Chairman’s Report

Shumba Abridged Audited Results for the year ended 30 June 2016

The past business year was again challenging, but a year in which we have begun to see a number of new and significant developments in the region’s energy environment in the SADC region. Firstly, as was predicted by the experts within the preceding period, the mining & natural resources investment market turned quite strongly positive with precious metals (gold & silver) and related base metal stocks rising fast on the back of significant new capital inflows and massively increased exploration and development activity, which has continued to send positive signals in the market.

The junior mining market where Shumba generally resides has rebounded between 100% to 300% on individual stocks with the benchmark Australian export price coming within touching distance of USD70 per tonne and the market remains on average 60% down. In short we are probably at the close of the first mining only, based on historical bull market trends and there is more expected to come.

But we continue to share the sentiment of the major analysts and still believe the markets are correcting and market analysis remains very positive for the junior mining space. The key driver for the current upturn medium term, giving significantly higher than normal returns, but this depends largely on the logistical infrastructure establishment and transport costs.

Overview of Operations

During the second half of the period under review and in order to properly assess the value of the Shumba projects, management engaged KPMG with your Board’s approval, in order to properly constitute in easily accessible data rooms, all legal and project rights of tenure, all technical work done to date, etc. for use by prospective strategic and development partners. This engagement included, inter-alia, for compiling of detailed PMI’s (Project Information Memorandums) for the projects and a valuation of the resource assets and projects at their current stage of development. It is expected that this work will be completed by the end of the first quarter of the 2017 financial year in September 2016.

Sechaba

Management continues to focus on early project execution for the Sechaba Coal Mine, with initial open pit mining focused on supplying the local spot market and the Botswana Water Power Corporation (BPC), with discussions at this time on reporting to the government about the development of the Sechaba Power station & Mine Environment & Social Impact Assessment (ESIA) has been approved. The rebound in the market has shown we were right to a degree and in particular for those companies like Shumba that continue to focus on the value creation opportunities for medium term, giving significantly higher than normal returns, but this depends largely on the logistical infrastructure establishment and transport costs.

One key environmental features of our operating year are as follows:

• Establishment of a domestic coal supply and delivery of a target 1.5 Mpa of quality thermal coal to local existing power producers by end of 2017.
• The expansion of the Mine to produce and supply an additional 1.5 Mpa (Total of 3 Mpa supplied) and construction and commissioning of our Sechaba (energy 300MW) IPP, utilising this expansion in production for generation and distribution to power local utilities and other local off-takers.
• A further expansion of the mine to produce and supply an additional 2 Mtpa (for a total of 5 Mtpa) of high quality thermal coal for export via rail to power coal producers by end of first half of 2017 financial year.

Lethakeng Prospecting License No. 308/2014

In the 4th quarter of 2015 financial year the Company was awarded the rights to a new prospective coal exploration licence for coal exploration rights over an area of 100,000ha. As a reminder Lethlakeng has significant in-situ reserves of 1.2 Million Tonnes of coking coal and 12 Million Tonnes of Thermal coal and our initial efforts will be focussed on confirming the agreement. The new Prospecting Licence No. 308/2014 has been issued to Shumba for coal exploration rights over an area of 100,000ha. The estimated and budgeted expenditure to be incurred by the Company during the 2016 financial year period was USD330,000. However, due to our focus on the accelerated development of the Lethlakeng IPP, we have been focusing on securing our power customers and obtaining the consent of the proposed potential environmental impact. This engagement included, inter-alia, for compiling of detailed PIM’s (Project Information Memorandums) for the project and a valuation of the resource assets and projects at their current stage of development. It is expected that this work will be completed by the end of the first quarter of the 2017 financial year in September 2016.

Mabesekwa IPP Joint Development and Studies

In the 2016 financial year the Company continued to work actively under the JDA with Muki and as at 30th June 2016 can report the progress with the following developments for the Mabesekwa IPP:

• A conceptual study is underway to investigate the potential for Commercially Viable Solar PV projects to be developed in Botswana. The study will include an assessment of the suitability of the Mabesekwa site for Solar PV generation.
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Mabesekwa is therefore continuing to offer our investors strong fundamentals to the Shumba business and in progress project developments.

Further progress has been made in this project in the reporting period.

Strategic Business Development

The core strategy of the Company remains unchanged, i.e. the focus on acquisition and development of highly prospective coal and mineral resource projects, principally in Botswana and the southern African region, and the strategic objective is to be in a position to supply both domestic spot markets for third parties and for own use in our IPPs. In the longer term we may also supply sea-borne export markets dependent on price and logistical corridors developments.

