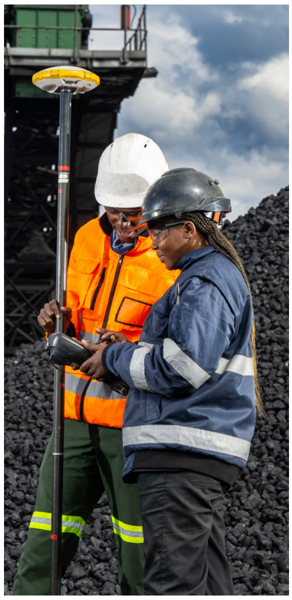
minergy
LIMITED

Condensed unaudited interim consolidated results

for the six months ended 31 December 2022



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 months ending 31 December 2022 ("interim period") and follows the voluntary market update of 25 January 2023, which should be read in conjunction with this announcement. The six-month period ending 31 December 2021 ("the comparative six-month period" or "previous interim period") is used to compare the performance indicators mentioned below.

Shareholders are also advised of the XNews announcements issued on 7 March and 16 March 2023 relating to the temporary stoppage of mining operations by the mining contractor, Jarcon Opencast Mining Botswana (Pty) Ltd ("Jarcon").

A separate announcement covering the resolution of the stoppage and for mining operations to resume, will follow this announcement.

This announcement, however, deals specifically with the Company's interim results as required by the Botswana Stock Exchange ("BSE").

Minergy demonstrates solid performance for the six months ended 31 December 2022

The Company's financial results for the six months ended 31 December 2022 showed markable improvement against the comparative six-month period. Notably, Minergy reduced its net loss before taxation by 37% from P91 million for the comparative six-month period to P58 million for the interim period, thanks to increased revenue. For the first time, the Company produced operating and EBITDA profit.

There was a remarkable improvement in revenue, with the high global demand for coal experienced during the interim period at higher sales prices supporting exports through Walvis Bay. Further details are contained in the Statement of Comprehensive Income.

Financial and non-financial highlights for the interim period

Financial	Operational	Health, safety and social
Combined revenue increased with 146% to P330 million (2021: P134 million). Pure coal sales (excluding transport recoveries) increased from P115 million to P298 million stemming from: ▸ 53% volume increases supported by ~147,000 tonnes exported via Walvis Bay ▸ Pricing ~66% higher than the comparative six-month period ▸ Transport recovery increasing with higher regional tonnes	▸ Sales averaging >65,000 tonnes per month ("tpm") ▸ Product mix consistently achieving targeted parameters minimising excess finer product ▸ Coal for four vessels successfully dispatched to Walvis Bay for seaborne export markets	▸ Excellent safety record, with no lost time injuries during the period
▸ P3 million claim settled on an export vessel negatively impacted the profitability, motivating the move from Free-on-Board ("FOB") to Free-on-Truck ("FOT") basis of sales	▸ Consistently achieving a production capacity of ~125,000 tpm for mining and beneficiation feed	▸ 99% 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 interim period, as a consequence of the global energy security crisis ▸ Mining cost and cash flows 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	▸ Corporate social responsibility remains core to Minergy for communities in and around the mining area
▸ Operating and EBITDA profit of P1.5 million and P15 million (2021: operating loss of P48 million and EBIDTA loss of P40 million)		▸ 96% of the workforce is Batswana
▸ Cash flow from operating activities swung from cash utilisation to cash generation for the six months		▸ Various internships were undertaken

Health and safety

Following the historical trend, Minergy upholds an outstanding safety record, with no lost time injuries during the period. The Company is grateful to be fatality free on the back of strictly managed health and safety systems. Minergy is committed to providing its workers with a safe work environment.

Operational update

We are pleased to report that our mining operations and plant performance have consistently achieved full production capacity. Across the plant and mining operations, an average of 125 000 tpm had been achieved during the period. This is a significant milestone for Minergy.

