement with a South African cement producer and started delivery in September 2019, as previously announced. Sales into the contract represented 52% of volume, with a total of two-thirds of volume supplied to the cement industry duff market resulting in lower than forecasted average pricing.

The majority of sales are transacted in South African Rand ("ZAR"). For the period under review the ZAR was relatively stable against the Pula, albeit at higher than projected rates. This situation deteriorated significantly post December 2019 with the average BWP/ZAR rates depreciating between 6% and 15%.

Minergy continues to focus on selling coal directly to industrial end-users based in southern Africa where demand for the correct coal size, quality and consistent supply remains high despite a slowdown in supply. This sales strategy affords Minergy exposure to local pricing, which is more stable than international spot prices.

Minergy previously announced the effect that the decreased international seaborne coal price ("API4") has had on its ability to bed down customers and target higher pricing. The pricing of API4 improved significantly in December 2019. However, after a period of stability early in 2020, the API4 succumbed to the COVID-19 virus impacts and pricing is again under pressure. Unfortunately, Minergy has a difficult period ahead to obtain maximum pricing in a depressed market and a deteriorating ZAR.

However, local demand for the product is still promising and two cement producers are in negotiations with Minergy for short-term off-take agreements. Product was successfully tested, and spot orders were delivered during the period.

Special attention will be given to the higher-end pea market to contribute to sales volumes and increase average pricing.

## FINANCIALS

The condensed unaudited interim consolidated results for the six months ended 31 December 2019 are presented below.

# Statement of financial position

| FIGURES IN BOTSWANA PULA | 31 Dec 2019 | 30 Jun 2019 |
|---|---|---|
| **ASSETS** | | |
| **Non-current assets** | | |
| Property, plant and equipment | **265 585 460** | 168 615 430 |
| Deferred income tax | **25 939 265** | 13 346 576 |
| | **291 524 725** | 181 962 006 |
| **Current assets** | | |
| Inventories | **52 752 188** | 47 246 445 |
| Trade and other receivables | **12 520 849** | 23 190 740 |
| Cash and cash equivalents | **439 252** | 294 085 |
| | **65 712 289** | 70 731 270 |
| **Total assets** | **357 237 014** | 252 693 276 |
| **EQUITY AND LIABILITIES** | | |
| **Capital and reserves** | | |
| Ordinary shares | **130 563 026** | 130 563 026 |
| Accumulated loss | **(92 587 873)** | (48 675 336) |
| Other reserves | **5 895 693** | 2 063 988 |
| **Equity attributable to ordinary shareholders** | **43 870 846** | 83 951 678 |
| **Total equity** | **43 870 846** | 83 951 678 |
| **Non-current liabilities** | | |
| Rehabilitation provision | **23 232 457** | 22 665 812 |
| Financial liabilities | **109 684 448** | — |
| | **132 916 905** | 22 665 812 |
| **Current liabilities** | | |
| Financial liabilities | **65 876 578** | 45 526 612 |
| Trade and other payables | **114 572 685** | 100 549 174 |
| | **180 449 263** | 146 075 786 |
| **Total liabilities** | **313 366 168** | 168 741 598 |
| **Total equity and liabilities** | **357 237 014** | 252 693 276 |

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## Statement of comprehensive income

| FIGURES IN BOTSWANA PULA | **6 months to 31 Dec 2019** | 6 months to 31 Dec 2018 |
|---|---|---|
| Revenue | **34 581 587** | — |
| Cost of sales | **(69 386 967)** | — |
| **Gross loss** | **(34 805 380)** | — |
| Other income | **34 769** | — |
| Operating expenses | **(16 522 912)** | (12 683 158) |
| **Operating loss** | **(51 293 523)** | (12 683 158) |
| Finance income | **16 141** | 230 496 |
| Finance costs | **(5 227 844)** | — |
| Finance costs — net | **(5 211 703)** | 230 496 |
| **Loss before income tax** | **(56 505 226)** | (12 452 662) |
| Income tax expense | **12 592 689** | 2 735 415 |
| **Total loss for the period** | **(43 912 537)** | (9 717 247) |
| Other comprehensive income for the period | **—** | — |
| **Total comprehensive loss for the period** | **(43 912 537)** | (9 717 247) |
| **Total comprehensive loss attributable to:** | | |
| Owners of the parent | **(43 912 537)** | (9 717 247) |
| Non-controlling interest | **—** | — |
| | **(43 912 537)** | (9 717 247) |
| Loss per share (thebe) | **(10.19)** | (2.39) |
| Diluted loss per share (thebe) | **(10.19)** | (2.39) |
| Headline loss per share (thebe) | **(10.19)** | (2.39) |
| Diluted headline loss per share (thebe) | **(10.19)** | (2.39) |

