minergy
LIMITED

Abridged unaudited interim consolidated results for the six months ended 31 December 2023

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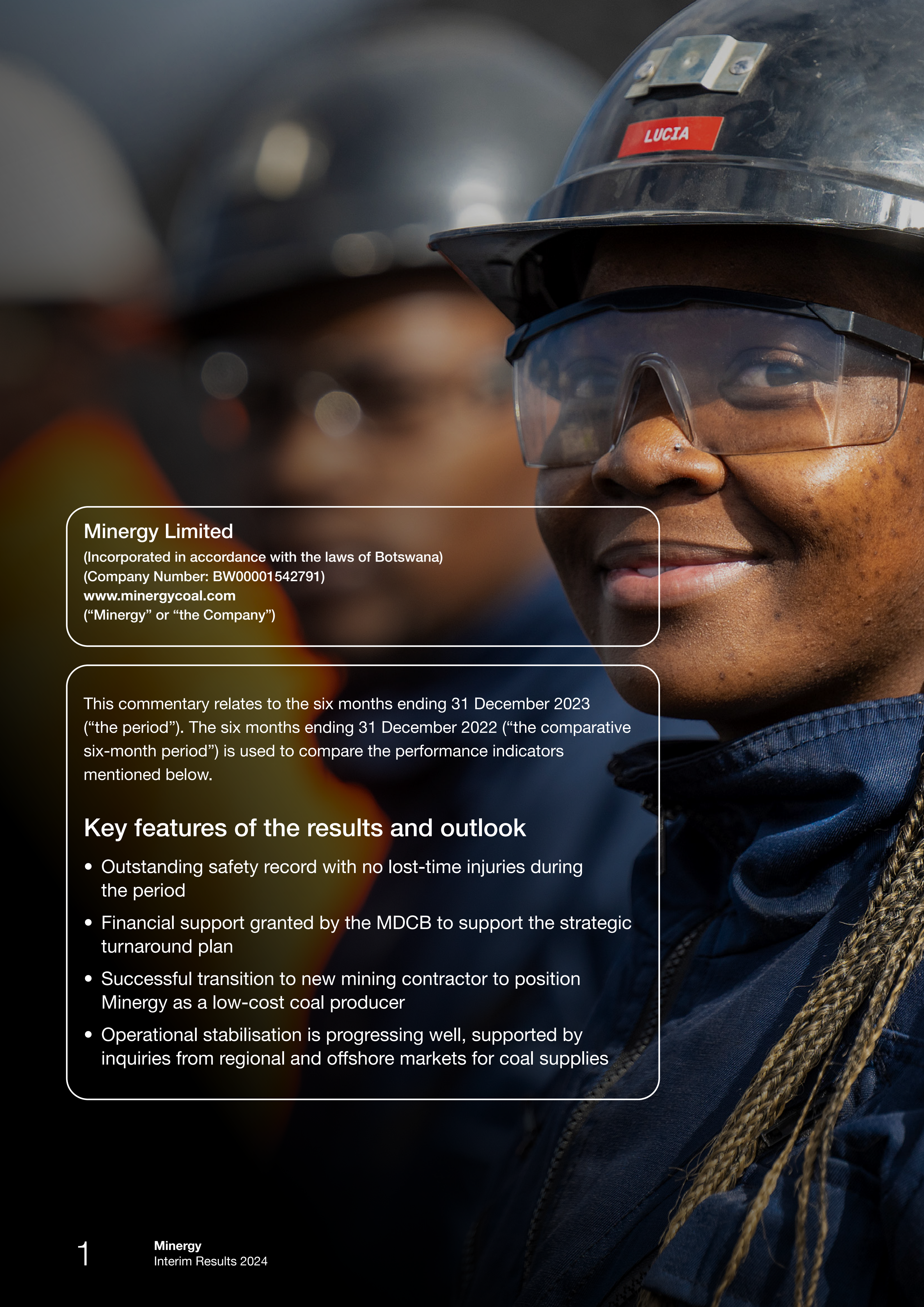

Minergy Limited

(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 2023 (“the period”). The six months ending 31 December 2022 (“the comparative six-month period”) is used to compare the performance indicators mentioned below.

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

Strategic adjustments

During the period under review, Minergy faced significant operational challenges, 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.

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 from existing product inventory. These strategic adjustments were essential to navigate the operational disruptions, as well as position Minergy for future stability and growth as a low-cost coal producer.

Health, safety, environment and community

Minergy continues to uphold its tradition of excellence in health and safety, maintaining an outstanding safety record with no lost-time injuries during the period. Our commitment to a safe work environment is unwavering, and we are grateful to report that we remain fatality-free, thanks to our rigorously managed health and safety systems. Ensuring the well-being of our workers is a top priority, and we remain dedicated to upholding the highest standards of safety in all our operations.

