minergy
LIMITED

CONDENSED UNAUDITED INTERIM CONSOLIDATED RESULTS

FOR THE SIX MONTHS ENDED 31 DECEMBER 2021

Minergy Limited

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

This commentary relates to the six-month period ending 31 December 2021 and follows the commentary shared in the voluntary market update of 20 January 2022, which should be read in conjunction with this announcement. The six-month period ending 31 December 2020 ("the comparative six-month period") is used as a comparative for performance indicators mentioned below.

ACHIEVEMENTS FOR THE INTERIM PERIOD INCLUDE:

- **Minergy short-listed for new 300 MW coal fired power plant in Botswana being the only bidder with an operational coal mine;**
- **Record monthly mining and feed to plant tonnages were achieved, supporting nameplate capacity of 125 000 tonnes per month;**
- **Stage 4 of the Processing Plant (Rigid Screening and Stock Handling section) successfully commissioned which completes all plant construction. The full plant now operates as designed;**
- **50% increase in sales tonnes against the comparative six-month period;**
- **Better product mix was generated from the fully commissioned plant, with improved sales of the more economical fractions and overall average pricing increase achieved;**
- **22% improvement in the EBITDA loss against the comparative six-month period;**
- **Continued Government support for the project, including implementing debt restructuring agreements; and**
- **Sustainably employing Batswana constituting 95% of workforce.**

CHALLENGES DURING THE INTERIM PERIOD INCLUDE:

- Minergy's target market was flooded with export destined coal due to the inability of Transnet Freight Rail ("TFR") to manage cable theft and vandalism which impacted the evacuation of coal and created an oversupply in the regional market;
- A new COVID-19 variant impacted the extraction of coal due to workforce availability and border access late in the period;
- Rain interruptions experienced but not resulting in flooding or significant production interruptions as was the case in the previous period;
- Untimely breakdowns at a key customer's production facilities constraining offtake and reduced demand from another in anticipation of kiln maintenance in early 2022; and
- Cash flow constraints operating below breakeven.

OPERATIONAL UPDATE

Substantial progress was made toward reaching nameplate capacity during the six-month period. Production volumes reached the highest six-monthly volumes across all disciplines since the inception of the mine and nameplate capacity has been demonstrated.

Although nameplate capacity is now achievable, breakeven sales volumes were not achieved in the six-month period mainly due to:

- Production potential of the fully commissioned plant was only available midway through the six-month period after the commissioning of Stage 4;
- Lower sales from two key customers during the last two months of the period as highlighted earlier; and
- Oversupply of product in the regional market.

The plant now supports the envisaged product mix, economical water use and can sustain nameplate capacity.

FINANCIAL REVIEW

The financial performance for the year is presented below:

STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER 2021

Figures in Pula	31 Dec 2021	30 Jun 2021
ASSETS		
Non-current assets		
Property, plant and equipment	**384 341 733**	390 835 008
Deferred tax asset	**88 204 480**	68 103 074
	472 546 213	458 938 082
Current assets		
Inventories	**71 436 139**	42 632 873
Trade and other receivables	**29 274 663**	40 941 636
Cash and cash equivalents	**13 601 319**	911 485
	114 312 121	84 485 994
Total assets	**586 858 334**	543 424 076
EQUITY AND LIABILITIES		
Capital and reserves		
Stated capital	**165 563 026**	165 563 026
Accumulated loss	**(316 538 459)**	(245 269 838)
Other reserves	**30 259 269**	23 676 115
Equity attributable to owners of the parent	**(120 716 164)**	(56 030 697)
Total equity	**(120 716 164)**	(56 030 697)
Non-current liabilities		
Borrowings	**504 102 142**	365 377 304
Rehabilitation provision	**84 561 299**	82 498 832
	588 663 441	447 876 136
Current liabilities		
Borrowings	**17 200 000**	17 967 584
Trade and other payables	**101 711 057**	133 611 053
	118 911 057	151 578 637
Total liabilities	**707 574 498**	599 454 773
Total equity and liabilities	**586 858 334**	543 424 076

The following items are highlighted in relation to the Statement of Financial Position:

