minergy LIMITED

Condensed group audited financial results for the year ended 30 June 2023

www.minergycoal.com

Minergy Limited

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

Overview of the 2023 financial year

The year under review has indeed been one of changing fortunes. During the first half of the year (H1 2023), Minergy operated, as reported, within an unprecedented booming sales environment, which supported full production, with the Group achieving new sales and production records, accompanied by the first operating and EBITDA profits. However, in H2 2023 there was a sudden and significant drop in coal prices due to excess product in the European market, caused by voracious buying. The drop in pricing also came sooner than general market consensus expected. The situation was unfortunately compounded by the untimely stoppage by the mining contractor at the beginning of March 2023, with downsized operations resuming during the week of 7 April 2023. Consequently, the second half of the year (H2 2023) reversed all H1 2023 positive outcomes, incurred additional losses and placed significant pressure on the Group, its cashflows and performance.

Financial and non-financial summary

Financial	Operational	Health, safety and social
• Total revenue increased by 21% to P512 million (2022: P425 million). Pure coal sales (excluding transport recoveries) increased to P459 million (2022: P297 million). • To illustrate the impact between half years, H1 2023 pure coal sales amounted to P298 million (the same amount as the full FY 2022), tapering down to just P161 million sales in H2 2023 as a result of the difficult market conditions post the 2022 boom. The impact on pricing half year and year-on-year are shown below: H1 v H2: (9) FY23 v FY22: 40 (Pricing change (%))	• Sales volumes dropped from monthly averages of ~67 000 tonnes per month ("tpm") in H1 2023 to only ~40 000tpm for H2 2023. H1 v H2: (69) FY23 v FY22: 10 (Volumes change (%)) • ~174 000 tonnes of coal were successfully dispatched on four vessels from Walvis Bay for export markets. • Since inception, 1.84 million tonnes of coal have been sold, with each of the four active sales years improving annually.	• Yet another reporting period with an excellent safety record, with no lost time injuries ("LTI"). • The current LTI record stands at 1 064 days and as at reporting date stood at 669 days. • We are proud to have had zero fatalities since inception.
• Compared to 2022, operating losses decreased by 30% to P52 million, with EBITDA losses decreasing by 43% to P32 million, continuing the trend of decreasing losses, buoyed by the positive operating and EBITDA numbers from H1 2023.	• Production trends followed sales trends, decreasing from production averages of ~120 000tpm for mining and beneficiation feed in H1 2023 to ~80 000tpm to accommodate reduced demand. • Since inception 17.6 million m^3 of waste has been moved and 3.4 million tonnes mined and processed, again showing continuous growth annually.	• 97% of employees are either fully vaccinated or have received their first dose of the COVID-19 vaccine.
• Mining costs, specifically diesel and explosives, increased >50% from the previous period, due to the global energy security crisis, only stabilising late in H2 2023 but remaining at high levels. • Mining cost increases were exacerbated by a higher mining strip ratio and additional fixed costs accompanying the ramp-up to full capacity.	• Water resources proved sufficient for increased production through effective water management, including filter press operations. • North South Carrier approvals received will support future expansion.	• As part of cost restructuring post the March 2023 halting of mining operations, the workforce decreased from 536 to 366 employees.
• First time generation of cash flow from operating activities compared to historical cash utilisation.	• Cessation of mining operations by the mining contractor in March 2023 had a negative impact on the business and continues to do so.	• An average of between 95% – 96% of the workforce is Batswana.
• Operating expenditure was impacted by a vessel claim and large foreign exchange losses from a weakening Rand, especially in H2 2023.	• Public Private Partnership ("PPP") with the Botswana government to tar roads is progressing and will support future expansion.	• Various internships were undertaken, and local employment was used for fencing and related tasks.

Health, safety and community

Safety is paramount and remains our top priority. The excellent safety records are a clear testament to the efforts of the team on the ground who have implemented effective safety systems. We remain vigilant and are grateful to have had no fatalities with only one minor lost time injury since our inception.

Operational update

Operations were severely impacted by two main events during H2 2023.

