



**CONDENSED
UNAUDITED INTERIM
CONSOLIDATED RESULTS
FOR THE SIX MONTHS ENDED
31 DECEMBER 2020**

minergycoal.com

Minergy Limited

(Incorporated in accordance with the laws of Botswana, Company number: BW00001542791) ("Minergy" or "the Company", references herein to "the Group" are to Minergy and its subsidiaries)



INTRODUCTION

Minergy is pleased to report a significant increase in sales production during the period ended 31 December 2020 (“reporting period” or “interim period”).

Minergy CEO Morné du Plessis, commended the management team, staff and contractors for excellent delivery during the reporting period, despite constraints and very difficult conditions experienced.

ACHIEVEMENTS FOR THE INTERIM PERIOD INCLUDE:

- ❑ Sales volumes increasing to ~175 000 tonnes relative to the comparative period (2020 HY: 85 000 tonnes, 2020 FY: 198 000 tonnes);
- ❑ 10 coal trains railed to cement producer customer in South Africa;
- ❑ Fulfilment of coal delivery to Namibian Power Corporation in accordance with tender terms;
- ❑ Continued Government of Botswana support for the project, including provision of additional debt funding;
- ❑ No lost time due to injury during the interim period, bringing the accumulated record to 850 days;
- ❑ Commissioning and completion of Stage 2 of the Coal Handling and Processing Plant (“CHPP”) rigid crushing section and terminating the use of the less efficient mobile crusher; and
- ❑ Shortlisted for an Eskom (South Africa’s national electricity provider) tender to supply the Tutuka Power Station.

The above was achieved, notwithstanding significant challenges resulting from COVID-19, short term funding constraints arising from a delay in funding, and related plant and mining operational difficulties. These challenges ultimately had the following impacts:

- ❑ Contractors were forced to reduce mining shifts and activities to manage arrears;
- ❑ Pre-stripping of overburden had to be put on hold; and
- ❑ Saleable and exposed stockpiles became depleted.



Production was also impacted by safety precautions taken over a three-week period relating to the final assembly and commission phase of Stage 2 of the CHPP. In addition to this, excessive rainfall in the last two months of the interim period impacted production volumes, product processing ability, and the subsequent collection of products by customers.

Achievements during the reporting period, along with access to additional debt funding, the prospect of new offtake agreements, and the imminent completion of Stage 4 of the CHPP, puts the Group on a path beyond break-even production levels as it moves towards steady state production with a more economic and diversified product mix. In conjunction with the prospect of raising additional equity funding as recently approved by shareholders, early signs of a recovery in domestic coal pricing, and a more favourable regional foreign exchange outlook (see below), Minergy is presented with several sales opportunities and positive pricing adjustments, that sets the Company on a path towards profitable trading. Minergy is still planning to complete a listing on an international stock exchange.

COAL SALES

Sales volumes showed positive recoveries after the relaxation of COVID-19 restrictions in June 2020.

Sales order activity increased and has remained constant for the interim period, with customers again confirming orders as well as their satisfaction with the quality of coal delivered. Due to the use of a mobile crusher, the sales mix for most of the interim period was geared to finer, less profitable product. The majority of product for the interim period was sold into the cement market in South Africa.

The easing of COVID-19 border restrictions assisted with the collection of coal albeit that intermittent delays still occurred at border crossings from newly introduced restrictions in December 2020.

ADDITIONAL OFF-TAKE CONTRACTS AND COAL SALES

An off-take agreement with a new cement customer in South Africa is imminent, further diversifying the Group's customer base beyond the three years off take agreement already in place with another customer.

Various trials for the more profitable peas product are progressing well.

TENDER SUBMITTED AND SHORTLISTED TO PROVIDE COAL TO ESKOM

As previously reported, Minergy is pleased to notify stakeholders that it has been shortlisted by Eskom to supply the Tutuka Power Station in South Africa with thermal coal. A due diligence process is currently underway and Minergy will update the market on developments. It is understood that the process will take up most of the 2021 calendar year.



HEALTH AND SAFETY, AND COVID-19

The Company has an outstanding safety record with zero injuries on the mine and more than 850 days without lost time due to injury at the end of the reporting period. This pleasing trend has continued beyond the end of the reporting period.

Minergy undertook a detailed strategic risk assessment pertaining to COVID-19. The Minergy COVID-19 Action Plan as well as the impact of COVID-19 on the business is available on the Company's website.

