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Independent Directors of Mahube Ltd

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Preliminary Report of Independent Expert in terms of paragraph 10.2 and 10.4 of the JSE Listings Requirements in respect of the Management Restructure Transactions particularly the management services agreement ("MSA") entered into between Mahube Infrastructure Limited ("Mahube") and Mahube Asset Management Proprietary Limited ("Manco")

Introduction

Mahube has embarked on certain initiatives to restructure and recapitalise its business and commenced the implementation of the capital restructure of its wholly owned asset holding subsidiary, Mahube Capital Fund 1 (RF) Proprietary Limited ("SubCo").

As part of this initiative the board of directors of Mahube (the "Board") has now further resolved to restructure the investment and corporate management functions of its business, inter alia, by **a)** investment in, and capitalisation of, a fund manager in accordance with the requirements for a black private equity manager (the "Black Fund Manager") as set out in the Amended Financial Sector Code, 2017 (the "Code"). The investment and capitalisation of the Black Fund Manager will be implemented by means of a subscription and shareholders agreement (the "Subscription Agreement") and **b)** the conclusion of a corporate and investment management agreement with that Black Fund Manager (the "Management Agreement") (collectively, the "Management Restructure Transactions").

Capitalisation of Black Fund Manager and Subscription Agreement

Mahube has concluded the Subscription Agreement, subject to Shareholder approval as detailed in the Circular, to capitalise Mahube Asset Management Proprietary Limited ("ManCo") and establish it as a Black Fund Manager. ManCo, currently a dormant wholly owned subsidiary of Mahube, was recently licensed as a category II financial services provider by the Financial Services Conduct Authority.

In terms of the Subscription Agreement, ManCo will issue and allot ordinary shares in its share capital as follows:

- 38 ordinary shares to Mahube for a cash consideration of R760 000 (Mahube previously acquired 6 ordinary shares in ManCo, for a cash consideration of R105 000);
- 44 ordinary shares to Encha Infrastructure Investments Proprietary Limited (“Encha”), the chosen strategic partner in ManCo, for a cash consideration of R880 000;
- 8 ordinary shares to Matlotleng Properties Proprietary Limited (“Matlotleng”), which is controlled by Gontse Moseneke, the Chief Executive Officer of Mahube, for a cash consideration of R160 000; and
- 4 ordinary shares to Petro Lewis, the Financial Director of Mahube (“Lewis”), for a cash consideration of R80 000.

Management Agreement

Mahube has further concluded the Management Agreement in terms of which, subject to Shareholder approval as in the Circular, Mahube will become one of the first clients of ManCo.

The Management Agreement sets out the terms and conditions on which ManCo will render a range of investment management, corporate management and administrative services to Mahube and its subsidiaries (the “Management Services”).

The salient details of the Management Agreement, some of which are underpinned by the terms of the Subscription Agreement, and the Management Services are, inter alia, as follows:

The Management Agreement shall become effective from the first day of the calendar month following the Subscription Date (the “Effective Date”).
ManCo shall, *inter alia*: -

- employ such personnel as may be required to conduct the business of Mahube, including the persons that ManCo will nominate to fulfil the functions of Chief Executive Officer and Financial Director of Mahube;
- advise Mahube in respect of originating, evaluating, structuring, negotiating, managing and monitoring investments, reinvestment and divestment opportunities, in line with Mahube’s investment policy.
- analyse, investigate and advise on the potential opportunities for SubCo to divest from invested interests.
- manage the investments held in SubCo and represent SubCo’s interests on the boards of directors of the underlying portfolio entities;
- raise new listed equity capital on behalf of Mahube and expand its listed share capital to at least R2 billion;
- raise new capital and expand unlisted capital under management to at least R3 billion by the end of February 2025; and

- deploy this new equity capital into qualifying assets to achieve a minimum diversification of the asset base of Mahube by the end of February 2025.

The consideration for the Management Services shall be a management fee (the “**Management Fee**”) of:

- R1 050 000 (exclusive of VAT) per month during the first 36 months from the Effective Date; and
- an annualised 0.8% of the consolidated Total Issued Capital of SubCo and Mahube Infrastructure Investment 1 (RF) (Pty) Ltd (“**InvestCo**”) (exclusive of VAT), calculated daily and payable monthly, from month 37 after the Effective Date.

