UNICORN CAPITAL
PARTNERS LIMITED

Unicorn Capital Partners Limited
Incorporated in the Republic of South Africa
(Registration number 1992/001973/06)
Share code: UCP ISIN: ZAE000244745
("Unicorn" or "the Company")

AUDITED CONSOLIDATED ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2019

The board of directors of the Company is pleased to present the following information relating to the audited consolidated annual financial statements for the year ended 30 June 2019 ("2019 Results").

Highlights:

The Company mainly consists of two parts, being the mining services operations and the anthracite mining development operations. Unicorn has embarked on a process to dispose of its anthracite operations and as a result, anthracite mining operations were classified as held-for-sale. This resulted in a clear separation of Unicorn's established mining services companies and Unicorn's investment in developing its anthracite mining operations.

JEF Drill and Blast Proprietary Limited ("JEF"), Ritchie Crane Hire Proprietary Limited ("Ritchie") and Geosearch Holding Proprietary Limited ("Geosearch") generated a combined profit before tax of R45 million (2018: R66 million) on a net asset base of R297 million (2018: 295 million). Capital expenditure in these operations amounted to R38 million (2018: R38 million). Funding consisted of R16 million (2018: R30 million) asset finance.

During the year, considerable investment was made in Nkomati Anthracite Proprietary Limited ("Nkomati") consisting of developing the underground mine and expanding the resources and performing general improvements to increase the value of the mine. This resulted in Unicorn publishing a Competent Persons Report on Nkomati reflecting the growth in value that was achieved in Nkomati over the past two years. The Competent Persons Report as a basis, together with other considerations supported the reversal of a previous mineral right impairment of R345 million.

Building and expanding a mine requires sizeable investments. During the year Nkomati continued developing the underground mining area, increasing the number of underground pathways to increase the rate of extraction. As a result, Nkomati incurred an operating loss of R55 million (2018: R78 million) during the year. Sixty percent of the loss is attributable to our shareholders. Because of the loss and continued capital expansion, Unicorn provided Nkomati with additional funding during the year amounting to R105 million (2018: R50 million). External funding amounting to R70 million was raised by Unicorn in order to fund the underground mine development.

Financial performance:

The audited consolidated financial results of the Company for the year ended 30 June 2019, as compared to the year ended 30 June 2018 (restated) are set out below:

	Audited 30 June 2019	**% variance**	**Restated 30 June 2018 (Note 1)**
Revenue (R'000)	730 171	(25%)	969 453
Operating profit/(loss) (R'000)	42 134	(38%)	67 560
Earnings per share (cents)	13.88	857%	1.45
Headline earnings per share (cents)	(3.30)	(1220%)	(0.25)

Note 1:

Certain group comparative figures have been re-presented as a result of Nkomati and Benicon Opencast Mining Proprietary Limited ("Benicon Coal") being classified as held-for-sale and identified as discontinued operations as further detailed in notes 13 and 26 of the 2019 Results available as per the link below.

No dividends were declared or paid during the year under review or during the comparative period.

This short form announcement is the responsibility of the Board and does not contain full or complete details. Any investment decisions by investors and/or shareholders should be based as a whole on consideration of the audited consolidated financial statements for the year ended 30 June 2019 which may be downloaded from:

https://senspdf.jse.co.za/documents/2019/jse/ISSE/UCPE/June19Aud.pdf

or the Company's website at: www.unicorncpital.co.za/Investor-Relations/Results-announcements and may also be viewed, at no cost, at the registered office of the Company and the Johannesburg office of its Sponsor, during ordinary business hours, for a period of 30 calendar days following the date of this announcement.

Letter to shareholders from the Chief Executive Officer:

Introduction

We started with the restructuring of the former Sentula Mining in early 2016. This restructuring had taken place in a very challenging environment where capital had always been in short supply, domestic mining sentiment negative, corruption rife throughout the civil service, negative investor sentiment driving the Johannesburg Stock Exchange (JSE) sideways, fixed capital formation in a constant decline and as a result, the South African economy getting stuck in a no-growth zone ever since.

Our market capitalisation on the JSE has been too small to attract attention and as a result, our share price has not fluctuated much. This challenging environment has made it extremely difficult to raise the necessary capital to finance growth or to obtain reasonable prices when disposing of assets. This year I therefore decided to take a closer look at our track record in each of our individual operating companies over the past four years to see how much progress has been made.

As far as Nkomati is concerned, we have proved the size and quality of the resource, developed all the necessary infrastructure to extract the anthracite, achieved targeted wash plant yields, negotiated market-related prices for our product and ramped-up production. We are confident that Nkomati is heading in the right direction.

