# Condensed Group Audited Financial Results for the year ended 30 June 2019

minergycoal.com

**Minergy Limited**

(Incorporated in accordance with the laws of Botswana) (Company number: 2016/18528) (“Minergy” or “the Group” or “the Company”)

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## KEY ACHIEVEMENTS DURING THE YEAR UNDER REVIEW

- **Environmental** Impact Assessment ("EIA") approved, with Mining License granted in August 2018
- **Successful** development of mine infrastructure
- **Start-up** of mining operations, including 340 000 tons in-pit coal exposed from 2.4 million m$^3$ of overburden removed
- **Washing plant** construction substantially completed with successful commissioning post year-end
- **Successful testing** of product quality by prospective customers resulting in the first long-term coal purchase contract for 30% of current saleable production in process of being signed up post year-end
- **New CEO and CFO** appointed post year-end to take Minergy forward
- **AIM** listing progressed

## INTRODUCTION

Minergy is a coal mining and trading company committed to becoming the supplier of choice to industrial customers and power utilities across southern Africa.

## OPERATIONAL OVERVIEW

Minergy is proud to report that, during the year under review, it transitioned from exploration and evaluation to a mine development company. Subsequent to year-end, the group moved into production status at its Masama Coal Project, only 12 months after it was granted a mining license in August 2018.

Minergy exposed 340 000 tons of coal post development during the year under review, representing approximately three months of nameplate production. In doing so, over 2.4 million m$^3$ of overburden was removed. The group is extremely pleased with both the timing and the progress made at the Masama Coal Project ("Masama").

Subsequent to the year-end Minergy successfully commissioned the beneficiation plant and at the time of reporting, the plant had produced saleable coal to the expected qualities. The group recorded its first commercial coal sales during September 2019, with operations currently on track to ramp-up to its target of mining 110 000 tons per month to produce 70 000 to 80 000 tons of saleable coal. The saleable coal target is expected to increase to 100 000 tons per month in early 2020.

Minergy is currently in the process of concluding its first long-term customer contract, representing approximately 15% of estimated annual nameplate saleable coal or 30% of current saleable production during ramp up phase. Discussions are underway with several other interested regional industrial customers, many of whom have already tested samples of Minergy's coal. The group is accordingly confident of generating additional customer orders.

Overall, the team is extremely proud of what has been achieved in a relatively short period of time, not only for Minergy and its shareholders but for the development of the coal sector in Botswana. Minergy has pioneered a process that will support the regional industrial demand for coal and in so doing, benefit the people of Botswana through job opportunities and vital coal skills development. This marks the beginning of an exciting growth period in the Botswana coal industry.

## COAL RESOURCES AND RESERVES

Minergy has engaged a firm of experts to undertake significant technical work to finalise a revised mine plan at Masama. The group is pleased to announce that based on work completed to date, extremely encouraging results are expected.

A Coal Resource of 386 million tons ("Mt") has been defined in terms of the preliminary workings for the project and comprises Opencastable and Underground Mineable Resources.

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## FINANCIALS

The condensed group audited financial results for the year ended 30 June 2019 ("the results") are presented below as follows:

# Statement of financial position

| FIGURES IN BOTSWANA PULA | **As at 30 Jun 2019 Audited** | As at 30 Jun 2018 Audited |
|---|---|---|
| **ASSETS** | | |
| **Non-current assets** | | |
| Property, plant and equipment | **168 615 430** | 1 918 090 |
| Exploration and evaluation assets | **—** | 27 272 920 |
| Deferred tax asset | **13 346 576** | 6 660 454 |
| | **181 962 006** | 35 851 644 |
| **Current assets** | | |
| Inventory | **47 246 445** | — |
| Trade and other receivables | **23 190 740** | 404 011 |
| Cash and cash equivalents | **294 085** | 55 891 338 |
| | **70 731 270** | 56 295 349 |
| **Total assets** | **252 693 276** | 92 146 813 |
| **EQUITY AND LIABILITIES** | | |
| **Capital and reserves** | | |
| Stated capital | **130 563 026** | 109 779 735 |
| Share Based Payment Reserve | **2 063 988** | — |
| Accumulated loss | **(48 675 336)** | (19 327 743) |
| **Equity attributable to owners of the parent** | **83 951 678** | 90 451 992 |
| **Total equity** | **83 951 678** | 90 451 992 |
| **Non-current liabilities** | | |
| Rehabilitation liabilities | **22 665 812** | — |
| | **22 665 812** | — |
| **Current liabilities** | | |
| Financial liabilities | **45 526 612** | — |
| Trade and other payables | **100 549 174** | 1 694 821 |
| | **146 075 786** | 1 694 821 |
| **Total liabilities** | **168 741 598** | 1 694 821 |
| **Total equity and liabilities** | **252 693 276** | 92 146 813 |