Minergy had been COVID-19 free at the Masama Coal Mine, until end January 2021, when 32 cases were identified. The outbreak was caused by workers returning from a pay weekend and did not originate on the mine. The mine was shut down for 24 hours for sanitising and cleaning as is required by local regulation. Minergy is pleased to announce that its COVID-19 Action Plan was meticulously rolled out and enabled production to start up without any delays. All workers returned to work after the isolation period and no lives were lost.

FUNDING AND EXTRAORDINARY GENERAL MEETING ("EGM") RESULTS

The Company has since inception, raised a gross amount of P165 million in equity and accessed approximately P253 million of debt. The cash proceeds from these raisings and facilities were utilised for the establishment of the Masama Coal Mine, its mining infrastructure, and related operational costs.

Minergy is pleased to announce that additional convertible debt funding was secured through the Mineral Development Company Botswana ("MDCB") amounting to P125 million. Of this amount, 50% was drawn down in December 2020 and the balance was subject to conditions which were described in a circular to shareholders dated 19 January 2021. An EGM took place on 18 February 2021, with all special and ordinary resolutions passing with the requisite majority of shares voting in favour. This paves the way for Minergy to access the additional tranche of debt and any other capital raised with the primary goal to stabilise the business to nameplate production including required CAPEX and working capital.

Any excess funding obtained will be applied in reducing the gearing position on the balance sheet and thereby also limiting equity conversions in order to maximise existing shareholders' ownership.



STATEMENT OF FINANCIAL POSITION

AS AT

Figures in Botswana Pula	31 Dec 2020	30 Jun 2020
ASSETS		
Non-current assets		
Property, plant and equipment	377 570 358	340 602 189
Deferred income tax	55 269 377	39 095 799
	432 839 735	379 697 988
Current assets		
Inventories	25 093 452	48 355 150
Trade and other receivables	15 707 974	13 960 609
Cash and cash equivalents	11 940 634	1 712 055
	52 742 059	64 027 814
Total assets	485 581 795	443 725 802
EQUITY AND LIABILITIES		
Capital and reserves		
Ordinary share capital	165 563 026	165 563 026
Accumulated loss	(195 708 922)	(139 695 949)
Other reserves	23 310 286	17 258 242
Total equity attributable to owners of the parent	(6 835 610)	43 125 319
Total equity	(6 835 610)	43 125 319
Non-current liabilities		
Rehabilitation provision	71 504 301	69 760 293
Borrowings	344 982 414	252 348 149
	416 486 714	322 108 442
Current liabilities		
Borrowings	17 939 547	7 913 719
Trade and other payables	57 991 143	70 578 322
	75 930 690	78 492 041
Total liabilities	492 417 405	400 600 483
Total equity and liabilities	485 581 795	443 725 802



STATEMENT OF COMPREHENSIVE INCOME

FOR THE SIX MONTH PERIOD ENDED

Figures in Botswana Pula	31 Dec 2020	31 Dec 2019
Revenue	75 774 523	34 581 587
Cost of sales	(119 388 704)	(69 386 967)
Gross loss	(43 614 182)	(34 805 380)
Other income	182 815	34 769
Operating expenses	(11 459 982)	(16 522 912)
Operating loss	(54 891 348)	(51 293 523)
Finance income	30 580	16 141
Finance costs	(18 655 504)	(5 227 844)
Loss before income tax	(73 516 273)	(56 505 226)
Income tax	16 173 580	12 592 689
Loss for the year	(57 342 693)	(43 912 537)
Other comprehensive income for the year	—	—
Total comprehensive loss for the year	(57 342 693)	(43 912 537)
Total comprehensive loss attributable to:		
Owners of the parent	(57 342 693)	(43 912 537)
Non-controlling interest	—	—
	(57 342 693)	(43 912 537)
Loss per share (thebe)	(12.20)	(10.19)
Diluted loss per share (thebe)	(12.20)	(10.19)
Headline loss per share (thebe)	(12.20)	(10.19)
Diluted headline loss per share (thebe)	(12.20)	(10.19)



