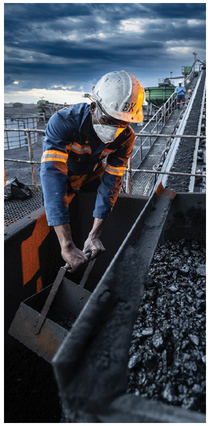
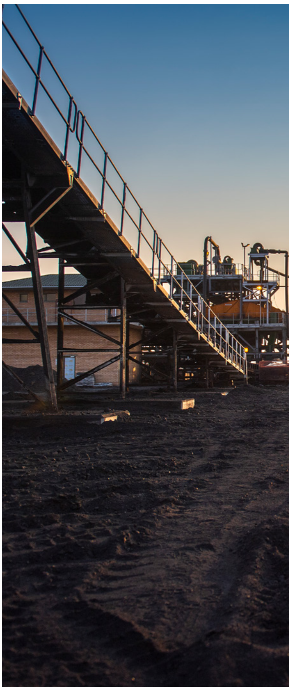
minergy
LIMITED

Condensed group audited financial results

for the year ended 30 June 2022





Minergy Limited

(Incorporated in accordance with the laws of Botswana)

(Company Number: BW00001542791)

www.minergycoal.com

("Minergy" or "the Company")

This commentary on the financial results follows the voluntary market update issued on 25 July 2022, which captured the main factors impacting the financial year ending 30 June 2022 ("FY22"). The year ending 30 June 2021 ("FY21") is used as a comparison.

Overview of the 2022 financial year

The financial year was historic, with a challenging first three quarters followed by an exceptional turnaround in the fourth quarter, as many European and Asian countries looked for alternative sources of energy supply security. As a result, Minergy's high-quality coal became a sought-after commodity. Coal mining and trading are volume-driven, and results were directly impacted accordingly.

Trends and/or events impacting FY22 include:

- The final tranche of debt funding was paid out early in the financial year, and the debt restructuring in support of stabilising the business was completed.
- Stage 4 of the Processing Plant (Rigid Screening and Stock Handling section) was successfully commissioned in October 2021, which completed plant construction and contributed to a steady production environment within the confines of sales demand, which was restricted as elaborated on below.
- Sales demand struggled for most of FY22 as the result of an oversupply of coal into the regional market because Transnet Freight Rail ("TFR") failed to support coal dispatches into the export market via Richards Bay, as was well publicised. This situation was exacerbated by diminishing offtake from contracted key customers from unscheduled breakdowns and plant maintenances. Given this, mining and coal processing rates were reduced to manage stock levels and to avoid coal losses through spontaneous combustion. Outputs were further impacted by operational interruptions from freak rainfall in April 2022 and intermittent power outages.
- The ongoing war in Ukraine brought about high coal prices at the end of the third quarter of FY22, as the energy market supply came under severe pressure. This led to extraordinary demand facilitating previously uncompetitive and uneconomical exports into the seaborne market during the fourth quarter. Reciprocally, with plant and mining capacity available, production was ramped up to meet this new burgeoning demand.
- Hyperinflationary price increases in explosives and administered prices such as diesel had unfortunately reduced the positive effects of increased revenue.

The recovery recorded in the fourth quarter is setting the tone for a recovery to profitability for FY23.