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## Statement of comprehensive income

| FIGURES IN BOTSWANA PULA | **Full year 30 Jun 2019 Audited** | Full year 30 Jun 2018 Audited |
|---|---|---|
| Other income | **—** | — |
| Operating expenses | **(35 139 496)** | (18 077 019) |
| **Operating loss** | **(35 139 496)** | (18 077 019) |
| Finance income | **241 066** | 1 598 248 |
| Finance costs | **(1 135 285)** | (48) |
| Finance (costs)/income — net | **(894 219)** | 1 598 200 |
| **Loss before income tax** | **(36 033 715)** | (16 478 819) |
| Income tax expense | **6 686 122** | 6 660 454 |
| **Total loss for the year** | **(29 347 593)** | (9 818 365) |
| Other comprehensive income for the year | **—** | — |
| **Total comprehensive loss for the year** | **(29 347 593)** | (9 818 365) |
| **Total comprehensive loss attributable to:** | | |
| Owners of the parent | **(29 347 593)** | (9 818 365) |
| Non-controlling interest | **—** | — |
| | **(29 347 593)** | (9 818 365) |
| Loss per share (thebe) | **(7.01)** | (2.53) |
| Headline loss per share (thebe) | **(7.01)** | (2.53) |
| Diluted headline loss per share (thebe) | **(7.01)** | (2.53) |

## Statement of changes in equity

| FIGURES IN BOTSWANA PULA | Stated capital | Accumulated loss | Share-based payment reserve | Total equity |
|---|---|---|---|---|
| **Balance at 1 July 2017** | 84 266 725 | (9 509 378) | — | 74 757 347 |
| Subscription for shares | 26 953 378 | — | — | 26 953 378 |
| Share issuance costs on subscription | (1 440 368) | — | — | (1 440 368) |
| Comprehensive loss | — | (9 818 365) | — | (9 818 365) |
| **Balance at 1 July 2018** | **109 779 735** | **(19 327 743)** | **—** | **90 451 992** |
| Subscription for shares | **21 346 204** | **—** | **—** | **21 346 204** |
| Share issuance costs on subscription | **(562 913)** | **—** | **—** | **(562 913)** |
| Comprehensive loss | **—** | **(29 347 593)** | **—** | **(29 347 593)** |
| Share Based payment charge | **—** | **—** | **2 063 988** | **2 063 988** |
| **Balance at 30 June 2019** | **130 563 026** | **(48 675 336)** | **2 063 988** | **83 951 678** |

## Statement of changes in cash flows

| FIGURES IN BOTSWANA PULA | **Full year 30 Jun 2019 Audited** | Full year 30 Jun 2018 Audited |
|---|---|---|
| **Cash flows from operating activities** | | |
| Cash utilised in operations | **(93 350 193)** | (16 877 459) |
| Finance costs paid | **(1 135 285)** | (48) |
| **Net cash used in operating activities** | **(94 485 478)** | (16 877 507) |
| **Cash flows from investing activities** | | |
| Exploration and evaluation asset expenditure | **—** | (7 074 051) |
| Purchase of property, plant and equipment | **(26 186 301)** | (1 440 111) |
| Finance income | **241 066** | 1 598 248 |
| **Net cash utilised in investing activities** | **(25 945 235)** | (6 915 914) |
| **Cash flows from financing activities** | | |
| Proceeds from financial liabilities | **44 050 168** | — |
| Proceeds from shares issued | **20 783 292** | 25 513 011 |
| **Net cash from financing activities** | **64 833 460** | 25 513 011 |
| **Total cash movement for the year** | **(55 597 253)** | 1 719 590 |
| Cash at the beginning of the year | **55 891 338** | 54 171 748 |
| **Total cash at end of the year** | **294 085** | 55 891 338 |

## FINANCIAL OVERVIEW

**It is important for readers to note that a comparison between the results for 30 June 2019 ("current year") and 30 June 2018 ("prior year") is not practical on a like-for-like basis. The Company was in the exploration and evaluation phase of the project for the prior year and has transitioned into mine development during the current year with production status achieved post the year-end.**

The Statement of Comprehensive Income is dominated by the increase in operating expenditure, including expenditure not reflected in the comparative period. The increases are to be viewed in the context of moving from exploration and evaluation to mine development and include the following variances:

- mine site overheads for site operations, which include additional staff and site costs that are typical of a project in the mine development phase, but which were not incurred in the exploration and evaluation environment;
- additional costs to support the administration, finance and marketing departments;
- preparatory AIM listing and advisory costs;
- expensing of certain infrastructure costs such as electrifying the mine (which includes the main connection to the community village), renovating the town hall and upgrading various roads, all of which Minergy is not the beneficial owner of;
- additional charges for the share-based payment, which includes the vesting of tranche 1 of the approved 2017 Share Option Plan;
- incurring debt with an increase in related finance costs and facility charges to fund the completion of the mine development; and
- decreased interest income earnings from depleting cash resources to develop the mine, for activities such as the box cut development, washing plant civil work, power and water reticulation as well as surface right compensations.

The Statement of Financial Position has also seen significant change, with Property, Plant and Equipment increasing in excess of P139 million. Variances from the prior year include:

- mine assets developed specifically including items such as bush clearing, the box cut, mine access roads, beneficiation plant civils, water reticulation, internal power and surface rights acquisitions all of which account for 87% of this variance;
- reallocation of Exploration and Evaluation assets ("EE assets") to Property, Plant and Equipment/Intangible Assets as the project has transitioned from exploration to commercially viable status with a decrease in EE assets shown for the prior year; and
- raising of a rehabilitation asset of P22.7 million, which has a reciprocal liability reflected under non-current liabilities and represents the estimated present value of future costs of rehabilitating the exposed void.

Being so close to production, Minergy has recorded inventory that reflects the work done to liberate the coal and feed the plant. The majority of the inventory value relates to coal exposed in the pit awaiting blasting and is classified as work in progress.

Trade and other receivables mainly represent Value Added Tax ("VAT") claims owing by Botswana Unified Revenue Service ("BURS") and advances made to the Build–Own–Operate–Transfer ("BOOT") operator on construction of the plant to expedite commissioning.

Cash balances have been depleted in developing the mine, which is evident from the increased investment in assets and inventory.

Minergy was again fortunate during the current year to receive support from shareholders and additional capital of P20.7 million was raised net of costs. The capital raise was lower than the P70 million on offer.

Debt was incurred for the first time to supplement funding for the development of the mine. Bridging finance was provided by the Botswana Development Corporation ("BDC") late in the current year. Subsequent to year-end additional funding was procured from the Minerals Development Corporation of Botswana ("MDCB"), details of which are provided below in the Funding update.

Minergy is extremely grateful for the support received from service providers during the development phase. Jarcon Opencast Mining (Pty) Ltd ("Jarcon") requires special mention. The bulk of the trade and other payables relates to Jarcon, which afforded Minergy extended payment terms during the box cut phase of operations until additional funding was finalised and secured. Without their support the project would not have advanced to its current state. We received similar support from VIVO Energy Botswana for which we are equally thankful.

### Funding update

Minergy successfully raised additional funding of P55 million from the MDCB subsequent to year-end and is in the process of securing a further P15 million, also from the MDCB. The funding will be sufficient to bring the mine into production and commissioning. The Bridging finance provided by the BDC is in the process of being refinanced over a longer term.

## THE COAL LANDSCAPE

South African coal production is largely static and in a decline going forward with no new significant greenfield operations being developed to fill this gap. In addition, it is believed that Eskom will suffer a cumulative shortfall in coal supply of 474 Mt by 2030 and as the state utility cannot be allowed to fail, pressure will be placed on existing larger producers to channel non-export capacity into the power generation market, thereby creating an expected shortfall of supply into the regional industrial market.

The regional industrial market, excluding power generation and synthetic fuels, has an annual demand of 32 Mt of which the relevant market Minergy is targeting is approximately 18 Mt per annum. This market uses sized coal for energy generation and includes industries such as cement, steel and other industries. This market has shown compounded annual growth of 17% from the start of 2016, despite having to be content with inconsistent supply over time.

Demand for the correct coal size, quality and consistent supply remains high. Minergy will focus on ensuring industrial customers across southern Africa receive this steady volume and quality of coal.

International seaborne coal prices have decreased from a high of $100 per ton in August 2018 to the current pricing of around $60 per ton. This is on the back of tighter import and quality control by China creating prolonged clearances at ports and a slowing world economy. The effect on local prices is not significant albeit that larger producers have started to move product onto the local markets resulting in the softening of prices. Minergy believes that this is short-term in nature as international demand in Asia and Africa will remain high for cheap feedstock in these growing economies.