Firstly, the opportunity to operate at full capacity was lost by the sudden drop in export pricing from late December 2022. Exports through Walvis Bay became uneconomical, based on Free-on-Board ("FOB") pricing and logistics costs to port. The last vessel was loaded in early February 2023 and all evacuation of coal product to this port was ceased. Minergy had to find replacement sales for 35% of sales in a market that was flooded with coal, with local pricing coming under pressure in a buyers' market. This presented a completely opposite scenario from the position in H1 2023. It is important to note that the business model was never based on seaborne exports. During the process of ramping up to full production with a fully completed plant for supply into the sized regional market, the opportunity arose, as it did for all producers, for Minergy to focus production on the seaborne export market. Full capacity did not allow enough product to develop new regional sized sales opportunities at the same time as the immediate benefits of the lucrative seaborne export sales were prioritised. The process to create a stable regional sized market, as envisaged in the original business plan, was thus delayed. Minergy now has to navigate an over supplied and low priced market, exacerbated by new competitor activity.

Secondly, and permeating from the above, the pre-boom and pre-existing overdue indebtedness to the mining contractor meant that Minergy simply did not have the trading volumes to recover overdue balances, which was the case with H1 2023. This resulted in the stoppage of operations at the Masama Coal Mine at the beginning of March 2023 by the mining contractor. Operations were only restarted, downsized to cater for demand, during the week of 7 April 2023.

As mentioned before, planning assumed a market with extended increased pricing lasting for at least 12 months and associated full capacity, which was the general market consensus. Consequently, the stoppage damaged Minergy's reputation and credibility to supply sustainably. Customers, as expected, had to find a contingency supply. To exacerbate matters, a local competitor entered the market, which doubled the blow. Customers either moved to the alternate supplier due to availability of their coal or split orders to hedge security of their supply. Sales and resultant operations have thus decreased to extremely low levels.

This is illustrated by:

- Extraction of coal being 41% lower than H1 2023 or ~320 000 tonnes, noting that no coal was extracted in March 2023;
- Feed processing is similarly down by 33% from H1 2023 or ~248 000 tonnes lower

Comparing annual statistics does show an improvement over prior years with four consecutive years of production and sales increases, even with the H2 2023 setbacks. Typically, mining and processing volumes are still 19% higher than FY22, with overburden exceeding the prior year by 35%. Absolute values also represent new annual performance records. Overall sales were 10% higher but were trending at >50% volume increases at the end of H1 2023.

With the subdued demand there was no significant pressure on water supply, even though a much drier second half to the year was experienced. As part of contingencies, backup and future supply, additional underground sources of water were drilled and secured.

We will provide commentary on further operational changes later in the announcement.

Financial review

The commentary provided for the interim results 31 December 2022 should be read as background to this announcement. Minergy entered H2 2023 on the back of operating and EBITDA profits. This trend continued for January 2023, after which significant losses were incurred on the back of the explanations provided earlier.

Statement of financial position
as at 30 June 2023

Figures in Pula	2023	2022
Assets		
Non-current assets		
Property, plant and equipment	**547 862 810**	457 309 038
Deferred tax asset	**144 807 616**	105 299 204
	692 670 426	562 608 242
Current Assets		
Inventories	**118 604 878**	76 277 729
Trade and other receivables	**57 243 499**	95 392 892
Cash and cash equivalents	**13 188 532**	9 156 322
	189 036 909	180 826 943
Total assets	**881 707 335**	743 435 185
Equity and liabilities		
Capital and reserves		
Stated capital	**165 563 026**	165 563 026
Accumulated loss	**(515 264 079)**	(376 420 873)
Other reserves	**31 076 451**	30 578 264
Equity attributable to owners of the parent	**(318 624 602)**	(180 279 583)
Total equity	**(318 624 602)**	(180 279 583)
Non-current liabilities		
Rehabilitation provision	**243 583 293**	161 665 560
Borrowings	**547 725 045**	565 017 069
	791 308 338	726 682 629
Current liabilities		
Borrowings	**181 278 607**	17 826 904
Trade and other payables	**225 581 457**	178 389 654
Current tax liabilities	**2 163 535**	815 581
	409 023 599	197 032 139
Total liabilities	**1 200 331 937**	923 714 768
Total equity and liabilities	**881 707 335**	743 435 185

The Property, Plant, and Equipment ("PPE") delta is due to:

- mine development activities of circa P34 million aimed at expanding the pit, which included box cut activities, to meet the forecasted growing market demand at the time, which was incurred during H1 2023;
- increased mining activity with record overburden volumes of 6.4 million m^3 (this represents 37% of total waste moved since inception) has increased the rehabilitation asset and reciprocally the liability, an increase of P73 million; and
- this is netted off by depreciation of P22 million (2022: P15 million).