Financial and non-financial highlights

Operational	Financial	ESG	
Overburden moved, and coal extracted increased by 82% and 54%, respectively ▸ For the first time since inception, >1 000 000 tonnes was extracted in a financial year	Increasing cost pressure of diesel and explosives increasing by 127% and 57%, respectively, exacerbated by double-digit inflation in Botswana	Rehabilitation is an ongoing process, and all mining is undertaken within the parameters of the mining licence ▸ 4.2 million m^3 rehabilitated in FY22. This exceeded the total volume rehabilitated since the start of mining operations. ▸ Increased use of dust suppression to curtail dust and construction of speed humps	**Environmental**
Plant throughput volumes, buoyed by the completion of stage 4, increased by 49% ▸ This supported the production of product mixes in line with forecasts and away from uneconomical fractions	Pure coal revenue (ex-transport) increased by 77% to P297 million (2021: P167 million), driven by ▸ 40% volume increase ▸ average sales prices increasing by 26%	96% of the workforce is Batswana, and 97% of the staff are vaccinated	**Social**
Water utilisation is improving (33% savings in litre per tonne), justifying the investment in the dewatering screen, filter press and rigid screening section	A continued trend in decreasing operating expenditures, including employee costs ▸ Foreign exchange gains from selling in US$ and stable ZAR/BWP exchange rate	P488 million was spent on local registered company procurement	**Social**
Sales volumes increased by 40% using the six half-yearly measures since start-up; this equates to a 25% compound annual growth rate ▸ Since inception Minergy has sold more than 1 000 000 tonnes of coal ▸ Monthly sales volume record >75 000 tonnes achieved in May 2022 on the back of destocking and Free-on-Board ("FOB") export sales ▸ Sales of larger, more profitable product sizes into seaborne thermal coal export markets ▸ Successfully delivering two FOB vessels from Walvis Bay and exporting coal via Zimbabwe to Maputo by rail	Operating loss improved to P74 million (2021: loss P85 million), primarily due to Minergy achieving breakeven in the last quarter, including individual month profitability, cementing a good foundation for the future ▸ Cash losses improved from P74 million to P58 million (a 22% improvement from 2021 and 39% improvement from 2020)	Corporate social responsibility remains core to Minergy for communities in and around the mining area ▸ Refer to the Minergy Cares brochure on the website	**Social**

Operational	Financial	ESG	
Continuous and effective road maintenance of the public road from Medie, albeit expensive, allowing minimal interruptions during the rainy season and supported increased road transport	High and increasingly expensive finance costs from increased funding and higher debt restructuring rates	Citizen Economic Empowerment Plan in place, including using 22 local transporters	Social
Excellent health and safety records	P10 million paid in royalties (2021 P5 million) and P5 million paid in withholding taxation which support the local economy	Unitary, functioning board of directors in place	Governance
Bolstering of the management team, including the first female manager appointed as a process engineer	Net cash used in operating activities increased to P110 million (2021: P37 million) on the back of increased working capital investment contributing a swing of P91 million alone from growth in Q4	Strong ethical base with Whistleblowing Hotline in place	Governance

Looking towards the future, Minergy now operates at production capacity of 125 000 tonnes of Run-of-Mine ("ROM") with stable plant performance and export opportunities favouring a better product mix and pricing

Health and safety

Minergy continues to uphold an outstanding safety record, having had only one minor lost time injury during FY22 the only one since inception. The Company is grateful to be fatality free on the back of strictly managed health and safety systems.

COVID-19 remained a threat, with a total of 138 cases reported since the pandemic's start, 78 of which were recorded during FY22. Thankfully, all staff have fully recovered, and the high vaccination rates limit business interruptions.

Minergy is committed to providing its workers with a safe work environment. As of the end of FY22, 97% of employees were vaccinated.

Financial review

The financial performance for the 2022 financial year is presented below:

As an overview, the Group achieved combined revenue of P425 million (2021: P193 million) with costs of sales of P484 million (2021: P256 million). Revenue and cost of sales include P128 million (2021: P26 million) relating to transport and FOB-related recoveries and costs. Operating costs continued to show a decreasing trend and amounted to P19 million (2021: P23 million). An operating loss of P74 million (2021: P85 million) was recorded, while the cash or EBITDA loss was P58 million (2021: P74 million). Finance costs remain a challenge as a result of the skewed capital structure at P93 million (2021: P51 million), bringing the net loss after taxation to P131 million (2021: P107 million).

The challenging market conditions in the first 9 months, resulted in total operating losses of P74 million. The boom in coal prices boosted sales in the fourth quarter. This allowed for breakeven during the final quarter, including first-time achievement of an operating profit during a single month.