- Finished product inventories have nearly doubled from the 30 June 2021 year- end on the back of lower sales late in the period as well as increased investment in work in progress to support nameplate capacity;
- Debtors remain well managed with no credit losses incurred to date and the period end includes early payments by customers on 31 December 2021 reflected in cash;
- The increase in cash balances is mainly related to customers paying on 31 December 2021 and cash remaining in the bank over the Christmas shutdown. Payments to creditors in the New Year were delayed because of public holidays on 3 – 4 January 2022.
- The increase in borrowings is explained as follows:
  - The bulk of the finance costs recorded in the Statement of Comprehensive Income is capitalised interest
  - Additional Minerals Development Company Botswana (Proprietary) Limited ("MDCB") debt of P63 million received in July 2021; and
  - Trade debt converted into senior debt as well as deferral of a portion of current mining costs as part of the debt restructuring process to assist with cash flow.
- Reduction in trade payables from settlements done out of funding and conversion to senior debt.

STATEMENT OF COMPREHENSIVE INCOME

FOR THE SIX MONTHS ENDED 31 DECEMBER 2021

Figures in Pula	**31 Dec 2021**	30 Dec 2020
Revenue	**134 227 745**	75 774 523
Cost of sales	**(172 907 390)**	(119 388 704)
Gross loss	**(38 679 645)**	(43 614 182)
Other income	**1 021 184**	182 815
Operating expenses	**(10 674 614)**	(11 459 982)
Operating loss	**(48 333 075)**	(54 891 348)
Finance income	**52 261**	30 580
Finance costs	**(43 089 213)**	(18 655 504)
Loss before income tax	**(91 370 027)**	(73 516 273)
Income tax	**20 101 406**	16 173 580
Loss for the year	**(71 268 621)**	(57 342 693)
Other comprehensive income for the year	**–**	–
Total comprehensive loss for the year	**(71 268 621)**	(57 342 693)
Total comprehensive loss attributable to:		
Owners of the parent	**(71 268 621)**	(57 342 693)
Non-controlling interest	**–**	–
	(71 268 621)	(57 342 693)
Loss per share (thebe)	**(15.16)**	(12.20)
Diluted loss per share (thebe)	**(15.16)**	(12.20)

The operating loss decreased for the comparative six-month period by 12%, from P54.9 million to P48.3 million.

On a cash basis, Earnings before Interest, Tax and Amortisation (“EBITDA”) amounted to a loss of P40.4 million against a comparative loss of P51.7 million which is an improvement of 22%.

Both positive changes in the metrics were supported by the 50% increase in sales volumes and higher average prices stemming from a more economical product mix, a stable South African Rand and price increases. It should be noted that revenue includes transport, all provided by local Botswana-owned operators, which also increased in Pula terms by 50%. A reciprocal cost increase is included in the cost of sales as mentioned below.

The full gain of additional revenue was negated by increased cost of sales (cash basis) mainly due to:

- Mining costs increased because of an increase in the price of diesel by 52%, explosives increased by 35% compared to the comparative period and additional hauling costs within the mine;
- Processing costs carry the full six-month effect of the new rates negotiated as from 1 April 2021 including an additional increase in magnetite of 23% affecting the variable rate;
- Fixed cost recovery improved with increased production volumes but remain below breakeven;
- Additional variable costs attached to increased volumes such as electricity and royalty;
- Doubling in road maintenance costs of the public road in the absence of assistance from the relevant authorities;
- The 50% increase in transport costs as indicated previously and;
- Offset by materials handling savings from the fully commissioned plant.

Pleasingly, operating expenditure is lower against the comparative six-month period supported by continued salary cuts endured by company executives and strict cost control.

Other income includes sales of raw fines recovered through the dewatering screen, which in addition to water savings, contribute to the bottom line as income albeit at low prices. Previously this product was discarded.

The increase of P25 million in finance cost resulted from the following events:

- Compounding effect of capitalised interest;
- Capitalisation of borrowing costs ceased at the end of December 2020, albeit that the comparative period included P6.4 million;
- Full six-month effect of the P63 million MDCB funding received in December 2020 and the additional P63 million MDCB funding received in July 2021 contributing additional finance cost of P9.4 million, excluding the effect of compounded capitalisation noted in the opening bullet;
- Full six-month finance costs incurred on the Build, Own, Operate, Transfer ("BOOT") plant facility;
- Finance costs incurred on the senior debt facility provided by a trade creditor as part of the debt restructuring; and
- Full six-month effect of the increase in borrowing rate imposed by a funder, emanating from the debt restructuring agreement effective 1 April 2021.