Inventories increased from P76 million as of 30 June 2022 to P119 million. Work in progress, with growth as explained in the 31 December 2022 commentary, was reduced during H2 2023. However, the oversupplied market has now created a situation where finished production is moving slower than in H1 2023 and Minergy experienced a stock build up, even within the confines of reduced production environments.

Trade receivables have decreased from the H1 2023 higher balances. The FY22 comparative also included receivables from an export vessel at the time and reflected the increased sales environment.

Borrowings continues to increase due to capitalised interest on existing loans and the accumulation of the mining contractor's debt restructuring deferral facility. No new facilities were incurred, other than those noted in the subsequent events section.

The growth in trade and other payables is mainly related to the mining contractor, including interest provisions, prior to the funding of P90 million which was disbursed early in August 2023.

Statement of comprehensive income
For the year ended 30 June 2023

Figures in Pula	2023	2022
Revenue	**512 540 399**	425 272 818
Cost of sales	**(558 665 431)**	(483 670 573)
Gross loss	**(46 125 032)**	(58 397 755)
Other income	**16 089 302**	2 975 064
Operating expenses	**(22 154 346)**	(18 836 111)
Operating loss	**(52 190 076)**	(74 258 802)
Finance income	**232 500**	96 786
Finance costs	**(124 230 507)**	(93 369 568)
Loss before income tax	**(176 188 083)**	(167 531 584)
Income tax	**37 344 877**	36 380 550
Loss for the year	**(138 843 206)**	(131 151 034)
Other comprehensive income for the year	**—**	—
Total comprehensive loss for the year	**(138 843 206)**	(131 151 034)
Total comprehensive loss attributable to:		
Owners of the parent	**(138 843 206)**	(131 151 034)
Non-controlling interest	**—**	—
	(138 843 206)	(131 151 034)
Loss per share (thebe)	**(29.54)**	(27.91)
Diluted loss per share (thebe)	**(29.54)**	(27.91)

Record sales values, volumes and pricing drove the revenue line. As indicated in the summary, volumes are 10% higher (was trending higher with 54%) and sales pricing 40% higher than FY22. This supports the pure coal sales (excluding transport recovery) increase of ~P162 million. The prior year included significant FOB recoveries as part of the two vessels sold during the latter half of FY22. Pure coal sales represent 90% of revenue (2022: 70%). Seaborne export sales contributed 27% of coal sales, the single biggest "customer" by volume.

Cost of sales increased by 16%, effectively improving operating margins. This is supported by the mining and processing volume increases of around 19%. The main contributors are:

- mining costs have increased by 35%, on a unit cost basis, from additional fixed costs related to ramp up and full capacity, significant increases in explosives for blasting (21%) and diesel BWP/litre (48% y-o-y) driven by the energy security crisis of 2022;
- 44% increase in depreciation from additional units of measures allocated from higher volumes and mine development;
- water management expenditure increasing by 36% on the back of additional water sources acquired;
- doubling of royalties paid to government to P15 million (calculated on 3% of sales) from higher sales values; and
- netted off by a decrease in transport and FOB cost recoveries (Moved to a Free-on-Truck (FOT) basis for 2023).

Operating expenditure increased by P3.3 million. Two items taint the comparison, being:

- foreign exchange losses of nearly P5 million (small profit for FY2022) arising from a weakening South African Rand ("ZAR") against the Pula, weakening between 3-5% in H2 2023, where most of the losses were incurred on large outstanding ZAR export sales balances;
- the loss recognised on our second vessel of P1.5 million (total loss P3 million of which 50% was provided in 2022); and
- Botswana continues to suffer high inflation, specifically in wages – Average Core Monthly Inflation (excluding administered prices) for FY23 was 8.2% (2022: 6.8%).

Operating expenditure is 19% or ~P3 million lower compared to FY22, if the items noted are excluded, which is attributable to successful cost management in line with previous years.

Other income increased significantly, with the sale of by-products into the regional market as an alternative to the higher-priced prime product exported from Walvis Bay.

