



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

MARKET UPDATE

UPDATE AND OPERATIONAL BACKGROUND

This market update covers the performance of the Company for the six months ending 31 December 2020 ("interim period") which was characterised by both highs and lows. The first three months showed extremely positive trends in production, processing, and sales, followed by a depressed three months on the back of delayed funding and the COVID-19 pandemic, which impacted operations.

Achievements during the interim period includes:

- record sales volumes in first half of the interim period;
- comparable sales for the full six-month interim period were significantly higher in volume terms compared to the six months ending 31 December 2019, albeit from a low base;
- the successful completion of the rail siding and sending 10 coal trains to a cement producer in South Africa;
- the successful awarding and delivery of a second tender for the Namibian Power Corporation;
- no COVID-19 cases were identified on the mine;
- there was no lost time due to injury during the interim period, bringing the accumulated record to 850 days;
- there was continued government support for the project, resulting in Minergy securing additional debt funding late in the interim period;
- the completion and commissioning of Stage 2 of the Coal Handling and Processing Plant ("CHPP") rigid crushing section and the termination of the use of mobile crushers;
- early signs of recovery in domestic pricing;
- Minergy was shortlisted for an Eskom (South Africa's national electricity provider) tender to supply the Tutuka Power Station; and
- business optimisation and efficiency drive continues unabated.

As previously reported, the business was unfortunately negatively impacted by delays in funding shortfalls relating to COVID-19, which compelled suppliers to scale back operations in order to minimise overdue exposures and caused the following operational impacts:

- Minergy had to reduce mining shifts, which led to limited capacity to provide sufficient feedstock for the processing plant and sales orders as all exposed coal had been extracted;
- the inability to continue with pre-stripping of overburden contributed to delays in the extraction of coal once financing was approved and received; and
- all saleable stockpiles were depleted to provide product to customers.

Production was also impacted by safety precautions taken over a 3-week period relating to final assembly and commission phase of Stage 2 of the CHPP.

In addition to this, excessive rainfall in the last two months of the interim period impacted production volumes, product processing ability, and the subsequent collection of products by customers.

COAL SALES

As mentioned, sales volumes showed positive recoveries after the relaxation of COVID-19 restrictions in June 2020. Sales order activity increased and has remained constant for the interim period, with customers again confirming orders as well as their satisfaction with the quality of coal delivered.

Due to the use of mobile crusher, the sales mix for most of the interim period was geared to finer, less profitable product. The majority of product for the interim period was sold into the cement market in South Africa.

The Botswana Pula (“BWP”) gradually weakened against the South African Rand (“ZAR”), particularly at the end of the interim period, but on average remained strong, which contributed to pressure on realised sales prices in BWP terms.

The easing of COVID-19 border restrictions assisted with the collection of coal albeit that intermittent delays at border crossings still occur.

TENDER SUBMITTED AND SHORTLISTED TO PROVIDE COAL TO ESKOM

Minergy is pleased to notify stakeholders that it has been shortlisted by Eskom to supply the Tutuka Power Station in South Africa with thermal coal. The coal resources at Minergy’s Masama project contains coal seams that can supply the quality of specified coal to Eskom and should the bid be successful, Minergy would open a new mine alongside the current mining operations to supply Eskom. In addition, given recent successful coal deliveries by rail to a South African cement producer, Minergy and its customers would benefit from related synergies and the ability to deliver coal by rail to Tutuka. A due diligence process is currently underway and Minergy will update the market on developments.

HEALTH AND SAFETY

The Company has an outstanding safety record, with zero COVID-19 cases reported, zero injuries on the mine and more than 850 days without lost time due to injury. A COVID-19 action plan is in place and thoroughly implemented.

FUNDING

The Company has since inception, raised a gross amount of P165 million in equity and accessed approximately P253 million of debt. The cash proceeds from these raisings and facilities were utilised for the establishment of the Masama Coal Mine, its mining infrastructure, and related operational costs.

Minergy is pleased to announce that additional convertible debt funding was secured through the Mineral Development Company Botswana (“MDCB”) amounting to P125 million. Of this amount:

- 50% was drawn down in December 2020; and
- the balance is subject to conditions (see further information in circular to shareholders dated 19 January 2021 referred to below).

This funding will primarily be used for working capital, outstanding capital projects and to complete the ramp-up phase.

OUTLOOK

Stage 2 of the CHPP relating to the rigid crushing and screening section of the plant, was recently completed and is expected to present significant efficiencies, improved product particle distribution (favouring more economical product sizes), reduction of double handling material processing costs, improved water management and stability in supply.

Water management infrastructure, such as a filter press and dewatering circuits, representing Stage 3 of the CHPP, is scheduled for imminent completion, all of which is expected to maximise efficient water usage, recovery, and control of this precious resource.

Completing of Stage 4 CHPP (Rigid Screening and Stock Handling section) is expected to be completed before the end of the financial year, which will provide added benefits of savings in material handling processing costs, availability of supply and less handling of the product.