## Statement of changes in equity

| FIGURES IN BOTSWANA PULA | Share capital | Accumulated loss | Other reserves | Total equity |
|---|---|---|---|---|
| **Balance at 1 July 2018** | 109 779 735 | (19 327 743) | — | 90 451 992 |
| Comprehensive loss | — | (9 717 247) | — | (9 717 247) |
| Shares issued | | | | — |
| Subscription for shares | 21 346 204 | — | — | 21 346 204 |
| Share issuance costs on subscription | (562 913) | — | — | (562 913) |
| Share-based payment expense | | — | 581 875 | 581 875 |
| **Balance at 31 December 2018** | **130 563 026** | **(29 044 990)** | **581 875** | **102 099 911** |
| Comprehensive loss | **—** | **(19 630 346)** | **—** | **(19 630 346)** |
| Share-based payment expense | **—** | **—** | **1 482 113** | **1 482 113** |
| **Balance at 1 July 2019** | **130 563 026** | **(48 675 336)** | **2 063 988** | **83 951 678** |
| Comprehensive loss | **—** | **(43 912 537)** | **—** | **(43 912 537)** |
| Debenture conversion reserve | **—** | **—** | **4 565 973** | **4 565 973** |
| Share-based payment expense | **—** | **—** | **(734 268)** | **(734 268)** |
| **Balance at 31 December 2019** | **130 563 026** | **(92 587 873)** | **5 895 693** | **43 870 846** |

## Statement of cash flows

| FIGURES IN BOTSWANA PULA | **6 months to 31 Dec 2019** | 6 months to 31 Dec 2018 |
|---|---|---|
| **Cash flows from operating activities** | | |
| Cash utilised in operations | **(45 954 882)** | 3 329 933 |
| **Net cash used in operating activities** | **(45 954 882)** | 3 329 933 |
| **Cash flows from investing activities** | | |
| Acquisition of property, plant and equipment | **(19 858 123)** | (935 094) |
| Exploration and evaluation asset expenditure | **—** | (73 596 479) |
| Interest income | **16 141** | 230 496 |
| **Net cash utilised in investing activities** | **(19 841 982)** | (74 301 077) |
| **Cash flows from financing activities** | | |
| Proceeds from shares issued | **—** | 20 783 290 |
| Proceeds from financial liabilities | **65 942 031** | — |
| **Net cash from financing activities** | **65 942 031** | 20 783 290 |
| **Total cash movement for the period** | **145 167** | (50 187 854) |
| Cash at the beginning of the period | **294 085** | 56 065 851 |
| **Total cash at end of the period** | **439 252** | 5 877 997 |

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## FINANCIAL OVERVIEW

**It is important for readers to note that a comparison between the results for the six months ended 31 December 2019 ("current interim period") and the corresponding comparative six months ended 31 December 2018 ("previous interim period") is not practical on a like-for-like basis. During the previous interim period the Company was developing the Masama coal mine ("the mine") and advancing it toward operational status. During the current interim period, the Company moved into commissioning and production at the mine.**

The Statement of Comprehensive Income for the current interim period includes the Company's first revenue and related cost of sales. A comparison to the comparative interim period should be viewed in the context of moving from mine development into mine commissioning and early operational phase. The increased loss in the current interim period, which includes a gross loss and an increase in operating expenditure, is discussed in more detail below:

- Following commissioning of the beneficiation plant during late July 2019 and August 2019, the Company recorded its first revenue comprising the sale of coal amounting to P32.0 million and transport of P2.6 million. Coal sales during the period were impacted by below average selling prices as a result of coal market pressures and a product mix with a high proportion of finer, less economic product, as dictated by the market. Sales volumes in December 2019 were also negatively impacted by excessive rain, resulting in limited access to the mine as reported above.
- The cost of product produced exceeded the related revenue generated, mainly due to inefficiencies experienced at the coal beneficiation plant during the commissioning and latter ramp-up stages, specifically:
  - typical of ramp-up operations, volumes produced and sold were below steady-state breakeven volumes, placing pressure on fixed cost recoveries;
  - inconsistent washing plant performance and output, specifically related to excessive water usage and mobile crusher and screen availability and performance; and
  - additional material handling costs incurred due to the use of mobile crushing and screening solutions.
- Operating expenditure was well controlled, with the increase during the period mainly due to the following:
  - an increase in mine site overheads following the transition into operational phase at site operations, including additional staff and general site costs;
  - preparatory AIM listing and advisory costs incurred during the period before the decision was taken to delay the process later in the period; and
  - the expensing of certain infrastructure costs such as maintenance of the public road providing access to the mine and initial construction costs for a new access road.
- Finance cost increased as a result of securing additional debt to fund the operational ramp-up phase and further mine development.