Total Issued Capital means the sum of the following amounts on a consolidated basis:

a) The book value (R100 at 30 June 2022) of the issued ordinary shares in the share capital of Subco;
b) The book value (R500.8m at 30 June 2022) of the issued N shares in the share capital of Subco;
c) The book value (R180.5m at 30 June 2022) of the outstanding A preference shares issued by Subco, and reducing over the remaining amortisation period per the terms of the preference share agreement;
d) The book value (R1 880 at 30 June 2022) of the outstanding B preference shares issued by Subco;
e) The book value (R131.7m at 30 June 2022) of the outstanding A preference shares issued by Investco, and reducing over the remaining amortisation period per the terms of the preference share agreement;
f) The book value (R1 430 at 30 June 2022) of the outstanding B preference shares issued by Investco.
g) The book value of any other types of shares that may be issued by Subco and/or Investco during the term of this Agreement, and remain outstanding; and
h) The book value of any new loans or debt securities that may be extended to Subco and/or Investco by any third party.

A capital raising fee of 1% (exclusive of VAT) of the amount of capital raised shall be payable by Mahube to ManCo in respect of successful capital raising and the expansion of Mahube’s listed equity capital.
Failure by ManCo to maintain its status as a Black Fund Manager for the duration of the Management Agreement, shall constitute a breach thereof.
ManCo’s performance of its contracted services will be subject to review by Mahube on an annual basis.

Scope

Ernst & Young Advisory Services (Pty) Limited (“EY”) has been appointed as the Independent Expert by the Independent Board of Mahube Infrastructure Limited (“Independent Board of Mahube”) in accordance with paragraph 10.2 and 10.4 of the Listing Requirements to advise the Board on whether the Related Party Transaction (Subscription Agreement and Management Service Agreement (“MSA”) in so far as it constitutes a part of the Management Restructure Transaction) to be entered into between Mahube and the Manco is fair to the Mahube Shareholders.

Responsibility

Compliance with the Companies Act and Listings Requirements is the responsibility of the Board. Our responsibility is to report on the Transaction in compliance with the related provisions of the Companies Act and JSE Listings requirements.

We confirm that our opinion has been provided to the Board for the sole purpose of assisting them in forming and expressing an opinion for the benefit of the Mahube Ltd shareholders.

Definition of the terms “fair” and “reasonableness”

The “fairness” of a transaction is primarily based on quantitative issues. Generally, an ordinary transaction is considered "fair" if the consideration paid in respect of the transaction is considered to be greater than or equal to the market value, as independently determined, or unfair if the opposite would hold true. In other words, a transaction will typically be considered fair to a company’s shareholders if the benefits or returns received by shareholders, as a result of a transaction is equal to or greater than the value ceded by a company.

The assessment of "reasonableness" is generally based on qualitative issues. Even though the benefits received by the shareholders as a result of the transaction may be below the value/benefits surrender, a transaction may still be reasonable after considering other significant qualitative factors.

In the context of this MSA, the MSA is considered to be fair in the case where the projected fee structure (R1 050 000 per month for three years and 0.8% of Total Issued Capital thereafter) results in a lower cost structure for Mahube shareholders, whilst providing access to the same or equivalent management team for the shareholders; and where the fee rate is determined to be within a reasonable range of comparable fees as charged by South African and International infrastructure companies that have similar management agreements in place.

In considering the fairness of this Management Service Agreement we have given due consideration to the following:

- Comparison of the proposed Mahube management fee rate to management fees charged by South African and International infrastructure companies that have similar management agreements in place.

In considering the fairness of this Subscription Agreement we have given due consideration to the following:

- Comparison of the subscription price per share to confirm that all shareholders are offered an equitable price.

In considering the reasonableness of the Management Service Agreement we have given due consideration to the following:

- Comparison of the cost currently incurred by Mahube, versus the fees that will be paid to Manco after the transaction.

Information utilised

In the course of our analysis, we relied upon financial and other information, obtained from Mahube, together with industry-related and other information in the public domain. Our conclusion is dependent on such information being complete and accurate in all material respects.

The principal sources of information used in formulating our opinion regarding the Management Restructure Transactions include:

- Mahube annual financial statements;
- Expense allocations and forecasts provided by Mahube Management;
- Further Cautionary Announcements and the JSE Ruling request of Mahube;
- MHB - Circular ManCo related party;
- Corporate and Investment Management Agreement (Management Service Agreement);
- Subscription and Shareholders Agreement;
- Discussions held with Mahube management;
- EY research covering comparable management fees charged by South African and International infrastructure companies; and
- EY analysis and research of publicly available information.

Where practical, we have corroborated the reasonableness of the information provided to us for the purpose of our opinion, whether in writing or obtained through discussions with Mahube management.

