Reviewed results

for the nine months ended 31 December 2019

Montauk Holdings Limited

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Reviewed 31 December 2019 $'000	Audited 31 March 2019* $'000
ASSETS		
Non-current assets	**216 220**	**197 630**
Property, plant and equipment	184 636	165 243
Goodwill	60	60
Other non-current financial assets	243	487
Intangibles	21 201	23 153
Right-of-use assets	769	–
Deferred taxation	8 745	7 722
Non-current receivables	566	965
Current assets	**27 668**	**64 167**
Inventories	4 994	4 505
Other current financial assets	388	391
Trade and other receivables	11 753	11 461
Taxation	730	–
Bank balances and deposits	9 803	47 810
Disposal group assets held for sale	–	1 096
Total assets	**243 888**	**262 893**
EQUITY AND LIABILITIES		
Equity	**154 155**	**151 460**
Equity attributable to equity holders of the parent	154 155	151 460
Non-current liabilities	**66 660**	**78 184**
Borrowings	57 256	69 975
Long-term provisions	5 928	5 505
Lease liability	511	–
Other non-current financial liabilities	2 965	2 704
Current liabilities	**23 073**	**33 249**
Trade and other payables	12 145	13 408
Other current financial liabilities	588	290
Current portion of borrowings	9 310	18 279
Lease liability	269	–
Taxation	260	469
Provisions	501	803
Total equity and liabilities	**243 888**	**262 893**
Net asset carrying value per share (cents)	**112**	**111**

* Restated

CONSOLIDATED INCOME STATEMENT

	% change	Reviewed 31 December 2019 $'000	Audited 31 March 2019 $'000
Revenue	(37.8%)	**73 960**	**118 975**
Expenses		**(54 078)**	**(69 156)**
EBITDA	(60.1%)	**19 882**	**49 819**
Other income		**1 568**	**1 290**
Depreciation and amortisation		**(15 087)**	**(17 652)**
Operating profit		**6 363**	**33 457**
Investment income		**14**	**79**
Finance costs		**(3 968)**	**(4 924)**
Share of losses of joint ventures		**–**	**(224)**
Investment surplus		**94**	**–**
Asset impairments		**(922)**	**(2 375)**
Profit before taxation	(93.9%)	**1 581**	**26 013**
Taxation		**772**	**(5 888)**
Profit for the period		**2 353**	**20 125**
Attributable to:			
Equity holders of the parent		**2 353**	**20 125**

CONSOLIDATED STATEMENT OF OTHER COMPREHENSIVE INCOME

	Reviewed 31 December 2019 $'000	Audited 31 March 2019 $'000
Profit for the period	**2 353**	**20 125**
Other comprehensive income:		
Items that may be reclassified subsequently to profit or loss		
Foreign currency translation differences	**(4)**	**464**
Total comprehensive income	**2 349**	**20 589**
Attributable to:		
Equity holders of the parent	**2 349**	**20 589**

RECONCILIATION OF EARNINGS

	% change	Reviewed 31 December 2019 $'000 Gross	Net	Audited 31 March 2019 $'000 Gross	Net
Earnings attributable to equity holders of the parent	(88.3%)		2 353		20 125
Losses on disposal of plant and equipment		124	98	181	143
Impairment of plant and equipment		922	706	2 375	1 754
Gain on disposal of intangible assets		–	–	(872)	(688)
Gain on disposal of joint venture		(94)	(94)	–	–
Headline profit	(85.6%)		3 063		21 334
Basic earnings per share (cents)					
Earnings	(88.3%)		1.72		14.76
Headline earnings	(85.7%)		2.24		15.65
Weighted average number of shares in issue ('000)			137 016		136 337
Actual number of shares in issue at the end of the period (net of treasury shares and shares issued in respect of restricted stock plan) ('000)			137 503		136 842
Diluted earnings per share (cents)					
Earnings	(88.3%)		1.71		14.58
Headline earnings	(85.6%)		2.22		15.46
Weighted average number of shares in issue for diluted earnings ('000)			137 914		138 009

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Reviewed 31 December 2019 $'000	Audited 31 March 2019 $'000
Balance at the beginning of the period	151 460	141 605
Current operations		
Total comprehensive profit	2 349	20 589
Equity-settled share-based payments	421	605
Effects of changes in holding	(75)	–
Dividends	–	(11 339)
Balance at the end of the period	154 155	151 460