Given that funding has been secured and with the potential of further funding available, Minergy is confident that production and sales momentum will continue into 2021.

International coal pricing for southern Africa coal has seen a significant upturn. Richards Bay thermal coal prices attained a 10-month high late in November 2020. Pricing has steadily increased by 30% from November 2020 levels and average December 2020 prices were 70% higher than July 2020 prices. The sudden increase is driven by strong demand from India and the spill-over of China's ban on Australian coal. Prices have remained stable post the interim period although there is an expectation for a short-term downward correction in the first quarter of 2021. Minergy's outlook expectation is that prices will remain stable at these adjusted levels in the first half of 2021. This has a positive effect on domestic pricing with export product being removed from the market allowing for sales opportunities as well as pricing adjustments.

Given the positive news on vaccine options and the rollout thereof, the Company further expects that demand from China and India as well as from regional neighbours will provide momentum and sustainability to the coal price.

The ZAR has strengthened against the BWP and stabilised at normalised levels used in initial forecasts, which assists in the realisation of Pula sales prices.

COVID-19 restrictions continue to impact the business. Despite new curfew restrictions being announced by the Botswana Government, which require additional permitting administration for night shifts, operations and the collection of coal can continue.

Several opportunities to significantly increase production are currently being assessed. Depending on the economics at the time, Minergy's objective is to double production capacity through a Phase 2 project, which would enable it to access a range of opportunities. These include increasing supply to industrial customers and export opportunities. However, increased production would require additional capex primarily to boost the capacity of the washing plant and plant infrastructure, as well as the completion of an additional box cut.

FINANCIAL EFFECTS

Minergy reported a loss for the year ended 30 June 2020 and, given the operational challenges faced, combined with not yet having reached nameplate capacity, this trend continued during interim period.

As a junior miner, Minergy was fortunate to raise funding prior to the COVID-19 lockdowns, but given the substantial reduction in sales during this time, much of the funding was used to cover fixed overheads. As a result, new funding had to be secured despite massive cost-cutting initiatives that were undertaken. Minergy successfully conserved cash and mined all pre-stripped and exposed coal to navigate the pandemic and the post-lockdown period in a slow-recovering market, but further funding is required to ensure that the project reaches capacity.

In addition to the MDCB funding referred to above, Minergy intends raising additional equity funding through the placement of new ordinary shares for cash to selected and qualifying institutional investors (see further information in circular to shareholders referred to below). The financial effects of the proposed transactions have been included in the circular to shareholders.

COMMUNITY SUPPORT AND INVOLVEMENT

Minergy takes community relations seriously, with senior management in constant engagement with the community regarding enhancements that can be made in the village, potential employment opportunities, and any other assistance required.

Minergy remains proud of its involvement in ensuring that, together with Botswana Power Corporation, critical areas within the Medie village have access to power. Power has been provided to homes in the village four years earlier than originally scheduled.

ISSUANCE OF CIRCULAR AND RELEVANCE TO FUNDING

Shareholders were notified on 27 November 2020 that the Extraordinary General Meeting (“EGM”) originally scheduled for Tuesday 8 December 2020, was postponed. This was necessitated by business matters under consideration, specifically related to the finalised funding application that arose after the notice was issued on 5 November 2020.

Following the Xnews announcement issued on 18 December 2020, Minergy issued a circular through Xnews on Tuesday 19 January 2021, which is also available on the company website (www.minergycoal.com) pertaining to:

1. the placing of new ordinary shares for cash to selected and qualifying institutional investors, to raise additional equity funding; and
2. approval by shareholders of a potential Category 1 Conversion as set out in the circular.

The two proposals set out in the circular present Botswana, the Company, and its shareholders with the benefits of reaching targeted production capacity and becoming profitable in the near term through a significant positive impact on operations, and importantly, within the window of opportunity currently presented in the regional and international coal market.

Conversely, if the proposals are not supported, not only would these significant benefits not materialise, but it would also put significant strain on the Company’s cash flow and its ability to become profitable in the near term. It also means that the MDCB may have no option but to exercise a larger portion of its conversion rights than it is desirous of, or than the Company is desirous of. Supporting the proposals accordingly presents an opportunity to mitigate the need for some of the funding facilities and accordingly maximises the Company’s ownership in the subsidiary.

Whilst the COVID-19 pandemic has presented significant challenges to the Company, it is presented with an opportunity for significant growth, which it believes will benefit Botswana and its shareholders. Accordingly, the circular explains the background to, and the reasons for the proposals, and why the Board considers the proposals to be in the best interests of the Company and its shareholders.

It is considered critically important that the resolutions set out in the circular are supported.

EXTRAORDINARY GENERAL MEETING (“EGM”) DATE

The EGM is scheduled for 10:00am on Thursday, 18 February 2021.

The market will be provided with further customary announcements, followed by the release of the interim financial results towards the end of March 2021.

By Order of the Board

Morné du Plessis
Chief Executive Officer
22 January 2021

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