Ritchie has gone from strength to strength over the past four years, delivering its best performance in its history in the 2019 financial year ("FY"). A critical element of its success has been ongoing investment in new cranes while consistently increasing crane utilisation rates. Management was able to successfully translate this into strong growth in revenue, while maintaining profit margins and return-on-assets. We have confidence in Ritchie's future.

JEF has gone through a tumultuous four years since 2016. Industry disruptions, a drastic decline in drilling rates as well as extensive pressure on its key clients in the coal mining industry required a complete rethink of its business model. It required major restructuring and repositioning, which still has some way to go. JEF has, however, sustained positive earnings before interest and tax ("EBITDA") throughout, which provides it with ample operating leverage once drilling rates start rising again. We are confident that JEF is on the right track.

Geosearch has benefitted from a revival in the exploration drilling market over the past three years. During 2016 there was very little activity with only a handful of short-term contracts available. With the market starting to show some direction during 2017, we made the decision to invest and grow in South Africa, Botswana and Mozambique. The decision has paid off handsomely in both South Africa and Mozambique, but Botswana has been a huge disappointment. We are in the process of improving Botswana and are confident that South Africa and Mozambique can maintain momentum.

Below follows a detailed analysis of each of our operating companies, as well as our head office expenses.

Nkomati – anthracite mining

Nkomati mines high grade anthracite, which is in high demand from South Africa's ferro alloy producers. The ferrous metals producers are dependent upon high grade anthracite with low impurities, such as low volatile matter (<9%), low sulphur (<1.0%) and low phosphorus (<0.03%) to produce quality ferro steel and ferro chrome.

Nkomati's anthracite has the lowest sulphur impurities (<0.5%) of all anthracite producers in South Africa, while its phosphorus levels are on par (<0.03%) with the best producing mines. The combination of very low sulphur and phosphorous content of Nkomati's deposit makes it sought after and positions the mine as a key supplier to the local market.

32.7 Million tonnes minable in-situ ("MTIS") anthracite resource and 5.2 million ("ROM") tonnes reserve

The results from our ongoing exploration programme were very encouraging, increasing the size of our mine to 32.6 MTIS resource and 5.2 ROM tonnes reserve. The Nkomati resource was less than 5 MTIS when the mine was taken out of care and maintenance in 2015. Life-of-mine is in excess of twenty years, depending on the rate of extraction. Our most recent Competent Persons' Report ("CPR") was published in May 2019.

Current opencast mine can sustain at least 300,000 tons ROM production per annum

The opencast mine has proved over the past four years to be able to sustain at least 300,000 ROM tonnes production per annum. Production upside for the mine resides in the underground operations, as well as the development of a second opencast mine. By running two opencast operations in conjunction with the underground mine should provide us with enough flexibility to smooth production and therefore cash flows. The second opencast mine should be in production by quarter 2 2020.

Underground mine less capital intensive and more profitable

During 2017, the decision was made to re-open the underground mine. Underground make-safe operations took almost a year to complete and by October 2018, limited underground mining activities commenced. The two-lower eight-meter-thick anthracite seam enables clean underground mining, resulting in a washing yield in excess of seventy percent. Old and unreliable equipment prevented us from achieving our underground production targets during most of FY2019. As a consequence, we recently introduced a new mining method and acquired more reliable equipment, which contributed to increased production volumes. We are confident of a considerable increase in underground mining production in the coming months.

Anthracite washing yields to be sustained above sixty percent

In the opencast mine we extract three different seams, each delivering a different washing yield. The best yield, in excess of seventy percent, is being achieved with the two-lower seam, which is the same seam that is mined in the underground mine. The average yield achieved since 2015 has been around the mid-to-low fifties but the introduction of higher yielding product from the underground mine during FY2019 has increased the average washing yield to around sixty eight percent. The higher the washing yield, the more profitable the mine.

Anthracite nut production to be sustained above fifty percent

The most profitable product that Nkomati produces is large anthracite nuts while the least profitable is anthracite fines. The more nuts we produce as a percentage of total production, the more profitable the mine is. The correct mining method, limited re-handling and an efficient wash plant are all factors contributing to a process to minimise fines. For most of the past four years, nuts made up roughly one third of total production output. During FY2019, Nkomati was able to increase nut production as a percentage of total production to above fifty percent, a level which we consider to be sustainable.

