



**Briefing by Alexkor on the annual report and financial statements for 2020/21
financial year**

Wednesday 24 August 2022



Report of the Accounting Authority

Appointment of the Accounting Authority

- Previous Accounting Authority retired in September 2019 and an Administrator appointed whose term ended on 28 February 2020
- The former CEO was appointed as AA of Alexkor in terms of Section 49(2)(b) of the Public Finance Management Act on 20 May 2020
- He was also appointed as Chairperson of the PSJV and following the resignation of the Acting CEO of the PSJV as CEO of the PSJV with effect from 15 August 2020
- The new AA was appointed and held an introductory meeting with the Shareholder on 8 February 2022 following the resignation of the former CEO at the end of January 2022

2021 Annual Financial Statements and External Audit

- The new AA found that the external audit for 2020 / 2021 was not completed when the former CEO resigned
- The Letter of Representation, Report of the AA, Approval of the Audited Annual Financial Statements and External Audit Report for 2020 / 2021 were ultimately signed on 6 May 2022 by the new AA
- The AA approved the Audited Financial Statements, prepared by the former CEO and GM Finance, after discussion with the External Auditor and Auditor General
- Issues of concern will be scrutinised in the 2021 / 2022 External Audit
- In the event of evidence of any maladministration and/or malfeasance during the reporting period being found, appropriate remedial steps will be taken

General concern of the Accounting Authority

- Governance arrangements and compliance with statutory requirements leave much to be desired
- The former CEO did not prepare the 2022/23 Corporate Plan, Budget and Shareholder Agreement or initiate preparation of the 2021/22 Integrated Report and AFS
- It is apparent that the attribution of income and expenditure, in the reporting period and historically, to Alexkor, the RMC and the PSJV is not in compliance with the Deed of Settlement and Unanimous Resolution.
 - All costs of the pooled operations incurred by the Joint Board shall be paid for out of the pooled EBITDA (Clause 9.1.15)
 - The ICC and any additional State funding will be repaid prior to distribution of any EBITDA (Clause 14.3)
 - To the extent that operational expenditure exceeds the revenue of the pooled operation Alexkor and the RMC are required to contribute in the ratio of 51% and 49% (Clause 14.4)
 - After retention of reserves surplus funds are distributed in the same ratio (Clause 14.7.5)
- The attribution of income and expenditure for the reporting period and historically will be reviewed in the 2021 / 2022 External Audit to establish and restate the financial position of Alexkor and the PSJV

Precarious financial position

- The financial position of Alexkor is extremely precarious
- The 2020 / 2021 audited AFS include a dividend of R 1m and reversal of the impairment of the ICC loan in the amount of R 90 360 899, creating a false picture of the consolidated financial position of the year ending 31 March 2021
- In 2021 / 22 the cost of mining exceeded revenue from sales and Alexkor advanced R 20 885 237,80 to the PSJV to cover expenses and debt
- 2021 / 2022 expenditure includes significant expenditure on non-essential items that has further compromised the financial position
- There are overdue payments for rates, electricity, legal fees and contracted in services
- Treasury has not approved a request for exemption for the payment of R 7.9m for the SIU investigation
- There have been no salary increases since 2018 resulting in industrial action

Mining, marketing and sales

- All mining activity is undertaken by contractors who are remunerated based on a share of the proceeds of the sale of diamonds ranging from 60% to 80%.
 - In terms of the DOS Clause 8.3.12.5 mining may only commence in any mining cell if a 3 year resource of 450 000 carats is established (A total of 28 246 carats produced in 2020 / 21)
 - The appointment of contractors requires the approval of the Joint Board (Clause 9.2.6 and 12.2)
 - Remuneration based on share of sales except where it is customary in the case of marine mining is not allowed (Clause 12.2.1)
 - Contractor operation of any DMS plants and recovery and sale of diamonds is not allowed unless the Joint Board approves (Clause 12.2.2)
- There is a process currently underway to review the contracting arrangements

Way forward

- The Interim CEO will present relevant information from the 2020 / 21 IR and Audited AFS and remedial plans
- Appreciation is extended to the Minister, Deputy Minister and relevant official for the support thus far
- Appreciation is extended to the interim CEO and staff of Alexkor and the PSJV for continuity of operations under extremely difficult circumstances