CONSOLIDATED STATEMENT OF CASH FLOW

	Reviewed 31 December 2019 $'000	Audited 31 March 2019 $'000
Cash flows from operating activities	16 241	38 701
Cash generated by operations	20 183	45 031
Investment income	14	79
Finance costs	(3 528)	(3 292)
Taxation paid	(428)	(3 117)
Cash flows from investing activities	(31 231)	(54 147)
Business combinations and disposals	–	(12 980)
Investments disposed of	300	–
Investment in joint venture	–	(1 320)
Decrease/(increase) in non-current receivables	378	(22)
Proceeds from insurance recovery	30	401
Intangible assets		
– Additions	–	(100)
– Disposals	–	1 050
Property, plant and equipment		
– Additions	(31 939)	(41 176)
Cash flows from financing activities	(23 017)	33 623
Debt issuance costs	(638)	(2 101)
Dividends paid	–	(11 339)
Change in non-controlling interest	(75)	–
Repayment of lease liabilities	(252)	–
Net funding (repaid)/raised	(22 052)	47 063
(Decrease)/increase in cash and cash equivalents	(38 007)	18 177
Cash and cash equivalents		
At the beginning of the period	47 810	29 172
Foreign exchange differences	–	461
At the end of the period	9 803	47 810
Bank balances and deposits	9 803	47 810

NOTES

BASIS OF PREPARATION AND ACCOUNTING POLICIES

The results for the nine months ended 31 December 2019 have been prepared in accordance with International Financial Reporting Standards ("IFRS"), the disclosure requirements of IAS 34, the SAICA Financial Reporting Guides as issued by the Accounting Practices Committee, the requirements of the South African Companies Act, 2008, and the Listings Requirements of the JSE Limited. The accounting policies applied by the Company in the preparation of these condensed consolidated financial statements are consistent with those applied in its consolidated financial statements as of and for the year ended 31 March 2019. As required by the JSE Limited Listings Requirements, the Company reports headline earnings in accordance with Circular 1/2019: Headline Earnings as issued by the South African Institute of Chartered Accountants.

The Company adopted IFRS 16 in the current period, which resulted in the Company recognising the following in terms of the transitional provisions of IFRS 16:

- a right-of-use asset at the beginning of the period of $1.012 million
- a lease liability at the beginning of the period of $1.012 million

The Company adopted IFRS 16 using the modified retrospective approach, with recognition of transitional adjustments on the date of initial application (1 April 2019), without restatement of comparative figures. The Company elected to apply the practical expedient to not reassess whether a contract is, or contains, a lease at the date of initial application. Contracts entered into before the transition date that were not identified as leases under IAS 17 and IFRIC 4 were not reassessed. The definition of a lease under IFRS 16 was applied only to contracts entered into or changed on or after 1 April 2019.

IFRS 16 provides for certain optional practical expedients, including those related to the initial adoption of the standard. The Company applied the following practical expedients when applying IFRS 16 to leases previously classified as operating leases under IAS 17:

- a single discount rate was applied to a portfolio of leases with reasonably similar characteristics;
- initial direct costs were excluded from the measurement of right-of-use assets at the date of initial application for leases where the right-of-use assets were determined as if IFRS 16 had been applied since the commencement date; and
- the exemption not to recognise right-of-use assets and liabilities for leases with less than 12 months of lease term remaining as of the date of initial application was applied.

The Company has further elected not to recognise right-of-use assets and lease liabilities for some leases of low-value assets based on the value of the underlying asset when new.

These financial statements were prepared under the supervision of the Chief Financial Officer, Mr KA Van Asdalan (CPA).

AUDITOR'S REVIEW

These condensed consolidated financial statements for the nine months ended 31 December 2019 have been reviewed by BDO South Africa Inc., who expressed an unmodified review conclusion.

A copy of the auditor's review report is available for inspection at the Company's registered office together with the financial statements identified in the auditor's report. The auditor's report does not necessarily report on all of the information contained in this announcement. Shareholders are therefore advised that, in order to obtain a full understanding of the nature of the auditor's engagement, they should obtain a copy of the auditor's report together with the accompanying financial information from the issuer's registered office.

CHANGE IN FINANCIAL YEAR-END

During the current period the Company changed its financial year-end date from 31 March to 31 December. As a result the prior reporting period consisted of 12 months ended 31 March 2019 and the current reporting period of nine months ended 31 December 2019. Unless noted otherwise, reference to the prior reporting period results will be for the twelve months ended 31 March 2019 and for the current reporting period results, the nine months ended 31 December 2019.

