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

PRE-CLOSE STATEMENT

OPERATIONAL UPDATE

Further to the COVID-19 and business update published on 20 April 2020, Minergy Limited is providing the market with this update prior to going into its closed period, after 30 June 2020 (the year-end). The closed period will end when the final results for the year ended 30 June 2020 are released, which is expected to be during the week of 21 September 2020. Minergy will again update the market by means of a cautionary announcement followed by the full year review and commentary.

More than 90% of Minergy's target market for the sale of coal, in volume terms, is in South Africa. Given that access to the border between South Africa and Botswana has been severely restricted for close to 15 weeks (by the time of this release) and that the majority of Minergy's customers in South Africa have been unable to operate, the impact of COVID-19 on Minergy has been significant.

This has turned out to be a financial year of great disparity and the commentary below informs the two distinct periods.

Financial year: July 2019 to February 2020

In the build-up to March 2020, Minergy was able to celebrate substantial achievements including:

- Commissioning the plant, including mobile solutions
- Ramping up mining operations, including having the necessary infrastructure in place
- Having water and power supplies in place sufficient for the volume of production
- Signing the first off-take agreement with a South African cement producer
- Successfully and consistently moving saleable product into South Africa, Namibia and within Botswana
- Completing the rail siding and readying it for the transport of coal
- Securing P150 million in debt funding
- Raising P35 million in equity
- Strengthening the executive management team

With enough funding in place, Minergy was therefore on track to complete the planned plant upgrades necessary to achieve nameplate production and efficiencies. At this point in time, saleable production was targeted to be 70,000 to 80,000 tonnes per month.

Financial year: March 2020 to June 2020

During this part of the financial year, the implications of COVID-19 became evident. South Africa declared a State of Disaster on 15 March 2020 and an initial 21 day lockdown period was instituted on 26 March 2020, which was later extended to 30 April 2020. While Minergy benefitted from good trade volumes for most of March, during the last week of the month the market literally collapsed and closed. South Africa, following a phased risk adjusted approach, only moved from level 5 to level 4 from 1 May, and to a more relaxed level 3 from 1 June 2020.

In addition, Botswana declared a State of Public Emergency on 2 April 2020 and a national lockdown; which resulted in volumes dropping dramatically to roughly 15% of volumes supplied at the time of lockdown. Coal stockpiles at the Masama plant were sufficient to cater for this limited demand during this period supplying essential service customers.

In a non-COVID-19 scenario, April would have been when Minergy upgraded its plant to reach the targeted capacity by 1 July 2020. The upgrade to the plant has now been delayed as the South African service provider could not manufacture critical sections or order parts due to the non-essential classification of its subcontractors. The slow relaxation of lockdown restrictions is expected to contribute to a delay of at least three months.

In May 2020, the continued lockdown in South Africa, albeit at a marginally reduced “level 4”, meant that many Minergy customers were still not able to operate and in some instances even invoked *Force Majeure.* This resulted in a further shrinkage of demand to below 10% of volumes supplied at the time of lockdown, and had a drastic effect on cashflow, although Minergy continued to ensure that no unnecessary costs were incurred.

In June 2020, despite South Africa partially lifting more lockdown restrictions, access to the border between South Africa and Botswana remained largely restricted, with logistics backlogs of up to 5 days making the delivery of coal both difficult and inconsistent. Some of the restrictions includes a waiting period for drivers for COVID-19 testing results, and convoyed escorting of trucks by police. This created frustration which resulted in strikes by drivers and blockades. In addition, the crossing of vital technical staff from South Africa were severely hampered by strict regulations including going into long quarantined periods at state specified facilities on both sides of the border. However, during the month we saw a limited recovery of volumes.

MARKET OUTLOOK

Lockdown has had a severe impact on Minergy. The easing of lockdown restrictions will only assist if customers are able to restart quickly and border crossings become efficient again. The initial signs of recovery are slow as uncertainty remains.