Product prices are in line with market prices for the first time

Initially when the mine was taken out of care and maintenance, the prices received for Nkomati's product were below market. Gradually over the past four years the prices were brought in line with market prices and should be kept in line in future. We have been able to increase our product sales prices by more than 230% since 2015.

Revenue has been growing steadily

Except for the mining contractor replacement setback during FY2018, revenue has been growing steadily over the past four years. Quality anthracite is a sought-after product, which should provide support for future prices. Full-scale underground production combined with sustained opencast production should ensure sustained growth in future revenue.

Capital expenditure peaked in FY2018

Capital invested since 2016 has been spent on making-safe and reopening of the underground mine, building a 90,000 ROM tonne capacity wash plant as well as the widening of the open pit. Future fixed capital requirements are likely to be limited to the ongoing replacement of old underground mining equipment, as well as the refurbishment of the old wash plant for the export of discard material.

Nkomati has created 547 permanent jobs since 2015

Nkomati currently makes use of a subcontractor to mine the open pit, but all underground mining and wash plant activities are performed by the mine itself. Roughly ninety five percent of the total staff complement of 547 people are living in the three communities directly affected by the mine. As the only large employer in the Nkomazi district, the economic multiplier effect of the mine on these three local communities over the past four years has been extensive. Further planned mine expansion is expected to create an additional 150 to 200 job opportunities in the next twenty-four months.

Outlook

Establishing Nkomati's open-pit mine and achieve sustainable production has come with many surprises and curve balls over the past four years. Likewise, the underground mine has taken almost 12 months longer than initially planned to achieve steady state production. The new wash plant also brought about its own challenges and took more than a year to reach production volumes in line with design capacity. We believe that all the key levers are now properly aligned to enable the mine to deliver the returns that we have been pursuing from the start.

We also believe that it would be in the best interests of the mine for it to pursue an independent path, potentially through its own listing to unlock value, allowing for improved transparency and governance and access to a broader pool of capital, which is expected to facilitate the acceleration of the mine's ongoing expansion strategy.

The Board continues to explore its options in this regard, and is working in partnership with Nkomati's funders, including the Industrial Development Corporation, to conclude on an optimal plan to meet various stakeholders' objectives, which may include the injection of additional capital from Unicorn shareholders.

Nkomati's key risks are community action, compliance with the Department of Mineral Resources requirements and reliance on sub-contractor equipment availability. For a detailed independent valuation of the mine, refer to the Nkomati CPR published in May 2019. Our current investment in the mine is a R486 million shareholders' loan compared to a CPR valuation of R882 million for our 60% shareholding.

Ritchie – heavy mobile crane lifting

Ritchie has been the most consistent and predictable performer in our portfolio. It's a very simple business merely requiring a relentless focus on customer service, safety and fixed costs. For a capital-intensive business, the return on assets is very high, which means that every additional rand invested generates an equally high return. We therefore have a strong incentive to consistently invest in additional cranes and grow our customer base. We have grown Ritchie's fleet of cranes from 33 in 2015 to 43 at present.

In heavy machinery businesses, preventative maintenance is a key requirement to ensure high availability. When combined with relatively high utilisation rates, a high return on assets can be sustained. Ritchie's growing fleet of cranes combined with utilization in excess of 70%, has delivered a consistent growth in total crane hours billed.

As in all other mining services businesses, rates have been under pressure over the past four years. The 10% decline in rates was, however, not nearly as severe as in other segments of the mining industry. Further downward pressure on rates cannot be excluded but we are not expecting any major changes in the foreseeable future. In addition, roughly sixty percent of Ritchie's business is based on long-term contracts, which contributes to long-term rate certainty.

The combination of a growing crane fleet and increased productivity have contributed to a increase in total revenue despite the 10% decline in hourly rates. Ritchie has successfully converted growth into profits since 2015, evident in the consistent growth in EBITDA and EBITDA margin. We consider the current yield as very high and although all efforts are aimed at sustaining it at this level, it might be a challenge.

Outlook

Ritchie is a stable business with a strong and competent management team. It is well entrenched in the two geographical regions where it operates and has been following a successful recipe, which we will not fiddle with. We will continue to invest in the business as long as we are confident that we can sustain the three key ingredients at current levels and, by doing so, sustain returns.

Ritchie's key risks are maintaining a clean safety record, keeping customers service levels up and its' mining client's exposure to the coal industry. Our current valuation for Ritchie is R190 million.

JEF – overburden drilling and blasting services

JEF's business and operating environment have gone through vast changes during the past five years. Historically, JEF performed drilling and blasting services on an exclusive basis for the former Sentula contract mining businesses namely Megacube, Benicon and CCT. The decision in 2016 to completely exit contract mining by closing the companies and disposing of all related equipment had a large impact on JEF's customer base and revenue certainty. In addition, JEF's most profitable business segment, which is business explosives and blasting services, declined drastically during this period.

