

Contango Holdings Plc / Index: LSE / Epic: CGO / Sector: Natural Resources

17 June 2024

Contango Holdings PLC
("Contango" or the "Company")

Term Sheet Signed for Investment and Part Purchase of Muchesu

- Agreement entered into with Mr Wencai Huo (the "Investor") for the sale of 51% of Muchesu
- Royalties granted to Contango for life of mine over gross production
- Minimum of US\$2M per annum to be paid to Contango under royalty arrangement
- Contango expects to retain 24% of Muchesu going forward
- The Investor to make a cash subscription to take a 20% stake in the Company
- The Investor to match Contango historic expenditure of approximately US\$20M directly into Muchesu, to expand production and operational capacity
- Offtake updates
- Board Changes

Contango Holdings Plc, a company focused on the development of the +2 billion tonne Muchesu coal project in Zimbabwe ("Muchesu" or the "Mine"), which is held by the Company's 70% subsidiary Monaf Investments (Pvt) Limited ("Monaf"), is pleased to announce it has entered into an agreement (the "Term Sheet") with the Investor, a prominent Zimbabwe-based Chinese national with extensive mining and business investments in Zimbabwe and the Southern African region.

The Term Sheet set out the following key terms:

- i) Purchase of a 51% stake in Muchesu by the Investor;
- ii) The Investor to enter into a subscription for a 20% holding in the Company;
- iii) The Company to be awarded a life of mine royalty; and
- iv) The Investor to invest at least US\$20M at Muchesu.

The Term Sheet has been signed by the Investor and the Company following extensive due diligence, several site visits and test work of the coals at Muchesu. The Investor, the Company and Monaf will now look to finalise execute and enter into suite of formal agreements (the "Definitive Agreements") to implement the transactions described above.

The Definitive Agreements are subject to completion of any outstanding due diligence by the Investor, as well as legal, regulatory and shareholder approvals, which the Company expects to co-ordinate in Q3 2024. The Investor has substantial business operations and investments in Zimbabwe, therefore, is well regarded in the country. Further details are provided below with respect to the Term Sheet. Once the Definitive Agreements have been entered into a General Meeting will be called for Company shareholders to approve the proposed transaction.

1. Disposal of 51% Interest in Monaf

The Company holds its direct interest in Muchesu through its 70% shareholding in Monaf. An additional 4.76% interest in Monaf is expected to be transferred to the Company in the near term, increasing Contango's interest to 74.75%. The Term Sheet currently envisages a sale of 51% from Contango's interest in Monaf, with Contango therefore expected to retain a 23.75% stake in Monaf. Completion of the disposal will require the parties to obtain various local approvals.

2. Cash investment into Contango

The Investor will directly, or through affiliate(s) and/or related controlled corporate entities, subscribe for new ordinary shares to be issued by the Company. The Investor will subscribe for an amount that results in a 20% holding of the enlarged share capital of the Company based on a 10-day VWAP share price prior to signing of the Definitive Agreements (the "Subscription").

The Company will be required to issue a prospectus with regard to the Subscription as it does not currently have the available headroom to issue the quantum of shares. A prospectus will be lodged with the FCA in due course and published following the completion of the Definitive Agreements.

3. Royalty Agreement with Contango

Upon execution of the Definitive Agreement and the disposal of 51%, Contango will be awarded royalties on future gross production at Muchesu, for the life of mine as follows:

- i) US\$2 royalty per tonne in relation to thermal coal production
- ii) US\$4 royalty per tonne in relation to industrial coal production
- iii) US\$8 royalty per tonne in relation to coking coal production

(collectively the "Production Royalties"). Production Royalties are to be paid to CGO on a monthly basis in arrears.

The Term Sheet also notes that following a 6-month holiday from entering into the Definitive Agreements, going forward a minimum of US\$2M per annum will be owed to Contango, irrespective of the level of production. The Production Royalties will be subject to separate industry standard contractual documentation, with standard protections, and will form part of the Definitive Agreements.

Following completion of the Monaf disposal, Contango will have enshrined rights to maintain the appointment of two directors on the board of Monaf.

4. Further Investment into Muchesu

The Company has historically invested circa US\$20M into Monaf by way of a shareholder loans ("Contango Funding"). The Term Sheet recognises this and accordingly the Investor has agreed to make a similar investment at Muchesu to expand operational capacity ("Operational Funding"). The precise investment amount will be finalised at the time of entering into the Definitive Agreements. The Operational Funding will be provided either in cash or through the purchase of agreed equipment necessary to advance and expand the Muchesu Project (including but not limited to requisite 'yellow metal', wash plants, screens etc). The debt owed by Monaf to both Contango and the Investor will both be unsecured and rank *pari passu*.

Offtake Discussions Update

As previously reported the Company is currently engaged in numerous offtake discussions. Updates in these discussions will be provided at the appropriate times. Assuming completion of the Definitive Agreements, the Company expects Muchesu to have materially larger production capacity. For the avoidance of doubt, Production Royalties will be applicable on any contracts entered into prior or post the completion of the Definitive Agreements and are based on all future production.

Board Changes

Following entering into Definitive Agreements, and as a condition of the Subscription, the Investor will be given a right to maintain the appointment of a single director to the Board of the Company.

The Company also expects further changes to the existing Board at this time and will update shareholders as appropriate.

Carl Esprey, Chief Executive Office of Contango, commented:

"I am delighted to announce we have entered into a Term Sheet with the Investor, providing the framework for the final Definitive Agreements. Muchesu is a world class coal deposit and we have focused our efforts on unlocking the value, whilst minimising dilution to shareholders."

"Mr Huo is highly experienced in mining and operating throughout southern Africa. His intention to become a major shareholder in Contango, as well as become the lead partner in the Project, is testament to the upside this agreement offers to shareholders. By investing a further US\$20M at Muchesu we will be able to quickly ramp up operations and satisfy some of the larger contracts we have been reviewing or are aware of. Our intention has always been to develop our suite of coal products, as well as the manufacture of coke at site."

"This transaction will position us to subsequently benefit from this, without requiring the shareholders of Contango to be diluted"

by further capital raises or to reinvest cashflow to fund expansion.

"We will update the market as appropriate as we move to signing of the Definitive Agreement."

****ENDS****

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