Procedures performed

In arriving at our opinion, we have undertaken the following procedures in evaluating the fairness and reasonableness of the Management Service Agreement:

- Supplemented our knowledge and understanding of the operations of Mahube;
- Considered information made available by, and from discussions held with, Mahube Management;
- Considered the rationale and relevant information for the Restructuring Transaction, as represented in the Further Cautionary Announcements;
- Reviewed general economic, market and related conditions relevant to the Management Service Agreement;
- Perform a comparison of the cost of the current and projected management structure versus the proposed fee structure over the remaining life of the existing Mahube assets.

- Compare the proposed management fee to South African and International companies with management fee structures in the infrastructure and renewables sector.
- Assess the components of and valuation of the Subscription Agreement.
- Considered any further qualitative aspects of the Management Service Agreement; and
- Determined the Fairness of the Transaction.

We have not interviewed any Shareholders to obtain their views on the Transaction.

Based on the results of the procedures mentioned above, we have determined the Fairness and reasonableness of the Transaction to shareholders. We believe that the above considerations justify the conclusion outlined below.

Our approach involved the following procedures:

In considering the Management Service Agreement, we performed a comparison of the cost of the current and projected management structure versus the proposed fee structure over the remaining life of the existing Mahube asset based on the information available to us. The remaining life is categorised into 2 periods, namely the first three years during which a fixed R1 050 000 (ex. VAT) per month fee will be charged and the remaining life of the underlying renewable energy assets (between 15 and 20 years) where a management fee of 0.8% of the Total Issued Capital will be charged.

Currency: ZAR000	First 3 years	Remaining period
ManCo management fee	(36 750)	(71 336)
Total operating cost savings	35 421	390 106
Total differential cash flows (undiscounted)	**(1 329)**	**318 770**

The differential between the proposed Management fees per the Management Service Agreement and the costs that would have been incurred within Mahube had the Management fee agreement not been implemented over the remaining life of the existing Mahube asset has been discounted using the Discounted Cash Flow method in order to obtain the net benefit/cost of the Agreement to the Mahube shareholders.

Currency: ZAR000	Value
Total discounted differential cash flows	**83 016**
ManCo management fee for first 3 years	1 050
Management fee % post initial 3 year period	0.8%
Discount rate range	8.0%-11.9%
CPI inflation rate	5.7%-6.5%

The Discounted Cash Flow method. The underlying premise of this approach is that the value of an asset (in this case Agreement) can be measured by the present worth of the net economic benefit to be received over the life of the asset. The steps followed in applying this approach include estimating the expected cash flows attributable to an asset over its life and converting these cash flows to present value through discounting. The discounting process utilises a rate of return that accounts for the time value of money and investment risk factors. The present values of the cash flows are then summed to estimate the value for the asset.

Key external value drivers included:

- Management applied a forecast inflationary increase of 6% in their short-term forecast, in determining the increase in costs over the life of the existing Mahube asset we have applied the inflation rate per the CPI curve (6.5% for the majority of the period);
- As per discussion with Management they confirmed that the Management fee of 0.8% of the consolidated total issued capital of Mahube Capital Fund 1 (RF) (Pty) Ltd (“SubCo”) and Mahube Infrastructure Investment 1 (RF) (Pty) Ltd (“InvestCo”) from month 37 is determined on the book value of the share capital, with the only changes over the forecast period relating to the amortisation of the preference shares included in the share capital noted above; and
- The discount rate has been determined to range from 8.0% to 11.9% over the forecast period. In determining the discount rate it was assumed the swap curve represent the risk free rate to which

the a stage of life equity risk premium of 3.25% and specific risk premium of 0.25% has been applied.

Key internal value drives included:

- Consideration was given to the completeness of the costs within Mahube which would not transfer to ManCo following the implementation of the Management Service Agreement with reference to the responsibilities that would remain within Mahube;

The present value of differential cash flows for Mahube when comparing forecast costs under the current structure vs. costs under the new structure (which include ManCo's management fee) is positive. In addition, as result of the management fee structure proposed in the Management Agreement, Mahube can contractually enforce a ceiling on its expenses, based on the current capital structure, relating to the corporate management of Mahube, SubCo and InvestCo, as well as the investment management of the current business, while remaining a significant shareholder in ManCo. The proposed Management Services Agreement is therefore considered to be fair and contribute a positive differential value of R83m, compared to the current cost structure.

Change in discount rate for each forecast period	Present value of differential cash flows
-1%	91 592
Base case	83 016
+1%	75 437

Change in CPI inflation rate	Present value of differential cash flows
-1%	75 615
Base case	83 016
+1%	91 122

In addition to the DCF, EY compared the 0.8% management fee and the implied percentage of the fixed cost component of 1.5% to 1.8% from the first three years to management fees paid by companies in the infrastructure and renewables sector.