The net loss before tax increased from P73.5 million to P91.4 million solely due to the increase in finance costs.

STATEMENT OF CHANGES IN EQUITY

FOR THE SIX MONTHS ENDED 31 DECEMBER 2021

Figures in Pula	Stated capital	Accumulated loss	Other reserves	Total equity
Balance at 1 July 2020	**165 563 026**	**(139 695 949)**	**17 258 242**	**43 125 319**
Total comprehensive loss	—	(106 903 609)	—	(106 903 609)
Transactions — owners in their capacity as owners of equity				
Borrowings — conversion option reserve	—	—	7 381 764	7 381 764
Share-based payment expense	—	1 329 720	(963 891)	365 829
Balance at 1 July 2021	**165 563 026**	**(245 269 838)**	**23 676 115**	**(56 030 697)**
Total comprehensive loss	**—**	**(71 268 621)**	**—**	**(71 268 621)**
Transactions — owners in their capacity as owners of equity				
Borrowings — conversion option reserve	**—**	**—**	**6 583 154**	**6 583 154**
Share-based payment expense	**—**	**—**	**—**	**—**
Balance at 31 December 2021	**165 563 026**	**(316 538 459)**	**30 259 269**	**(120 716 164)**

STATEMENT OF CASH FLOWS

FOR THE SIX MONTHS ENDED 31 DECEMBER 2021

Figures in Pula	31 Dec 2021	30 Dec 2020
Cash flows from operating activities		
Cash utilised in operations	**(89 997 512)**	(43 827 829)
Finance costs paid	**(4 240 728)**	(361 785)
Net cash used in operating activities	**(94 238 240)**	(44 189 613)
Cash flows from investing activities		
Purchase of property, plant and equipment	**(635 094)**	(6 896 599)
Finance income	**52 261**	30 580
Net cash utilised in investing activities	**(582 833)**	(6 866 019)
Cash flows from financing activities		
Proceeds from borrowings	**113 117 423**	62 500 000
Repayment of borrowings	**(5 606 519)**	(1 215 789)
Net cash from financing activities	**107 510 904**	61 284 211
Total cash movement for the period	**12 689 834**	10 228 579
Cash at the beginning of the period	**911 485**	1 712 055
Total cash at end of the period	**13 601 319**	11 940 634

To conserve cash, minimal investment took place in property, plant and equipment. The borrowings increase relates to the additional debt received in July as well as the conversion of trade debt into senior debt as part of debt restructuring.

MARKET CONDITIONS

As stated in the market update, opportunities for Minergy to make inroads and leverage pricing in the regional sized market, did not materialise to the extent planned for, even though record high international export prices existed for the period. South Africa exported 12 million fewer coal tonnes in 2021 mainly as a result of difficulties experienced by Transnet Freight Rail ("TFR"). The severity of the impact, as highlighted by the Richards Bay Coal Terminal ("RBCT"), shows the lowest volume exported by RBCT since 1996. This has led to an oversupply in the Minergy target market with exporters placing production locally.

Despite efforts of increased security, including the use of technology along the coal line as well as collaboration with the SA Coal Industry to rectify these challenges, a recovery of exports tonnes passing through RBCT as a result of improved TFR logistics performance will only be visible during the second half of the financial year.

Minergy has been exploring moving seaborne thermal coal to alternative ports away from RBCT on the back of higher prices, albeit that high logistics costs remain a challenge.

The situation has changed dramatically with the unfortunate outbreak of the Ukraine-Russia war leading to extraordinary high coal prices justifying high logistic costs for Minergy.

MINERGY SHORT-LISTED FOR NEW POWER PLANT IN BOTSWANA

Minergy previously announced that it is one of three shortlisted bidders tendering for a 300MW (Net) Greenfields Coal-Fired Power Plant in Botswana, as an Independent Power Producer. The closing date for the bid has been extended to 27 April 2022.

In addition, Minergy will be responsible for providing coal to the power plant for the duration of the Power Purchase Agreement of 30 years, essentially de-risking the investment and providing a diversified and stable income stream. The bid preparation is on track.

Importantly, Minergy is the only bidder to have an operational mine, a reserve large enough for the benefit of the power plant, has demonstrated the experience to operate within Botswana as well as being a fully incorporated Botswana company with a staff complement made up of 95% Batswana.

