

## Minergy repositions as low-cost coal producer

### *Resumes mining operations at Masama Coal Mine with new mine contractor*

#### Key features of the results and outlook

- Outstanding safety record with no lost-time injuries during the period
- Financial support granted by the MDCB to support the strategic turnaround plan
- Successful transition to new mining contractor to position Minergy as a low-cost coal producer
- Operational stabilisation is progressing well, supported by inquiries from regional and offshore markets for coal supplies

**20 March 2024** – Gaborone – Minergy, the coal mining and trading company, today released results for the six months ended 31 December 2023. During the period under review, Minergy faced significant operational headwinds, primarily due to the March 2023 suspension of activities by the former mining contractor. “This suspension resulted from outstanding trade payable arrears and impacted our sales performance, extending into the period and beyond,” explains Matthews Bagopi, Acting CEO of Minergy Coal (Pty) Ltd (Minergy Coal).

He adds that the period was also characterised by depressed coal prices and increased inland inventories, further compounded by logistical challenges in South Africa.

As part of a general strategic shift in the business and a specific response to the challenges mentioned above, it was decided in September 2023 to replace the mining contractor. This transition halted production during the second quarter of the interim period, with sales sustained by existing product inventory.

“These strategic adjustments were essential to navigate the operational disruptions, as well as to position Minergy for future stability and growth as a low-cost coal producer,” says Bagopi.

Minergy embarked on a transformative journey in August 2023 by securing an initial BWP90 million in funding from its main funder, Minerals Development Company Botswana (“MDCB”). This set into motion the strategic turnaround plan designed to reshape the company’s future, driven by the appointment of a Chief Operating Officer, Matthews Bagopi, seconded from MDCB, at Minergy Coal (Pty) Ltd. Morne du Plessis resigned as CEO, as previously announced, at which point Bagopi stepped up as the Acting CEO of Minergy Coal.

He further explains that, as part of the transformative journey, Minergy announced a parting of ways with its former mining contractor. “As can be expected, coal production was affected in mid-September 2023 and temporarily halted from October 2023, as a consequence of the termination, which in turn had inevitable and undesired inconsistencies in coal supply to our customers.”

Bagopi goes on to explain that the separation from the previous contractor is now complete and Minergy has successfully procured and appointed a new mining contractor, Meropa Resources (“Meropa”), which at the time of releasing these results, had established its presence on-site and resumed production.

The second phase of the strategic turnaround involved additional funding of BWP299 million from MDCB, received on 29 December 2023. This funding was crucial in the facilitation of the transition of mining contractors and enabled the resumption of production, as well as provided short-term working capital.

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## Financial Review

Minergy's financial performance during the period was challenged primarily by operational disruptions and a difficult trading environment. This was exacerbated by the need for financial support, which was received from the MDCB in two tranches of BWP90 million in August 2023 and BWP299 million in December 2023. This funding was crucial for the strategic turnaround plan and settling obligations with the former mining contractor.

Revenue for the period ending in December 2023 declined significantly by 84% compared to the previous year due to the aforementioned operational challenges and the resultant loss of key customers, as well as the cessation of seaborne exports.

Due to reduced production levels, the cost of sales decreased by 67% compared to the previous year. Operations were scaled back to align production with costs in the current market. Additionally, the second quarter faced further setbacks as production was halted, albeit temporarily, following the termination of the mining contractor in September 2023.

The company's finance costs increased by 33%, attributed to the highly leveraged capital structure and the additional debt. Discussions are ongoing to restructure the capital structure so that it supports financial stability and sustainable growth. Total comprehensive income for the period amounts to a loss of P72,5 million, with a resulting loss per share of 15.42 thebe.

## Market conditions and outlook

During the period, the business continued to experience the challenging trading conditions that first manifested in the latter half of the previous financial year. Global coal prices dropped and then stabilised from record highs seen in 2022. Although there was a drop in global prices, the stabilised levels are above the long-term average, with a concurrent global decrease in demand. Regional demand and prices remained under pressure due to persistent logistics and supply chain infrastructure challenges, hindering coal export evacuation from South African producers despite relatively firm export prices.

Bagopi indicates that Minergy's outlook is cautiously optimistic, with various South African industries considering self-generation of steam and electricity through small, customised coal-fired boilers. This trend is evidenced by the increasing order book for such boilers with equipment manufacturers, driven by the growing dissatisfaction with Eskom's inability to provide reliable power in the immediate and foreseeable future. Minergy continues receiving inquiries from regional and offshore markets for coal supplies, with some traditional customers expressing interest in resuming and increasing offtake.

"Looking ahead, we are optimistic about Minergy's future. Meropa Resources commenced mobilisation to the site on 3 January 2024, allowing mining activities to resume. The first overburden blast occurred on 23 February, and we anticipate the first coal load and haul from the pit by the third week of March," said Bagopi. Supply is expected to stabilise by the end of April, with full-scale mobilisation, production, and sales projected by the end of June 2024.

Bagopi concludes by saying, "This phase marks the beginning of operational stabilisation and continuous business improvement, positioning Minergy as a low-cost coal producer. The company is focused on optimising its coal resources, extraction, and processing, developing logistical solutions, and establishing market linkages to enhance efficiency, productivity, and sustainability, ensuring a bright and prosperous future for Minergy."

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