In line with the growth in sales, mining and plant feed volumes increased by >50% against the comparative six-month period. Minergy has invested in work in progress (overburden removal or pre stripping) to increase production and access additional coal in anticipation of increased sales, which has now had an impact on cash flows in the absence of the export market volumes as discussed later.

Water management remains crucial, exacerbated by the abnormal dry weather experienced in January 2023. Drilling for additional boreholes was successful post the reporting period and will supplement water for the dry winter season. As previously announced, the approval received to connect the Masama Coal Mine to the North-South Carrier water system will support Minergy's current and future requirements for water and reduce the impact on local water resources.

The Government of Botswana has formally confirmed that they will be sharing costs through a Public Private Partnership in tarring the Lentsweletau-Medie gravel road. This will eradicate dust pollution, increase truck turnarounds, and simplify product evacuation from the mine.

Financial review

The commentary and results are to be read with the following as background:

- The exceptional demand for coal created by the war in Ukraine and impact on Minergy's performance started early in March 2022. Minergy reported the initial impact on its Q4 2022 results from the first two coal export vessels, done on an FOB basis. The first vessel was concluded at breakeven pricing to establish the route. The second vessel, albeit at higher prices, was dogged with a late claim from shippers, which was only resolved late in 2022 post the full-year results announcement. The claim cost Minergy approximately P3 million and is recognised in the profit for the interim period.
- The interim period includes the change from selling FOB to FOT, where Minergy, in managing risk and cash flow, accepted good FOT pricing. These prices are not at the full and lucrative FOB price levels, which includes various intermediaries and offers greater profitibility.
- To sell the additional coal supported by buoyant export markets, mining had to be ramped up. This came with further investment into work in progress (refer inventory increases and mine development investments), as shown on the Statement of Financial Position, and increases in contract mining and other services trade accounts.
- Pre the advent of the Ukraine war, Minergy already had carried significant overdue trade balances, most of which were owed to the mining contractor. The account was serviced with increased payments during the interim period. In addition, additional cash generated was utilised to fund the increased working capital for the expected increased capacity. The mining contractor was comfortable with the build-up in anticipation of liquidating work in progress and decreasing overdue balances.
- Our planning assumed a market with extended increased demand and pricing lasting for at least 12 months and associated full capacity, which was the general market consensus. Based on the investment made to produce and sell the additional coal, Minergy could substantially pay back arrears. Please note that the trade indebtedness to the contractor is at the same level as at the beginning of the interim period.

As a result of the abrupt and unexpected export price decrease, it has been difficult for Minergy to generate seaborne sales volumes which consequently impacted the basis for operating at full capacity. This has led to high work-in-progress levels resulting in sterilising inventories and its monetisation.

Statement of financial position

As at 31 December 2022

Figures in Pula	31 Dec 2022	30 Jun 2022
Assets		
Non-current assets		
Property, plant and equipment	**482 269 721**	457 309 038
Deferred tax asset	**117 964 272**	105 299 204
	600 233 993	562 608 242
Current assets		
Inventories	**125 077 335**	76 277 729
Trade and other receivables	**79 121 234**	95 392 892
Cash and cash equivalents	**22 311 985**	9 156 322
	226 510 554	180 826 943
Total assets	**826 744 547**	743 435 185
Equity and liabilities		
Capital and reserves		
Stated capital	**165 563 026**	165 563 026
Accumulated loss	**(421 324 294)**	(376 420 873)
Other reserves	**30 578 264**	30 578 264
Equity attributable to owners of the parent	**(225 183 004)**	(180 279 583)
Total equity	**(225 183 004)**	(180 279 583)
Non-current liabilities		
Rehabilitation provision	**165 949 697**	161 665 560
Borrowings	**615 272 753**	565 017 069
	781 222 450	726 682 629
Current liabilities		
Borrowings	**50 500 000**	17 826 904
Trade and other payables	**220 205 101**	178 389 654
Current tax liabilities	**—**	815 581
	270 705 101	197 032 139
Total liabilities	**1 051 927 551**	923 714 768
Total equity and liabilities	**826 744 547**	743 435 185

Property, plant, and equipment ("PPE") increased due to mine development activities aimed at expanding the pit, including box cut activities, to meet the forecasted growing market demand, net of increased depreciation.