RESTATEMENT OF PRIOR-PERIOD RESULTS

Acquisition of Pico Energy, LLC

The acquisition of 100% of Pico Energy, LLC ("Pico") on 21 September 2018 qualified as a business combination in terms of IFRS 3: Business Combinations. The results as at 31 March 2019 were determined based on all information available at the acquisition date ("provisional accounting"). The provisional accounting was finalised in the current period for new information obtained within a time frame of 12 months after the acquisition date. These adjustments to the fair values determined in the provisional purchase price allocation are treated as adjustments to the results as at 31 March 2019.

The prior-period results were restated as follows:

Statement of financial position as at 31 March 2019:

Goodwill decreased by $0.08 million

Other non-current financial liabilities decreased by $0.08 million

Opening equity attributable to equity holders of the parent in the current period was unaffected.

REVENUE

The Company's revenue by major source based on product type and timing of transfer of goods and services for the current reporting period and prior reporting period were as follows:

	Timing of revenue recognition		
	Goods transferred at a point in time	**Goods transferred over time**	**Total**
Period ended 31 December 2019			
Major goods/service line			
Gas commodity	**2 673**	**20 802**	**23 475**
Gas environmental attributes	**35 626**	**–**	**35 626**
Electric commodity	**–**	**9 185**	**9 185**
Electric environmental attributes	**5 674**	**–**	**5 674**
	43 973	**29 987**	**73 960**
Year ended 31 March 2019			
Major goods/service line			
Gas commodity	13 906	28 957	42 863
Gas environmental attributes	57 485	–	57 485
Electric commodity	–	12 153	12 153
Electric environmental attributes	6 474	–	6 474
	77 865	41 110	118 975

RESULTS

OPERATING HIGHLIGHTS

millions, unless indicated	Nine months ended 31 December 2019	Year ended 31 March 2019
RNG total revenues	**$59.1**	**$100.3**
REG total revenues	**$15.0**	**$18.6**
FY2020 RNG production volumes (MMBtu)	**4.1**	**4.8**
Less: Current period RNG volumes under fixed/floor-price contracts	**(1.5)**	**(1.9)**
Plus: Prior-period RNG volumes dispensed in current period	**0.3**	**0.2**
Less: Current-period RNG production volumes not dispensed	**(0.3)**	**(0.3)**
Total RNG volumes available for RIN generation	**2.5**	**2.8**
Current RIN generation (x 11.727)	**29.8**	**32.7**
Less: Counterparty share (RINs)	**(3.0)**	**(5.5)**
Plus: Prior-period RINs carried into current period	**1.8**	**1.8**
Total RINs available for sale	**28.6**	**29.0**
Less: RINs sold	**(27.7)**	**(25.9)**
RIN inventory	**0.9**	**3.1**
RNG inventory (volumes not dispensed for RINs)	**0.3**	**0.3**
REG volumes produced (MWh)	**0.2**	**0.2**
Average realised price $/MWh (actual)	**$93.79**	**$76.79**
Operating expenses		
RNG operating expenses	**$34.1**	**$42.4**
$/MMBtu (actual)	**$8.34**	**$8.80**
REG operating expenses	**$10.4**	**$12.3**
$/MWh (actual)	**$64.97**	**$50.54**

CONSOLIDATED INCOME STATEMENT

The Company produced 4.1 million MMBtus of renewable natural gas (“RNG”) volumes during the current reporting period and 4.8 million MMBtus during the prior reporting period. During the prior reporting period, two new RNG facilities commenced operations. The Company’s RNG revenues for the current reporting period were generated on a weighted-average index gas commodity price of $2.45 per MMBtu, the monetisation of 27.7 million RINs, and with a realised price per RIN monetised of $1.21. The Company’s RNG revenues for the prior reporting period were generated on a weighted-average index gas commodity price of $3.12 per MMBtu, the monetisation of 25.9 million RINs, and with a realised price per RIN monetised of $2.10.

At 31 December 2019 the Company had approximately 0.9 million RINs generated and unsold in inventory and 0.3 million of MMBtus produced and not dispensed, approximately 0.9 million less RINs on consistent MMBtus not dispensed at 31 March 2019. During the current reporting period, approximately 25.6% of RNG revenues were derived from fixed-price arrangements and 21.2% during the prior year.