Strategy and operational update

Minergy embarked on a transformative journey commencing 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 Mr. Matthews Bagopi, seconded from MDCB, at Minergy Coal (Pty) Ltd. Mr Morne du Plessis resigned as CEO, as previously announced, at which point Mr. Matthews Bagopi stepped up as the Acting CEO of Minergy Coal (Pty) Ltd.

As part of the transformative journey, Minergy announced a parting of ways with its former mining contractor. As expected, coal production was affected in mid-September 2023 and temporarily halted from October 2023, as a consequence of the termination. This had inevitable and undesired inconsistencies in coal supply to our customers. The separation from the previous contractor is now complete and Minergy have successfully procured and appointed a new mining contractor, Meropa Resources ("Meropa"). At the time of releasing this report, Meropa has 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; enabled resumption of production and provided short-term working capital.

Financial review

The following serves as background information for the financial review:

Minergy's financial performance during the period was challenged primarily by operational disruptions and a difficult trading environment. Key highlights include:

Operational disruptions: The suspension of operations by the former mining contractor in March 2023 had a substantial impact on sales and financial performance, the effects of which extended into the reporting period. Moreover, the transition from the former mining contractor to the new contractor resulted in temporary cessation of production during the second quarter of the reporting period. This was partially mitigated by sales from existing product inventory.

Financial support: Minergy received additional funding of BWP90 million from MDCB 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.

Overall, operational disruptions and a challenging trading environment have significantly impacted Minergy's financial performance. However, the strategic support from MDCB and the transitional path being taken (including appointment of a new mining contractor) are deliberate and positive actions taken towards stabilising and improving the company's financial position.

The financial performance for the interim period with related commentary is presented below:

Statement of financial position
As at 31 December 2023

Figures in Pula	31 Dec 2023	30 Jun 2023
Assets		
Non-current assets		
Property, plant and equipment	**556 088 594**	547 862 810
Deferred tax asset	**165 243 713**	144 807 616
	721 332 307	692 670 426
Current assets		
Inventories	**90 529 127**	118 604 878
Trade and other receivables	**8 852 495**	57 243 499
Cash and cash equivalents	**29 264 744**	13 188 532
	128 646 366	189 036 909
Total assets	**849 978 673**	881 707 335
Equity and liabilities		
Capital and reserves		
Stated capital	**165 563 026**	165 563 026
Accumulated loss	**(587 719 336)**	(515 264 079)
Other reserves	**58 562 523**	31 076 451
Equity attributable to owners of the parent	**(363 593 787)**	(318 624 602)
Total equity	**(363 593 787)**	(318 624 602)
Non-current liabilities		
Rehabilitation provision	**250 038 249**	243 583 293
Borrowings	**889 498 741**	547 725 045
	1 139 536 990	791 308 338
Current liabilities		
Borrowings	**21 500 000**	181 278 607
Trade and other payables	**50 371 936**	225 581 457
Current tax liabilities	**2 163 535**	2 163 535
	74 035 471	409 023 599
Total liabilities	**1 213 572 460**	1 200 331 937
Total equity and liabilities	**849 978 673**	881 707 335

Property, Plant, and Equipment increased by BWP8 million during the period. This growth was primarily driven by site establishment costs related to the new mining contractor's preliminaries and generals. The depreciation charge partially offset this increase.

Inventory decreased by BWP28 million during the period. This reduction is attributed to sales being primarily driven from sales of existing stock.

Trade and other receivables decreased by BWP48 million from June 2023. This decline is a direct reflection of the reduced sales during the period.

Long-term borrowings increased by BWP342 million during this period. This increase is attributed to the aforementioned additional MDCB loan facilities and the accumulation of interest. Short-term borrowings decreased by BWP160 million, with the settlement of the Jarcon facilities.

Trade and other payables experienced a substantial reduction of BWP175 million. This decrease was primarily driven by the settlement of the Jarcon trade account using the additional MDCB facilities secured in August 2023 and December 2023.

Statement of comprehensive income
For the six months ended 31 December 2023

Figures in Pula	31 Dec 2023	31 Dec 2022
Revenue	**52 769 102**	330 269 553
Cost of sales	**(107 911 997)**	(326 189 673)
Gross loss	**(55 142 895)**	4 079 880
Other income	**48 891 585**	7 571 616
Operating expenses	**(7 630 944)**	(10 128 544)
Operating loss	**(13 882 254)**	1 522 952
Finance income	**39 252**	125 092
Finance costs	**(79 048 352)**	(59 216 534)
Loss before income tax	**(92 891 354)**	(57 568 490)
Income tax	**20 436 097**	12 665 068
Loss for the period	**(72 455 257)**	(44 903 422)
Other comprehensive income for the period	**—**	—
Total comprehensive loss for the period	**(72 455 257)**	(44 903 422)
Total comprehensive loss attributable to:		
Owners of the parent	**(72 455 257)**	(44 903 422)
Non-controlling interest	**—**	—
	(44 903 422)	(44 903 422)
Loss per share (thebe)	**(15.42)**	(9.55)
Diluted loss per share (thebe)	**(15.42)**	(9.55)

Revenue for the period ending in December 2023 declined by 84% compared to the previous period. This decline was due to operational challenges, the resultant loss of key customers, and the cessation of seaborne exports.