As a result of depressed coal and chrome prices in 2016 and 2017, the major mining houses made the decision to strip explosives and blasting services from the drilling and blasting contracts and perform the blasting services themselves. In a short space of time, JEF therefore not only lost a large portion of its most profitable business segment but it also had to establish itself as a company providing mainly drilling services directly to the major mines. During this period, its contract sites reduced from twenty to sixteen and its explosives and blasting contracts from twelve to four.

JEF was left in an undesirable position where drilling was its primary source of income. Consequently, JEF was forced to change its business model by focusing on growing total meters drilled. JEF was successful in making this transition in a relatively short space of time. Total meters drilled increased by 55% over a four-year period.

JEF was also successful in drastically increasing the productivity of its drill rig fleet but this increased productivity could unfortunately not offset the decline in drill rates. The pressure on drill rates has been relentless during the past four years, with rates effectively declining by 50%. Rates, however, appear to have stabilised at current levels and from this point forward we would expect drilling rates to increase at a rate above inflation.

The combination of the loss of a large part of the explosives and blasting business, a halving of drill rates and the loss of the contract mining companies as new contract originators, had a major impact on JEF's profitability. It puts JEF's decline in EBITDA from R65 million in FY2015 to R26 million in FY2019 in perspective.

Our initial response in 2017 to grow our fleet of drill rigs and aggressively pursue new contracts to improve economies of scale was unsuccessful. It simply contributed to a considerable increase in the number of employees without a sustainable increase in profitability. As a result, JEF went through an aggressive reduction in staff numbers during 2018, which has been successfully bedded down during the first half of 2019.

Outlook

To simply continue to compete on rates in a capital-intensive business where most of your equipment is priced in US dollars does not give us confidence in future growth prospects. Due to the changing market conditions and decline in profitability, we have started looking at alternative ways to reduce the capital required to replace and renew the drill rig fleet to ensure we remain competitive. At current industry rates per meter you simply cannot replace old drill rigs with new ones and achieve an acceptable return on capital.

In response, JEF has started to design and rebuild its own drill rigs. The first drill rig took three months to complete, cost a fraction of the price of a new drill rig and was deployed on a contract in July 2019. The results to date have been very promising with the rig drilling twenty percent more meters on average per month and breakdowns at half the rate of the rest of the fleet. We believe that this could be a game changer for JEF.

JEF's key risks are a commoditised service offering, being contracted to contract miners on most of its drilling sites as well as key equipment being priced in hard currency. Our current valuation for JEF is R100 million.

Geosearch – exploration drilling

Geosearch performs exploration drilling services in South Africa, Mozambique and Botswana. The industry was under severe pressure three years ago due to depressed global commodity prices and an uncertain global growth outlook. There were very few long-term contracts available and drill rates were under huge pressure. In Mozambique we had no drilling contracts and kept the business going through a bush-clearing contract. In South Africa we only had a single grade-control contract and in Botswana drilling activity was limited to a couple of small short-term jobs. Since then, however, things have improved notably.

The number of new contracts has increased markedly in all three countries over the past three years as confidence returned to mining company boardrooms. Mozambique is maintaining good momentum and drilled the most meters ever during FY2019. South Africa was able to sustain operations while activity in Botswana exploded.

The increase in meters drilled translated directly into a large increase in revenue in Mozambique and Botswana. Botswana's revenue growth, however, should have been higher for FY2019. We were awarded three major drilling contracts with a large client requiring a major ramp-up in infrastructure, personnel and investment in working capital.

Botswana's staff complement increased from 11 in June 2018 to 298 employees in January 2019. At the half-year stage, we were confident that everything was on track but by February 2019 it became clear that the wheels were coming off fast. Lack of leadership, poor execution, ill-discipline, scope creep and an extensive shortage of skilled labor cost us dearly in the second half.

Had it not been for the disastrous second half in Botswana, Geosearch would have had its best performing year ever. Mozambique delivered earnings before interest and tax ("EBIT") of R30 million, South Africa R10 million and Botswana a loss of R17 million compared to a budgeted profit of R16 million. As a consequence, we are scaling down operations in Botswana and exiting the loss-making contracts. Equipment will be redeployed to growth opportunities in South Africa.