The Statement of Financial Position has also undergone significant change, with Property, Plant and Equipment increasing in excess of P96 million and Financial Liabilities increasing by P130 million during the current interim period. Significant movements from 30 June 2019 are highlighted below:

- The increase in Property, Plant and Equipment relates mainly to amounts capitalised for the portion of the beneficiation plant which was commissioned in September 2019. The beneficiation plant is constructed and financed under a Build-Own-Operate-Transfer ("BOOT") arrangement and accounts for 68% of the increase in Property, Plant and Equipment during the period, with a reciprocal liability being created. Other additions during the period comprise additional box-cut development, beneficiation plant civils works, water reticulation, capitalised interest and the accounting impact of adopting IFRS 16 Leases, which also created a reciprocal liability.
- The increase in inventory is mainly due to the inclusion of finished (saleable) product, which did not exist at 30 June 2019. The majority of the inventory value at 31 December 2019 relates to coal exposed in the pit awaiting blasting and pre-stripping of overburden and is classified as work in progress. Finished (saleable) product on hand at the end of December 2019 amounted to 25,612 tons and was accounted for at net realisable value.

- The net decrease in trade and other receivables relates mainly to the following:
  - an increase of P6.2 million for trade receivables, which did not exist at 30 June 2019;
  - a decrease of P12.5 million due to an accounting reclassification to financial liabilities of advances made to the BOOT operator during the financial year ended 30 June 2019; and
  - a decrease in Value Added Tax ("VAT") claims owing by Botswana Unified Revenue Service ("BURS").
- The increase in financial liabilities relates mainly to the following:
  - additional funding of P70 million procured from the Minerals Development Company Botswana (Pty) Ltd ("MDCB") in the form of a secured and convertible debenture facility; and
  - accounting for the BOOT liability as discussed under Property, Plant and Equipment above.
- Trade and other payables increased by P14 million mainly as a result of the slower than anticipated ramp-up of operations, which placed pressure on working capital. Minergy is extremely grateful for the continued support received from service providers during the development and early operational phase of the mine. The bulk (90%) of the trade and other payables relate to the top four service providers (opencast mining contractor, civils and water reticulation contractor, plant beneficiation contractor and diesel supplier), who all afforded Minergy extended payment terms. Without their support the project would not have advanced to its current state.

## FUNDING UPDATE

Minergy successfully raised funding of P70 million from the MDCB during the reporting period. Additional funding was required as result of working capital shortages. With normal commercial financial institutions shying away from start-up businesses without a 12-month trading record, Minergy approached its existing funders to assist with the shortages.

Minergy is pleased to announce that it has successfully concluded refinancing of the Botswana Development Corporation ("BDC") bridging facility into a six-year convertible preference share facility and obtained an additional P40 million of finance from BDC, which was paid out in February 2020.

The MDCB convertible debenture facility was also successfully extended to a six-year term and increased with an addition P40 million received in March 2020.

The mining contractor, Jarcon Opencast Mining Botswana (Pty) Ltd ("Jarcon"), agreed to convert some of their outstanding operational debt into equity through a transaction finalised in February 2020. This, together with the BDC and MDCB funding, significantly reduced the arrears of Jarcon, the group's largest creditor.

The additional funding received in February and March 2020 allowed Minergy to settle all other outstanding arrears creditors and places Minergy in a position to support monthly cash requirements from revenue generation, depending on achieving breakeven volumes.

## SAFETY AND COMMUNITY INVOLVEMENT

Minergy's Safety, Health, Environment and Quality ("SHEQ") Management System, which details management policies, processes and procedures and has the goal to become a leader in workplace safety, has eliminated injuries and fatalities, with no reportable accidents or injuries resulting from activities during the interim period.

The Company continues to have several health and safety briefings and training sessions, extending to the people in the villages of Lentsweletau and Medie, to ensure that they receive heightened safety awareness.

## MANAGEMENT UPDATE

As previously announced the newly appointed Chief Executive Officer Morné du Plessis [formerly Minergy's Chief Financial Officer ("CFO")] continues to take the Company forward with his vast experience in coal mining and trading.

Jean-Pierre ("JP") van Staden is the newly inducted CFO, effective 2 January 2020. He is a Chartered Accountant (SA) who was an Audit Partner at PricewaterhouseCoopers in South Africa since 2004. JP has extensive auditing and related experience working with and providing services to junior and major mining, construction and industrial products companies. His contribution to the financial team is considerable.