Statement of financial position

As at 30 June 2022

Figures in Pula	2022	2021
Assets		
Non-current assets		
Property, plant and equipment	**457 309 038**	390 835 008
Deferred tax asset	**104 483 623**	68 103 074
	561 792 661	458 938 082
Current assets		
Inventories	**76 277 729**	42 632 873
Trade and other receivables	**95 392 892**	40 941 636
Cash and cash equivalents	**9 156 322**	911 485
	180 826 943	84 485 994
Total assets	**742 619 604**	543 424 076
Equity and liabilities		
Capital and reserves		
Stated capital	**165 563 026**	165 563 026
Accumulated loss	**(376 420 873)**	(245 269 838)
Other reserves	**30 578 264**	23 676 115
Equity attributable to owners of the parent	**(180 279 583)**	(56 030 697)
Total equity	**(180 279 583)**	(56 030 697)
Non-current liabilities		
Rehabilitation provision	**161 665 560**	82 498 832
Borrowings	**565 017 069**	365 377 304
	726 682 629	447 876 136
Current liabilities		
Borrowings	**17 826 904**	17 967 584
Trade and other payables	**178 389 654**	133 611 053
	196 216 558	151 578 637
Total liabilities	**922 899 187**	599 454 773
Total equity and liabilities	**742 619 604**	543 424 076

Statement of comprehensive income

For the year ended 30 June 2022

Figures in Pula	2022	2021
Revenue	**425 272 818**	192 948 727
Cost of sales	**(483 670 573)**	(255 579 306)
Gross loss	**(58 397 755)**	(62 630 579)
Other income	**2 975 064**	254 091
Operating expenses	**(18 836 111)**	(23 107 529)
Operating loss	**(74 258 802)**	(85 484 017)
Finance income	**96 786**	93 612
Finance costs	**(93 369 568)**	(50 520 479)
Loss before income tax	**(167 531 584)**	(135 910 884)
Income tax	**36 380 550**	29 007 275
Loss for the year	**(131 151 034)**	(106 903 609)
Other comprehensive income for the year	**–**	–
Total comprehensive loss for the year	**(131 151 034)**	(106 903 609)
Total comprehensive loss attributable to:		
Owners of the parent	**(131 151 034)**	(106 903 609)
Non-controlling interest	**–**	–
	(131 151 034)	(106 903 609)
Loss per share (thebe)	**(27.91)**	(22.75)
Diluted loss per share (thebe)	**(27.91)**	(22.75)



Statement of changes in equity

For the year ended 30 June 2022

Figures in Pula	Stated capital	Accumulated loss	Other reserves	Total equity
Group				
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	**—**	**(131 151 034)**	**—**	**(131 151 034)**
Transactions — owners in their capacity as owners of equity				
Borrowings — conversion option reserve	**—**	**—**	**6 583 154**	**6 583 154**
Share-based payment expense	**—**	**—**	**318 995**	**318 995**
Balance at 30 June 2022	**165 563 026**	**(376 420 873)**	**30 578 264**	**(180 279 583)**



Statement of cash flows

For the year ended 30 June 2022

Figures in Pula	2022	2021
Cash flows from operating activities		
Cash utilised in operations	**(109 515 604)**	(35 675 470)
Finance costs paid	**(613 498)**	(796 809)
Net cash used in operating activities	**(110 129 102)**	(36 472 279)
Cash flows from investing activities		
Purchase of property, plant and equipment	**(5 585 583)**	(19 357 819)
Finance income	**96 786**	93 612
Net cash utilised in investing activities	**(5 488 797)**	(19 264 207)
Cash flows from financing activities		
Proceeds from borrowings	**136 895 257**	62 500 000
Repayment of borrowings	**(13 032 521)**	(7 564 084)
Net cash from financing activities	**123 862 736**	54 935 916
Total cash movement for the period	**8 244 837**	(800 570)
Cash at the beginning of the period	**911 485**	1 712 055
Total cash at the end of the period	**9 156 322**	911 485

Revenue

Sales performance was generally higher on increased output compared to FY21 but improved significantly in the fourth quarter on the back of the coal boom, which brought opportunities to seaborne export markets. Minergy successfully exported coal via Walvis Bay, with two 30 000-tonne vessels dispatched in May and June 2022 on a FOB basis. In addition, the Company also exported coal through Maputo via rail to the port, with two trains dispatched in June 2022 on a Free-On-Rail ("FOR") basis.