The Company produced 0.2 million MWh in renewable electric generation (“REG”) volumes during both the current and prior reporting periods. During the nine months ended 31 December 2019 the Company ceased operations of the Coastal Plains REG facility during its conversion to an RNG facility and exited its Monmouth Energy, Inc. REG facility. During the prior reporting period the Company completed the acquisition of Pico Energy, LLC. Approximately 95.3% of the Company’s REG revenues were derived from fixed-price arrangements during the current reporting period and 90.9% during the prior reporting period.

Expenses for the Company's RNG facilities were $34.1 million for the current reporting period and $42.4 million for the prior reporting period. The current reporting period includes nine months of operations for its two new RNG facilities which commenced operations during the prior year. Expenses for the Company's REG facilities of $10.4 million during the current reporting period included planned preventative maintenance expenditures at its Bowerman REG facility and breakdown costs incurred at certain of its REG facilities, partially mitigated by lower expenses due to its exit from the Monmouth REG site. The Company's expenses for its REG facilities of $11.5 million for the prior reporting period included operating costs incurred over the entire period at both its Coastal and Monmouth REG sites.

The prior reporting period results include approximately $0.4 million in business interruption insurance proceeds related to a forced interconnection curtailment at the Bowerman Power REG facility recognised, as well as a gain on the sale of emission allowances of approximately $0.9 million.

The Company recognised approximately $1.0 million less in interest expense during the current reporting period associated with lower outstanding borrowings and fair value interest hedges, as compared to the prior reporting period. The Company recognised approximately $0.3 million in additional debt issuance costs associated with a credit agreement amendment during the current reporting period.

The Company recognised a gain of $0.1 million associated with the sale of its joint venture investment during the current reporting period and recognised $0.2 million in equity-accounted losses associated with that joint venture investment during the prior reporting period.

The Company fully impaired assets distributed to it from the sale of its joint venture investment of $0.9 million during the current reporting period associated with its impairment review. The impairment loss of $2.4 million recognised in the prior reporting period was due to the pending conversion of certain REG facilities to RNG facilities and the continued deterioration in market pricing for electricity and calculated based upon replacement cost and pre-tax cash flow projections.

For the current reporting period the Company recognised a deferred tax benefit of $1.0 million related to reduced statutory tax bonus depreciation, off-set by $0.2 million state income tax expense. During the prior reporting period the Company recognised $5.9 million in tax expense, of which $4.0 million was off-set against the Company's deferred tax asset.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION AND CASH FLOW

At 31 December 2019 and 31 March 2019 the total cash and cash equivalents were $9.8 million and $47.8 million, respectively. The Company intends to fund its near-term development projects from cash flows from operations and borrowings under the revolving credit facility. The Company believes that it will have enough cash flows from operations and borrowing availability under its credit facility to meet its debt service obligations and anticipated required capital expenditures (including for projects under development) for at least the next 12 months. However, the Company is subject to business and operational risks that could affect its cash flows and liquidity.

On 21 March 2019 the Company entered into the first amendment to the Syndication Agreement. This amendment clarified a variety of terms, definitions and calculations in the underlying agreement. On 28 August 2019 the Company received a waiver for a Specified Event of Default, as defined in the Syndication Agreement, for the period from 31 August 2019 to 1 October 2019. This waiver related to one Specified Event of Default and was temporary in nature. Effective 12 September 2019, the Company entered into the second amendment to the Syndication Agreement. Among other matters, the second amendment redefined the Fixed Charge Coverage Ratio, reduced the revolving credit facility to $80.0 million, redefined the Total Leverage Ratio and eliminated the RIN Floor (as defined) as a Specified Event of Default. In connection with the second amendment, the Company paid down the outstanding term loan by approximately $38.3 million, and the resulting quarterly principal instalments were reduced to $2.5 million. The Company borrowed approximately $12.2 million against its revolving credit facility commensurate with the closing of this amendment. The Company incurred $0.6 million in debt issuance costs of which $0.4 million was expensed.

At 31 December 2019 the Company had debt before debt issuance costs of $68.2 million, compared to debt before debt issuance costs of $90.3 million at 31 March 2019. The Amended Credit Agreement is for a term of five years and matures in December 2023. Of the total Company borrowings outstanding at 31 December 2019, $10.0 million is currently due within the next 12 months.

The Company has consistently generated positive cash flows from operations. However, during the current period the Company generated $16.2 million of cash from operating activities, a decrease from the prior year of $22.5 million. This decrease is primarily due to lower RIN pricing partially off-set by the profitable operations of two new RNG facilities commencing operations during the latter part of the prior year.