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

Other income reported during the period predominantly stems from non-operational gains arising from the final settlement of the mining contractor's account.

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.

Statement of changes in equity

For the six months ended 31 December 2023

Figures in Pula	Stated capital	Accumulated loss	Other reserves	Total equity
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	—	—	—	
Borrowings — conversion option reserve	—	—	—	—
Share-based payment expense	—	—	498 187	498 187
Balance at 1 July 2023	**165 563 026**	**(515 264 079)**	**31 076 451**	**(318 624 602)**
Total comprehensive loss	**—**	**(72 455 257)**	**—**	**(72 455 257)**
Transactions — owners in their capacity as owners of equity	**—**	**—**	**—**	**—**
Borrowings — conversion option reserve	**—**	**—**	**27 486 072**	**27 486 072**
Share-based payment expense	**—**	**—**	**—**	**—**
Balance at 31 December 2023	**165 563 026**	**(587 719 336)**	**58 562 523**	**(363 593 787)**

Statement of cash flows

For the six months ended 31 December 2023

Figures in Pula	31 Dec 2023	30 Jun 2023
Cash flows from operating activities		
Cash utilised in operations	**(154 522 366)**	5 229 964
Finance costs paid	**(3 095 952)**	(9 690 463)
Tax paid	**—**	(815 581)
Net cash used in operating activities	**(157 618 318)**	(5 276 080)
Cash flows from investing activities		
Purchase of property, plant and equipment	**(11 169 027)**	(38 205 138)
Finance income	**39 252**	232 500
Net cash utilised in investing activities	**(11 129 775)**	(37 972 638)
Cash flows from financing activities		
Proceeds from borrowings	**320 857 175**	63 832 275
Repayment of borrowings	**(136 032 870)**	(16 551 347)
Net cash from financing activities	**184 824 305**	47 280 928
Total cash movement for the period	**16 076 212**	4 032 210
Cash at the beginning of the period	**13 188 532**	9 156 322
Total cash at the end of the period	**29 264 744**	13 188 532

Despite the company experiencing negative operational cash flows, due to a number of challenges, Minergy secured and maintained sufficient funds for its operational commitments. As reported, Minergy secured essential additional funding pivotal for advancing strategic initiatives and fulfilling financial obligations related to the former mining contract. Minergy's cash position was BWP29 million at the end of the period, primarily sourced from the working capital facility, with an additional BWP60 million available for drawdown during the transitional phase.

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.

The 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 customised 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. As reported above, 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. Supply is expected to stabilise by the end of April, with full-scale mobilisation, production, and sales projected by the end of June 2024. 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.

Change in Board of Directors

The Company announced the resignation of Morne du Plessis as Chief Executive Officer with effect from 31 August 2023.

Additionally, Matome T Malema was appointed to the Board of Directors as a Non-Executive Director on 20 September 2023.

Contingent liability

The Company has provided securities for the subsidiary's funding facilities in the normal course of business.

Basis of preparation

The unaudited abridged consolidated interim financial statements have been prepared in accordance with the framework, concepts, and 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 2023 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 the corresponding interim reporting period.

The unaudited abridged 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 of BWP72 million during the interim period ended 31 December 2023. As of 31 December 2023, the Group had accumulated losses of BWP587 million, and its net liabilities exceeded its net assets by BWP364 million.

The Group remains proactive in refining its production and sales strategies to thrive in the current market. The inherent quality of the Group's product offerings, coupled with a loyal customer base and logistical advantage, establishes a positive trajectory toward sustained growth and profitability. Sales demand, pricing, and cost management within a competitive market remain key factors.

The strategic support by MDCB and the additional resources provided, give the directors confidence that the new direction being followed will enable the Group to achieve its goals and generate sufficient funds to meet its obligations and continue as a going concern.

As the organisation navigates its transition and continues to grow, management expresses gratitude to all stakeholders, including customers, service providers, funders, and employees, for their invaluable contributions.

By order of the Board

18 March 2024

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 secretary
Central Securities Depository of Botswana

BSE Advisor
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Tel: +267 393 2244

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
C Kgosidiile
M T Malema
J Ayo

SIGIL DESIGN BUREAU