Inventories increased from P76 million as of 30 June 2022 to P125 million as of 31 December 2022 due to increased work in progress to support increased sales.

Debtors balances are lower on 31 December 2022 from payments received and processed before the interim period cutoff.

Borrowings have increased due to capitalised interest on existing loans and the expansion of the mining contractor's debt restructuring deferral facility. No new facilities were incurred.

The higher trade and other payables can be attributed to increased operations, particularly the expanding mining and diesel trade accounts.

Statement of comprehensive income

For the six months ended 31 December 2022

Figures in Pula	**31 Dec 2022**	31 Dec 2021
Revenue	**330 269 553**	134 227 745
Cost of sales	**(326 189 673)**	(172 907 390)
Gross profit/(loss)	**4 079 880**	(38 679 645)
Other income	**7 571 616**	1 021 184
Operating expenses	**(10 128 544)**	(10 674 614)
Operating profit/(loss)	**1 522 952**	(48 333 075)
Finance income	**125 092**	52 261
Finance costs	**(59 216 534)**	(43 089 213)
Loss before income tax	**(57 568 490)**	(91 370 027)
Income tax	**12 665 068**	20 101 406
Loss for the year	**(44 903 422)**	(71 268 621)
Other comprehensive income for the year	**–**	–
Total comprehensive loss for the year	**(44 903 422)**	(71 268 621)
Total comprehensive loss attributable to:		
Owners of the parent	**(44 903 422)**	(71 268 621)
Non-controlling interest	**–**	–
	(44 903 422)	(71 268 621)
Loss per share (thebe)	**(9.55)**	(15.16)
Diluted loss per share (thebe)	**(9.55)**	(15.16)

The cost of sales increased by 89% from P173 million to P326 million. The Company had to ramp up mining and beneficiation operations to support increased sales, which in turn increased costs. Input costs, primarily the cost of fuel, stabilised during the interim period but were still >50% higher than the comparative six-month period. Botswana continues to suffer high inflation, specifically in wages. Higher than budget expenditure was incurred on the gravel road to support additional volumes.

Other income increased significantly to P8 million in 2022, with the sale of by-products into the regional market as an alternative to the higher-priced prime product being exported out of Walvis Bay. Despite operating in high inflationary environments, the Company's operating expenses were well-managed and decreased slightly from 2021.

Finance costs increased to P59 million, compared to P43 million, as a result of the compounding effect of interest during the year.

The results supports a marked improvement from the comparative period as highlighted by the turn to operational and cash flow profitability.

Statement of cash flows

For the year ended 31 December 2022

Figures in Pula	31 Dec 2022	30 Jun 2022
Cash flows from operating activities		
Cash generated from/(utilised in) operations	**24 146 472**	(109 515 604)
Finance costs paid	**(3 817 106)**	(8 178 787)
Tax paid	**(815 581)**	—
Net cash generated from/(used in) in operating activities	**19 513 785**	(117 694 391)
Cash flows from investing activities		
Purchase of property, plant and equipment	**(37 423 346)**	(5 585 583)
Finance income	**125 092**	96 786
Net cash utilised in investing activities	**(37 298 254)**	(5 488 797)
Cash flows from financing activities		
Proceeds from borrowings	**43 497 989**	136 895 257
Repayment of borrowings	**(12 557 857)**	(5 467 232)
Net cash from financing activities	**30 940 132**	131 428 025
Total cash movement for the period	**13 155 663**	8 244 837
Cash at the beginning of the period	**9 156 322**	911 485
Total cash at the end of the period	**22 311 985**	9 156 322

The increase in cash balances can be attributed primarily to the profitability but also good debtors' collections before the December month end. The funds obtained through borrowing are attributed to the increase of the mining contractor's deferral facility as catered for by the signed debt restructuring agreements.