The COVID-19 pandemic forced Minergy to critically relook at its strategy to achieve full production capacity. Ramp-up always assumed a fully functioning and participative market without restrictions. Although the original targeted production of 80,000 saleable tonnes per month is still within the nameplate capacity, given the structural change in the market and uncertainty on its recovery, a decision was made to revise targeted production to 60,000 saleable tonnes per month. This production number still calls for upgrades to the plant but will mean that production will more realistically keep pace with the current depressed demand and recovering market. Minergy shares concerns raised by the South African Junior Mining Association that “the road back to full production will be long and hard.” The focus for the next 6 months is to operate at breakeven level in line with market demand and outlook.

South African coal production fell 9% year on year in April according to Statistics South Africa, but coal’s woes paled beside the 47% plunge for other minerals.

The slump in the southern Africa market did start to ease just prior to the COVID 19 induced lockdowns as the export prices recovered in January and February reaching $85/ton - $90/ton before the global COVID 19 lockdowns of industry took hold. Prices then collapsed to below $45/ton before recovering to between $55/ton and $62/ton in late May to early June.

Indian import demand firmed up briefly in May, but indications of a slowdown have emerged from the second week of June. Demand has taken a hit by the arrival of monsoon season. The monsoon season slows construction and infrastructure activity, reducing demand for cement, steel and sponge iron along with electricity demand and coal burn.

There is speculation of China regulating Australian imports. China is seeking to reduce its reliance on imports. Coal prices will be further under pressure unless China opens the door to Australia. Lower Australian prices will encourage many Indian companies to divert their purchases from South Africa, particularly for lower grades.

The Richards Bay Coal Terminal has started to move coal again, but stockpiles are still high.

All of the above leads to downward pressure on seaborne export coal pricing, thereby opening the door for South African majors to flood domestic market with supply.

Given this scenario and the fact that Minergy expects coal prices to remain depressed, the strategic decision to decrease targeted production will ensure scalability, until such time as price and demand have improved. The Company, however, remains confident that it will be able to adjust to meet increased demand in the future. It is imperative to manage the business within the boundaries of the new normal.

Despite the difficult operating environment, Minergy has the following in place:

- Outstanding safety record and absolute care for our people, with zero COVID-19 cases, zero injuries on the mine and 668 days without lost time due to injury
- COVID-19 plan used as template for mining industry in Botswana
- Salary deferrals by management and certain staff of up to 25% as part of a proactive drive to reduce overheads
- Negotiations with potential funders are ongoing including government assistance
- A business optimisation plan to focus on 10 key areas to minimise costs and maximise efficiencies
- Negotiations with suppliers to ensure reduced costs to support sustainability of Minergy, which includes agreements with service providers to scale down operations proportional to the right sizing of production, rather than to retrench staff
- Sales order activity began to improve in June

FINANCIAL EFFECTS

Balancing the cash flow and cost implications with minimal sales and cash generation opportunity, is extremely challenging in a normal environment and even more so in a lockdown environment which would challenge any established organisation. The financial impact of losing a minimum of 15 weeks of sales while still having to carry contractually bound fixed cost burdens is significant. Minergy reported a loss for the six months ended 31 December 2019 and this trend has continued in the second half of the financial year.

Minergy, as a junior miner was fortunate to raise funding pre COVID-19 but given the substantial reduction in sales during the lockdown months, much of this funding has been used to cover fixed overheads. As a result, new funding will have to be secured, despite massive cost-cutting initiatives being in place.

Minergy has successfully conserved cash to navigate the pandemic but funding will be required to ensure that the project reaches capacity. Discussions are in progress with potential funders as well as seeking assistance from government in terms of relief programmes offered in Botswana.

FOCUS

Completion of the plant upgrades and execution of the business optimisation plan will be the key drivers for the next 6 months to ensure breakeven status with the opportunity of being geared to scale up operations in a recovered market thereafter.

COMMUNITY SUPPORT

The establishment of the Minergy Coal Community Support Fund ("the fund") to aid the Medie village has been extremely well received and Minergy has been able to widen the beneficiary pool in the village. The fund continues to be supported by contributions from the Company, Management and Minergy service providers.

By Order of the Board

Morné du Plessis
Chief Executive Officer
2 July 2020

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