STATEMENTS OF CHANGES IN EQUITY

FOR THE PERIOD

Figures in Botswana Pula	Stated capital	Accumulated loss	Other reserves	Total equity
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 reserve	—	—	(734 268)	(734 268)
Balance at 31 December 2019	130 563 026	(92 587 873)	5 895 693	43 870 846
Subscription for shares	38 500 000	—	—	38 500 000
Share issuance costs on subscription	(3 500 000)	—	—	(3 500 000)
Comprehensive loss	—	(47 960 159)	—	(47 960 159)
Debenture conversion reserve	—	852 083	11 362 549	12 214 632
Balance at 30 June 2020	165 563 026	(139 695 949)	17 258 242	43 125 319
Comprehensive loss	—	(57 342 693)	—	(57 342 693)
Debenture conversion reserve	—	—	7 381 764	7 381 764
Share-based payment reserve	—	1 329 720	(1 329 720)	—
Balance at 31 December 2020	165 563 026	(195 708 922)	23 310 286	(6 835 610)



STATEMENT OF CASH FLOWS

FOR THE SIX MONTH PERIOD ENDED

Figures in Botswana Pula	31 Dec 2020	31 Dec 2019
Cash flow from operating activities		
Cash utilised in operations	(43 827 829)	(45 954 882)
Finance costs paid	(361 785)	—
Net cash used in operating activities	(44 189 613)	(45 954 882)
Cash flow from investing activities		
Purchase of property, plant and equipment	(6 896 599)	(19 858 123)
Finance income	30 580	16 141
Net cash used in investing activities	(6 866 019)	(19 841 982)
Cash flows from financing activities		
Proceeds from borrowings	62 500 000	65 942 031
Repayment of borrowings	(1 215 789)	—
Net cash from financing activities	61 284 211	65 942 031
Total cash movement in the period	10 228 579	145 167
Cash at the beginning of the period	1 712 055	294 252
Total cash at the end of the period	11 940 634	439 419



During the six-months ended 31 December 2020, the Group continued operating below break-even levels resulting in strain on working capital and its ability to continue its ramp-up to steady state levels.

As reported in the **Statement of Comprehensive Income**, the Group made a net loss of P57.3 million during the interim period, compared to a net loss of P43.9 million in the comparative six-month period.

Revenue increased to P75.8 million (2019: P34.6 million), and total sales volumes for the interim period amounted to ~175 000t (2019: ~85 000t). As a reminder, sales volumes in the comparative six-month period related to Minergy's first period of operation following the commissioning of the washing module of the plant during September 2019.

After being severely affected by COVID-19 lockdowns in the last quarter of FY20, sales volumes recovered with steady increases in sales volumes seen in July and August 2020. This also coincided with the official opening of the rail siding and Minergy successfully sending product via rail to South Africa (10 trains for the six-month interim period). Following a record sales month in August 2020, sales volumes reduced in October 2020 due to:

- › Depletion of stockpiles;
- › Reduced pre-stripping of overburden to expose coal, resulting from a reduction in contractor operations due to funding delays;
- › Excessive rain hampering the evacuation of coal by road from October 2020; and
- › COVID-19 related delays at borders.

Following the injection of additional funds into the business in December 2020, mining activities could start ramping up again with the mobilising of teams and equipment. Targeted average pricing was not achieved stemming from negative market dynamics (mainly COVID-19 impacts) and a product mix yielding a greater proportion of lower value product.

Cost of sales increased to P119.4 million (2019: P69.4 million), resulting in a gross loss of P43.6 million for the reporting period (2019: P34.8 million).

Mining cash cost was marginally lower than in the comparative period. This cost is driven mainly by the volume of overburden and coal mined, which was marginally higher during the reporting period. However, the strip ratio for the six-months ending December 2020 was lower than the six-months ending December 2019. In addition, the transition from box-cut to roll-over state within the opencast pit contributed to a further saving in mining costs from 1 December 2020.

The reduction in pre-stripping activity, as mentioned previously resulted in a depletion of exposed coal within the pit, which in turn resulted in a reduction in inventory, causing a significant transfer of inventory balances into cost of sales for accounting purposes. The prior period stock movement represented the build up of stock and the quantum of the change between the two periods amounts to ~P28 million.



Operating expenditure was lower at P11.5 million during the interim period compared to P16.5 million in the comparative six-month period, mainly due to the following:

- › Cost containment initiatives implemented, which included a hold on salary increases, a reduction in advisory fees and renegotiation of costs with service providers where possible; and
- › The comparative period also included expenditure related to pursuing a second listing on the Alternative Investment Market (AIM) of the London Stock Exchange and expenditure on road and community related infrastructure, neither of which were incurred in the reporting period.