The Company's net cash flows used in investing activities has historically focused on project development and facility maintenance. During the current period capital expenditures were $31.9 million, of which $7.4 million related to costs for the construction of the Galveston RNG facility, $6.5 million related to costs for the construction of the Coastal Plains RNG facility, and $8.8 million related to costs for the construction of the Pico RNG facilities. During the prior year capital expenditures were $41.2 million, of which $14.6 million related to costs for the construction of the Galveston RNG facility, $10.5 million related to costs for the construction of the Coastal Plains RNG facility and $9.0 million related to costs for the construction and commissioning of the Atascocita and Apex RNG facilities.

Net cash flows used by financing activities of $23.0 million for the current period decreased by $56.6 million over the prior year, primarily due to net funding repaid in the current period of $22.1 million as compared to funding raised of $47.1 million in the prior year. This decrease was partially off-set by the elimination of dividend payments during the current period.

EXECUTIVE OFFICER'S REPORT

For the RNG industry 2019 provided the surreal experience of a reduction in excess of 50% in the value of the cellulosic biofuel Renewable Identification Number ("D3 RIN"). Economic challenges a fraction of that magnitude can force businesses into loan default, selling projects and even bankruptcy. Montauk's discipline and small-business approach enable it to focus on expense prioritisation and control. Its transparent partnerships with creditors ensure funding for working capital and new projects. Its management team's approach to business development provides for the evaluation of alternative monetisation strategies and development opportunities with varying dependency on the Renewable Fuel Standard. In December 2019 the Environmental Protection Agency ("EPA") released its final rule, setting the 2020 Renewable Volume Obligations ("RVO") that include 590 million gallons of cellulosic biofuel. A 41% increase over the 2019 RVO, this EPA ruling supports the continued growth of the RNG industry. With 2020 D3 RIN pricing subsequently peaking at over 50% higher than at year-end, it is an invigorating industry movement for Montauk to capitalise on its financial discipline, as it continues to grow, evaluate new opportunities and maximise value for its shareholders.

In April 2018 the Company entered into an agreement with one of its existing landfill counterparties to build, own and operate an RNG facility at the Galveston County Landfill located in Santa Fe, Texas for a term of 20 years from commercial operation. This new RNG facility commenced commercial operations in October 2019 and the output is contracted for use in the transportation sector to allow for the generation of RINs under the RFS.

In May 2018 the Company entered into an agreement with one of its existing landfill counterparties to convert an existing renewable electric project to an RNG facility by building, owning and operating an RNG facility at the Coastal Plains Landfill located in Alvin, Texas for a term of 20 years from commercial operation. Upon commercial operation the output from this new RNG facility will be contracted for use in the transportation sector to allow for the generation of RINs under the RFS. This RNG project is progressing through its final stages of development and is targeted to commence operations in the second quarter of calendar year 2020.

In September 2018 the Company acquired 100% of the membership interests of Pico Energy, LLC, which was the owner of a manure digester, two Jenbacher engine generators and a manure supply agreement with a large dairy farm in Jerome, Idaho. The Company plans to convert this existing electricity generating project by building, owning and operating an RNG facility at a dairy farm for a term of 20 years from execution of the manure supply agreement. Upon commercial operation the output from this new RNG facility will be contracted for use in the transportation sector to allow for the generation of RINs under the RFS programme and Low Carbon Fuel Standard ("LCFS") credits under the California LCFS programme. This RNG project is progressing through its final stages of development and is targeted to commence operations in the second quarter of calendar year 2020.

EVENTS SUBSEQUENT TO REPORTING DATE

Other than as stated in these results, the directors are not aware of any further matter or circumstance arising since the reporting date that would affect the results of the Company for the nine months ended 31 December 2019 or its financial position on that date.

CHANGES IN DIRECTORATE

Mr ML Ryan resigned as Chief Executive Officer and executive director effective 30 September 2019. Mr SF McClain was appointed as Chief Executive Officer and executive director effective 1 October 2019 and Mr KA Van Asdalan as Chief Financial Officer and executive director effective 1 October 2019.

DIVIDEND TO SHAREHOLDERS

The directors have resolved not to declare a final dividend to focus financial resources on the continued development of the Company's operations portfolio.