With the accelerating development of Mabesekwa for our first IPP to supply the now established cross border market to South Africa and with Shumba for supply spot markets and potentially the local utility, the strategic future of Shumba has been significantly further enhanced. The potential Underground Coal Gasification (UCG) based energy future at Lethakeng also remains to be a core strategic development partner yet to be selected should begin to gain traction in the upcoming 2017/18 period. And Shumba is now well positioned to add its energy supply portfolio with the development of a solar energy project at Mabesekwa in Northern Botswana. The Proposed for Proposal tender bids from the Mabesekwa solar project submissions Shumba made to the Botswana government for a potential 150MW Solar PV energy field development is currently under review. In essence the Shumba future continues to look bright for your Company and your investment.

On behalf of the Board and Management we extend our sincere regard for the ongoing support shown by our shareholders new and old, who are actively encouraging the management to continue with the good work and for the future potential growth. We do not believe that the current economic climate will be able to undermine the potential for future high growth and continuing strategic development, and we will work hard to ensure that Shumba remains on track for success.

ALAN M. CLEGG Pr.Eng Pr.CPM PMP FSAIMM MIOD CHAIRMAN
CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 30 JUNE 2016

Income
Professional fees 38,893
Listing fees 29,217
Licence fees 1,750
Directors' fees 77,360
Audit fees 20,230
Bank charges 9,971
Annual fee to SEM 3,364
Interest earned - 6,453
Operating expenses 1,103,107
Depreciation - 43,326

Operating loss (1,292,784)
Finance costs (209,023)
Foreign exchange loss (1,897,973)
Loss before tax (3,337,208)
Tax expense (671)
Loss for the year (3,337,879)

Other comprehensive income, net of tax:
- Items that will be reclassified subsequently to profit or loss - -
- Exchange differences on retranslation of foreign operations 657,698
Total comprehensive loss for the year (2,680,181)

Loss for the year attributable to:
- Owners of the parent (3,337,879)
- Non-controlling interest (3,337,879)
Total comprehensive loss attributable to:
- Owners of the parent (2,442,966)
- Non-controlling interest (237,215)
Total loss (2,680,181)

Basic loss per share (0.0131)
Diluted loss per share (0.0135)

SHUMBA NOTES AND RESOURCES STATEMENT

SHAREHOLDERS CAPITAL
- Already owned by the Company, thus making it a 100% owned subsidiary of the Company.
- Shareholders have continued to support the Company by approving the issuance of management incentive warrants and options.
- Shumba has also been provided with the resources necessary to develop its operations.
- 919 million tonnes of resources that has been drilled to reportable measured or Indicated status.
- Shumba has also access to export quality coal in the Taukome Bright Seam (TBS) at Sechaba.

DIRECTORS
- Alan Clegg (Chairman), Mashale Phumaphi (CEO), Thapelo Mokhathi, Kapildeo Joory, Sipho Ziga, Grant Ramnauth and Boikobo Paya

CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2016

ASSETS
- Non-current assets
  - Investment in subsidiaries - 1,839,884
  - Capital contribution 3,378,097
  - Plant and equipment 8,600,862
- Current assets
  - Receivables and prepayments 8,747,634
  - Cash and cash equivalents 3,018,829
- Total assets 11,653,472

EQUITY AND LIABILITIES
- Equity
  - Share capital 12,745,002
  - Translation reserves 867,681
  - Accumulated losses (5,529,942)
  - Equity attributable to owners of the parent 8,086,741
- Liabilities
  - Current liabilities 1,536,034
  - Total liabilities 1,536,034

Total equity and liabilities 11,653,472

CONSOLIDED STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 30 JUNE 2016

Net cash used in operating activities (1,594,781)
Net cash used in investing activities (539,413)
Net cash generated from financing activities 1,536,034
Net change in cash and cash equivalents 3,960,765
Cash and cash equivalent at the beginning of the year 3,415,208
Exchange difference on cash and cash equivalents (205,781)
Total cash and cash equivalents at the end of the year 3,181,829

SHUMBA AND SHUMBA NOTES AND RESOURCES STATEMENT

• Shumba has a 2 billion tonnes of thermal coal at its two main projects Sighthills and Shumula.
• Shumba has over 1 billion tonnes of resources that have been subject to reports issued by independent auditors.
• Shumba has over 1 billion of resources that have been subject to reports issued by independent auditors.

By order of the Board
International Financial Services Limited
Company Secretary
28 September 2016

Auditors: Grant Thornton, Ebene Tower, 52 Cybercity, Ebene 72201, Republic of Mauritius

www.shumbaenergy.com