Integrated report and audited financial statements

Highlights from the IR and AFS

- Alexkor Group Revenue declined by 7% from R 171 million to R158 million
- Cost of sales decreased by 4.6% from R105m to R100m
 - Significant retrenchment occurred in 2020, however core staff were reemployed on a temporary basis mainly related to maintenance of properties
- Operating costs decreased by 63%
- Carats production decreased by 2% from 28 676 carats to 28 246 carats
- Alexkor reported a profit of R128 million attributable to impairment of the ICC loan of R90m and reversal of the Expected Credit loss of R16m
- Alexkor made a profit of R22m without the adjustments
- Audit findings were addressed and the qualified audit opinion is a vast improvement on the prior disclaimer audit opinion

Overview of the Joint Venture

Alexkor SOC LTD

Richtersveld Mining Community

51%

49%

Pooling & Sharing Joint Venture (PSJV)

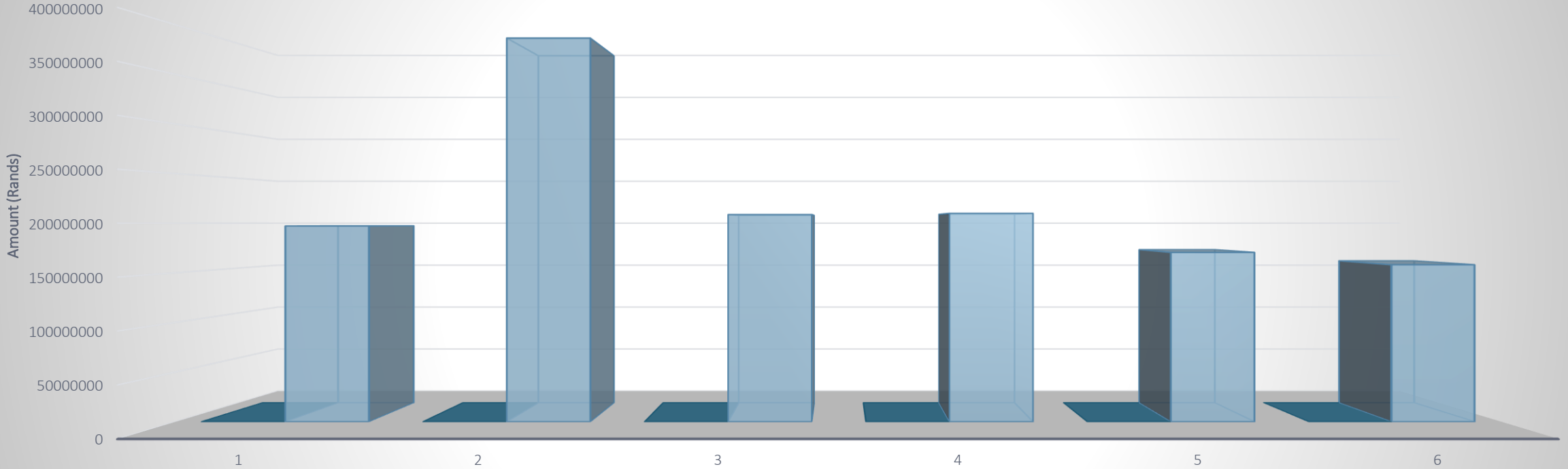
- Unincorporated joint venture
- Governed by the Deed of Settlement and Unanimous Resolution
- Managed by an executive team comprising of eight individuals led by a Chief Executive Officer
- Executive team oversight provided by the PSJV board

Declining production for the past 3 years

DESCRIPTION	2021	2020	2019
Carats Produced			
Land	15 354	9 629	29 259
Marine	9 502	6 146	3 433
Beach	3 390	13 122	15 435
Total	28 246	28 896	48 127