## SAFETY AND COMMUNITY INVOLVEMENT

Health and safety remain of paramount importance and Minergy is pleased to report that there have been no reportable incidents since mine development began in September 2018. Focus is placed on near-misses and safety protocols are enforced on site.

Community relations are managed through consistent communication. Minergy directly and indirectly employs 270 people, 93% of whom are Botswana citizens. Approximately one-third of the current workforce is from the local Kweneng district

The village of Medie was due to get electricity in 2023/24. As part of Minergy's corporate and social investment programme it paid for electricity connectivity to the village and will continue to do so in critical areas such as the clinic, kgotla and the school.

## STRENGTHENING OF THE OPERATIONAL TEAM

During the year the operational management team was bolstered by the appointment of Siyani Makwakwago as General Manager Mining and Julius Ayo as Group Financial Manager.

## CHANGES TO THE BOARD OF DIRECTORS

On 14 May 2019, Minergy announced that Mr. André Bojé would be retiring and stepping down as CEO, but that he would remain involved in the Company to retain oversight and strategic responsibility for group coal marketing and sales for a period of 12 months. He also remains part of the team tasked with ensuring the successful listing of Minergy on the Alternative Investment Market ("AIM") of the London Stock Exchange ("LSE"). André will further continue to serve as a Non-Executive Director of the group until additional directors are appointed to the Board.

The Board conveys its sincere gratitude to André for the vison and leadership he brought to the Company and for steering Minergy to the edge of a fully producing mine.

Effective 1 August 2019, Mr. Morné du Plessis, previously Chief Financial Officer ("CFO") of Minergy, took over at the helm as CEO of the group. Morné has extensive experience in coal mining and trading, particularly in southern African and internationally, and has significant listed public company director experience.

On 10 September 2019, Minergy announced the appointment of Mr. Jean-Pierre van Staden as CFO, effective 2 January 2020. Jean-Pierre is a Chartered Accountant (SA) who has been an Audit Partner at PricewaterhouseCoopers in South Africa since 2004. He has extensive auditing and related experience working with and providing services to junior and major mining and construction companies and industrial products companies.

Details of the Board of Directors is available on the Company's website, **www.minergycoal.com**.

## LOOKING FORWARD

Management has prioritised the next few months as a period to stabilise production and optimise efficiencies in the beneficiation plant. The goal is to produce consistent volumes at consistent qualities continuously.

Depending on economics at the time, opportunities to significantly increase production include increased supply to industrial customers, export opportunities, and power generation. Increased production would require additional capex primarily to increase the capacity of the washing plant and plant infrastructure, and completion of an additional box cut.

Minergy is further exploring various options for offtake, ranging from longer-term agreements for the finer duff product to spot deals for the bigger fractions.

Minergy is progressing towards its previously stated objective of listing on AIM and looks forward to providing further updates in due course.

## DIVIDEND

### Current year dividends

No dividends have been distributed to date as cash is utilised to ensure operations are in place.

### Future dividends

Dividends will only be payable once the Company is profitable and generates the required free cash flow and subject to solvency and liquidity requirements. It is proposed that dividends will be declared annually based on the financial performance of the Company for the 12 months ended 30 June, paid on or about October of each year. The Board shall determine the specifics of the dividend policy of the Company from time to time.

## CONTINGENT LIABILITY

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

## BASIS OF PREPARATION

The consolidated group financial statements have been prepared in accordance with the framework, concepts, and the measurement and recognition requirements of International Financial Reporting Standards ("IFRS"), and financial pronouncements as issued by the International Accounting Standards Board. The accounting policies applied in preparing the consolidated financial statements are in terms of IFRS and are consistent with prior periods. The signed audit report of the independent auditor on the summary financial statements is presented as a separate attachment to this announcement.

The audited full year consolidated financial statements were prepared by the Financial Manager, Julius Ayo (Bachelor of Accounting (BACC) and Association of Certified Chartered Accountants (ACCA)), and were approved by the Board of Directors on 23 September 2019.

## APPRECIATION

The Board would like to take this opportunity to thank the shareholders for their support of the project. From a staffing perspective Minergy has a remarkable team in place who share core objectives. These include that Minergy must in the medium term ensure stable cash flows, productivity, quality and product.

It's prudent for us to focus 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

25 September 2019

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## CORPORATE INFORMATION

### Non-executive directors:

M Morulane (Chairman)

C de Bruin

L Tumelo

A Bojé

### Executive directors:

M du Plessis (Chief Executive Officer)

### Registered address:

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### Postal address:

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Phakalane

Gaborone

### Telephone:

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### Website:

www.minergycoal.com

### 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.

SIGIL DESIGN BUREAU

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