We noted that the management fees quoted in this study ranged between 0.5% and 2.5%, with a mean of 1.2%; however, these fees are not fixed on the level of outstanding capital, but rather fluctuate as the fair values of the infrastructure and renewable funds increase or decrease. Accordingly, the proposed fee range of 0.8% is within the market related ranges identified and presents a higher level of certainty to shareholders when projecting the expected fee levels in comparison to other fee structures that are based on variable inputs such as the fair value of the assets under management.

The DCF did not consider the capital raising fee, nor the potential additional income which may be derived as a result of entering into the Management Service Agreement, as any future capital raise and related investment would require future approval. The capital raising fee of 1% was however assessed against similar fees quoted in a recent EY market study on comparable companies, where companies responded that capital raising fees are typically between 0.5% and 2.5% of the capital raised or deployed, subject to the quantum of capital and complexity of the transaction being assessed.

The Subscription Agreement sets out cash capital injection criteria to capitalise the ManCo in an equitable ratio for new shares issued to Mahube, Encha Infrastructure, Matlotleng Properties and Petro Lewis respectively, namely R20 000 per share respectively. The subscription price per share is therefore considered fair

Opinion

Based on the results of our procedures performed, our valuation work, and subject to the conditions set out herein, we are of the opinion that the related party fee proposed in relation to the Managed Service Agreement is Fair to the Mahube Shareholders, as the projected Management fee of R12.6 million per annum for the first three years and then 0.8% of Stated Capital and falls within the comparable ranges of Management fees paid by both South African and International infrastructure companies; and reasonable as the fee earned by Manco, as set out in the Procedures performed section above, is lower than the costs that would have been incurred in Mahube should the arrangement not be implemented.

The subscription price of R20 000 per share set out in the Subscription Agreement is equitable for all shareholders and is therefore considered fair.

Limiting conditions

Our opinion is necessarily based upon the information available to us up to 22 July 2022, including in respect of the financial, regulatory, securities market and other conditions and circumstances existing and disclosed to us at the date thereof. We have furthermore assumed that all conditions precedent, including any material regulatory, other approvals and consents required in connection with the Related Party Transaction have been or will be timeously fulfilled and/or obtained. Accordingly, it should be understood that subsequent developments may affect this opinion, which we are under no obligation to update, revise or re-affirm.

This opinion is provided solely for the use of the Independent Board and the Board of Mahube for the sole purpose of assisting in forming and expressing an opinion on the Related Party Transaction for the benefit of the Mahube Shareholders.

This opinion does not purport to cater for each individual Shareholder's circumstances and/or risk profile, but rather that of the general body of Shareholders taken as a whole. Each Shareholder's decision will be influenced by such Shareholder's particular circumstances and, accordingly, Shareholders should consult with an independent adviser if they are in any doubt as to the merits or otherwise of the Related Party Transaction.

We have relied upon and assumed the accuracy of the information used by us in deriving our opinion. Where practical, we have corroborated the reasonability of the information provided to us for the purpose of our opinion, whether in writing or obtained in discussion with management of Mahube, by reference to publicly available or independently obtained information. We assume no responsibility and make no representations with respect to the accuracy of any information provided to us in respect of Mahube. While our work has involved an analysis of, inter alia, the annual financial statements, and other information provided to us, our engagement does not constitute, nor does it include, an audit conducted in accordance with generally accepted auditing standards. The forecasts provided by Mahube relate to future events and are based on assumptions that may or may not remain valid for the whole of the forecast period. Consequently, such information cannot be relied upon to the same extent as that derived from audited financial statements for completed accounting periods. We express no opinion as to how closely the actual future results will correspond to those projected.

We have also assumed that the Transaction will have the legal, accounting and taxation consequences described in discussions with, and materials furnished to us by, representatives of Mahube and we express no opinion on such consequences. We have assumed that all agreements that will be entered into in respect of the Transaction will be legally enforceable.

Independence, competence and fees

EY is independent with regards to Mahube and the Proposed Transaction. We confirm that we have no direct or indirect interest in Mahube Ltd (or any of its subsidiaries). We also confirm that we have the necessary qualifications and competence to provide the independent opinion on the Related Party Transaction. Furthermore, we confirm that our professional fees are fixed and not contingent upon the success of the Related Party Transaction. EY's fees are not payable in Mahube, Manco or any related parties shares.

Consent

We consent to the inclusion of this letter and the reference to our opinion in the Circular to be issued to the Shareholders of Mahube in the form and context in which it appears and in any required regulatory announcement or documentation.

Hannes Boshoff

Partner: Ernst & Young Advisory Services Proprietary Limited