The recovery of the South African Rand ("ZAR") during the interim period resulted in exchange gains on payments received from South African customers.

Finance costs increased to P18.7 million during the interim period, compared to P5.2 million in the comparative period, mainly as a result of securing additional debt (as elaborated on further below) subsequent to 31 December 2019, to continue to fund the operational ramp-up and further mine development.

As reported in the **Statement of Financial Position**, the Group increased its investment in property, plant and equipment, reduced inventory levels and incurred additional debt during the reporting period.

The largest items contributing to the increase in property, plant and equipment relates to additional amounts capitalised for the beneficiation plant. Other additions during the reporting period include capitalised borrowing costs, washing plant civils, continued box-cut development and water reticulation.

The majority of the inventory balance relates to pre-stripping of overburden to expose coal in the pit and is classified as work in progress. As reported, the significant decrease in total inventory reflects the slow-down in pre-stripping activity as well as depletion of finished product, with exposed coal not being available.

Trade receivables relate to coal sales to customers. Debtors days continue to run at around 30 days from statement with no bad debts recorded to date. Other receivables relate mainly to Value Added Tax. All trade and other receivables were recovered subsequent to the end of the reporting period.

Borrowings increased during the six-months ended 31 December 2020, mainly due to the following:

- › Additional debt funding of P62.5 million received from the MDCB, which represented tranche 1 of a conditionally approved P125 million facility;
- › Additional debt of P26.2 million capitalised as part of further upgrades to the coal washing plant being completed as part of the Build, Own, Operate and Transfer ("BOOT") arrangement; and
- › Finance cost capitalised.

The movement in the rehabilitation provision relates to the accounting unwinding of the discounted liability.

Trade and other payables decreased at the end of the reporting period due to utilising some of the funds drawn down as tranche 1 from the MDCB funding facility to repay certain overdue accounts.



The Group's cash reserves increased from P1.7 million at the end of June 2020 to P11.9 million on 31 December 2020. This was mainly due to the drawdown of P62.5 million in terms of tranche 1 of the MDCB funding facility in December 2020. Most of these funds were applied toward the settlement of overdue accounts in order to facilitate further ramp-up of operations.

OUTLOOK FOR THE FUTURE

The recently commissioned rigid crushing and screening section of the plant is presenting significant efficiencies including improved output, better product mix distribution (favouring more economical product sizes), reduction of double handling material processing costs, improved water management, and stability in supply.

Water management infrastructure (including a filter press and dewatering circuits) has been commissioned post the end of the reporting period and is maximising efficient water usage, recovery, and control of this precious resource.

Completion of Stage 4 of the CHPP (Rigid Screening and Stock Handling section) is expected before the end of the June 2021 financial year, which will provide added benefits of savings in material handling processing costs, availability of supply, and less product handling.

International coal pricing for southern African coal has seen a significant upturn late in the reporting period. Average December 2020 prices were 70% higher than July 2020 prices. The sudden increase is driven by strong demand from India and the spill-over of China's ban on Australian coal. Prices have remained stable post the reporting period at \$80 per tonne, although there is an expectation for a minor downward adjustment in the first quarter of 2021. It is Minergy's view that prices will remain stable at levels around \$75 per tonne during 2021. This has already had a positive effect on domestic pricing as export product is being removed from the regional industrial market, supporting sales opportunities for Minergy, as well as positive pricing adjustments.

The ZAR has strengthened against the Botswana Pula ("BWP") and stabilised at normalised levels used in initial forecasts, which assists in the realisation of BWP sales prices. However, the exchange rate exposure remains fluid.

COVID-19 restrictions continue to impact the business. Additional COVID-19 testing at the borders are delaying cross border collections, but this is being managed.

The start of the second half of the FY21 financial year has seen the continuation of excessive rainfall in Botswana from tropical storm Eloise which impacted southern Africa, as well as other related weather phenomenon. This caused flooding of access roads and the mine pit, hampering coal extraction and evacuation, and also impacting on construction of the last remaining components of the CHPP (Stage 4).



CHANGES TO THE BOARD OF DIRECTORS

On 6 August 2020 Minergy announced the appointment of Mr. Cross Kgosiidiile as a Non-executive Director to the Board of Minergy Limited. He is an experienced company executive and board member, with more than two decades of experience across a range of sectors. He is currently the Managing Director of the Botswana Development Corporation.