HEALTH, SAFETY AND COMMUNITY

The Company is grateful to be fatality free as the result 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.

91% of employees are either fully vaccinated or have received their first dose of the COVID-19 vaccine. The company is also assisting with the provision of boosters as required by the Botswana Government.

Minergy continues to take its responsibility to mine and operate responsibly seriously and will continue to do so, along with providing stakeholder support to the benefit of the community.

FUTURE FOCUS AND OUTLOOK

Until TFR logistics have recovered, and normalised export volumes have resumed, Minergy will remain under pressure to exceed sales volumes beyond breakeven levels. Two major customers, a cement producer and a steel producer, have notified Minergy of plant shutdowns early in 2022, which will negatively affect first quarter performance. Alternative placement of product has been sought but it is hampered by high logistics costs and the oversupply of product currently in the region. Accordingly, production capacity will be aligned with lower sales to limit increased stock holdings, delaying nameplate capacity volumes and placing pressure on profitability and cash flows.

A second listing on an internationally recognised stock exchange remains an important strategic objective. Affordability and timing are key considerations being evaluated as Minergy's operations move towards consistently producing at nameplate capacity.

The placement of ordinary shares as part of the previously approved equity share placement process is progressing, with interest indicated from potential new investors to invest alongside existing shareholders. The support and participation of major existing shareholders accordingly remains critically important to concluding the fund raising, and to supporting the mine's final development and growth prospects. Several steps to standardise the raising process are envisaged to efficiently provide information access to a broader potential investor base going forward. It is anticipated that these steps may also assist a listing process going forward.

Supplying into Eskom and the power generator's future strategy remains unclear, given the ambiguous messages broadcast by the power utility in recent months. No further updates or clarifications have been received from Eskom, with the process on hold for now.

Opportunities to supply coal into Botswana's neighbouring countries is garnering increasing interest.

Post the six-month period, Minergy is proud to announce that it has concluded a ground-breaking deal, at attractive coal prices, with an international trader to export seaborne thermal coal through a southern African west coast port. It is expected that further deals will be concluded.

CHANGES TO THE BOARD OF DIRECTORS

There were no changes to the Board during the six months.

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.

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 2021 and any public announcements made by the Company during and post the interim reporting period. The accounting policies adopted are consistent with those of the previous financial year and corresponding interim reporting period.

The unaudited condensed consolidated interim financial statements have been prepared based on accounting principles applicable to a going concern, which assumes the realisation of assets and satisfaction of liabilities in the normal course of business. As noted above, the Group incurred a net loss during the interim period ended 31 December 2021 of P71.3 million. As at 31 December 2021 the Group had accumulated losses of P316.5 million and its net liabilities exceeded its net assets by P120.7 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 equity funding will be obtained during the next 12 months, 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 objectives and assumptions.

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.

Management is grateful to its customers, service providers, funders, employees, governance structures, all other stakeholders and especially God for achievements and progress made during the six-month period.

On behalf of the Board

Mokwena Morulane
Non-executive Chairman

Morné du Plessis
Chief Executive Officer

16 March 2022

CORPORATE AND GENERAL INFORMATION

CORPORATE INFORMATION

REGISTRATION NUMBER
BW00001542791

REGISTERED OFFICE AND BUSINESS ADDRESS
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POSTAL ADDRESS
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Gaborone, Botswana

COMPANY SECRETARY
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WEBSITE
www.minergycoal.com

SPONSORING BROKER
Imara Capital Securities (Pty) Ltd

TRANSFER SECRETARIES
Corpserve Botswana

ATTORNEYS
Akheel Jinabhai & Associates

BANKERS
RMB Botswana

AUDITORS
Grant Thornton (Botswana)
Certified auditors of public interest entities

GENERAL INFORMATION

COUNTRY OF INCORPORATION AND DOMICILE
Botswana

NATURE OF THE BUSINESS
The Group is invested in the exploration, development, mining and trading of sized thermal coal, primarily for sale into the industrial market. The quality and size of the Minergy coal resource is suitable to expand into the supply of coal for the power generation sector and for seaborne export.

DIRECTORS
M Morulane
L Tumelo
C de Bruin
M du Plessis
C Kgosidiile
L Makwinja

SIGIL DESIGN BUREAU