The skewed capital structure, which is heavily debt weighted, continually increases finance costs and is compounded by capitalised interest. Only the mining contractor deferral facility increased in principal value.

Overall, operating losses decreased by ~P22 million while EBITDA losses were P24 million lower compared to 2022. Unfortunately, all the losses were incurred in the last five months of the financial year. This illustrates the devastating effect of the mine stoppage and its consequences in respect of retaining customers and the difficulty of placing our larger sized products back into the regional market. It is disappointing that such a positive start was eroded. The improvement from 2022 is bittersweet.

Statement of changes in equity
For the year ended 30 June 2023

Figures in Pula	Stated capital	Accumulated loss	Other reserves	Total equity
Balance at 1 July 2021	165 563 026	(245 269 838)	23 676 115	(56 030 697)
Total comprehensive loss	—	(131 151 034)	—	(131 151 034)
Transactions — owners in their capacity as owners of equity				
Subscription for shares	—	—	—	—
Share issuance costs on subscription	—	—	—	—
Borrowings — conversion option reserve	—	—	6 583 154	6 583 154
Share-based payment expense	—	—	318 995	318 995
Balance at 1 July 2022	**165 563 026**	**(376 420 873)**	**30 578 264**	**(180 279 583)**
Total comprehensive loss	**—**	**(138 843 206)**	**—**	**(138 843 206)**
Transactions — owners in their capacity as owners of equity				
Subscription for shares	**—**	**—**	**—**	**—**
Share issuance costs on subscription	**—**	**—**	**—**	**—**
Borrowings — conversion option reserve	**—**	**—**	**—**	**—**
Share-based payment expense	**—**	**—**	**498 187**	**498 187**
Balance at 30 June 2023	**165 563 026**	**(515 264 079)**	**31 076 451**	**(318 624 602)**

Statement of cash flows
For the year ended 30 June 2023

Figures in Pula	2023	2022
Cash flows from operating activities		
Cash generated from/(utilised in) operations	**5 229 964**	(109 515 604)
Finance costs paid	**(9 690 463)**	(8 178 787)
Tax paid	**(815 581)**	
Net cash used in operating activities	**(5 276 080)**	(117 694 391)
Cash flows from investing activities		
Purchase of property, plant and equipment	**(38 205 138)**	(5 585 583)
Finance income	**232 500**	96 786
Net cash utilised in investing activities	**(37 972 638)**	(5 488 797)
Cash flows from financing activities		
Proceeds from borrowings	**63 832 275**	136 895 257
Repayment of borrowings	**(16 551 348)**	(5 467 232)
Net cash from financing activities	**47 280 927**	131 428 025
Total cash movement for the period	**4 032 210**	8 244 837
Cash at the beginning of the period	**9 156 322**	911 485
Total cash at end of the period	**13 188 532**	9 156 322

Cash flow generated from operations remained positive in 2023, supported by positive working capital changes.

Ongoing mine development during the ramp up to full capacity is represented by the increase in PPE.

The proceeds from borrowing represent the mining contractor's cash flow deferral of 15% of mining costs as catered for by the debt restructuring agreements.

Market conditions

Current and H2 2023 market conditions are exactly the opposite of 12 months ago. The market is oversupplied with product as producers scramble to place product which was produced in anticipation of a generally longer pricing boom, which did not materialise. This created the inverse of a pricing boom frenzy as cash flow became the main impetus for excessive stockholdings. Seaborne export prices remain uneconomical through Walvis Bay albeit that the recent increase has provided hope for evacuation at breakeven FOB prices to assist with excess volumes.

A buyers' market now exists and aggressive deals are the order of the day. Locally, the Morupule coal mine has commissioned its open cast operations and beneficiation plant, which introduces a new dynamic to pricing and competition locally.

Pricing is recovering slowly, from the earlier low RB1 pricing of $88 per tonne, which is now closer to $120 per tonne, hopefully signifying the bottom of the cycle and stabilising. China and India now drive demand as Europe comes to terms with excessive coal stockpiles and an increased reliance on gas (again). The fourth quarter (Q4) is usually a seasonally strong price period, and this will be monitored as Minergy is coming to terms with market developments and developing its sales strategy to counter lower demand and pricing.

The size of operations at the Masama Coal Mine is being reduced to balance production levels and costs in this challenging market.