As announced, the Chief Financial Officer Mr. J.P van Staden tendered his resignation on 22 January 2021, having accepted an employment offer from an international mining company operating in Africa. Mr. van Staden will work for his three-month notice period and has agreed that he will remain available and dedicated to Minergy as long as Minergy requires his services during this period.

The Board and executive management of Minergy wish to thank Mr. van Staden for his contribution to Minergy during his tenure and wish him all the very best for his future endeavours.

Minergy's Remuneration and Nominations Committee has commenced the process of finding a suitable replacement for Mr. van Staden, and a further update will be provided as soon as possible.

CONTINGENT LIABILITY

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

BASIS OF PREPARATION

The unaudited condensed consolidated interim financial statements have been prepared in accordance with the framework, concepts, and the measurement and recognition requirements of International Financial Reporting Standards ("IFRS"), International Accounting Standard IAS 34: Interim Financial Reporting and financial pronouncements as issued by the International Accounting Standards Board.

This report on the interim period 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 2020 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.

The condensed consolidated interim financial statements have been prepared on the basis of accounting principles applicable to a going concern, which assumes the realisation of assets and satisfaction of liabilities in the normal course of business. As discussed above, the Group incurred a net loss during the interim period ended 31 December 2020 of P57.3 million. As at 31 December 2020 the Group had accumulated losses of P195.7 million and its net liabilities exceeded its net assets by P6.8 million. It is expected that further losses and cash outflows will be incurred until the Group reaches steady-state levels of production.



The directors have prepared cash flow forecasts indicating that the Group will have sufficient cash resources to fund its operations for the next 12-month period. These cash flow forecasts include the assumptions that additional debt and equity funding will be obtained during the next 12 months, that the remaining coal beneficiation plant upgrade will be completed and that operations will subsequently ramp up to achieve steady state production volumes in a stable market. The Group's ability to continue as a going concern is therefore dependent on achieving the aforementioned objectives and assumptions.

The Group has achieved a number of important milestones during the reporting period under review, including the continuation of production and successful evacuation and sale of coal to customers in Botswana, South Africa and Namibia, during a severely depressed and COVID-19 affected market. This enabled it to protect the meaningful market share that it had established, and obtaining additional debt funding at the end of the interim period under review enabled the Group to boost its ramp-up activity in the second half of the financial year.

The Group has a history of successful debt and capital raisings to meet its funding requirements. The raising of additional equity funding has been approved by shareholders and the process of seeking interested investors is underway. The directors believe that there are reasonable grounds to believe that they will be successful in achieving the matters set out above and that the use of the going concern basis remains appropriate.

On behalf of the board

Mokwena Morulane

Non-executive Chairman

Morné du Plessis

Chief Executive Officer

15 March 2021



CORPORATE AND GENERAL INFORMATION

CORPORATE INFORMATION

REGISTERED OFFICE AND BUSINESS ADDRESS

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1st Floor
Plot 43175
Phakalane
Gaborone

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COMPANY SECRETARY

Desert Secretarial Services (Pty) Ltd

WEBSITE

www.minergycoal.com

TRANSFER SECRETARIES

Corpserve Botswana

ATTORNEYS

Akheel Jinabhai & Associates

BANKERS

RMB Botswana

AUDITORS

Grant Thornton (Botswana)
Registered auditors

REGISTRATION NUMBER

BW00001542791

GENERAL INFORMATION

COUNTRY OF INCORPORATION AND DOMICILE

Botswana

NATURE OF THE BUSINESS

The Group is invested in the exploration, development, mining and trading of thermal coal.

DIRECTORS

M Morulane (appointed 25 January 2017)
L Tumelo (appointed 19 September 2016)
C de Bruin (appointed 3 October 2016)
A Bojé (appointed 25 January 2017)
M du Plessis (appointed 25 January 2017)
JP van Staden (appointed 2 January 2020)*
C Kgosiidiile (appointed 29 July 2020)

() On 22 January 2021, JP van Staden tendered his resignation. Minergy is in the process of appointing a new CFO and will notify the market as soon as the position is filled.*

PREPARER

The condensed unaudited interim consolidated financial statements were prepared by the Financial Manager, Julius Ayo (Bachelor of Accounting ("BACC") and Association of Certified Chartered Accountants ("ACCA")) under the supervision of the Chief Financial Officer ("CFO"), JP van Staden, CA(SA).