



Minergy Limited
(Incorporated in accordance with the laws of Botswana)
(Company Number: BW00001542791)
www.minergycoal.com
("Minergy" or "the Company")

MARKET UPDATE

Minergy Limited is providing this voluntary update to the market as it has entered a closed period, which will end when the interim results for the period ended 31 December 2021 are released. This is expected to take place around the middle of March 2022. Minergy will then update the market through a cautionary announcement, followed by the release of the interim results and commentary.

This update provides high-level feedback on the performance, market conditions and developments for the six-month period ending 31 December 2021 ("the six-month period"). The six-month period ending 31 December 2020 ("the comparative six-month period") is used as a comparative for the performance indicators mentioned below.

OPERATIONAL UPDATE

Substantial progress was made toward reaching nameplate capacity during the six-month period. Achievements included producing the highest six-monthly volumes across all disciplines since the inception of the mine.

With support from its mining contractor, Minergy is now capable of achieving nameplate capacity of 125,000 tonnes per month. Overburden volumes increased fourfold versus the comparative six-month period. A similar trend was evident in the amount of coal that was extracted, with growth of 100% being achieved. Record tonnage in excess of 110,000 tonnes of coal was mined in October 2021.

Stage 4 of the Processing Plant (Rigid Screening and Stock Handling section) was also successfully commissioned. Plant construction is thus complete, and is now fully operational as designed. Resulting benefits include savings in processing costs, a stabilised supply, and further support for achieving nameplate capacity. Daily average feed rates increased significantly and are being consistently achieved.

Processed volumes increased in line with mining data, with yields remaining stable, and a record throughput of 108,000 tonnes was achieved in October 2021. However, lower volumes were recorded during November and December 2021, impacted by the new COVID-19 variant and the related effect on workforce availability and border access, as well as by rain interruptions and lower regional sales as explained below.

The higher rainfall did not result in flooding as was the case in the comparative six-month period, thanks to good drainage solutions being in place at the mine.

SALES AND MARKET CONDITIONS

Following increased production volumes, sales tonnes increased by more than 55%. Pleasingly, a better product mix was obtained from the fully commissioned plant, with improved sales of the more profitable pea product being recorded. Against the comparative six-month period, selling prices increased, attributable to a stable South African Rand, an improved sales mix was achieved, and prices increased.

Unfortunately, breakeven sales volumes were not achieved in the six-month period. This was mainly due to only commissioning Stage 4 midway through the six-month period and a slowdown in sales during the last two months of the period. The slowdown was directly influenced by a major cement producer experiencing a breakdown and reducing purchases accordingly.

Minergy has unfortunately not benefited from the price momentum of international coal. The inability of the South African Rail agency, Transnet Freight Rail ("TFR"), to manage infrastructure, resources and security arising from copper cable theft and vandalism, has resulted in a significant decrease in the export of coal through Richards Bay. Consequently, local producers returned product to the regional market, resulting in an oversupply. Minergy had expected an undersupply, and inadvertently lost the opportunity to take advantage of the strong pricing.

FINANCIAL EFFECTS

As a result of sales remaining below breakeven, further operating losses were incurred, albeit at lower levels with better cost recoveries at increased volumes. Input costs were negatively impacted by a 52% increase in diesel prices, which was difficult to pass on to customers.

MINERGY SHORT-LISTED FOR NEW POWER PLANT IN BOTSWANA

The Botswana Government, through the Ministry of Mineral Resources, Green Technology and Energy Security ("MMGE"), invited the Company's subsidiary, Minergy Coal (Pty) Ltd ("Minergy Coal"), and three other selected local bidders to tender for the design, finance, construction, ownership, operation, maintenance and decommissioning at the end of its economic life (minimum 30 years) of a 300MW (Net) Greenfields Coal-Fired Power Plant in Botswana, as an Independent Power Producer ("IPP"). This forms part of the government's 11th National Development and Integrated Resources Plan. It is expected that the power plant would be operational by 2026. The closing date for the bid is currently 30 March 2022.

Minergy is partnering with Jarcon Power to submit the bid. If successful, Minergy Coal will be responsible for providing coal to the power plant for the duration of the Power Purchase Agreement of 30 years, and other income streams are also being envisaged. This profitable sale of coal will have the benefit of ensuring a steady cash flow to Minergy, utilisation of current uneconomical coal seams and diversifying income streams. Importantly, Minergy is the only bidder to have an operational mine.

HEALTH AND SAFETY

Minergy continues to uphold an outstanding safety record, having had only one minor lost time injury during the period. The Company is grateful to be fatality free as the result mainly of strictly managed health and safety systems.

COVID-19 remains a challenge, with a total of 128 cases since the start of the pandemic, 68 of which were recorded during the six-month period. December alone contributed 31 cases. Thankfully, all staff have fully recovered.

Minergy is committed to providing its workers with a safe work environment and as at the end of December 2021, 78% of employees were fully vaccinated and a further 9% had received their first dose of the vaccine, which totals 87% of the workforce.

OUTLOOK

It appears that TFR, in conjunction with the South African coal industry, has been able to improve security issues and performance, boding well for a recovery of inland market pricing and opportunities as export coal prices remain high.

Minergy expects the international pricing for southern Africa coal to remain high, driven by the continued China/Australian standoff and Indonesian export restrictions. Coal supply is under pressure, with demand increasing as several majors divest from coal given the negative coal narrative. Minergy expects an undersupply in the regional market as a result.

As mentioned, nameplate capacity is now achievable, with a strategic focus on sales to support the increased saleable product. This will enable Minergy to generate sufficient cash flow to stabilise the business. Major cement and steel producers have, however, notified Minergy of plant shutdowns early in 2022. Alternative placement of product will be sought.

A secondary listing on an internationally recognised stock exchange remains an important strategic objective. However, affordability and timing are key considerations, which are constantly being evaluated. The ordinary share capital raise, approved by shareholders in February 2021, has garnered interest and Minergy is actively engaging with interested parties to progress this.

Eskom's future strategy remains unclear, given the ambiguous messages broadcast by the power utility in recent months, and Minergy is waiting feedback on the requirements for coal supply into the South African power station market. The process is on hold for now.

Minergy believes that countries such as Botswana and Namibia will pursue power independence from South Africa (illustrated by the Botswana tender and discussions with interested parties in Namibia) and finds itself located centrally to supply both South Africa and southern African countries.

ACTING CHIEF FINANCIAL OFFICER ("CFO")

Shareholders are reminded that Minergy appointed Mr. Julius Ayo as Acting CFO of the Company during 2021. The BSE Regulatory Committee has approved a further extension to 30 April 2022 for the permanent appointment of a CFO.

COMMUNITY SUPPORT AND INVOLVEMENT

The Company recognises Minergy's responsibility to mine and operate responsibly and will continue to do so, along with providing stakeholder support to the benefit of the community.

By Order of the Board

Morné du Plessis
Chief Executive Officer
20 January 2022

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