We strongly believe that the quality of product offered by Minergy, its loyal customer base and logistical advantages will set the tone for a solid future.

Subsequent events

Minergy successfully concluded a further P90 million funding from its main funder, the Minerals Development Company Botswana ("MDCB"). The proceeds were disbursed on 3 August 2023 and structured as a vanilla secured debenture facility at similar rates to the current MDCB funding, subject to Bank of Botswana rate changes. The proceeds were allocated to the trade payable arrears of the mining contractor.

As part of the agreement, the MDCB has seconded Matthews Bagopi for 12 months to augment the management team. He fulfils the role of Acting Chief Executive Officer at Minery Coal, a subsidiary of Minergy Limited, as announced.

Minergy has issued a notice of termination to its mining contractor Jarcon Opencast Mining Botswana (Pty) Ltd ("Jarcon"). The termination of the mining contract is in line with the strategic intent of the Board of Directors and the financiers of Minergy to stabilise operations and bring the business to sustainable profitability. During this transition period, arrangements have been made to ensure business continuity and minimal disruption in coal supply to customers, by inter alia using stock holdings available. The Board of Minergy Coal has identified a new mining contractor for the Masama Coal Mine and negotiations are underway to finalise the terms of a new mining contract. Minergy undertakes to keep shareholders updated on the progress.

To augment the management team with the departure of the Chief Executive Officer ("CEO"), various human resources have been made available through the MDCB. The MDCB, indirectly the Government of Botswana, has confirmed their continued support for Minergy, which is highly appreciated and comforting.

Future focus, outlook

Optimum production and sales levels need to be established to navigate the uncertain market until stability sets in. The various changes as announced, together with further interventions, will support a path of sustainability and stability. It is exceedingly difficult to place a marker on pricing but we expect some kind of normalisation post the volatile H2 2023.

Change in Board of Directors

The Company announced the resignation of the CEO, Mr. Morné du Plessis. Mr. du Plessis will remain available and dedicated to Minergy during his notice period ending 30 November 2023.The Board and executive management of Minergy wish to thank Mr. du Plessis for his invaluable contribution to Minergy. He was instrumental in establishing Minergy and was appointed to the Board of Directors in January 2017, serving as its first Chief Financial Officer. He took on the CEO role in August of 2019 and oversaw the development and establishment of a fully functional and operational opencast coal mine from greenfields.

Minergy's Board will begin the search for a suitable replacement for Mr. du Plessis, and the Company will provide further updates.

Mr. Matome Tsholetsa Malema has been appointed to the Minergy Limited Board. He currently holds the position of CEO of MDCB. He is a Mining & Metals Executive with over 35 years' experience. This includes board experience at non-executive chairman level in state owned entities and industry experience in base metals, diamonds, and the original equipment manufacturer (Mining Services and Solutions) space in Botswana, such as BCL Limited, Debswana Diamond Company (a De Beers Group Company), Lucara Diamond Corporation, Joyglobal Inc./Komatsu Mining Corp, and Komatsu Limited. At these companies Matome has fulfilled various roles such as Project Metallurgist, Process Plant Manager, Metallurgical Manager, Assistant General Manager, General Manager and Director — Surface Mining and Country Manager. Matome is also a board member of the De Beers Group and a member of its Sustainability Committee.

We welcome Matome to the Board and look forward to his valuable contribution, drawing from his deep and rich source of experience.

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 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 Acting CFO, Julius Ayo (Bachelor of Accounting ("BACC") and Association of Certified Chartered Accountants ("ACCA")) under the supervision of the CEO, Morné du Plessis CA(SA), and approved by the Board of Directors on 25 September 2023. The accounting policies adopted are consistent with those of the previous financial year.

Appreciation

Management expresses its gratitude to its customers, service providers, funders, employees and all other stakeholders for their contributions to the organisation as it continues to grow. All honour, praise and glory to God, our Father, for another year of His provision and blessing.

On behalf of the Board

Mokwena Morulane
Non-executive Chairman

Morné du Plessis
Outgoing Chief Executive Officer

25 September 2023

Corporate and general information

Corporate information

Registration number
BW00001542791

Registered office and business address
Minergy Limited
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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
M du Plessis (resigned 28 August 2023)
C Kgosidiile
M T Malema (appointed 25 September 2023)
J Ayo

SIGIL DESIGN BUREAU