Declining revenue

Revenue

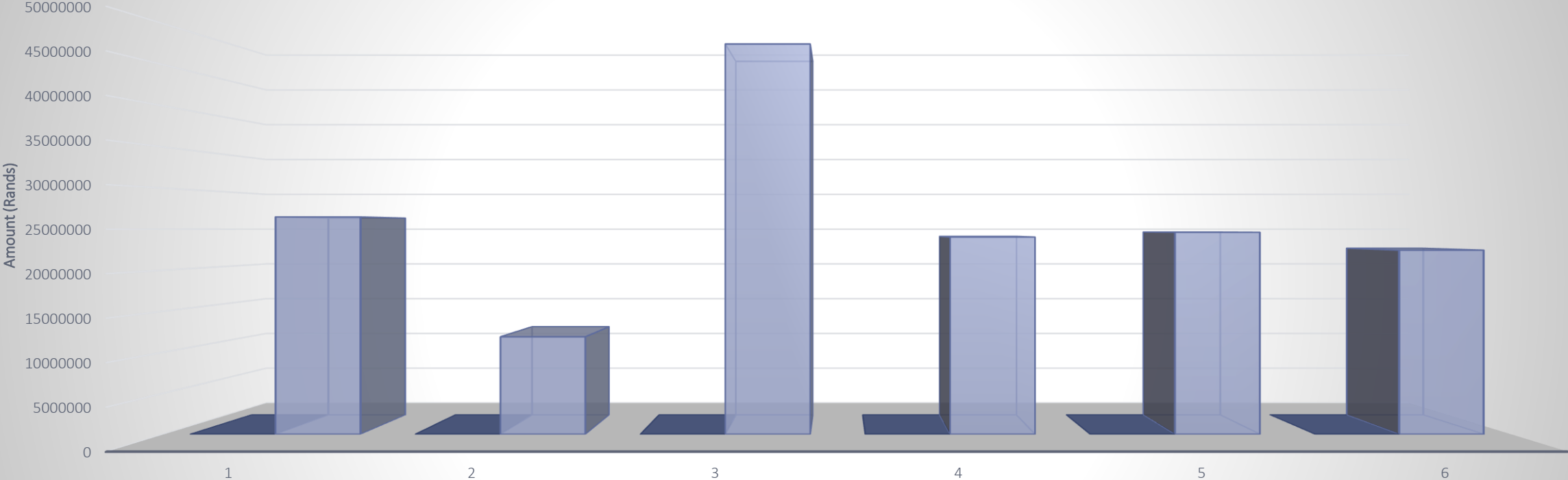


	1	2	3	4	5	6
Year	2016	2017	2018	2019	2020	2021
Amount	197,139,088	386,330,227	208,652,380	209,900,962	170,572,426	158,126,353

■ Year ■ Amount

Declining net income

Net Finance Income



	1	2	3	4	5	6
Year	2016	2017	2018	2019	2020	2021
Amount	26,488,097	11,881,405	47,522,893	24,035,721	24,618,671	22,438,400

■ Year ■ Amount

Capacity constraints for management of contract mining

Employees	
Permanent	67
Temp	76
Contractors	809

Supervision of contract mining unsustainable

	Terminated	Inactive	Inactive valid	Active	Active expired
Beach		3	3	4	
Bedrock		7		8	8
Land		15	11	21	7
Shallow	4	25		35	2
Middle		10	7	6	1
Tailings		2	2		
Total	4	62	23	74	18

Total inactive valid, active and active expired = 115

Issues underlying the perilous financial position

- Core regulatory requirements, including Occupational Health and Safety requirements are not being met
- Recapitalisation is needed if it is confirmed that the residual deposits are financially viable
- Current mining operations are unable to generate the revenue necessary to cover the recapitalisation in the event that financial viable mining operations are viable
- The volume of the deposit was envisaged to be not less than 150 000 carats per annum and current production falls far short of this



Remedial plans

Strategy



Land Mining

Employ larger contractors to explore and mine the land extensively
Re-processing the tailings dump
Increase diamond mining footprint in the region
Invite large contractors for turnkey management.



Marine Mining

Better management and oversight of marine contractors
Increase the number of service providers to be allocated mining contracts
Exploring insourcing medium-depth marine mining
Joint operations of the delta.

Innovation and growth strategy

- Strategy aligns with the objectives of government including sector growth, investment, job creation, and competitiveness in our core business
- The short term strategy seeks to realise an increase in production from the land mining operations given the lower marine production during the winter months and turbulent seas.
- The long term strategy seeks to invest or partner with large scale marine miners which will allow mining during the winter periods.
- The key focus will be the professionalization of operations of the non-core functions to increase the income from these operations.
- Economic diversification will be considered in the options for the future of Alexkor and the PSJV, for the benefit of the Richtersveld Community

Financial stabilisation

- Rigorous cost containment including review of all current contractual arrangements
- Merging of functions of Alexkor, RMC and PSJV to avoid duplication and comply with the Deed of Settlement which envisages the pooling of expenditure and income and profitable mining operations being conducted by the PSJV for the benefit of Alexkor and the RMC
- Improved revenue from the March sale of diamonds (record prices were achieved amongst others due to the uncertainty caused by the War in the Ukraine)
- The company utilised the windfall from the sale to recover from the debt burden which has grown over the last few years as a result of the lower diamond production due to the Covid-19 pandemic
- There is an urgent need for financial and non-financial support as part of the exercise of considering options for the future of Alexkor and the PSJV