Ongoing development of the mine is represented by the increase in PPE. Cash flow from operating activities swung from cash utilisation to cash generation for the six months as a result of positive operating results and working capital changes.

Statement of changes in equity

For the year ended 31 December 2022

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				
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**	**(376 420 872)**	**30 578 264**	**(180 279 582)**
Total comprehensive loss	**—**	**(44 903 422)**	**—**	**(44 903 422)**
Transactions — owners in their capacity as owners of equity				
Borrowings — conversion option reserve	**—**	**—**	**—**	**—**
Share-based payment expense	**—**	**—**	**—**	**—**
Balance at 31 December 2022	**165 563 026**	**(421 324 294)**	**30 578 264**	**(225 183 004)**

Market conditions

Buoyant market conditions with high demand and pricing characterised the interim period. Seaborne coal exports represented a large proportion of the Company's sales through Walvis Bay. At the time of the release of these interim results, Minergy had traded through the first quarter of the second six months and experienced seaborne market and pricing contraction.

Seaborne coal prices have dropped significantly (>33%) since mid-December 2022. Buying from Europe has slowed as the region comes out of a warmer winter, and many European countries now have healthy stockpiles. Exports through Walvis Bay have therefore become uneconomical at these low prices and FOT prices are at unprofitable levels. Deliveries to the port have stopped.

This has resulted in the need to reassess the size of operations at Masama.

Minergy will continually evaluate exporting coal via the port. Additional sales volumes, supported by the seaborne exports, no longer justify higher operational levels. New markets are being sought but replacement is not immediate.

Regional pricing and demand remain the foundation for sales and volumes going forward.

The negative news from South Africa over the last three months has negatively impacted the Pula: ZAR exchange rate, with the rate deteriorating between 3.5% to 6% creating foreign exchange losses.

Future focus and outlook

The main priorities remain to restart operations and to run the business above breakeven, based on strong regional demand without seaborne exports.

Lower sales volumes and an interruption of exports through Walvis Bay will negatively affect results. The temporary stoppage of mining activities from the beginning of March by Jarcon will exacerbate Q3 2023 results after a reasonable performance in January.

As announced previously, the Company's capital structure needs to be normalised, including overdue historical trade balances that have been a legacy since its inception. With a revised capital structure and no historical trade arrears, the business can stand on its own based on established regional markets. Initiatives and leads are being pursued due to the continuing interest in the Masama coal mine, including Minergy having requested funding assistance from its current funders. The placing of the long overdue approved equity also remains paramount.

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.

Leonard Makwinja tendered his resignation as of 19 September 2022, and Julius Ayo, Acting Chief Financial Officer ("CFO"), was appointed to the Board of Directors.

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 2022 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 2022 of P45 million. As at 31 December 2022 the Group had accumulated losses of P421 million, and its net liabilities exceeded its net assets by P225 million.

The normalisation of the capital structure and payment of arrears to the mining contractor is key in stabilising the business as well as for the going concern. The Group has a history of successful debt and capital raising to meet its funding requirements. The placing of additional equity funding, as approved by shareholders, remains a priority. There are various processes in progress to achieve equity placement as well as finding debt relief. 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 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. We remain hopeful and guided by the grace of God.

On behalf of the Board

Mokwena Morulane
Non-executive Chairman

Morné du Plessis
Chief Executive Officer

31 March 2023

Corporate and general information

Corporate information

REGISTRATION NUMBER
BW00001542791

REGISTERED OFFICE AND BUSINESS ADDRESS
Minergy Limited
Unit 2, Ground Floor, Building 3
Pinnacle Park, Setlhoa
Plot 75782
Gaborone, Botswana

Tel: +267 397 2891, Fax: +267 397 2893

POSTAL ADDRESS
PO Box 2330 ABG
Broadhurst
Gaborone, Botswana

COMPANY SECRETARY
Desert Secretarial Services (Pty) Ltd
Tel: +267 7329 7384

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
J Ayo

LEVEL OF ASSURANCE
The financial statements have not been audited.