Against this backdrop, total sales volume for the financial year increased by 40%, with record sales achieved in May 2022. Pleasingly, larger-sized fractions, benefitting from the stable plant, increased to forecast fraction levels and aided selling prices in the mix.

On a comparative basis, the Company's average pricing is 26% higher than the FY21. High coal prices, brought about by the war in Ukraine, allowed the Company to obtain export parity prices back on the mine and adjust its selling prices in line with the market demand for the regional supply. Selling prices were also increased to partially recover increases in fuel and explosives costs, contributing to better overall pricing. The stable ZAR/BWP exchange rate assisted in higher back on mine Pula prices.

Readers are reminded that P128 million of the total reported revenue relates to transport and FOB cost recoveries, reciprocally inflating the cost of sales.



Cost of sales

Mining costs, at 48% of cost of sales, remain the largest component. The monetary increase of 66% from 2021 is the result of the increase of 54% in extracted volumes to support sales (as highlighted), but was also negatively impacted by the highlighted extraordinary increases in diesel, explosives, as well as higher than expected in- country inflationary increases.

Beneficiation and material handling costs increased by 43%, on the back of increased Feed-to-Plant. Savings in ROM handling costs from running the rigid crushing section helped to offset some of the additional volume increases. Year on year, transport costs increased, with the incurrence of the FOB and FOR costs embedded in the fourth quarter exports (reciprocally included in revenue as noted above). Royalties increased by 80% to P10 million on higher sales.

Minergy incurred a further P10 million (2021: P5 million) on the public Medie Road. Non-cash flow depreciation increased by 56% on increased volumes used for apportionments.

Other income

This represents sales of recovered raw fines product that was initially discarded but now recovered through the dewatering screen, allowing for this additional by-product to be sold, albeit at low prices. More importantly, the process contributes significantly to more effective water reticulation.

Operating expenses

Overall operating expenditure was well managed, with overheads kept at a minimum and focused on coal production activities. Foreign exchange gains of P480k were made.

Finance costs

Finance costs of P93 million were incurred during the financial year compared to P57 million in the prior year, with the increase resulting from the following events:

- finance costs increased from an additional P63 million in funding received during July 2021;
- full year effect of the first tranche of P63 million funding received in December 2020;
- additional interest arising from debt restructuring, which included converting some trade payables to senior debt and incurring higher coupons on existing funding;
- finance costs were incurred on the Build, Own, Operate, Transfer ("BOOT") plant facility only in the last quarter of 2021 versus the full financial year in 2022;
- cessation of capitalisation of borrowing costs which was still partly accounted for 2021; and
- general compounding of capitalised interest as part of the debt restructuring agreements.



Investment in property plant and equipment ("PPE")

There was minimal investment in property, plant, and equipment (other than the rehabilitation asset as noted below) during the year as part of cash flow conservation, specifically in the first three quarters. The most significant additions were to water reticulation, with the equipping of new boreholes in the productive fourth quarter to bolster the water supply to the plant and maintain dust suppression, which made up 50% of the year's total capital spend.

Debtors

Minergy maintains most of its debtors on a 30-day basis, with no credit losses recorded. For the large export customers, as introduced with the change in the market, the credit sales are recovered through prepayments at agreed-upon tonnes collected towards their order and clearance of the balance on completion. The annual IFRS 9 assessment necessitated an increase in the provision for bad debts by P893k, which is purely a non-cashflow accounting entry.