## LOOKING FORWARD

The primary focus will be to stabilise production, optimise efficiencies in the beneficiation plant (specifically completion of the rigid front end), produce consistent qualities continuously and secure additional off-take agreements, all within a safe and injury-free environment. It is Minergy's objective to have the plant and mine run at nameplate capacity from 1 July 2020. The six-month period starting 1 January 2020 has already seen difficult trading conditions, which have been exacerbated by the COVID-19 pandemic. Ramp-up to capacity will still be our main priority, which comes with associated costs.

Minergy's AIM listing is underway, and depending on market appetite and sentiment, is planned to be concluded by the end of 2020.

## COVID-19

We are cognisant of the COVID-19 virus and its impacts and will manage these within the confines of our control. Although no cases have tested positively in Botswana as at the date of this announcement, our SHEQ team have a plan in place to ensure social distancing, and that information is disseminated to our employees as well as in the villages of Lentsweletau and Medie. We will further ensure that the actions we take are aligned to those from the Government of Botswana and the relevant health authorities. Our sales demand is heavily biased towards South Africa, which has seen a significant increase in the amount of cases. We will monitor this closely. South Africa is being put in lock-down from midnight Thursday 26 March 2020.

The consequences of the lock-down and impact on Minergy will be severe as the majority of the customer base hails from South Africa. The financial effect cannot be quantified at the time of the announcement but it will affect the performance of the second half of the 2020 financial year.

## CONTINGENT LIABILITY

The Company has provided securities in the normal course of business for the funding facilities of the subsidiary.

## BASIS OF PREPARATION

This condensed unaudited interim consolidated financial report for the half-year reporting period ended 31 December 2019 has been prepared in accordance with International Accounting Standard IAS 34 Interim Financial Reporting.

The interim report does not include all the notes of the type normally included in an annual financial report. Accordingly, this report is to be read in conjunction with the annual report for the year ended 30 June 2019 and any public announcements made by the Company during the interim reporting period.

The accounting policies adopted are consistent with those of the previous financial year and corresponding interim reporting period except for the impact of adopting IFRS 16 Leases.

The Company has adopted IFRS 16 Leases retrospectively from 1 July 2019, but has not restated comparatives for the 2019 comparative reporting period, as permitted under the specific transitional provisions in the standard.

The reclassifications and the adjustments arising from the new leasing rules are therefore recognised in the opening balance sheet on 1 July 2019.

On adoption of IFRS 16, the Company recognised lease liabilities in relation to leases which had previously been classified as 'operating leases' under the principles of IAS 17 Leases. These liabilities were measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate as of 1 July 2019.

The associated right-of-use assets were measured at the amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognised in the balance sheet as at 30 June 2019. There were no onerous lease contracts that would have required an adjustment to the right-of-use assets at the date of initial application.

The adoption of IFRS 16 had no net impact on opening retained earnings.

The condensed unaudited interim consolidated financial statements were prepared by the Chief Financial Officer, JP van Staden CA(SA) and were approved by the Board of Directors on 26 March 2020.

## APPRECIATION

Globally, economies are under pressure and Botswana has not escaped this. Despite the lacklustre future growth outlook, particularly of our immediate geographic neighbours, the Board would like to thank our suppliers, funders and shareholders and stakeholders for their support of the now operational mine. From a staffing perspective Minergy has a remarkable team in place who share core values and objectives. The latter include that Minergy must in the medium-term ensure stable cash flows, productivity, quality and product. It's prudent for us to remain focused on our strengths and ensure that customers are well serviced and receive quality coal.

On behalf of the board

**Mokwena Morulane**
Non-executive Chairman

**Morné du Plessis**
Chief Executive Officer

26 March 2020

## CORPORATE INFORMATION

### Non-executive directors:

M Morulane (Chairman)

C de Bruin

LM Tumelo

AR Bojé

### Executive directors:

M du Plessis (Chief Executive Officer)

JP van Staden (Chief Financial Officer)

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### Company secretary:

Desert Secretarial Services (Pty) Ltd

### Transfer secretaries:

Corpserve Botswana

### Registered auditors:

Grant Thornton Botswana

### Attorneys:

Armstrongs Attorneys

## DISCLAIMER

This announcement may contain certain forward-looking statements concerning Minergy's operations, business strategy, financial conditions, growth plans and expectations. These statements include, without limitation, those concerning the economic outlook, business climate and changes in the market. Such views involve both known and unknown risks, assumptions, uncertainties and important factors that could materially influence the actual performance of the group. No assurance can be given that these will prove to be correct and no representation or warranty, expressed or implied, is given as to the accuracy or completeness of such views contained in this announcement.

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