For and on behalf of the board of directors

JA Copelyn	**SF McClain**	**KA Van Asdalan**
Chairman	Chief Executive Officer	Chief Financial Officer

26 February 2020

CORPORATE ADMINISTRATION

DIRECTORS
JA Copelyn (Chairman)*
SF McClain (Chief Executive Officer)#
KA Van Asdalan (Chief Financial Officer)#
MH Ahmed*
TG Govender*
MA Jacobson*##
NB Jappie*
BS Raynor*#

* Non-executive; # United States of America; ## Australia

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2010/017811/06

SHARE CODE
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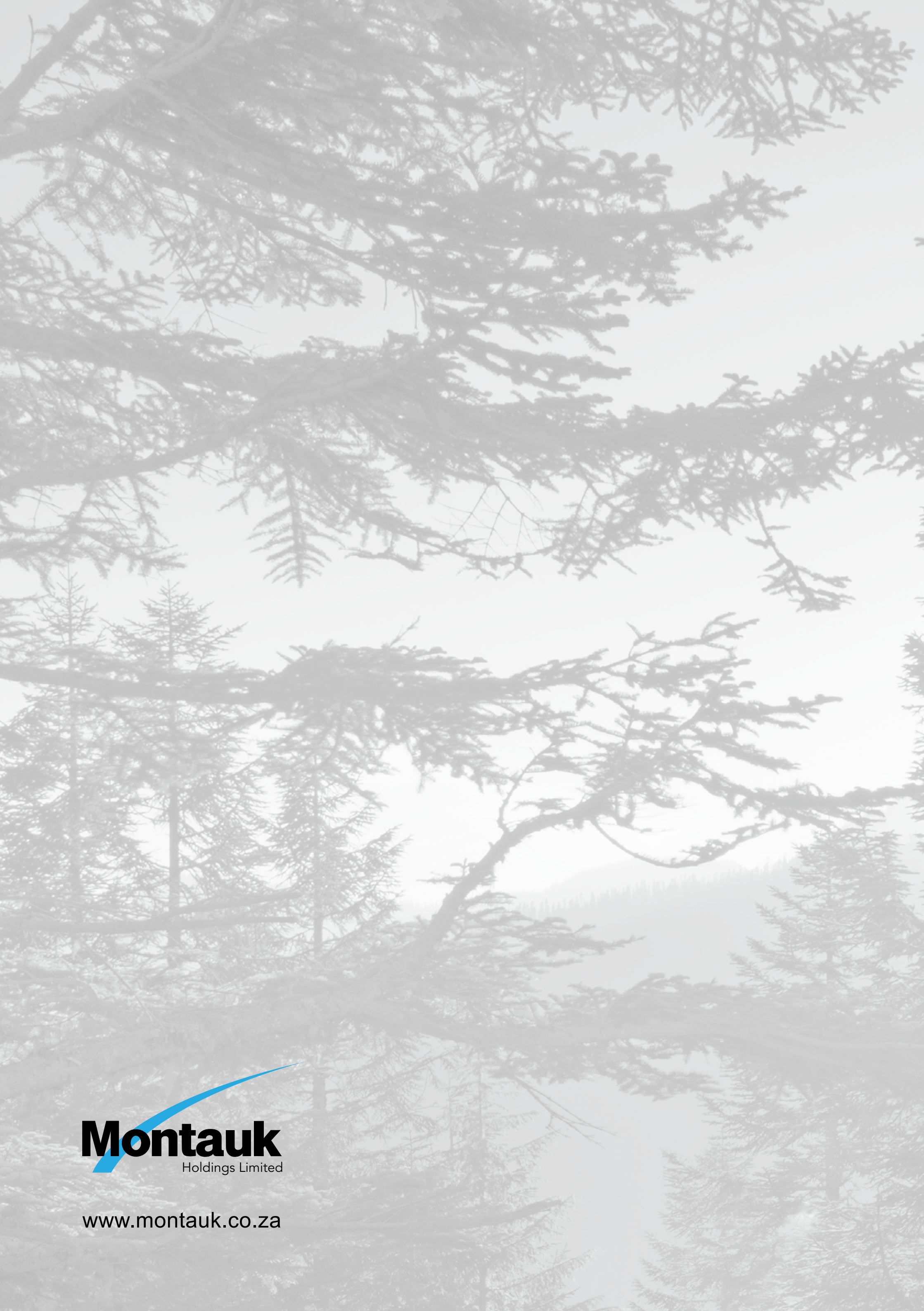

Montauk
Holdings Limited

www.montauk.co.za