Borrowings

Borrowing activities during the year included the following:

- As previously highlighted, additional convertible debt funding was secured through the Minerals Development Company Botswana ("MDCB") amounting to P125 million, 50% of which was drawn in the previous financial year, December 2020 and the rest in July 2021.
- Inclusion of the converted trade payable debt as senior debt as well as deferred mining costs, in line with the debt restructuring agreement.

Provision for rehabilitation

As part of the year-end processes, the cost of rehabilitation was reassessed and revised from P82 million at the end of the last financial year to P162 million in the current financial year. This is the direct result of the rehabilitation void volumes increasing from 2.6 to 5 million m^3. Ongoing rehabilitation activities continue as part of the rollover mining method used. During FY22 4.2 million m^3 was restored to original ground level.

Going concern

Minergy has reached production capacity, supported by the market upturn at the year-end, and given the resultant increased sales, the directors are confident that the Group will successfully achieve its goals and have sufficient funds to meet its obligations.

Capital structure

The capital structure of the Company has an unhealthy weighting to debt funding, which was the only funding available during ramp-up in the absence of injected shareholders funding. Management's prerogative is to actively pursue funding opportunities to restore the debt: equity ratio. Focus is to be given to:

- refinancing punitive debt arrangements;
- placing equity, as approved by shareholders in 2021; and
- pursuing a listing on an international exchange, subject to appetite and the affordability of such a listing.

These initiatives are in progress, and Minergy believes that the improved demand and the general changed narrative around coal in the current capital market, provides an opportunity to secure additional investment into the business. With the right partners, the opportunity exists to double capacity, all which is saleable given current market demand.

Future focus and outlook

Minergy's strategy remains to operate at production capacity and maximise sales. Historically, plant and market factors limited Minergy from operating at optimal capacities, but fortunes have now changed.

As coal export prices remain high, the Company continues to capitalise on viable export opportunities through Walvis Bay and Maputo through the establishment of new sales agreements with coal traders. Minergy now operates at production capacity of 125 000 tonnes of ROM, achieving better pricing and planned product mixes. These turnarounds support the expansion of mining operations to produce additional coal, and the mining fleet has been increased to capitalise on this.

Overall, the outlook for the coming year is positive and is forecast to be operationally profitable, as demonstrated in quarter four, which would be the first year for such an achievement after challenging start-up years.

Change in Board of Directors

The Company announced the retirement and related resignation of Claude de Bruin as Non-executive Director ("NED") and Chairman of the Remuneration and Nominations Committee ("REMCO") with effect from 15 July 2022. Claude is a founding shareholder and was instrumental in the Botswana Stock Exchange ("BSE") listing of Minergy Limited and the establishment of the Company. We again wish Claude well on his future journey. Leutlwetse Tumelo will replace Claude as Chairman of REMCO with immediate effect.

Leonard Makwinja tended his resignation from the Board with immediate effect as of 19 September 2022, to pursue other business interests. Minergy wishes to thank Leonard for his contribution to the Board and the committees he served on.



The Board is pleased to announce the appointment of the Acting Chief Financial Officer ("CFO"), Julius Ayo, to the Board of Directors, with immediate effect. Julius is appointed as an executive director. The Board welcomes Julius and looks forward to his extended contribution to Minergy.

Shareholders are reminded that Minergy appointed Julius Ayo as Acting CFO of the Company in 2021. The BSE Regulatory Committee has approved a further extension to 30 April 2023 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 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 19 September 2022. The accounting policies adopted are consistent with those of the previous financial year.

On behalf of the Board

Mokwena Morulane
Non-executive Chairman

Morné du Plessis
Chief Executive Officer

19 September 2022



Corporate and general information

Corporate information

REGISTRATION NUMBER

BW00001542791

REGISTERED OFFICE AND BUSINESS ADDRESS

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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
M du Plessis
C Kgosidiile
L Makwinja

LEVEL OF ASSURANCE

The financial statements have been audited in compliance with the applicable requirements of the Companies Act of Botswana (CAP 42.01).