Thebe Turnstone Drilling

During March 2019, we announced that we had entered into an agreement to acquire 100% of Thebe Turnstone Drilling. The transaction became effective on 26 June 2019 and as a result should contribute a full 12 months in FY2020. The company has two long-term contracts in the Northern Cape and is expected to make a positive contribution during the next financial year. In addition to the contracts, the acquisition also provided us with desperately needed additional drill rigs and general mining equipment.

Outlook

We had high hopes in the beginning of FY2019 that Geosearch would have a good year, but things turned out differently because of Botswana. Looking forward, we are cautiously optimistic that we can get past the problems in Botswana; that Mozambique will maintain momentum and that South Africa, with the inclusion of Thebe Turnstone Drilling, will deliver on expectations.

Geosearch's key risks are unscheduled client stoppages, widely dispersed drilling sites, as well as an industry-wide skills shortage. We value the Geosearch group of companies at R85 million after having extracted cash and property to the value of R43 million during the year.

Unicorn head office, group operating expenses and debt

From an investment perspective, each of the CEO's of the operating companies is entrusted with a portfolio of assets to manage. Their single most important task is to maximise the return on the assets under their control, which we measure as EBIT over average assets deployed. From a group perspective, we then have the final word on financial leverage, capital structure, capital allocation and long-term strategy. It is a structure which we believe gives management enough autonomy to take full ownership while at the same time ensures that nobody gets carried away when times are good. This is the model we will apply to all future investments as well.

Under the former Sentula Mining, various group functions were centralised, which resulted in a bloated and inefficient head office. Since 2016, we have restructured the head office by pushing group functions down into the operating entities, including the group overdraft and treasury function. This has resulted in many cost savings and properly ring-fenced operating subsidiaries.

In FY2015, the group external debt consisted of a centralised group overdraft facility as well as a long-term loan secured against plant and equipment. The long-term loan was settled in early 2018 and the overdraft vastly reduced before being allocated to the individual operating subsidiaries. The debt raised during FY2019 was mostly invested in Nkomati.

Matters of litigation

Unicorn continues to be involved in various litigation matters. We have had some success during the past financial year.

Argent Industrial

Argent Industrial Group settled a long-standing matter with Megacube for an amount of R14.5 million which was received during December 2018 into the account of the Golden Autumn Trust. Megacube received an amount of R11 million from the Trust in December 2018 and the remaining balance was distributed to Megacube on the finalisation and winding up of the estate of the Golden Autumn Trust subsequent to year end.

Scharrighuisen

On 7 June 2019, the Cassation court handed down judgment in favour of the Trustees of the Insolvent Estate of Scharrighuisen (Trustees) in the appeal launched by Corporate Agents N.V. and Covenant Managers N.V. (Corpag) against an earlier order of the Curacao High Court. As a result of the appeal won, Anticus Limited is in the process of disposing the 2 properties owned by it and collecting a mortgage bond.

An insolvency enquiry into Scharrighuisen's insolvent estate in terms of section 152 of the Insolvency Act, 24 of 1936 remains ongoing. Any recoveries that the Trustees may make are contingent on a number of uncertain factors. Shareholders are advised further that the identification of further assets and claims is required in order to extinguish Megacube's claims against Scharrighuisen.

Strategic review

Our strategic objectives for FY2019 that were set in July 2018 are listed below:

- put JEF on a sustainable growth trajectory;
- accelerate growth in Geosearch; and
- achieve Nkomati steady state performance.

We are satisfied that JEF's restructuring has been bedded down successfully, but we are not yet satisfied that it is on a sustainable growth trajectory. Recent changes include the appointment of a new CEO, who is making good progress in turning the business around.

Geosearch's South African and Mozambican operations delivered on expectations, but Botswana was a big disappointment and is currently receiving attention.

As is evident from Nkomati's individual review, all the key levers are lined up to ensure sustainable operations. The mine has been profitable for the past four months and steady state underground operations should make a positive contribution.

Our strategic objectives for FY2020 are:

- put JEF on a sustainable growth trajectory;

- turn Geosearch Botswana around; and

achieve independence for Nkomati**Outlook**

Our focus will continue to be on each business' individual requirements, drivers and dynamics to determine what is required in each to remain competitive and be profitable. Our sole aim remains to deliver attractive returns on capital to our shareholders over time and by doing so, outperform the market.

Registered office: Building 14, Ground Floor, The Woodlands Office Park, Woodlands Drive, Woodmead, Sandton

Sandton
30 September 2019

Sponsor:

Questco Corporate Advisory Proprietary Limited
First Floor, Yellowwood House, Ballywoods Office Park, 33 Ballyclare Drive, Bryanston.